

THE BROOKINGS INSTITUTION

REACHING OUT:
CUBA'S NEW ECONOMY AND THE INTERNATIONAL RESPONSE

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P R O C E E D I N G S

MR. PICCONE: Great. Good morning and thank you for coming. I'm Ted Piccone. I'm a senior fellow and deputy director for Foreign Policy here at the Brookings Institution, and we're very happy to have this event today. It's been some months in preparation, and be prepared for some interesting new analysis on Cuba's economic reforms and the international response.

Many of you know Richard Feinberg. He came knocking on my door several months ago with an idea about getting deep into this subject, and I jumped at the chance for several reasons. One, because I knew a little of Richard's work when we were in the Clinton Administration together and also knowing of his work since then out in California looking deeply at issues of the international political economy, both from the Asia-Pacific perspective but also staying involved very much in the Latin America world. And Cuba, of course, has its own special place in the regional architecture, and I couldn't think of anyone better than Richard to actually delve into this subject with all of his enthusiasm and energy and intellect. So, we at Brookings decided to sponsor this research and several months later we have an excellent product to share with you.

Richard, as you know from the bio, is at the University of California, San Diego, as a professor of international political economy. He's also a nonresident senior fellow here at the Latin America initiative at Brookings. Richard was the senior director for Inter-American Affairs at the National Security Council during the first term of the Clinton Administration and has many other experiences in government, including at the Treasury Department and at the State Department. Whenever I walk around Brookings with Richard, he constantly bumps into people that he worked with in one place or the other, so he's extremely well-known and connected in town.

Richard's going to give a PowerPoint presentation of his report, which

you should have grabbed on your way in. It's a very, you know, serious document -- over a hundred pages of research and analysis and on this topic.

After his presentation, we're going to ask for comments from two very seasoned experts on this topic; Carlos Alzugaray is professor at the University of Havana, Center for Hemispheric in United States Studies. He's also currently a visiting professor at Queens College in New York City. He served several years in the Cuban Foreign Ministry, including as Ambassador to the European Union. He has recently written a chapter in a book that I commend to all of you called, *Debating U.S.-Cuba Relations: Shall We Play Ball?* which Jorge Dominguez and others pulled together and has a series of up-to-date commentaries on U.S. Cuban Relations.

We'll then ask Gary Hufbauer to make some comments. He's the Reginald Jones senior fellow across the street at the Peterson Institute for International Economics and also, many years of experience here in Washington, both in and out of government; professor of International Finance Diplomacy at Georgetown University; served several years at the Treasury Department; and has written extensively on trade investment and tax issues. And then, we'll open it up for comments and questions.

So, thank you again for coming, and we will now hear from Richard.

MR. FEINBERG: Thanks very much, Ted. Really, it's a pleasure to be here at Brookings again. During my career, I've been on and off at Brookings any number of times. I met my wife, Diane Godkin, here, so Brookings holds a very special place in my heart. (Laughter) It's also wonderful to see so many good friends here from my many decades here in Washington, so thanks very much for being with us today. Also a privilege to share the podium with Carlos and Gary, two very distinguished colleagues.

In looking at Cuba today, I want to do something a little different from

what is normally done in Cuban studies, particularly here in Washington. I want to move away from the Washington-Miami-Havana focus, and I want to broaden it out. I want to, really, have a bit of a reality check, in fact, because Cuba today is increasingly globalized. Cuba today is engaged with many developed capitalist economies. Cuba today has engaged with many of the emerging market economies. In fact, Cuba grasped the concepts of the BRIC right -- Brazil, India, Russia, and China. They grasped that phenomenon long before Goldman Sachs invented the moniker of BRIC.

Cuba is host to many international development assistance programs that are modest in size, but these development assistance programs by other capitalist countries suggest an opening for greater engagement by the international development community more broadly. And, most interesting, and I think perhaps the major contribution of reaching out my study, is that there are some indications that Cuba is now ready to engage with the international financial institutions under certain circumstances.

In this room today, how many of you are aware of the fact that Cuba is not a member of the International Monetary Fund and World Bank? How many know this? Wow. This is the most educated audience. (Laughter) Okay, I'm going to give you another, more difficult question. There's one other country that's not a member of the IMF and World Bank -- only one other country; which is it?

AUDIENCE MEMBERS: North Korea.

MR. FEINBERG: Oh my God. (Laughter) This is like the smartest audience. (Laughter) Because when I asked the fellow who was the chief international economics guy in the White House -- I will not name him, so don't give it away (Laughter) -- he had no idea that Cuba was not a member of the IMF and World Bank. It would just be assumed. And, why would it just be assumed; because everybody else is in there. A hundred eighty-seven countries are in the IMF and World Bank. Everyone is there

except for Cuba and North Korea. It's really an historical anomaly that Cuba is on the outside.

Now, why might Cuba be interested in deepening its engagement with the emerging market economies, with the international development community, and with the IFIs? Okay, so let's take a look now at the Cuban economy. We all know that Cuba - the pride of the revolution -- terrific progress in health, in other human services, education for all. Cuba ranks right up there with the other major social democracies of Latin America, Uruguay, Chile, Costa Rica, so that's Cuba's pride. But, we also know that the social gains have been corroding. They have been eroded, and they will continue to erode -- and, the Cubans understand this -- unless they can get their economy going as a whole. And here's their big problem. Per capita income, perhaps the numbers here -- one has to be very cautious in using any numbers that have to do with Cuba. We understand that, but these are the best numbers we have from the World Bank. GDP, the best indicator of personal income, Cuba ranks very, very low, and that's the tension; that's the problem. And unless they can raise this GDP, unless they can show economic growth, they will lose even the gains that they've been able to attain. They understand that.

Since the Soviet Union collapsed, Cuba has still not recovered in terms of its industrial production. It's only 40 percent of where it was, even now, in some of the major sections. So, only 40 percent in some of the sectors, like shoes, for example, barely recovered, and that's an industry. So, basically, the industrial sector collapsed and has not fully recovered.

Other economic indicators also show stagnation. Agriculture, despite the fact that, as we know, Cuba has very rich soils famous for sugar, coffee, et cetera, production in those sectors is a mere fraction of what they were historically.

Investment rates are only 10 percent per GDP. Those are Cuban figures. A healthy developing economy would have at least 20 to 25 percent for that number of investment over GDP.

Wages -- here again, it's tricky because of the dual currency system, but, clearly, nobody can live by wages alone in Cuba today. And all of this result in a chronic deficit in the balance of payments, and you can see here -- see that gap? That's the difference between what they earn and what they import on manufactures -- a huge persistent gap. The gap got so large here in 2007 and 2008 that they had to ramp down their whole economy in order to reduce imports. They really had to throw their economy into a recession, and that's basically where they still are today, although some slight recovery in the last year.

What I'm pointing out here is known to every Cuban. Raúl Castro knows this. The economists in Cuba are well aware of this. Moreover, just take a stroll around Havana, and it's all painfully obvious. It's obvious in terms of the decaying infrastructure, the decaying housing stock, the outmoded, although, you know, folkloric transportation systems. You also see a lot of unemployed and disaffected youth around Havana and in the cities. This is the result of all of those economic indicators.

In Cuba today, open decent, politically, is still dangerous, but in the area of economic policy, there is a very vibrant and wide and public debate. Change is clearly in the air when it comes to economic policy in Cuba. There are private markets all around Havana, although the goods are expensive if all you're earning is local Cuban pesos. But still, we see entrepreneurial activity, and now, under the new rules and regulations, we see practically every housewife imagines that she is a micro entrepreneur and can't wait to open up her own little retail outfit, vending food, et cetera, new restaurants -- *paladares* -- are popping up all over Havana. It's the talk of the town. Go

to any party, people say, you know, "What's the latest *paladar* that you went to? Where should we go to eat tomorrow night," and then -- this is an independent barber, and I dare say that with these independent barbers and the high quality of haircuts in Havana today, even J. Gabarro would have gotten himself a haircut at one of these independent barber shops.

If you want to know what the next big thing is going to be in international economics, real estate in Cuba. The market is beginning to open up. We'll see what the details are with regard to foreigners, but there are tremendous possibilities there as well.

The Cuban-American community is also beginning to engage. Here, they're bringing their care parcels to their relatives, foods and medicines, but they can also bring capital and technology and know-how, and we'll see increasing engagement there. And they will be providing funds to their relatives, presumably, to take advantage of these new openings in micro entrepreneurship, in retail outlets, and possibly in the real estate market.

At the same time, we have no illusions. There are forces of resistance. There are forces of the status quo. This is the Plaza de la Revolución, known to anyone who's been in Havana. It symbolizes the State Ministries of Defense, the Interior, State Communications. Presumably, these forces like things, more or less, the way they are and would tend to resist change. The State sector -- make no mistake -- remains overwhelmingly dominant when it comes to employment, production, price-setting, whatever, throughout the economy.

The recent news stories about the anti-corruption drive, which seems to have netted some prominent international investors, suggests that the forces of conservatism of status quo remains strong in the security apparatus and can use their forces to try to resist change. That's precisely the point, that there is this ongoing

struggle between reformers and the status quo in the region.

The best way to understand about what is occurring in Cuba today is to drop the assumption that Cuba is a unitary actor -- that there's just one single Cuba. Rather, within Cuba, there's an epic struggle between forces of reform and the counter forces of inertia and the status quo. In that sort of setting, then what is the role of the international community? What is normally done around the world in such circumstances? As Joan Nelson, for example, could tell us -- who has studied issues of international reform throughout the world over many years -- the role of the international community is not to stand on the sidelines and just throw verbal barbs. The role of the international community is to get our hands dirty and join in the fray. That's in fact what other capitalist countries are doing in Cuba. My study, *Reaching Out*, looks at the OECD Development Assistance Programs. To my knowledge, it is the first attempt at a survey. It shows that a number of countries are engaged. The amounts are modest -- a hundred and forty four million dollars over a two-year period, not including U.S. programs -- but these external donors are trying to bolster reforms. The European Union, for example, and the UNDP are assisting private farmers and cooperatives and local municipalities to strengthen their capacities.

Canada and Spain are working on educational initiatives -- educational exchanges including educating Cubans, the current and future generations at business schools in their countries. Oxfam has been active on women's issues, for example. These are the trailblazers. These are the warm-up acts to what will be the main show, which is waiting in the wings, and that is the international financial institutions.

A hundred and eight-seven members, the whole world, Iran, Burma, the 'Stans, China, Russia, many of our friends -- everyone's in there. Admission to the IFIs does not imply approval of their policies -- does not imply approval of their policies. In

fact, it should be seen as just the opposite -- that by having countries in the IMF and World Bank opens the opportunity for international reform. Cuban non-membership is a glaring exception to the otherwise universality of membership in these institutions.

I would argue that right now, the IFIs in Cuba area good fit for each other. On the one hand, the IFIs house tremendous accumulated expertise, literally thousands of social scientists who have studied international change around the world in many, many different circumstances. And the IFIs are not the IFIs of your grandmother. They're not the sort of hard line, orthodox, neoliberal market frenzied traditionalists. They have learned a lot over the years. They have new terms of engagement. I encourage you to read their Websites for example or any of the statements of their leaders today. They are much less ideological, much more sensitive conditions, much more sensitive to local government priorities.

Reaching out examines the IFI's successful relations, for example, with socialist Vietnam and with Nicaragua under Daniel Ortega. And after those countries -- after their and bloody battles for national independence, if proud Vietnam and proud Nicaragua can embrace the global economy and work successfully with the international financial institutions, why not Cuba? Now, is Cuba interested? As I suggest, there are probably many Cubas. Maybe some are interested, some not so interested. But, when I was in Havana in June, I did meet with senior officials in the Foreign Ministry. They knew that I was interested in the IFIs. I'm sure anything they said to me had been carefully considered by the Foreign Ministry, and what they told me, "Cuba has no principle position against relations with the IMF and World Bank." In Cuba speak; I would take that as a positive affirmative. (Laughter)

Now, one cannot expect the Cubans to show too much skin on this issue because, so long as they're uncertain as to how they will be received, they don't want to

have a public negative. They don't want to indicate they're interested, if the next day, they're afraid someone at the IMF and World Bank will stand up and say, "No." So, I think what we need here is a signal from the international financial institutions, privately, that a sign of interest would be positively received.

Contrary to conventional wisdom, to get into the IMF, it does not require a super majority of votes. A mere 50 percent of the weighted voting is sufficient. Therefore, what percentage of votes does the United States have in the IFIs, Gary will know. Who else might know? Alec, okay, tell us all.

SPEAKER: About 33.

MR. FEINBERG: In the Inter-American Development Bank, yes; in the World Bank and the IMF, only 17 percent. In either case, well under 50 percent. No one has a veto power over admission to the international financial institutions on membership. In order to get into the World Bank, essentially all you have to do is get into the IMF. The IMF -- that's a pre-requisite, a necessary and sufficient step.

What I want to suggest here today, though, is a gradual process -- a gradual pathway to membership. I'm not talking about membership tomorrow. I think that would be too stunning for the Cubans or, perhaps, for the United States, as well. So, what I'm suggesting here is a gradual process of engagement.

The IFIs do have a history, and this is -- I really want to underscore this -- there are many precedents of the IFIs working with non-member states, and what they can do is they can provide technical assistance, policy advice, and training. I took the initiative myself to speak with some Cuban economists on the one hand, and then I went over the World Bank and spoke to some colleagues there and presented them with a list - - that I'd worked up actually with some Cuban economists -- of suggesting, here are some topics that might be of mutual interest. What do you think? And the Cubans and

the World Bank said, "Absolutely. We have interest in these subjects. They would be useful for Cuba, and we in the World Bank have tremendous expertise on these issues, and we'd love to work together with the Cubans and with the IFIs." So, the idea of initiating policy advice, Page 76 of the report runs through some of the specific topics.

How should this technical assistance be funded? It can be funded through trust funds, funded by third countries, countries that are friendly to Cuba for example, Canada, Spain, Brazil, maybe even China. China would barely notice a few -- tens of millions of dollars. They're sitting on what, 3 trillion or something? Why should the Europeans be the only ones begging to the Chinese, right? Why not the Cubans?

The IMF has some training facilities, actually, in Central America and the Caribbean, that if you look at what they do in those training facilities, the topics that they cover -- financial management, debt management, collection of statistics, et cetera -- precisely the types of training programs that would be very useful for Cuba today, and why not engage those training centers? And again, they could be funded by third parties to avoid issues having to do with the use of IFI resources. So, I think there is a gradual pathway for Cuba engagement with the IFIs. We do not have to directly confront the more difficult issue of membership right away.

The U.S. Executive Branch, State, and Treasury, the Intelligence community -- I have many friends there for many years -- they understand intuitively that it is in the U.S. national interest for the IFIs to engage in Cuba. That would be the norm. That would be the expected. That would be what is done every day throughout the world. That argument of IFI engagement with Cuba is self-evident to people in the Executive Branch, which brings us to the other branch of government in the United States, which is the Congress.

Helms-Burton legislation -- Helms-Burton was strongly opposed by the

Clinton Administration, initially --Alec Watson and I remember this very well -- but then when Fidel Castro's Air Force decided to shoot down those Cuban-American pilots that changed the atmosphere dramatically in 1996. And President Clinton under duress, knowing it was not good for U.S. interests, nevertheless, felt politically he had no choice but to sign Helms-Burton.

Helms-Burton requires the U.S. to vote against IFI membership for Cuba; although, again, I repeat, we do not have a formal veto. I would argue that -- and I think many others would agree with me -- that Helms-Burton really violates, directly, the IFI charters, which the U.S. of course has signed and therefore violates U.S. international obligations. Interesting, Helms-Burton does not require the U.S. to vote against loans -- IFI loans, oddly enough. But it does require us to vote against admission. In the case that loans were approved, Helms-Burton, by the IFIs to Cuba -- Helms-Burton would require us to somehow pull back or take out of the IMF an equal amount of resources. Explain to me how you're doing to do that. If you look at the details, people who would know the details of these issues, including at the U.S. Treasury, assure me that that's an unworkable set of U.S. sanctions. Also, and most importantly from a practical point of view, if we were to follow what I suggest here with regard to technical assistance funded by third party trust funds, that would not violate Helms-Burton -- would not be a legal problem for the United States.

There are some other pieces of legislation that are discussed in the report, at some length, having to do with State sponsorship of terrorism, having to do with expropriations traffic in persons, that do apply to these issues. But I would argue that if interpreted creatively, a little forward leaning, and then if the Executive Branch also cleaned up certain matters, those pieces of legislation would not present insuperable obstacles to create a pathway for Cuba to engage with the IFIs. But I do urge that the

U.S. internally in the Executive Branch undertake an over-review of these sanctions to see what the best way and most creative way would be to handling those issues. But my basic point is that the existing sanctions legislation is not an insurmountable obstacle to this gradual path of Cuba engagement with the IFIs.

So, to sum up here, my major recommendations -- they're in the report -- now is the time for the international development community to engage in Cuba, to support the forces of reform. We should not just stand by on the sidelines. We should engage. We should get our hands dirty. Let's be part of history -- part of history in the making -- that it's time for the IFIs to complete their historical goal of full universality. Since North Korea is only half a country, Cuba is the last remaining full country (Laughter) outside of the IFIs. This should be a gradual process to ease some of the psychological trauma that's been created on all sides for a gradual engagement.

The IFIs do have some expertise on Cuba. Mostly, really just the interest -- the personal interest of some economists and the Bank and the Fund, but I think it's time for them to directly put some of the resources into studying the Cuban economy so that they're ready to go as this process of engagement occurs.

That, when Cuba thinks about how to engage in the IFIs, you know, they tend to be so focused on the United States, but, in fact, there's a dynamically and rapid changing governing system in the IFIs, and many friends of Cuba, including the BRICs are increasingly influential and Cuba can turn to those countries to ease the pathway.

That, this should be of interest to Cuba because Cuba has a great deal to learn from the experiences of other nations, as archived in the file cabinets, the hard disks, and the brains of the economists in the IFIs. And, we can all take a note from Che Guevara, who you will recall was in charge -- believe it or not -- of the economy of Cuba in the early '60s, and he, being a man always engaged in self-criticism, said, "We made a

mistake. We did not consider the historical experiences of other countries." Cuba should not make that mistake again.

So, finally, for the United States, we should, first of all, focus more on what's going in the Cuban economy. From my discussion with officials in the U.S. Government, there's shockingly little, either reporting or study of the Cuban economy. I'm not to say that you should ignore politics, but we need to have more of a balanced approach and understanding that we do not have to play an active role -- we, the United States -- in a lot of what I'm discussing here. We simply have to not oppose it fervently. We have to simply not throw a temper tantrum if some of these issues come up. And that, if your goal in Cuba actually is to support political pluralism, the best way to do that today, realistically, is through a process of support for the gradual economic reform in Cuba. So, with that, thank you very much. (Applause)

MR. PICCONE: All right. Thank you, Richard. That was excellent. And, in particular, I think this last point, which is really kind of topic A, B, and C when it comes to the debate in Washington, is the concern about the political situation in Cuba, and the way in which the U.S. political system has dealt with that is by codifying a goal of seeking a democratic system in Cuba that respects human rights. And, given the 50-year history of Cuba -- the last 50 years -- I think it's time for, as Richard points out, to be realistic about how to go about understanding Cuba and the forces at work.

And the issue of the economic change is central to that, and to help us understand that, we're going to turn to our two other panelists, who I introduced in the beginning. And we're first going to ask Carlos Alzugaray to give us some comments from a Cuban perspective. Carlos?

MR. ALZUGARAY: Thank you, Ted. Thank you to Brookings for having me here and making me comment on this interesting paper by Richard. What I would like

to do is speak a little about what's happening in Cuba from a Cuban perspective.

My first reflection has to do with what I think is the unavoidability of the changing process that is taking place in Cuba. I think it's an unavoidable process which means changed inside a certain amount of continuing, and the reason for that is that first the world and Cuba have changed.

Secondly, there is the emergence of what one might call new forms of socialism -- socialism in China and Vietnam -- I know that many people would challenge the idea that there is socialism in China or Vietnam, but the Cuban government considers them socialist examples -- and, of course, the socialism of Venezuela. And I am talking here about the main strategic alliance of Cuba.

Thirdly, because the Cuban elites and the Cuban population in general, the citizenship, as Richard has pointed out, have realized the insufficiency of a bloated state socialist and the necessity for change is there. There have been lessons learned. Remember that Cuba was a country that at one point in time, especially in the '60s and sometimes in the '80s, aspired to an economy where the market didn't function -- where everything was decided by the state and by the government. We are not coming from a system which allowed or thought that market would be there. I like to say to my Cuban friends whenever I have always thought that as much as they say when they speak about philosophical questions is that matter exists independently of our conscience; the market exists independently of our conscience. It's there. To ignore it, you ignore it at your own peril.

There are also generational imperatives. What we like to call in Cuba the historic leadership of the revolution is passing away, and there is the necessity for change at the top. That change is coming. The best thing for that to happen is to do it in a gradual and a well thought out process, not to have instability. I don't think instability in

Cuba is in the interest of anyone, and even the United States.

At the same time, as Richard's paper points out, the Cuban leadership is worried about the sustainability of its social achievements. If we don't get an economy that sustains those achievements, those achievements are going to disappear inevitably. And that's a worry -- that's a tenant that we've considered.

And finally, there are new paradigms, especially in the Cuban younger generation, whereas in my time, when I was younger than I am today -- in the '60s -- discipline, sacrifice were the watch words. Now, it is autonomy and prosperity. You cannot talk to Cuban young people without telling them or saying something about these issues.

What is the substance of the change that is taking place in Cuba? Well, the Cuban government likes to talk about an abating of the economic system, but what we're looking at is a major economic reform with a very direct political content. Prioritizing the economy over ideology is a political decision, and this is what's happening in Cuba. Combining the market with central planning is also important for the things I said. Reduction of the State and its role in the economy in society is also a principle of the reform process. The centralization of economic and political decision-making is something that is going on. Emphasis in autonomy of social and political actors is also a part of the process. Aligning costs with policies -- not to think, as in the past, that we could do anything; that any social idea, no matter how important, could be sustainable is no more the law of the land. We have to sustain. Even in the public health sector there is the tendency to say, "Listen, we have to make this as cost efficient as possible." The search for self-reliance, not to depend on foreign actors, is also a major substantive aspect of change.

The movement away toward something that might be called a

developmental model of democracy, every step of the way of this changing process has been consulted with the people. The documents have been shown to the people, by the way, in an important show of transparency. Raul Castro, himself, has said, "There are no secrets. There are very few secrets." And with that, he's giving a very important argument to the reformers because one of the ways in which the bureaucracy can handle this, they could say, "This is secret. The enemy's hearing. We cannot tell you exactly what's happening, but you have to trust us." That idea is also out of the way. Less improvisation, more strategic projection; less deciding only what's happening today, and taking more into account what are the consequences, and the search for a new model that I would probably call market socialist.

The main characteristics of change are these, I think, gradual richer emphasis. It is not gradual only because there is resistance. It is gradual because that's the way that the political energy of the country thinks that the process should be, and this also has to do with the stabilization.

By the way, Richard spoke here about the recent cases of corruption and the way that the Cuban government is handling this issue. And, in general, in the media, it's being interpreted as the resistance of the bureaucratic sectors that have launched an anti-corruption campaign. I think that's the wrong interpretation. What is happening in the anti-corruption campaign is, let's say, the taking care of corrupt practices that the old system had permitted with its great discretionality on the possibility of certainly there's to do something without taking into account the regulations that exist. Raul Castro has a precise institutionality, and when the case of the replacement of Felipe Pérez Roque and Carlos Lage which shook Cuban society in 2009 in the video that was shown to party members, it was introduced by a case of corruption in which some of the people involved with Lage and Felipe, they were not directly accused. But, obviously, the fact that when

you have a system in which the discretionality of certain authorities is not controlled, is not accountable, you have that corruption. I interpret the anti-corruption cases that have been taking place in Cuba recently -- there was a very specific case. There was a minister of food industry that lasted for 25 years. He was charged in an anti-corruption drive with 50 years jail, even though he was a very old. This is serious, and this has to do more with the reform than against the reform.

The other thing that I want to highlight is the unstoppable relentless of reforms. The third thing is the debt and the impact of reforms in the daily life of Cubans. When we talk about selling and buying your house or selling and buying your car, this is absolutely new, and this has to do with everyday life. There is also another importance in the reform process. It's the thorough thoughtfulness. Raul Castro has insisted that every step of the way, the participating actors have to think out well what step is going to be taken and all the different thinking should be taken into account, combined together with pragmatism -- what works, works; what doesn't work, doesn't work. No matter how ideologically motivated by that.

Finally, the gradual gaining of citizen sectors. This is something that even Freedom House and the International Republican Institute have recognized that little by little there was some process that was received where a lot of skepticism among the population is gaining support.

What are the limitations and threats and challenges? Well, there is exactly like Richard points out -- resistance for ideological and material reasons. There is a necessity -- and this is something that Raul Castro has mentioned several times -- the necessity of a mentality change. A change in the way that the Cuban leadership and communicators look at the process -- bold, decisive, and broad. And this is something that Raul doesn't want to achieve with a big bang. He wants little by little -- he mentioned

-- there was a phrase in one of his speeches where he said, "We have to change the mentality gradually among all of us." He doesn't want to let anyone out. Of course, there is bureaucratic opposition. There was initial skepticism. There is a world economic crisis that affects Cuba. There are the natural disasters that have affected Cuba. One of the problems that the reform process had was that, immediately after it being launched, Cuba was hit for the first time in many years by three hurricanes. The last two years we haven't had direct hits with hurricanes, but that's a factor that has to be factored in.

The timing and generational change of the process is also a limitation, a threat, and a challenge, but it's taking place. Many people look at the (inaudible) bureau and say, "These are all very old people." But, if you look to the central committee, one, for example -- one of the major groups is women -- black women who are young at the same time. This is a very interesting factor. It's a major increase in the central committee of the party. So, there is the preparation over a re-generational change.

And, of course, there is the internal issue -- the conflict with the United States, which the Cuban government at this point in time has reduced its importance in the political discourse. This is something that also Richard has pointed out.

My final comments are these. First, to commend Richard and the Brookings for thinking out of the box. This is obviously something that is thinking out of the box and that's always good. The arguments that Richard makes for engagement are very compelling. I think the Cuban position is very-well pointed out by Richard. It's an open-minded position. It's no doors are closed. The arguments about the engagement with the International Financial Institution is very well thought out, and I think most Cuban economists will accept it. By the way, during many years under leadership of Fidel Castro, there took place a conference in Havana called Globalization and the Problems of Development. Always World Bank and International Monetary Fund representatives

were invited to those conferences and participated in the debates. It was always very interesting that there were presentations by World Bank and International Monetary Fund persons in this conference; there was wide interest with the Cuban participants.

I think the major problem is the U.S. position. And I would start by saying something that I think is very important. As long as the U.S. position is framed in what one cannot but call a regime change policy, it's going to be very difficult that any nationality from the United States is well accepted in Cuba because it's always an infringement on the Cuban decision to decide about what's going to happen in Cuba. It's very interesting to compare the U.S. position with a European union in Canada. European unions in Canada, of course, have the same idea like the United States about changing Cuba. They would like Cuba to adopt a moral very similar to the ones that exist in their countries, but the policy they follow is engagement, more in the case of Canada -- the Canadian case is very interesting as Richard points out -- and less the case of the European Union. We don't know -- there are important factors nowadays with a possible victory of the conservative's People's Party in Spain, and that would create a major problem for the UN approach. But, an interesting thing, for example, is that the Cuban approach, though once a European union has evolved from an initial position in which if the European Union maintained its current position, Cuba didn't want to talk to the European Union. Now, Cuba's talking to the European Union and saying, "Okay, let's sign a cooperation agreement," and the common position could be there, still. That's a very interesting change.

There is, of course, the congressional legislation, and I think Richard points out an issue, finally, that is very interesting, which is the issue of keeping a Cuba anti-terrorism sponsor list because that's something that is most especially considered that is completely a political thing, adopted during the Cold War, that has no basis in

reality as Richard points out in his paper. Thank you very much.

MR. PICCONE: Excellent. Thank you, Carlos. Gary? (Applause)

MR. HUFBAUER: Well, first I want to congratulate Richard for turning out a highly original and out-of-the-box study as the Ambassador said. But, I also want to congratulate Ted and Emily for this extremely fast production. I mean, by institute standards -- think tank standards -- this is kind of like the neutrino faster than the speed of light (Laughter), so congratulations to all of you.

I'm going to offer some points possibly, which -- for audience interests but I think have some basis in reality -- are on a somewhat different orientation. You've heard the word gradualist from the Ambassador, from Richard, and so on, and what I want to pose for you is an alternative which we have seen in many countries -- what I will style, the big bang change. And now I want to think about the big bang change from a U.S. perspective -- long term U.S. perspective.

There are many possible outcomes from the big bang, but I'll just give three types. There's the Russian outcome, which is a combination of oligarchs and corruption. I always oppose what Jeff Sachs said. Jeff Sachs and that crew went over to Russia and those countries and said, you know, "Do it quick. Do it now." And I would say look at the result. There was a golden moment in Russian history when everything was quite flexible, and this was through all across Eastern Europe and Central Asia. But, the result is difficult, and the outcome of that was kind of privatized now, and you know what that meant. I think everybody here knows what that meant. That meant that the people who were in political power grabbed the assets, and together with grabbing the assets, which are all owned by the State, they had this whole flourishing system of corruption which is with us today. And I want to mention this -- I'm a co-author of a policy brief over at the Peterson Institute, where we urge WTO membership for Russia despite

these problems, and in full recognition that it's going to be a long time to work out. But, anyway, I don't think was a happy path.

There's another path, which I think is a real danger for Cuba, and that's what I'd call narcotics. Why is it a danger? Because Mexico, with U.S. support is really coming down on the cartels very hard, and you look at the geography -- you know, the drug demand is still here. We're not about to change our laws on drugs as everyone knows. That's been fought over many times. Maybe very slowly California will change, but we'll see. It's going to be a long process. It's a tremendously lucrative market and it's going to go, as Mexico drives it out, to someplace else, just like it came to Mexico because of the successes in Columbia and Peru. Cuba, unfortunately, would be a target as are Caribbean countries, some of which are already involved, and indeed some Central American countries.

This is not an attractive proposition for Cuba, and it's not an attractive proposition for the United States. And the problem, once you get this narco business going, it's very difficult to come out of it as we have seen. There are very few success cases in emerging once it's entrenched.

Okay, then there's a third, which is a kind of flourishing democracy market oriented of the Chilean model, and there are other examples, but I would say Chile coming out of the big bang is probably the best example, but there are others. I would put Peru in that category as well. Now, if we have a big bang, there will be a golden moment -- longer than a moment, but not as long as a decade -- when everything will be fairly fluid -- two or three years.

And the question is, during this golden moment, what will be kind of U.S. interests? Well, I think both Cuban interests and U.S. interests if this transpires in this way is, I think, obviously along the third model of kind of a market oriented democracy,

rather than the other model -- the majority model -- is clearly the Russian model. See, if I said Central Asia -- many other parts of the world. So that's where the U.S. interest is, and I'm now speaking from a U.S. interest standpoint, but I think it's also very much from the interest of the Cuban people, not from the interests of the people who might be able to grab the assets. I mean, they have a very clear interest, as they have in Kazakhstan and Uzbekistan, and many others of the 'Stans. But, it's not only the U.S. interest, but the interest in Cuba far exceeds the U.S. interest in other smaller countries, which are more distant -- Equatorial Guinea -- you know, that's the grab model -- Guiana, Burma, Suriname. You could name a lot of countries which are distant from the U.S. and do not have the same, you know, extent of family ties and historical ties and so forth.

So, out of that, kind of, what's the policy conclusion? Well, I think the policy conclusion is that in this big bang outcome, the U.S. will want to put maximum effort in that period to get the rule of law -- the institutions -- right, and to ensure equal treatment for U.S. companies and workers as say, Spanish companies and workers would have -- by workers, I mean the workers who work for the Spanish companies or the Canadian companies, and so forth -- in other words, reciprocal economic relations over a period of time.

So, how does that fit into the IFI story? Well, I'm not frontly disagreeing with the gradualist approach which Richard has laid out with the IFIs, but let me put down what I think would be some markers in this IFI part of a much bigger, you know, canvas. Certainly, it would be, I think, against the interests of the U.S. and the longer-term interests of the Cuban people to see the IFIs entrenching the State-owned enterprises, which has been said is the dominant part of the economy. They're obviously small enterprises which are not part of the State, but all the commanding heights are State-owned enterprises, and it wouldn't be in the interest to, you know, strengthen them. Or,

what is more realistic, to strengthen a situation where a State-owned enterprise together with, let's say, a Spanish joint venture or a Canadian joint venture, has a long-term monopoly grip through its, you know, guaranteed rights on some part of the economy which will freeze out competition, and U.S. competition would be part of that frozen out story.

Another U.S. interest, as the IFIs go forward at this path, would be to see -- and I think the IFIs are very aware of this, but some of us are old enough. Richard and I are old enough to remember when 30 percent corruption was an okay by World Bank standard. You know, it's not okay today, and there's been a huge effort to reduce the corruption take on World Bank or IMF-type loans. It's not down to zero -- never will get down to zero. But, Cuba will be especially sensitive on this corruption angle for the IFIs. I mean, I think -- you look at what's happening with Solyndra, which I don't think has a taint of corruption or -- well, some people are trying to say it has a taint of corruption. But, that story will be amplified if there's any, you know, hanky panky in terms of lending or what you would call technical assistance, which goes to, you know, favored parties and deals. Everyone knows how this is done in Cuba, so there has to be kind of a Caesar's wife standard.

And on a positive side, what I think the IFIs could clearly do very early is say, "Well, Cuba may not be a member of the World Bank. It is a member of the OES, but it's also a member of the WTO, which I know is well understood in this room and generally, and it's probably a member -- and this I have not researched -- of many other international organizations, Austria WIPO -- World Intellectual Property Organization -- and others. And I think an early, useful, constructive thing that the World Bank missions could do or technical assistance stories, would be to help Cuba get on the path to respecting -- let's just start with the WTO obligations -- all the TRIMs, the TRIPs, the

subsidies -- you know, right across the board -- the tariffs, the quotas, et cetera. There's a lot there which really points, obviously, in the direction of a market economy which Cuba is obligated as a member to observe, and there's a lot of distance between here and full implementation. Let me stop there. Thank you.

MR. PICCONE: Great. Thanks, Gary. (Applause)

So we've covered a lot of ground in these presentations, and I want to take advantage of moderator to pose a question that I think will probably come up anyway. And it goes to the story of gradualism, which you've laid out very nicely. It seems that here in the United States under the Obama Administration, there is also a policy of gradualism underway. Despite all of the harsh rhetoric and, you know, the constant battles going back and forth, the Obama Administration's regulations, the rule changes to allow more Cuban-American travel, more remittances, liberalized categories of other types of travel, the increase in the number of airports that can fly to Cuba. There are a number of measures that have been undertaken, and I'm wondering if you have any thoughts on what impact this is having and can have in the future, directly on the economic reform process.

So, to what extent is this new wave of interest in traveling to Cuba and the capital that's being generated as a result, it's happening in lots of different forms. There's a lot of demand within the Cuban-American community itself, for not only travel but now with the changes in real estate, to support family in selling and buying property. You know, there are tremendous resources in the United States that could actually have an impact in furthering these economic reforms, and maybe the United States actually doesn't need to do anything else, except allow that to happen. Allow these regulations to fulfilled and interpreted in a liberal way, and let things happen on their own accord. And I'm just wondering if you could comment on that before we open it up?

MR. FEINBERG: Okay. Yeah. Well, I think, Ted -- I think your question basically sort of answers itself. Yeah. The Administration sort of quietly has undertaken a number of liberalizing measures in the last two years. And the result of that probably is netting the Cuban economy well over a billion dollars, maybe 2 billion dollars or so a year in fresh inflows of both capital and goods and travel and tourism. And \$1 to \$2 billion a year for an economy that exports only 3 to 4 billion in merchandise per year is a significant amount.

Now, as you said, a lot depends on exactly how some of these new regulations are implemented. It's not fully clear, for example, to what extent Americans -- Americans who are not Cuban-Americans, to what extent can they transfer funds to Cuba. Some of regulations we'll still see trips, aircraft, et cetera all need to be approved to facilitate travel. But, the basic idea now that Cuban-Americans and Americans can provide some financing to assist the micro entrepreneurs conceivably could provide some financing which would have a big impact on the new markets that have been created in Cuba with regard to housing, automobiles, or whatever else can be exchanged. That is significant. So, I think it is -- and what you're describing is, in fact, the current policy of the Administration. They feel, all right, we've done these things. We've allowed some flows to occur. Let's now stop and wait and let's give it another sort of year or two and let's see what the impact is. That's okay as far as it goes. What I'm arguing in the paper, though, is that the process in Cuba is changing.. It seems to be accelerating. It's gaining momentum. Under those circumstances, it would seem to be reasonable for the United States to think, "Well, okay, how should we be responding to these new circumstances that have changed quite a bit from where we were 6 and 12 months ago," and that's where I'm suggesting some additional measures that could be taken.

Now, again, with regard to the IFIs, what I'm arguing for is not that the

U.S. has to really do something, but simply sort of step aside and allow a relationship to develop further.

MR. PICCONE: Carlos, does the Cuban government welcome these changes, and would they also support their own changes to see more Cuban-America or American resources going, for example, micro entrepreneurs?

MR. ALZUGARAY: That specific issue is kind of out of my purview, so what I will speak about this argument, about gradualism in Cuba's U.S. relations, is it's a very old argument. I think Wayne Smith was here and can remember that we discussed that, even officially, how we would go out during the Carter Administration -- when the Carter Administration was trying to approach Cuba, and Cuba was ready, and we were working on that. The problem with gradualism -- and something that Professor Hufbauer did not point out -- is that when you take a gradual approach, the political vulnerability of the gradual approach is very strong. If political conditions change or the image that the results are not taking place, you have a problem and the gradual measures can be reversed.

When President Obama made his first official statement about Cuba at the Summit of the Americas in Trinidad and Tobago on April 9, 2009, he spoke about a new beginning, and actually, he took some measures. I would support that kind of thing. One of the issues, for example, is -- and something that over time has been discussed in Cuba in my institute in several places -- was what would happen if the United States would open up travel to Cuba? Most specialists of the issue think that the potential market might be as big as 5 billion tourists, and that's not -- if we take into account that Canada, with a tenth of the population of the United States, sends 800,000 tourists to Cuba every year, that's not so impossible.

But imagine Cuba is receiving 2.5 million tourists right now. What would

it mean if we got 5 million Americans? That would be a big problem, especially for the infrastructure. I don't think that would happen exactly like that. I would like a gradual process. I think a gradual process will be great, and I think the Cuban government is open for that happening. Although, one might think -- and the argument can be made -- that it's better that the reform process in Cuba gathers more momentum, until that moment happens, so that -- let's put it this way -- politically the Cuban government can benefit from the results of the reform process and not made the argument that the reform process -- that it is the lifting of American sanctions what has produced the changes because that, politically, would be a problem. And I think it wouldn't be real. I think you have to realize that it is the reform process that the Cuban government and the Cuban leadership is putting into place what is producing what I can say, right now, that our very little, but significant, progress in the economic situation of Cuba, I think -- Richard's paper points out that -- that there is a progress -- not sufficient -- but that there is a progress.

MR. PICCONE: Thank you. Gary, do you want to comment on this?

MR. HUFBAUER: No, no. I'm fine.

MR. PICCONE: Okay. Great. All right. Well, there are some microphones -- if you could raise your hand and introduce yourself and -- right here in the red scarf, and then we'll come forward.

MR. LEWIS: Thank you. David Lewis with Manchester Trade. And first of all, congrats to everybody -- Brookings and so on. This is an excellent initiative, and as Gary mentioned, very quick turnaround which is impressive.

Richard and anyone else who wants to comment, without violating confidentiality and so on. I'm just curious; do we know who are these people in Cuba who are supposedly pushing these reforms and so on, other than fellow academics and policy wonks and so on like ourselves? Is there anybody with real power and influence

that sees this as an interest? And I would just point out because, if so, it's just Cuba's for the asking, it would seem to me and more than the IMF and the World Bank. I mean the group that really rules Latin American economic development is the IDB. And if you want something that has sort of low-hanging fruit, no obstacles, I'd like to hear more on the CAF option, but really, you know, Caribbean Development Bank. They all support Cuba and so on. That's a real easy one. So, why doesn't Cuba just ask for it and get what they would want? Thank you.

MR. PICCONE: Now, let's take a few more. I saw there was hand here in the front, and then here. Yeah, floor.

MR. LUXNER: Larry Luxner, Editor of CubaNews. I'm wondering if Professor Alzugaray could address the issue of ownership of not only cars, but of real estate property, and how that's likely to affect the economy of Cuba in the short term. Thank you.

MR. PICCONE: And right here.

MS. FEINSILVER: Julie Feinsilver, American University, and no relation to Feinberg. Congratulations to all as well.

Speaking of the IDB and the CDB, I've worked for both of them, and one of the things that we know in working on public sector reform is that gradualism is important. And I think Carlos mentioned key things -- transparency, accountability. These are things that really hadn't been part of the discourse in Cuba before, and in the social sector, to look at costs is absolutely critical because I remember interviewing a minister of health many years ago in Cuba, and he said, you know, whatever it costs, you know, doesn't matter. You know, we just do it.

I think that the banks have the opportunity through the trust funds -- I

think it was very rightly pointed out -- to work with Cuba, but also, Cuba can teach the banks things in the areas of health, education, disaster preparedness and mitigation, and of course, Cuba then would learn a lot about changing State structures and institutionalization. And one of the things we've learned is that it takes time. It just takes time. The quick reforms tend not to work very well. It's very hard to change the mentality, and as Carlos mentioned, that is one of the issues. So, I think we'd have to look at these opportunities to learn as well as to teach.

MR. PICCONE: Thank you. Richard?

MR. FEINBERG: Yeah. Thanks very much. Terrific questions.

David, thank you. My paper does talk specifically about the Andean Development Corporation as a good option. It's a good option -- first of all, the United States is not a member, so that whole issue does not come up at all. I have discussed the possibility. They do have programs whereby they set up cooperation funds, sometimes also funded by third parties that get involved in training and policy advice. That would seem to me to be sort of quite a good option. I think there, quite frankly, the issue is whether or not the president, who we all know is an admirable, but very cautious fellow, would be willing to take an initiative. I think that's really the -- it comes down to that in the case of the Andean Development Corporation, but it would seem to be a logical institution to engage.

On the whole issue of the Caribbean in general, by the way, of course it's in the interest of all the Caribbean countries for Cuba to be part of these institutions merely because of the spillover effect. Whatever happens in Cuba, whether we're talking about tourism, or narcotics, or any maritime issues, the spillover is huge from Cuba which is by far, in a way, the dominance economy in the Caribbean. And so, therefore, it's in the interest of the entire Caribbean for Cuba to become part of these international

financial institutions.

Indeed, the IFIs are not fulfilling their obligations when they ignore the inevitable impact of Cuba on other member States. It's also, by the way, in the interests of all of the countries that do business with Cuba -- which is to say the entire world outside of the U.S. -- to understand better what's going on inside the Cuban economy, so that they can -- and therefore, try to create a better environment with regard to investment and trade within Cuba as it affects the firms of the member States of the IFIs. So, for so many reasons, really, the IFIs have been negligent in terms of their own members by excluding Cuba. I think the idea that -- Julie's point -- that Cuba -- it's important for the economists in the World Bank, when they go around the world advising countries on health and education, they need to know what has been accomplished or not in the Cuba case, so yet, another reason why the IFIs ought to be engaged from a knowledge perspective in Cuba.

On this issue, finally -- sort of the difficult issue of -- you know, applying Kremlinology to the Cuba leadership. I'm interested in Carlos' comment. I have yet to meet anyone who really things they know with any degree of certainty what goes on at the very top leadership in Cuba. So, I think what we can look at though is the lineamientos -- you know the guidelines that were published. This is clearly a bureaucratic compromise. One paragraph is for one group -- the hardliners. The very next paragraph is for the reformers. And that suggests that there are different factions within the Cuban leadership, and under circumstances such as that, as it occurs around the world, it is the role of the international community to engage in ways which helps bolster the reform factions within the government. That, by the way, is not an infringement upon sovereignty because that is working with members of a sovereign government.

MR. PICCONE: Carlos?

MR. ALZUGARAY: Yeah. Well, thank you for the questions. I will try to grabble with David's question, which is very interesting.

Let me tell you -- let me go straight this with a story that happened during the Congress. During the Congress -- this was shown on Cuban television -- there was this debate about how fast the process of decentralization of resources for the municipalities should go, and it was around one of the leading lineamiento -- one of the guidelines. And the debate was no less than between the dean of the faculty of economics at the University of Havana -- and some people have told me he's a retired general -- anyway, he's a general. And the dean of the faculty was arguing that it was too early, that we should wait. A very common argument in Cuba when there is reform idea. Well, maybe it's a good idea but let's wait. And the general said, "We have been discussing this for a long time. Let's give the municipalities what they need to do their job." That's very interesting because it would break a little bit of the -- you know, that you would have the reformist among the professional intellectuals and the conservatives among the generals, I think.

So that leads me to my first point. I would mention three social actors that are pushing the reforms in different ways. One, the Army, obviously, is Raul. It's the way that he has worked with the Army generals. The Army generals and the people have two characteristics that I want to underline. First, they have technical. Most of them are technical individuals -- engineers who have been prepared and they have had a lot of practice and practice outside Cuba. The impact of having led important Armies in Angola, in Ethiopia -- I don't think it can ever be underestimated. These guys had to manage those missions. They had to take care that the troops were happy, and that's very important in a military context. So, you would have the military supporting the

reforms. There are many military men in the cabinet, and I would take that -- I wouldn't apply conventional wisdom about how military behaves. The Cuban military are a very peculiar kind of people -- open-minded. You talk to them with everything. They hear you. They listen. It's very interesting.

Secondly, in the intellectual sphere. Not precisely in the area of university professors; I would think more in the area of painters, writers, et cetera. This is also a very interesting development because it reflects itself, for example, in the Congress of the union of writers three or four years ago. They were so critical about everything, and they demanded so many changes, and some of the changes are taking place. For example, Cuban television has completely changed from four or five years ago to what the subjects are that are debated, the programs that take place. It's very interesting, and there are many intellectuals of this kind that have a lot of free influence. I would mention one, (inaudible). What he has done in all of Havana -- which, by the way, is a problem of decentralization and local management is something very important.

And, finally, an actor that has recently become very important in Cuba -- the Catholic Church. The Catholic Church is acting very intelligently. They have linkages to a higher level of the government, and they are producing, for example, a journal that has important impact in certain areas, called *Espacio Liacal*. *Espacio Liacal*, which also is *Temas*, which is the journal that Rafael Hernández leads, is a publication of the ministry of culture. *Espacio Liacal*, for example, came out this week with an editorial urging the party to reform itself. It's very interesting. The Catholic Church telling the party, you have to reform. You have to change. The people are expecting changes and it depends on you. And I know that these guys who work at *Espacio Liacal*, they have linkages with the upper levels of the government. They are obviously supporting the change. So, I would mention that.

About Larry's question -- Julie, I agree with basically what you said. This is very interesting -- the ownership of real estate. Why? And this brings me to the point I was making about corruption. The old system, in terms of ownership of land and -- I mean, of ownership of homes and ownership of cars, in the past up until this year when the two laws were implemented, the level of corruption and the level of a layer of things that happened there -- for example, people bought cars but the actual property of the car was not transferred. This led to a bunch of illegality all around it. Now, with the new law, that is out of the question. You can buy and sell your car, simply. You don't have to appeal to this kind of very shady deals which fermented corruption and that is specifically true in the issue of homes. Homes could not be sold, but in fact, they were sold in -- ignoring the market again, they were sold. And the problem was that if, for example, you wanted -- let us suppose a couple divorces, and they want to separate their home. They go out on the market -- they went out on the market to search for two homes and exchange one home for two. You could swap homes. Obviously, they have to pay, and that payment had to be under the table because it was not registered. But, at the same time, there were institute of housing inspectors that would require that you abide by certain rules that were completely crazy. So, you would have to pay the inspectors, too. So, now, that has changed. We don't know -- nobody knows exactly how that will change, but I think, to put it the way that my wife Alina would say, we are becoming a more normal country. (Laughter)

Thank you.

MR. PICCONE: Gary, do you have any comments?

MR. HUFBAUER: Yeah. I want to come back to this gradualist path, which is the opposite of the big bang which I say is a distinct possibility. But, on a gradualist path, the U.S. also has interests, and they're gradual interests, and they are

not -- they're well short of regime change which has -- as Richard has said -- has been an objective of U.S. policy for quite a few years.

But, let's come specifically to the IFIs, in his monograph, Richard has, you know, pointed out that the U.S. only has 17 percent of the votes, not a majority, and went into the technical details of the Helms-Burton law and what it doesn't permit and what it does permit, and the structure is rather flawed. I think that misses the point. The U.S. has tremendous influence in all these institutions, even the ones it doesn't belong to like the Andean Development Corporation, and there has to be some kind of deal where there's some quid pro quo. That's -- and when Richard was in the National Security Council, he knew about quid pro quos. Anybody who's been in the government -- Cuban, Mexican, whatever -- you know, governments deal with each other by exchange of items of mutual interest. So, and at this juncture with the IFIs, which is a very constructive suggestion, the U.S. or some part of the U.S. government should be thinking up what it wants from Cuba in order to not block Cuban admission to the IFIs. A notion that it's going to just happen over U.S. objection is some kind of dream which you can only do in California, but you can't do it in Washington. (Laughter)

And let me go on to just a few other areas where this concept of (inaudible) in gradual reform, but on an agreed basis can go forward -- tourism. The Ambassador's mentioned, you know, his numbers are staggering -- 5 million against a base of two-and-a-half million. Well, that means a lot more tourist facilities. Well, clearly, if there's going to be wide-open tourism, and there's a lot of repercussions right to the Caribbean -- like everyone here, I go to the Caribbean from time-to-time -- and the resorts are kind of more afraid of Cuba than anything else in terms of long-term business. So the crisis of 2009 didn't help them. But, in any event, if we're going to have this explosion of tourism possibilities, yes, U.S. companies ought to be -- U.S. hotel chains

and so forth -- resorts ought to be part of the party. It should not be reserved to the French or the Spanish or whomever, and that should be negotiated as part of a wider deal.

Let me just mention one other area which is not so far-fetched. Now, I notice that Richard proved that, you know, going to the barber is not a non-treatable service because he did it. (Laughter) But, there won't be many people who follow Richard to Cuba to get their haircuts. It will be -- (Laughter)

MR. FEINBERG: I want to point out, Gary, that a haircut in Cuba costs one U.S. dollar.

MR. HUFBAUER: Yeah, even though -- even though --

MR. ALZUGARAY: They charge you that? (Laughter)

MR. HUFBAUER: Yeah.

MR. ALZUGARAY: (Inaudible) only pay fifty cents. (Laughter)

MR. HUFBAUER: And even though it's \$30 down on Dupont Circle, that's not going to bring people. But, what will bring people to Cuba, I think in the near future, are health clinics for the obvious reasons, which is well-known -- health reasons. But, there again -- I mean, if those are going to be, you know, that's going to become an item and it's going to be funded by private insurance here in the U.S. or at some distant point, Medicare, you know, U.S. medical establishments ought to be allowed to operate. It should not be just some monopoly reserved to European medical branches.

MR. PICCONE: Very interesting. Well, and provocative. So, Richard, I'm sure you want to comment.

MR. FEINBERG: Okay. Thanks. Yeah, well with regard to Gary's comments. First, on the issue of State-owned enterprises, by the way, the problem that occurred in the big bang was by quickly privatizing, then private individuals' assets

stripped, right? And that's what you're objecting to. So, the error there was quick privatization. You're better off maintaining State-owned enterprises for a while at least, I would think, in order to avoid that sort of asset stripping and corruption. The IFIs who used to press for rapid privatization, no longer do. The IFIs now accept that in mixed economies the State may own firms that can be actually quite well run, or partially own them -- and Petrobras and many, many other examples we have now around the world.

I would also suggest in a small economy like Cuba, a certain degree of oligopolistic behavior is really inevitable, given the size of the market, and so, I think that's something that has to be built in to thinking about a small economy like Cuba.

With regard to whether the U.S. should demand something in return for allowing Cuba to begin to engage with the IFIs, I know certainly having been in the government that this is the bargaining mentality. We have a chip. We want something from them before we give up our chip, right? But I think that's really the wrong way to approach this issue of the IFIs. Having Cuba engage in the IFIs is in the U.S. interest, and that in itself is sufficient. That many of the types of reforms that Gary is arguing for -- more transparency, et cetera, which, you know, is as American as apple pie -- would come with the gradual engagement with the IFIs. Rather than set those as pre-conditions, they would come afterwards.

Now, the really big issue, actually, in the United States is not so much bargaining with Cuba, it's bargaining between the Executive Branch and Congress. That's really where the issue lies. In the Executive Branch, there is no question that everybody understands that it would be in the U.S. interest to have Cuba engaged with the Andean Development Corporation, the Caribbean Development Bank, et cetera. They all understand this for the reasons that I numerated in my report. So, what is missing? Well, I've been invited on Monday to deliver my findings to the Executive

Branch for the State Department and to enable them to have a little more sort of backbone in dealing with the difficults and the difficult people in Congress. I have brought for them a bottle of Calcium pills, which I will hope will assist them in their give and take with the U.S. Congress. (Laughter)

MR. PICCONE: I see a lot of hands, but, unfortunately, we're actually over time right now. So, I'm hoping that maybe you'll get a chance to chat with our panelists on your way out. But, please join me in thanking them for this excellent discussion. (Applause)

Thanks for coming. (Applause)

MR. HUFBAUER: Thanks, Ted.

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CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

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