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PARTICIPANTS:

Introduction and Moderator:
TED PICCONE
Senior Fellow, Latin America Initiative
The Brookings Institution

Panel:

RICHARD FEINBERG
Nonresident Senior Fellow, Latin America Initiative
The Brookings Institution

MARLÉN SANCHEZ
Professor
University of Havana

JOSÉ JUAN RUIZ
Chief Economist, Manager of the Research Department
Inter-American Development Bank

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

MR. PICCONE: Good morning, everyone. I'm Ted Piccone. I'm a Senior Fellow here with the Latin America Initiative at the Brookings Institution. Welcome.

We're in for an interesting conversation, and I think a very timely one, about the situation of Cuba's economic reforms and looking at it from a comparative perspective. We're doing this in the context of a series of workshops that Brookings Institution did with the University of Havana, the center for the study of the Cuban economy and the center for the study of the international economy over maybe 18 months or more. We had the opportunity to work with colleagues in Cuba as well as colleagues from other parts of Latin America and from some of the multilateral development banks to talk through the evolving situation in Cuba, the adoption of the series of economic reforms by the administration of Raul Castro, and what lessons can be learned from other experiences in Latin America as well as in other parts of the world.

As a group, we focus specifically on three main themes: One was on economic growth with equity, the importance of preserving Cuba's social protection model, socialist system, along with a job-creating economy. Secondly, the issue of currency unification, which is a major macroeconomic problem for the Cuban system, something that came to be as a result of the collapse of the Soviet Union support to Cuba and has now long-outlived its purpose, and the great challenges for Cuba in how to change that system. Thirdly, institutional reforms: How can Cuba update and modernize its economic and social institutions in a way that will support the goals of economic growth with equity?

We did a series of papers that are now published in a report, which I
hope you got a copy of when you came in, available in English and Spanish. All of this is available on our website, and we also have an executive summary overview that was prepared by Richard Feinberg, and you’ll hear from Richard about some of the highlights of that report.

Let me just quickly explain how we’re going to work through this because we have a couple PowerPoint. We’re going to have our panelists sit down here, and they can come to the podium to make their presentations. We’ll start with Richard Feinberg, who is a nonresident Senior Fellow with us here and also professor of international political economy at the graduate school of international relations at the University of California San Diego. Richard is probably well-known to many of you. He’s done a series of important research papers for us here at Brookings on a variety of issues around the economic transitions, including the role of the international financial community, the burgeoning role of the middle class in the quintopropesus sector in Cuba, among others. He will start us off, and then we will turn to Marlen Sanchez Gutierrez, who we’re very happy to have here from the University of Havana.

Marlen is currently an adjunct professor with the Institute of Latin American Studies at Columbia University in New York. She’s an expert on international finance both inside and outside Cuba. She has done a tremendous amount of work around central banking, macroeconomics, and capital flows. She actually spent several years working for the Central Bank in Cuba as an advisor there. She’s also currently an advisor to the UN Development Program Cuba and has written extensively on this topic. She’s with the Center for the Study International Economy, which is one of our partners in this process, and we’re delighted that she was able to join us.

We’ll then hear from Jose Juan Ruiz. Jose Juan is Chief Economist and
Then we’ll engage in a conversation and open the floor to Q&A. With no further ado, Richard.

MR. FEINBERG: Thanks very much, Ted. It’s always a pleasure to be back here at Brookings. I first arrived here at Brookings on a graduate fellowship exactly 40 years ago. Arriving on that fateful day of August 8th, that very evening, Richard Nixon announced his resignation and departure from Washington. It was as though the capital was not big enough for the two of us. (Laughter)

Our volume on the Cuban economy, the introduction and the overview, that’s my job to summarize here now. It is my own responsibility, but it does very much reflect the views of the Cubans and the Latin American economists who have contributed to the volume as elaborated on their six papers, which I hope you have a chance to peruse, as well as the three workshops that we held. The volume is remarkably frank in its assessment of the Cuban economy. It does not pull any punches, and that includes the Cuban contributors.

Let me begin with the opening paragraph, which relies very much on the chapters that follow the introduction, and it states: “The Cuban economy has been mired in stagnation for over two decades. Living standards have declined. The economy’s
historic gains in universal health and education and in social equity are eroding. The outdated productive apparatus is suffering from decapitalization and technological obsolescence, and the nation’s balance of payments is under chronic severe strain. Frustrated by the lack of promising opportunities, too many of the best-educated Cuban youth are exiting the island.” Our volume underscores a very clear lesson from this recent Cuban experience: Without growth, social gains cannot be maintained. To be sustainable, progressive politics requires economic prosperity.

On the other hand, the good news is that the reform guidelines, the Lineamientos, adopted by the Cuban government and Communist Party in 2011, confirmed these lessons and also set forth over 300 steps to elevate Cuba onto a new growth path.

Already progress is evident on many fronts. They’re described in the volume in detail. For example, the emergence of small-scale businesses is visible throughout Havana and throughout provincial towns throughout the island. There’s a recent publication that just came out yesterday. Americas Quarterly has beautiful illustrations of some successful, small-scale business in Cuba. I recommend that Americas Quarterly volume to you. The many new businesses that are emerging demonstrate the entrepreneurial instincts and the talents of the Cuban people.

Prices have been lifted on a growing percentage of agricultural products, improving both the variety and the quality of agricultural output for some consumers that can afford them.

Government spending is becoming more efficient as unsustainable social subsidies are being cut, however painful. The pension system has been partially reformed. The educational and healthcare systems are being rationalized. Also, most
Cubans are now free to travel abroad and return without penalty. Mobile telephones and the internet are becoming more widespread, if slowly, by international standards. To improve its international creditworthiness, Cuba has successfully renegotiated its outstanding bilateral credits, and Cuba has worked hard to remain current in meeting its hard currency obligations.

In addition to this visible reforms and visible progress that one can see on the island, during the last two years the Cuban government has announced a series of structural reforms. If implemented, these reforms would be major steps forward. For example, deep reform of the system of state enterprises. It began as a pilot project. It is now to be generalized throughout the state system. If implemented, the reforms promise more autonomy for state firms to retain their hearings to make their own decisions regarding investment, employment, and prices.

The government has authorized the formation of non-state cooperatives outside of the agricultural sector. It’s in the urban setting. Cuban cooperatives could be a fascinating experiment in worker-owned, small and medium-sized enterprises and benefiting from official encouragement.

Also recognizing this clear need for foreign capital and technology, this spring the government announced with considerable fanfare two new foreign investment laws: One for the entire country, and the other for the new port at Mariel, in the free-trade zone there. Just this week, the government announced a list of 246 projects of potential interest to foreign investors.

At the same time, the reform lineamientos, they read like a bureaucratic compromise, which is clearly what they are. On the one hand, they accept the importance of market-oriented reforms, but they reaffirm the hegemony of socialist
planning and state-owned enterprises. As many commentators have noted, the lineamientos lack clarity with regard to Cuba's future development model.

The papers by the Cuban economist Juan Triana and Ricardo De Torres seeks to overcome those contradictions in the lineamientos. Triana and Torres propose a future development model that clearly prioritizes growth and stresses market reforms and market signals. They were progressively reduced the state enterprise, an administrative apparatus, in favor of indirect regulation, but with clear rules and incentives. They also favor a smart state in the Triana-Torres model, and the smart state would perform still a great many functions in the economy. Market mechanisms with a smart state.

For Triana and Torres, more rapid growth is clearly a sine qua non for sustaining social goals. 'They would compensate for the excesses in equality,' that's their phrase, the hallmark of the old Cuban development model, with elevated standards of private consumption and access to better-quality public services. It is the long-suffering Cuban consumer that was the forgotten soul under Cuban socialism.

In reviewing the multiple reforms that are under way, author Carmelo Mesa-Lago provides a somewhat more impatient assessment of progress to date. While he lauds the generals thruster reforms, he nevertheless bemoans the slow progress. He states very boldly, 'The greatest obstacle to reform seems to be the central-planning model itself. Mesa-Lago asserts, and I quote again, 'If Cuba were to follow an adapted socialist market model as in China and Vietnam, it would achieve much higher sustained economic growth under the party rule.' That is, it would be in the political interest of the elites of the Communist Party to move faster and further.

Then you might ask, why don't they? Mesa-Lago locates stubborn
opposition in the government. Orthodox hardline factions fearful of delegation and a snowball effect account for the frustrating delays and contradictory steps that have marked the Cuban reform process to date.

Mesa-Lago’s paper notes that Cuba has seemingly chosen not to learn some of the lessons from previous reform experiences, notably again in China and Vietnam and also in Latin America. That too slow and partial change fails to generate dynamic growth and the improvements in living standards that everyone seeks.

Long ago, Mesa-Lago asserts, China and Vietnam developed their socialist market models where the state’s role was reduced to an indicative plan and the decision-making was decentralized. In comparison, Mesa-Lago finds that Cuba lags behind but could still draw useful lessons. As other countries have experienced, Cuba could have rapid gains by freeing up agricultural producers by guaranteeing property rights and by welcoming diaspora capital.

To add to these debates on comparative reform processes, we have an essay in the volume by the prominent Costa Rican economist, Alberto Trejos. He explains the dramatically successful restructuring of the Costa Rican economy. The Costa Rican economy, not that long ago, was quite a closed, protected market. The Costa Ricans decided to opt unambiguously, without contradictions, and move to an open model based upon international trade and the active promotion of foreign investment.

Of particular relevance to Cuba, Costa Rica’s dynamic comparative advantage has been its well-educated and healthy workforce. The entire population in Costa Rica, for example, is covered by an efficient, national healthcare system, which is why sometimes American retirees move to Costa Rica to be able to benefit from their
healthcare system and the wide, universal coverage that it offers at quality care.

Costa Rica is not an extreme neoliberal model. Rather, the state remains a strong player through state-owned enterprises in many sectors. Workers rights are sustained through mandatory pensions, generous severance pay, and other socialist systems programs. In Costa Rica, attracted by the educated, competitively-priced workforce, foreign investment has poured in and diversified sectors. We’re not just talking about cheap labor in apparel factories; not at all. We’re talking about electronics, medical equipment, life sciences, business process outsourcing; the very same interesting sectors where Cuba could hope to be competitive on international markets.

The volume also contains two papers on the very controversial, critical, tough, fascinating issues of monetary reform and exchange rates.

Writing in their own capacities, World Bank economist Augusto de la Torre and Allen Ies argue for a big bang; a quick unification of the two currencies and the two exchange rates. But they accept a more gradual transition towards adjustment of the exchange rate regime: Initially allowing a fixed exchange rate and then moving gradually towards a more flexible but still managed exchange rate regime with inflation targeting, which is now a common approach throughout Latin America.

We also have another paper by two Cuban economists, Pavel Vidal and Omar Everleny. They proposed a somewhat more gradual adjustment approach in the monetary area. They do accept the idea of multiple exchange rates as an interim measure. This is the more gradual path that it seems the Cuban government has already adopted.

But let me emphasize that among these four economists, World Bank and Cuban, there is a general agreement among the authors on the ultimate goal of a
unified currency and a single exchange rate. The shared objective is more efficient market signals. The idea is to promote smarter investment decisions, better government policies, and a healthier balance of payments.

The authors also concur on a critical warning: That these monetary tasks are very complex and entail significant risks to the Cuban government and society. A botched monetary reform could catalyze a dangerous inflationary spiral. Vidal and Everleny urged the government to be more transparent in defining its monetary policies and strategies and in explaining them to the Cuban public.

Now, looking ahead, the author suggests that now is the time for the Cuban government to accelerate the reform process. Among possible policy priorities, our authors in our six papers point to more aggressive reforms in the area of domestic price mechanisms, particularly in the agricultural sector, which could produce quick results, and with more open and transparent market mechanisms a rapid jump in agriculture production which, among other things, would alleviate some of the heavy pressures on the balance of payments.

The authors also concur that now is the time to open up more space for the expansion of the domestic private sector, notably in professional services, to allow the emerging middle classes to fulfill their talents as architects, as lawyers, as engineers, as consultants. That the expansion of employment opportunities in the private sector would generate more employment, but also hope for the future for a Cuban economy that is more productive, more competitive, in an economy that would offer more opportunities for creative innovation and for youthful employment.

Among the other critical long-term and medium-term goals, the authors point to yes, moving ahead with reform of the state-owned enterprise sector, productivity
enhancing reforms admittedly a challenging task. Also, Cuba must genuinely welcome foreign investment. Foreign investment promises not only financing, but also critical access to new technologies and markets. Authors suggest that attracting a few large multinationals now would serve as a valuable demonstration on global capital markets.

Also, the authors suggest, and we'll hear more about this from our two next speakers, that Cuba should gradually engage with the international financial institutions. In general then, our authors urge more clarity, coherence, and openness in the Cuban reform process. Clarity with regard to the ultimate development model, coherence with regard to a consistent comprehensive reform strategy, and more transparency both to allow for midcourse corrections and also to facilitate future scholarly analysis.

Importantly, I want to also mention the authors do urge that the government policies actively protect the island’s natural resources and Cuba’s rich, cultural patrimony. But getting to this soft landing, avoiding economic depression, avoiding political violence, that soft landing will require many tough decisions and probably also some good luck.

One last word, this volume does not fundamentally focus on US policies, but the authors concur that ironically comprehensive US economic sanctions against Cuba are making it more difficult for Cuba to adopt a more market-oriented and a more open economic system. Thank you very much. (Applause)

MS. SANCHEZ: Good morning. Thank you very much, Ted, for your invitation. I want to say first of all that I am not part of this Brookings (inaudible). I was just invited to make some comments in regards to the final report and also in regards to the Cuban access to the international financial institution.
In general, I believe that the paper that has been presented today is technically rigorously and the importance of the issues selected is obtainable. It is an analysis of three of the most essential problems of the Cuban economic transformations today. Of course, there are different approaches to the same topic, but it's possible to find some shared ideas. For example, the lack of clarity in regards to the (inaudible) of the economic model in Cuba; the need to consider the non-state sector as a model of growth, also the role of the institutions and the importance of carrying out now this process from within the institutional framework. Maybe the comprehensive between the comparative analysis of the particularities of the Cuban economy and also the harness of the Cuban economy, the nationality of the embargo; all of these are issues in governance that I could find while reading this paper.

But I want to focus my comments on just three elements. The first topic has to do with the institutional framework. I believe welcome means of enforcement of the loan instead of the use of discretion in the decision-making process, but we cannot anticipate that the process of the transformation, permutation to transformation, will be linear and fast. I think that it definitely has to overcome the inertia of particularisms accumulated during decades of centralized planning with predominance of ideology and volunteerism. Definitely particularisms limits the necessary interchanges between the different sectors of the economy and in some way frustrate the local initiative.

My second comment has to do with the relationship between a state and market. In regards to that, I have to say that, in my opinion, the clue to success is not in the private sector and the competitive ones; it is in the efficacy of the transformation of the state sector. For me, it’s very, very important to separate the supervisory state functions from the economic activities of the enterprise in order to operate more
autonomously.

But there is a real in this issue. The fact that (inaudible) control is exercised outside of the state confine is trying something positive because it's simply trying to make issue but there is a risk that giving more importance to the control than to the flexibility and the efficiency of the state company, which is, in my opinion, very important, particularly during the monetary unification process.

My last comment has to do with the monetary unification. I favor the gradual approach and the sector exchange rate in spite of realizing that in some moments we'll have to give more speed or would have to combine (inaudible) with some other measures, more faster. But I have many reservations in regards to that.

The first has to do with the response capacity of the state and entrepreneurial sector to the new incentive of prices. I have reservations in regards to the balances between the short-term cost with the long-term benefits because the realization of the benefits depends on the capacity or the ability of the response of the entrepreneurial sector, and there is some doubt in regards to whether they can be flexible to adapt or adjust to the new contest. I think we have to that into consideration because as Piccone says in his paper, the costs are immediately bad. The benefits appears like possibility, like opportunity, and will take time to come out.

Also, I have some reservations with regards to this issue with the attempt to avoid the impact of the monetary unification instead of managing it. I think that is very important that the Cuban authority avoids and manageable short for this sector, entrepreneurial, and avoid inflation, hyperinflation -- I don't know how to say that in English -- or the social cost of these measures.

These are my general comments with regards to the paper that we are
representing. Let me now share with you some ideas with this issue of the importance of the Cuban access to multilateral Development Bank. I think that to understand this process of Cuba, engage with this institution, we would have to take into consideration three initial premises, and the first is the importance to separate the International Monetary Fund from the World Bank. I think that technically it’s almost impossible because they are two institutions, but technically it’s socially important for driving the discussion inside Cuba. Why? Because the World Bank is less nice than the International Monetary Fund.

My second premise has to do with the priority of the (Location) bank. Focus the attention in the Development Bank, in the (Location), we are going to see that later.

My third premise has to do with the necessity to take advantage of the cost of opportunity. This is the moment for drilling this issue in Cuba. Why? Because the process of transformation is giving the opportunity to rethink the Cuban access to the international capital market. We have to use this opportunity to try to engage with this institution. Take into consideration the opportunities and the obstacles that we have right now for driving this issue. I’m thinking since the academic that it’s possible to think in two different scenario the current scenario with a blockade in which we will have to take into consideration three different dimensions of the progress: The first one has to do with the priority, the second one was the modality of (inaudible), and the third, the talkings of the dialogue.

In terms of the priority, I think that we have to focus our attention in (inaudible) because in the (inaudible), at the very beginning, because it’s a very important Development Bank that are here nor there, and the United States member. Also, we
have to look at the Development Caribbean Bank to the new Development Bank of the (inaudible). In another level of the discussion, we can start to engage with the international institutional financial Inter-American Development Bank, IMF, and the World Bank.

The modality of drawing closer can be different. I think not only in terms of trade force, the academic interchange, but also in terms of expanding formal talks and opening new channels for talking maybe to identify some specific sphere or sector in which we can start to engage with this institution maybe to develop some esoteric alliance between different institutions and request, maybe right now, an established observer in some of these developments with the Latin development banks, but for this side of the regional issue.

The talking, I think that the academics now in this is going to or will have to play an important role in this negotiation. But also we can think different NGO in Cuba like the Association for National Economists from Cuba that’s going to help in this process. The economic and political partner of Cuba can pressure inside these institutions in order to achieve future Cuban membership to this institution. Also, I think in the different agencies of the United States nations that are established in Cuba, like the United Nations Development Program, for example, plays a role as the platform for the corporations also with this institution.

Finally, I want to give you some idea of my future scenario. This is a flexibilization, an embargo flexibilization scenario in which I think that we have to establish some priorities too. Maybe it will be interesting too to begin think in the Inter-American Development Bank because international bank. It's not much better, the situation of the (inaudible). At the same time, we have to make some (inaudible) with the
International Monetary Fund and the World Bank.

But we have to take into consideration for main variables, in my opinion. Political variables that have to do with the possibility that in a contest of (inaudible) Cuba might refuse to join this institution; it will be a political mistake. We have to keep it in mind too. I think another variable is the dialogue variable in which I consider the political and economic partner of Cuba inside this institution would have to play the most important role in this moment in order to pressure for the members of Cuba and the future Cuban members into this institution.

There is another variable of expertise that has to know, to review the experience of China and Vietnam and the use of the research of these institutions and also the experience of the former Soviet Union in the process of agency the International Monetary Fund and the World Bank. But I also think that we will have to take into consideration the Cuban experience in terms of social progress. Cuba has something to offer to these institutions, to the multilateral development bank, the International Monetary Fund -- I feel there is something to learn from Cuba.

Finally, the time. This is a variable that we have to take into consideration all the time because the time is almost over for the implementation of too many reforms. It will take place to become members of this institution, so we need to start right now. We need to start this process now because maybe these institutions are not the best institution, but they're reliant or another similar. It's important for Cuba being inside and not outside. These are my comments. (Applause)

MR. RUIZ: Thank you very much. Thank you, Ted, thank you, Brookings, for inviting me to be here. I will begin my comments just raising this question: What do you think these three books have in common? You see there the report of
These three books have in common one very simple thing. I have to (inaudible) both these books in the back store of a book shop in Madrid in 1969. All three were essential. We were not able to buy this book, and the idea of isolation for me is that. It’s the idea of not being able to know what is going on outside. This is very important. Very, very important because when you don’t know what is going on outside and people outside don’t really know what is going on inside, we tend to dream. We tend to imagine things.

My first comment will be that I’m very grateful to Brookings and the IMF, the World Bank, the (inaudible), GAF, IDB, for being able to put together a group of experts to talk with numbers. We talk about reality to try to show the world that we have a passion to learn, a passion to know what is going on. I think this is extremely important because being disconnected is really the first step to make very bad decisions, a very bad diagnosis on the reality.

Let me just go to what Richard was saying. I found that the paper, the book that you have in your hands today, it’s really a very interesting paper. I think he made a very interesting step forward. It’s also a fair balance of what is going on there. You have their inside people, the Cubans from inside, experts from outside. I think it’s a fair balance of comments, and I think it’s a very clear diagnosis. Something important is happening in Cuba, some progress has been made, but a lot of challenges remain unsolved.

Let me put a very simple sample picture off what happened when we don’t know each other very well. When you put the Richard report on Quarterly, what you see is that. We are talking about Cuban and international comparison, but when you put
the 25 words that are more repeated in the year report, what you see is Cuba, Cuba, Cuba, Cuba, Cuba. It’s too much Cuba. (Laughter) Cuba tends to be put at the center of the analysis, and I think this is a mistake.

Cuba is very different and in a very different situation politically, economically, socially; it’s very different or maybe it’s very different or we think it’s very different from what is going on outside the world. But when you compare to Cuba with other Latin American countries, when you compare Cuba with other countries in the world, what you get is something similar to that.

Maybe you have an idea that Cuba has been an economic disaster or economic success. (inaudible), but if you compare Cuba, the GDP per capita in Cuba in the fifties relative to the United States, GDP per capita in our representative Latin American countries against the United States from the fifties to 2010 -- this is the (inaudible) date I have -- this data comes from bank tables I even made just to make the algebra, what you see is the following. Cuba has nothing very different from the rest of Latin America. Cuba and Latin America have a very similar situation. They are not more than 25 percent of the gap between the GDP per capita of Cuban and the rest of Latin America. It’s more or less the same. It’s around 25 percent of the GDP per capita, and all of them has been going down.

This suggests to me that though Cuba has a lot of difference, maybe you have a problem that is common, that is shared, for many countries in Latin America. What you see is something that is very disturbing. The countries that were near the United States in the fifties had been decanted which has been diverging through the next 50 years. Countries that were very far away from GDP per capita in Latin America has been, to some extent, compared to. You see there Chile. That’s Puerto Rico (inaudible).
That’s Brazil. They have been narrowing the welfare gap, but countries such as Venezuela, (inaudible), Cuba, (inaudible), Jamaica, it has been widening the GDP gap. Maybe you can go to the bank tables and try to see what has happened here. What has happened here is that productivity in Latin America has been very poor against the United States. Total (inaudible) has been very, very poor. You have invested. You have (inaudible) labor. You have increased your human capital. You have been giving people education. This has been very useful to narrow the gap, but when you go to total factor productivity, how you have combined these resources, what you get is that we have been lagging behind and the GDP per capita has been low.

These situations of total factor productivity in Latin America is no different from what has happened in Cuba. When you look to numbers made by Madrid in the eighties, now made by Jamaica (inaudible) in the nineties, what you see is that total factor productivity in Cuba is really a disaster; it’s going down. It has a negative contribution to GDP. I think this is a very important thing.

It’s a very important, interesting question: Why Cuba, being so different from the rest of Latin America, have the same problem at the heart of their model of growth? That total factor productivity’s low.

The rule of law, infrastructure, the quality of education, the formality of the labor markets, regulation, intervention in the markets are so pervasive in all these countries that, although when you think of Cuba you think it’s an outlier, it’s not an outlier. It’s in the middle of the pack, and I think this gives some support towards modeling what I was saying before. We know that. We have been (inaudible) for the gates with the international and multilateral banks trying to find out what is happening. Maybe this corporation, this change effect that they may experience, this is something that we have
to put before us because it’s important. We can help, and we are read to do that from an academic point-of-view.

Let me now jump from this point to the next. One of the things that I am somewhat disturbed by the analysis is that when we go to Cuba, Cuba is so important for us. It’s so near our hearts, our history, that we tend to overwrite the reforms that are made. When you talk to Cubans, they say, these reforms are going very, very fast. Now things are really changing. When you talk to economists outside Cuba, they go, oh my god, the speed of this change is so slow that I cannot see any difference.

This comes to the first point I was raising is that to put Cuba at the center of the analysis. Cuba is not the only country that is making a transition from this intervention and central-planned economy to something that is going to be a market economy. A lot of countries have been doing that, and these countries are, for instance, all these Eastern European countries that for the last 14, 15 years has been making changes. They have the methodology to analyze and to see what changes were needed and how this change was stymied and sequenced. I think that it will be very important for Cuba to try to put these efforts in reforms in this context because we need to know what is the difference and what is the relative distance from Cuba to what has happened in the past in those countries.

This is a very (inaudible) index of transformation made by the EBRT which is called the transformation index. You see the (inaudible) in transformation index means that more or less these countries in Europe went from being a centrally-planned economy, this is 1.1 percent, when it’s a totally planned economy, to something very near a market economy, which will be full. This is the (inaudible) side of the index.

What has happened is that how they structure this change and which
were the changes that were faster than the other, you have private liberalization who is at
the top of the change. Now they are nearly market economies in terms of private
liberalization. They opened their economy to aid and foreign (inaudible) investment as
Richard was suggesting. They were a small-scale privatization, that’s what is happening
today in Cuba. But what is more difficult is to have large-scale privatization to have
competition policies. To have a (inaudible) governance for the institution, we have to
take care of markets.

I think this idea of putting these six (inaudible) in perspective and trying
to look where Cuba is, it’s a very good size to give you an impression of what is going on.

These are the traffic lights they make. You can go there to the page. I
have given you the sources. But what I would like to say is that yes, if I try to guess
where Cuba is today, Cuba is 1.6 in this transformation index. I will not go into the
details. Maybe we have a lot of noise here and a lot of mistakes, but what is important is
if Cuba is to take 1.6, and you put these in perspective and say, Cuba is going to do as
the representative country of these European countries have done in the last 15 years, it
will take more than 15 years of Cuba to be near the world economy, to be near a market
economy. There are a lot of problems there: Timing, sequencing, and the resistive
resilience of the economy to the change. I think this is also a very important way too.

Let me go back to my first slide, those books in the back store of a book
shop in Madrid in 1969. The only thing the Spanish people knew about the (inaudible) on
the Spanish economy was that the government needs to build houses. This was the only
thing that we knew about, and this was just a communication from the World Bank.

Reading again this report last night, I found this thing that, to me, was
really very clear and really very important; maybe very relevant for the discussion we are
having today. It says that the government is not in a condition to stimulate the needs of
the private sector unless he could clarify the purpose in which (inaudible) which is
referred to how it’s going to manage the situation, how it’s going to be their (inaudible)
system, how it’s going to be the financial system, and how is it going to organize the
political representation. I think that this very, very short sentence in 1962 in a report of
the World Bank also applies to something that we are today talking about. Thank you
very much. (Applause)

MR. PICCONE: Thanks for your patience as we get wired up here.

Thank you. We heard three very interesting comprehensive presentations there, and I
really think they came through the sense of change but also challenge that Cuba’s facing
right now and also helpful in putting it into the comparative perspective angle here. It’s
obviously an extraordinarily complex situation, but something can be learned from other
situations.

I think there are some special, really unique dynamics under way that
Richard touched on at the end of his presentation, and of course Marlen referred to as
well, which is the comprehensive economic sanctions against Cuba from its most
important natural market -- the United States -- the extent of the sanctions and the
amount of time in which they’ve been in effect. I think there’s an interesting and very
lively and very important debate going on that’s gaining some momentum here in
Washington and in the United States about that situation, and maybe in the Q&A we’ll
come back to that. But I think we do have to recognize that that does put Cuba in a
pretty special situation vis-a-vis other countries.

What I want to do is just come back to where we really think things are
and whether I can get a better sense for you all on whether the reform process, if the
glass is half-full or half-empty. Given what you know about other transitions, given what
you know about the Cuban structure, do we think that the reform process is on track
enough for it to stay and moving forward or are we facing a situation where the lack of
progress will really shut things down?

There are obviously tremendous pressures on the regime, and
you see it playing out in different ways. The efforts they’re making to attract foreign
investment is one area where it, on the surface, looks somewhat positive. They’ve
updated their laws, and they’ve established a special development zone at the Mariel
Port trying to attract investments. I think that’s an important feature here.

But I also see a lot of troubling reports about roadblocks. Roadblocks
like party bureaucracy getting in the way of reform. Even though from the top there’s a
direction that says, it’s time to reform, implementation is very difficult at the mid and lower
levels.

The issues of corruption and rule of law and the way the government is
handling cases of corruption and the concern that raises for the international community
is another one. The situation in Venezuela, the declining oil prices and whether
Venezuela will continue to be an important and generous provider of energy subsidies is
another interesting moving development.

Finally, and very specific to the role of the international financial
community, the currency reform and whether Cuba can successfully execute this without
some type of financial capital support from the IMF or from some other resource.

I want to identify some of those factors that are currently in play and get
your sense of how does that affect your judgment about optimism and pessimism going
forward.
MS. SANCHEZ: I want to be an optimist, of course, because I am Cuban and I live in Cuba. I want to be optimistic with this process. I realize that the duration of the reform cannot be so long because it involves creditability, and it's important to (inaudible), and the people know that the reform is going in the right direction.

I think that we have done a lot in Cuba in terms of the reform, but it is not enough. It is not enough because, for example, during the first (inaudible) of this year, the growth in our GDP was just 0.6 percent, which is not a good figure. We expect to grow at the end of this year to 1.4 percent, and it was the worst economically (inaudible) that we had here in 2008, and it was near in terms of growing. I consider that really we are doing too many things, but we have to continue working in the institutional (inaudible).

It's very, very important because it gives them a seat to the process, and I think that some important steps have been giving. For example, the new role for the foreign investment (inaudible) and, of course, foreign investment attraction. But there is not enough in terms that it's important to create all the other (inaudible) in the country to achieve (inaudible) capita increase. It's important.

I think that we have an important challenge that has to do with the elimination of the (inaudible) exchange rate and monetary duality because in Cuba we cannot advance the (inaudible) of the problem until we don't have a correct measure to analyze the impact of the reforms. For me, that is so very important. We have proposed this situation too many times, and we have accumulated too many structural programs too many times too.

But the issue of these unification, monetary unification, in my opinion, is very, very important because it can lead to an opportunity to review, to measure, the
impact of the reform because now we are working. We were blind. Even more, all the comparisons between different countries is complicated for us because the point of departure is completely different; you don’t know really. I think that this point is very important.

I think it would be difficult for us to carry out now this process of unification without having a lender of last resort, but anyway that’s why I think it’s so important that we start now to engage with the institutional financial and particularly with the development bank like (inaudible) because maybe they can help us with some resources for (inaudible) this process.

MR. FEINBERG: In terms of measuring speed, I think probably what we have in Cuba is a generation gap with different time dimensions. If you’re 80 years old, the changes that have occurred in the last 5 years may seem, wow, in a short period of time compared to my 80 years, look how much we’ve done. But if you’re 25 years old, the last 5 years have been most of your adult life, and the reforms may seem very slow. If you’re starting off on your career and you want to really make your mark and move ahead rapidly, you can’t wait 10 or 15 years for reforms to (inaudible). You’re thinking of an exit strategy. I think we may see a time-dimension difference here related to big generation gaps that exist.

Fast or slow, how far are they going? As I suggested, on the table are a whole list of very important reforms. If they were actually to implement those reforms in the next few years, then I think Cuba would move up dramatically in those measurements that Jose Ruiz suggested.

One thing I think we’re lacking in Cuba that you typically find in reform processes is a visible cadre of internationally-recognized technocrats who have had
some global experience and who the international community can engage with and get a better sense, therefore, of what their intentions are and where things are going. That just isn't present in Cuba. I'm sure there's some smart people in the government, but they're neither visible nor accessible. That's a problem in judging the pace of things.

My very final point would be the number I'm asked about, where is history going, I always say history will be what we make it. In part, how fast Cuba moves will be dependent upon US policies. Our current policies make it harder for them to move forward. It would also depend on what extent to which the Cubans make decisions, but also are the international financial institutions prepared to openly engage and assist Cuba in moving forward.

MR. PICCONE: (inaudible) Juan?

MR. RUIZ: I would like to be an optimist, but I am an economist.

(Laughter) These are (inaudible) on my (inaudible).

The first thing, to my knowledge, the successful reforms needs to have behind it a social consensus, and I don't know how this social consensus can be created in Cuba because it's not the kind of consensus that we saw in the nineties in Eastern European countries when all the countries moved and had a very clear target of going to the market economy. This is not the case. We didn't have this clear goal explicitly (inaudible), and we don't know how the society is going to react to something that is very clear.

We are not talking about (inaudible). We are not talking about reforms that are going to make everybody better off. In this reform are going to be people who are going to be worse off and people who are going to be better off. When you look at these kinds of things, what you see is that the political elite are worse off maybe in
exchange for having a much better-off society, and this is very difficult because the political elite has the elite in the reforms. I think these are going to be too slow to make a significant change in a very short period of time, and I fully agree with what Richard was saying.

The only point that as an economist I will also raise is that I have no recollection today of a major transformation such as we are talking about in Cuba without having support from the international community. The nature of the reforms we have seen, what you see is that there is short-term cost in exchange for long-term gains but falling productivity terms, and that these short-term costs are, to some extent, eased by the support of the international community either through foreign direct investment, borrowing in the capital markets, through belonging to having a (inaudible) with the IMF or the World Bank as was explained in the Spanish Case.

I don’t see these three things following what Marlen was saying a few minutes ago. I don’t see that this is near, at least in my perception today. I don’t think foreign direct investment is going to flow to Cuba in significant amounts. Again, Cuba is not the only country in the world. We are having a very, very difficult time in Latin America in terms of (inaudible) shock. Cuba is in Latin America. You were saying something that is critical. What would happen to Cuba if all these cross-subsidies that comes from Venezuela, Brazil, etc. comes to a sudden stop? I think this is going to put a lot of pressure on Cuba, and memories of what happened in the nineties with the Russian collapse are going to be back.

You have been telling people that you are making reforms since the nineties. Again, 30 years after or 25 years after, you are again in a situation in which you depend either on being able to create and generate your own growth domestically in a
market of 30 million people -- the possibility of doing that is not very large -- or embracing again in the international community. I think these are situations in which Cuba has the opportunity to do it if he put on the table a credible transformation program who is able to not just call for the help of the international community, but (inaudible) by the support of their own society.

MR. PICCONE: I think the question of the political elites and the winners and losers is really critical to the pace right now. It’s important to remember that Raul Castro has announced that he will be stepping down in 2018, so there already are signs of transitions underway and younger generations coming into power. The question is whether they will proceed under a more open and technocratic approach to managing the economy or follow the traditional lines of a more ideological approach. I think that, to me, is still a riddle. I don’t know the answer to that question. But we have a lot of experts in the room, so why don’t we open the floor to some questions? Why don’t I take two or three before we come back to the panel? Phil?

MR. BRENNER: Thank you. Philip Brenner of American University. I apologize that my first question is the obligatory question to Brookings now that Brookings is in the news about taking foreign money. How much money did this study get from Cuba? (Laughter)

MR. PICCONE: Not enough, not enough.

MR. BRENNER: You raise, Ted, exactly the right point a the end here that I was going to come to, but let me ask it a little more precisely.

One of the obstacles to change in Cuba, the political obstacle, comes from people who believe that Cuba’s social gains, the egalitarianism, should not be lost. One of the problems in Eastern Europe, for example, is that the market economy has
produced inequality. Richard points to Costa Rican health, which is right except that the influx of foreigners coming in and buying houses has raised the cost of housing so much that there are now poor people who don’t have housing in Costa Rica. Those kinds of inequalities are something that some people in Cuba care about. Some people care about simply their current privileges.

Can you help us understand if the next generation has the same concerns about inequality that at least some of the more idealistic current members of leadership have?

MR. PICCONE: The gentleman there.

MR. LUIS: Hi, my name is Gabriel Luis. I am a Cuban American businessman. I wanted to ask if you can tell us what is the state of economic data collection, analysis, modeling, forecasting in Cuba, particularly in its application to the currency unification?

MR. PICCONE: Why don’t we come back on those two questions then? The inequality question and how that is felt across different generations?

MS. SANCHEZ: The process of transformation -- inequity. You say inequity. You say Americans in Cuba now, and that is a real problem because this is a challenge for the social policy. The social policy in Cuba definitely has to move from the logic of the general (inaudible). The social policy has to move from the general subsidy to targeted subsidies.

(inaudible) all of these sectors of the population that will be more affected as a result of this situation. In the case of the youth, there is something very interesting which is happening in Cuba. I was born in the revolution, and during all of my life we knew (inaudible) equal. Everybody had the same thing from the school, everything, but
now the new generation has another mentality, and other aspirations. They have other fixations with regards to what they want to do in the future. They are a little less engaged than, for example, my generation because they have some (inaudible) all the time in a very complicated situation.

But I see that these problems of inequity is very important. It’s a very important thing in Cuba nowadays for the policies because the Cuban people, we have a citizen culture that we have established here in the (inaudible) in which we have become accustomed to so many things free. It’s creates the expectation in the young people the state has to guarantee everything. For the young Cuban people to have free education is normal. To have healthcare free is something normal. Sometimes they don’t realize that all of these things are free, but they have a cost for the government. They have a cost for this (inaudible).

In this (inaudible) inequity, the resulting (inaudible) now, but it’s (inaudible) during the night and with the special period in Cuba in which, for example, the role of (inaudible) is playing an important part in this issue of inequity because the people who have the possibility to have permission as an income, as a source of income, can compensate the low salary. It’s something we have to take into consideration.

MR. FEINBERG: Yeah, and we should acknowledge that the decision by the Obama Administration in 2009 and again in 2011 further steps in particular on remittances on allowing more financial support from Cuban American families to their families on the island have made a huge impact on --

MS. SANCHEZ: Not only as a resource of income, but also as a resource of accumulation because in Cuba the most prosperous businesses are those who are supported by the (inaudible). It’s also inequality too in terms of what is going to
happen. The (inaudible) sector of the population that, of course, is in a very bad situation because we are in the process of leaving (inaudible) our foods. It’s true that in Cuba you cannot live with (inaudible) food, but too many people cannot live without this. It’s something very important to keep in mind.

That is an important challenge for the Cuban economy nowadays, and this is an empty place that I see in the future (inaudible). How to accommodate, how to move the social policy in Cuba which has been historically one of (inaudible) resource and power. But as Raul has said, (inaudible) is going to be (inaudible). But how are they going to do that? That’s the question. It has a cost for the government. It has a cost for our (inaudible).

MR. FEINBERG: We shouldn’t be under any illusions, Phil, about the current state of equality or poverty in Cuba. There is a lot of poverty in Cuba today. There is also a lot of inequality in Cuba today. The Gini coefficient, roughly measured, is roughly equal to what it is in Costa Rica today in Cuba. It’s not like we’re starting from some egalitarian system that the reforms are somehow going to disrupt. Already there’s significant inequality and poverty. The only way to improve social services is through greater growth, and that’s what’s very much emphasized in our volume.

A big issue going forward will be what is the attitudes of the emerging middle classes. Will the emerging middle classes care about equity or not? I think there are reasons for some optimism in the Cuban case because most of the middle class themselves coms out of more or less a working-class background and the ideologies of equity has been very, very strong in Cuba. I think you may see a middle class that is more concerned about social equity than you have, for example, in many other Latin American countries.
On the issue of the quality of economic analysis, of course there are many excellent colleagues at the University of Havana who do economic studies, but the government has not published a lot of data. That makes it difficult, of course, if you're talking about doing quantitative analysis.

I think one of the big issues going forward, as Cuba gradually begins to approach the international financial institutions is that they will say we cannot even begin to analyze the Cuban economy unless we are given access to more data than is currently published. That will make for an interesting dialogue.

MR. RUIZ: Just to complement, I think that the problem of data availability in Latin America, and especially in the Caribbean, it’s really awful for the economy. The problem is not that the government is publishing the data. The problem is that the government is producing the data. (Laughter) I think this is something that may be important. For instance, what you have raised is a very important question. You have to (inaudible) the terms of exchange rate unification. It’s something very similar to countries in which some of the residents are indebted for currency.

You need to have the balance sheets of all of these and then the relationship because you need to know the mismatch that you have there, who are competitive, who are not competitive at the new exchange rates, which are the different feedbacks among them; we don’t know that. Although, as Richard was saying, we have people that come from the Bank of (inaudible), Pavel and Romero, people in the University; we have some data coming from Pavel, some (inaudible) data coming from there, and that you don’t have a really clear picture from our perspective. Maybe his data is there. They have to make a really fine and solid analysis of what to do.

MR. PICCONE: We can take a couple more questions. I see some
hands in the back here. Take the microphone.

MR. BETANCOURT: Roger Betancourt, University of Maryland.

I'm glad that you raised the issue of remittances and gave credit to the Obama Administration, and you also mentioned the issue of sanctions. There is something that people don’t put together which is quite relevant to this issue.

Remittances are normally sent by recent immigrants. There was an (inaudible) between Cuba and the United States in 1994 and 1995 -- maybe Richard had something to do with it and wants to claim credit or maybe he doesn’t.

MR. FEINBERG: Sure, sure. (Laughter)

MR. BETANCOURT: Sanctions can be applied to goods and services, they can be applied to the flow of persons, and they can be applied to the flow of capital. This immigration (inaudible) lifted sanctions to the flow of persons from Cuba to consider (inaudible). It was signed by the US government. It was signed by the Cuban government. It requires a minimum of 25,000 permanent immigrants from Cuba to the US every year. Over 400,000 people would have made it on the agreement. Those people are the ones that are most likely to (inaudible) remittances due to the connections that remain between recent immigrants and the families that they left behind.

This, of course, survived the Helms-Burton Act, and so if you want to talk about sanctions, why is it that no one explores the idea and maybe some give and take on the financial capital which is the real issue? The restrictions on sanctions are subjected to the same give and take where the US gives up something, some sanctions, in exchange for Cuba giving up something like (inaudible) of human rights of some people. That's for whatever panelist wants to take it up.

MR. PICCONE: Great. The gentleman right in front of you. Yes.
MR. NOVAL: Thank you. I’m Dennis Noal from Georgetown University.

I’d like to ask you your opinions about the opportunity costs of these remittances we’re talking about because alternatively from sending remittances, these Cuban immigrants here in the United States could also, theoretically speaking, return to Cuba. They could be creating an industry within the country instead of just sending the actual cash. Do you think there’s a possibility for that to occur? Also, how long do we have until the people that would be interested in going back to Cuba either pass away or simply lose their interest? How long do we have until we can actually draw from this human capital source? Thank you.

MR. PICCONE: Thank you. This gentleman here in front is the final question.

MR. MACAYA: Hi, I’m Roman Macaya, the ambassador of Costa Rica. Since Costa Rica has been used as a comparative model for this potential opening of Cuba, I just wanted to make a few comments. I would agree that Costa Rica, in some regards, provides a model in that Costa Rica had a lot of state-owned enterprises that were opened up. They weren’t privatized. It was basically the sector was opened up, so it was competition with state-owned enterprises. But it was a very slow process.

In fact, Costa Rica about 20 years ago opened up its banking center, much more recently opened up its insurance and telecommunications. Energy is only partially opened up. There’s only 15 percent participation of the private sector in electrical generation. All of this took place over a number of years and under very different conditions than what Cuba has today.

We didn’t go from a society that was closed politically and economically, and we didn’t have an embargo. Those are two huge elephants in the room that have to
be taken out of the analysis and to say, let’s look at just the opening. But we’ve invested strongly in healthcare and education. There are some comparables, but I would say you have to be careful in making these leaps of transposing one model to the next because we’ve also gone from maybe center-left to center-right, but very close to the center. Cuba is way out on the left, and if you by the model of the World Bank, they’re going to want you much more to the right than where Costa Rica is today. It’s a unique situation, and Costa Rica provides some models, but you have to take this all in context in order for this to be useful.

MR. PICCONE: Thank you. Point taken. That’s a very good point.

We just have time for just a short comment from each of you before the final wrap-up, so anything on the remittances in particular, and then the migration issue.

MR. FEINBERG: As it’s been pointed out, as a result of the 1994 there was, of course, an immigration crisis also linked to what was going on in Haiti at the time. We did successfully negotiate with the Cuban government that the US gives out 20,000 visas each year times 20, as you pointed out, so that’s a significant number over time.

A lot of the emerging private sector in Cuba today is receiving -- those remittances are being used, in fact, as investment capital, as equity capital, and that continues today, of course.

In a number of other studies -- not this study, which is focused on the Cuban economy -- we, of course, do look at the other elephant in the room which is the US economic policies. A number of these studies do recommend that investors in the US, and this would presumably be mainly the Cuban American diaspora, be permitted to invest in the emerging private sector in Cuba -- invest directly. Now it has to be done more or less under the table.
From the US side at least, we would say these investments would be in the emerging private sector and would be legal from the US perspective, and the Cuban government can decide how it wanted to read it. That would be taking advantage of the diaspora and the same sort of people who are sending remittances, but to engage more openly and directly in the emerging (inaudible) sector. That’s a common recommendation.

On the issue of Costa Rica comparability, of course every country’s different. Every country has its specific characteristics, but I do feel strongly that countries can learn from each other. Not, of course, take wholesale models and try to implant them as the Soviet Union did in Cuba for example; no, you don’t want to do that. But can we learn certain things about how to open up an economy, how to run an exchange rate regime, how to (inaudible) from the Costa Rican experience while maintaining good social services? Yes, I think there are some good lessons to be learned.

MR. PICCONE: Final comments? I would just add one final point, which is on the migration issue. There’s another way of looking at it, which is putting aside just from economic terms, there is the cost of human freedom that has to be addressed. It’s hard to quantify that, but we have to consider that in this equation.

There’s another element to here which is the brain drain that has happened through years and years of Cubans leaving Cuba, coming to the United States and other countries. We have an incentive program to allow that to happen, and when they get to US soil, they get a facilitated process for immigration purposes. Frankly, our economy and our society has been a huge beneficiary of that. Cubans here in the United States have made huge contributions in many ways. There is a dynamic of flow that is a
cost and a benefit in both directions that I think we have to factor in.

I thank you all for coming, and ask you to join me in thanking the panel.

Thank you. (Applause)
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