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RETHINKING CUBA:
NEW OPPORTUNITIES FOR DEVELOPMENT

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PANEL 1: TRENDS IN THE CUBAN ECONOMY IN LIGHT OF THE NEW U.S.-CUBA CONTEXT:

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

Featured Speaker:
STEFAN SELIG
Undersecretary of Commerce for International Trade
U.S. Department of Commerce

Panelists:

JUAN TRIANA CORDOVI
Professor of Economics, University of Havana

ARCHIBALD RITTER
Distinguished Research Professor, Carleton University

PANEL 2: FINANCING CUBA'S GROWTH, DEVELOPMENT, AND TRADE:

Moderator:
BARBARA KOTSCHWAR
Research Fellow, Peterson Institute for International Economics

Panelists:

YAIMA DOIMEADIOS
Professor, University of Havana

RICHARD FEINBERG
Professor, University of California, San Diego

SAIRA PONS
Professor, Center for the Study of the Cuban Economy
University of Havana
GERMÁN RIOS  
Director, Strategic Affairs, CAF Development Bank

PANEL 3: NEXT STEPS FOR CUBA'S EMERGING PRIVATE SECTOR- CUENTAPROPISTAS AND COOPERATIVES:

Moderator: 

RICHARD FEINBERG  
Professor, University of California, San Diego

Panelists: 

RAFAEL BETANCOURT  
Consultant, Havanada Consulting

TED HENKEN  
Professor, Baruch College

JOHN McINTIRE  
Chairman, Cuba Emprende Foundation

PANEL 4: A NEW STAGE IN FOREIGN DIRECT INVESTMENT:

Moderator: 

HAROLD TRINKUNAS  
Senior Fellow and Director, Latin America Initiative  
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Panelists: 

MARK ENTWISTLE  
Founding Partner, Acasta Capital

JOSÉ MARÍA VINALS CAMALIONGA  
Partner and Director of International Operations  
Lupicinio International Law Firm

AUGUSTO MAXWELL  
Partner, Akerman, LLP

OMAR EVERLENY  
Professor, Center for the Study of the Cuban Economy  
University of Havana

Closing Remarks: 

TED PICCONE  
Senior Fellow, Latin America Initiative  
The Brookings Institution
MR. PICCONE: I think we are ready to start. Please take your seats and we'll get started. Good morning, everyone. I'm Ted Piccone. I'm a Senior Fellow with the Latin America Initiative here at the Brookings Institution. Welcome to what I expect will be a very interesting day of conversations, information, analysis, debate about Cuba.

Today our topic is called, Rethinking Cuba, New Opportunities for Development. And I wonder if I should end that with an exclamation point, or a question mark. I think we should know better by the end of the day. There's certainly a lot of enthusiasm about the topic, and also a lot of questions about the future.

We have a stellar roster of experts to cover the range of issues raised by the historic announcement on December 17th by Presidents Obama and Raul Castro. In just five months since December 17th, we've seen unprecedented progress towards reestablishing relations with Cuba, and ending Cold War hostilities, in favor of direct engagement, dialogue and confidence building.

We are seeing new regulations in just one month, in January, and some since then, to promote greater travel, trade, remittances and direct communications. We've seen several rounds of direct talks to restore full diplomatic relations, the removal of Cuba from the list of State Sponsor of Terrorism, which has helped the Cuban interest section here in Washington find a bank, among other things, and has moved the ball forward toward reestablishing diplomatic relations.

We have also seen a historic meeting between Raul Castro and Barack Obama in Panama, at the Summit of the Americas, and Cuba's first-ever participants in the Summit, just last -- in April. We've also seen some reactions in Congress, a flurry of legislation introduced in Congress that would, on the one hand, lift the travel ban, ease trade restrictions and end the embargo. And on the other hand, legislation to reverse liberalization, to demand action plans on property claim settlement, and restrict spending.
on a new embassy.

In Havana, I would say the pace of change is slower, but over the last several years, we've seen a number of important changes toward gradually opening the economy, allowing Cubans to open small businesses, and buy and sell property. Travel more easily off the island, and I'm very happy that all of our Cuban experts have made it from Cuba to Washington this time, without any problems. That's a major achievement.

A year ago, I don't think I could say that, so that's one sign of the ability to have more direct, exchanging contact with folks on the island. Of course there are big challenges up ahead. Labor market reform, currency unification, electoral law reform, and you'll hear of many more in the course of the day.

So, our purpose today is take stock of these changes, examine trends in the Cuban economy, in the new context of U.S.-Cuba (inaudible), evaluate the challenges and the opportunities for Cuba's economy.

I want to thank the Christopher Reynolds Foundation and Atlantic Philanthropies for their support, for organizing this conference. We will be tweeting today at the handle of #CubaGrowth, so please, check that and add your comments in that space.

As you see, we are in a full crowd today, we do have an overflow room across the hallway, so if you find yourself leaving and then coming back, and you can't find a seat here, please walk just across the hallway, and there will be a screen and translation available there.

We will have a quick coffee break after the second Panel, around 11:00 o'clock, and then a lunch break out of these doors, on the side here, there will be sandwiches and snacks for just half-an-hour from 12:30 to 1:00, and then we'll continue the program at 1:00 o'clock. There will be some PowerPoints in the course of the day. Finally, you should know that for translation, Station 2 is for English, and Station 10 is for Spanish. So, help yourself to that.

And what we are going to start with is a discussion on current macro
trends in Cuba. And we are going to first hear from Stefan Selig, who is the Undersecretary of Commerce or International Trade and the Department of Commerce here in Washington. He was confirmed to his position just about one year ago, by the U.S. Senate, and he leads, among other things, the International Trade Administration which helps in the development of U.S. trade policy in the global economy, which is an extremely busy portfolio these days. So we are very happy to have him here.

Previously Stefan Selig served as Executive Vice Chairman of Global Corporate and Investment Banking, at Bank of America Merrill Lynch. Has a long experience in New York and Wall Street, on mergers and acquisitions, and global investment, including Bank of America Securities. And so well known, and well understands the dynamics of the global economy and the role of U.S. businesses in supporting that dynamic economy.

We are very happy to have him. He's going to come speak and make some initial remarks, and then we are going to have a period of time to hear from two of our commentaries, one will be Juan Triana Cordovi. Juan is a Graduate Professor at Center for the Study of the Cuban Economy at the University of Havana.

You have all their bios, so I'm not going to go into great detail. But we've gotten to know Juan through a series of meetings and expert workshops we've done with the University of Havana. He teaches the Cuban Economy and Universal Economic Thought, at the Economics Department at the University, and travels widely around the region and the world, giving talks on the state of the Cuban economy, and has a Doctorate of Economics from the University of Havana.

We'll then hear from Archibald Ritter. Arch is a Distinguished Research Professor in the Department of Economics at the Norman Paterson School of International Affairs, at the Carleton University in Ottawa. We are very happy to have him here, Arch has been studying and examining Cuba for many, many years as well as economies in Africa, and comes to us with great experience both in academia in government at the U.N.
And we'll be hearing from both of them about macro trends happening in Cuba. And then we'll take some time for a Q&A with you all, and so let me get moving and we'll get the program started and ask Stefan to join at the Panel. Thank you.

(Appause)

MR. SELIG: Good morning, everyone. I'd like to first start off by thanking Ted and Brookings for the invitation, and for the opportunity to speak with all of you today. This organization which Ted tells me is next year, will be a celebrating its Centennial Anniversary, and it plays an essential role in forwarding sound, public policy, and that obviously includes all the work that Ted and his team in the Latin America Initiative do in providing understanding and guidance in the U.S.-Cuba relations.

So as Head of the ITA, as Ted has said, I am charged with advancing the trade and investment agenda of the country, and I thank you for everything that you have done, will do, and for your partnership.

This is actually -- I see some familiar faces -- the second set of remarks I have delivered in the past two months on Cuba. The first set, we were in New York, back in April, at the Cuba Opportunity Summit, which was sponsored by the Wharton School. During that address, I made the point that and essential way to understanding the process of normalizing relations is to see it as a journey.

And as with any journey, that means there is a path, and in fact, a destination. I stated that this path means that we are embracing the policies of free enterprise and individual empowerment, and embracing the policies that yield the highest returns on the qualified educated and talented human capital that Cuba possesses. As for the end point, the destination, that will be a democratic, stable and prosperous Cuba.

Since I delivered these remarks, it has occurred to me that there is another way to understand this very process. And that is by seeing it within the context of time. And in fact, when you examine the process of normalizing bilateral relations in this context, I think three separate narratives emerge.

The first narrative I would like to talk about is perhaps the simplest one.
And that is separating the policy measures that have been implemented in the recent past from the ones that have not yet been implemented, but may be implemented in the future. I think this is critically important given the amended regulations that have been published by the Treasury and Commerce Departments since the President's announcements this past December.

And as I noted in New York, the regulations implemented by Commerce and Treasury have already facilitated travel to Cuba for authorized purposes, raised the limits on certain remittances, and generally authorize certain categories of unlimited remittances to Cuba, authorized U.S. financial institutions to open corresponding accounts with Cuba financial institutions to facilitate the processing of authorized transactions.

Authorized certain transactions with Cuba nationals located outside of Cuba, and authorized certain other activities related to, among other areas, telecommunications, financial services, trade in certain goods and services with Cuba's private sector, and shipping.

And following the completion of the 45-day Congressional Notification period, the Secretary of State made the final decision, completing the rescission of Cuba's designation of a State Sponsor of Terrorism, and as we all know, that became effective last Friday, May 29th.

But it's also critically important to understand what has not yet transpired. None of these measures represent the lifting to the Cuba embargo which remains in force, and codified by existing U.S. law. And none of these measures represent an endorsement of the status quo when it comes to the state of human rights in Cuba.

The second narrative is separating the recent period of time focused on the reestablishment of diplomatic relations and the initial steps towards normalization. From the much longer time needed for full normalization to unfold. I think as everyone here knows, we have seen a number of events emerge in relatively short order. In fact, on the day I delivered my remarks in New York, Airbnb announced that 2,000 Cuban
homes will be added to their listings.

And in just the last two months we have seen JetBlue announced that they would conduct a weekly flight between New York and Cuba. The issuance of specific licenses authorizing the transportation of authorized travelers by vessel. A delegation led by my Governor, Governor Cuomo, the first Governor-led trade mission since the December announcement.

Cuba's participation in the Summit of the Americas, as well as the meetings between Presidents Obama and Castro, the removal of Cuba's designation as a State Sponsor of Terrorism, which I just mentioned, and the current focus on reestablishing diplomatic relations and the reopening of embassies.

So there is no denying the speed of these developments, and there is also no denying the excitement from the various communities and stakeholders that these developments reflect. But let us be clear. The small amount of time during which these events emerge should not be confused with the long period of time that will be needed to resume normalized relations.

Both Cuba's path to reforming its economy, and the path of normalizing bilateral relations will be evolutionary and deliberative. From the standpoint of the administration we have chosen, we have chosen engagement over isolation, which we believe will allow us to work more effectively with Cuba, across a variety of issues, including encouraging Cuba to embrace free market, pro-growth policies.

And as the President acknowledged in December, Cuba has already made some reforms to gradually open up its economy. In fact, Richard Feinberg, in the first row, outlined a few of them in his 2012 report entitled, The New Cuban Economy, liberalizing private markets for small businesses, distribution of state lands, private markets for farm products, and the selling of automobiles and homes. And as Richard noted in his 2013 study, the number of self-employed Cuban workers has nearly tripled since 2009.

That said, this process will clearly be a long one, and the leading reason
is because the Cuban economy possesses deep, structural challenges. And we are all aware of them, a population half the size of Shanghai and defined by years of negative growth, an infrastructure system that cannot adequately handle trade, transportation or digital commerce.

A very slack labor market due to state-sector role, shedding nearly 600,000 jobs, and an industrial sector that produces at less than 50 percent of 1989 levels, according to Richard's report; and a rising dependency ratio driven by an aging population, which runs counter to much of the developing world, according to my fellow Panelist, Juan Triana, who you will hear more from.

And these last two points dovetail into the final narrative I would like to discuss today. I think it is safe to say that the Cuban economy can best be described as one that has been stuck in time. That may be the most telling example of Cuba’s economy being stuck in time, is the level of its development relative to other countries in the region.

So I think it is worth comparing Cuba’s economic growth with that of four nations who have embraced the policies of open markets, individual empowerment, and institution building. Of course, I'm referring to Chile, Columbia, Mexico and Peru.

As of 1970 Cuba’s nominal GDP was comparable with Chile, Peru, and Colombia. In fact, the nominal GDP of all four nations was within $3 billion of each other. Cuba was at the low end at roughly $5.7 billion, and Chile at the high end at just under $9 billion.

Now, let's fast forward forty-plus years. Chile, Colombia, and Mexico are all top 40 economies in terms of nominal GDP. The closest economy in nominal GDP to Cuba is Peru. In 1970, Peru’s nominal GDP was $7.2 billion. Today, it is $202 billion. That is almost three times the value of Cuba’s nominal GDP of roughly $68 billion today.

As for Mexico, in 1970 Cuba’s nominal GDP was roughly 16% of the size of Mexico. Now, let's fast-forward forty-plus years. Cuba’s economy is now less than 6 percent, the size of Mexico’s $1.26 trillion economy. And in roughly 40 years, these four
nations not only rose to comprise the Pacific Alliance, but three of them are also now our negotiating partners for the Trans-Pacific Partnership.

I think all of this speaks to the true value of the new course we are charting with Cuba. This new course will not mean turning back the clock. What we hope it will mean starting the clock. But now let us all be clear. We have no illusions about the roadblocks to getting there.

This will take time. But charting this new course for the U.S. government means starting the clock on a policy of engagement, which offers the best opportunity to expand the political freedoms of the Cuban population, to deepen the connection between the American and Cuban people, and to advance U.S. interests; Charting this new course for the Cuban government means starting the clock on an economy that has been stuck in time over the past several decades.

If Cuba fully commits to the policies of free enterprise that will expand the opportunities, expand the political freedoms, and improve the day-to-day existence of the Cuban people.

Finally, as the Cuban people chart this new course, they will be starting the clock on a process, which years from now means their country will no longer be an outlier to its regional peers. Their country will be able to stand next to them.

Cuba will be able to stand next to Chile, a nation that became the first South American country to enter the OECD. Cuba will be able to stand next to Colombia, a nation that became the third largest economy in the region. Cuba will be able to stand next to Peru, a nation that will soon host the first Annual IMF and World Bank meetings in Latin America in nearly 50 years. And Cuba will be able to stand next to Mexico, a country that went from the brink of economic collapse to a member of the G20 in less than a generation.

And Cuba will not only stand with these nations in the future under this new course, nations throughout the world will aspire to stand next to Cuba.

It is worth noting, I think, that the poem that was read during the
President’s 2013 inauguration was entitled “One Today” and it was written by the Cuban-American Poet, Richard Blanco. The poem begins with the line, “One sun rose on us today.” I think this is particularly fitting because it encapsulates the highest aspiration we have for successfully normalizing relations with Cuba.

That aspiration is for Cuba and the Cuban people to finally experience the very same “today” with the United States, with its fellow partners in the Americas, and with the world as a whole.

Thanks for listening. (Applause)

MR. PICCONE: Great. Thank you, Stefan, for those comments. And all of our materials will be posted later in the day after the event, both audio and video transcripts, so if you miss anything, you can always consult there.

We are not going to hear from Juan Triana and Arch Ritter, to give us their view on the general picture of Cuba's economy, and then we'll open up for further discussion. Juan?

MR. CORDOVI: Since I have terrible English, I'm going to speak in Spanish. Firstly, I wanted to thank Brookings and Ted for organizing this event, and inviting me to discuss once again, Cuban affairs, and I'm going to try to do it slowly, in the seven minutes that I've been given to give my presentation.

I wanted to start, reminding you that the process that Cuba is experiencing at this time is way -- beginning way before December 17, it's important -- the timeline is important, and it started in 1986, '87, is when this began, when the Cuban economy became stagnant, and then in the '90s, when there was a deep crisis, from '87 and '94, there was a crisis, a deep crisis that we entered. The second period, when 1994 to 2007, and there's -- it could be too, there was an economic growth period that we had.

There was a lot of volatility with growth of the Cuban economy and the adoption of a set of policies which opened -- or made the economy more centralized. This was the three periods, with three different histories. This latest period, the most important piece of news of course, is that on the 17th of December, of course, with the
equation of development, may change when its parameters, which is its relationship with the United States.

The other thing I wanted to mention; is that in the last few years the performance of the Cuban economy over the last five years has been in growth product -- GDP performance has been quite poor. We've grown at a rate that's below 2.5 percent which isn't too good. And we continue to face a lot of the significant problems; problems of investment, imbalance, balance of trade.

And with some good news on the horizon, when it comes to current account of the Cuban economy, in 2014 the data on our economy is good, and the current account, and the fact that government announced that it has revenues of $10 billion worth of -- in reserves. The government announced it, and projections for 2015; in contrast with -- resolve, this is quite different, and there is a projected 4 percent growth, and at 27 percent increase of investment over the prior year.

Growth of 3.5 percent growth, and a new loans credit in the amount of $5 billion, which could be the leverage required to allow for a 4 percent growth rate. The interest -- but it would be worthwhile to point out some new issues that have emerged yesterday, Gamma published new measures that the government agreed to take over the next few days, and there is an executive -- the Council of Ministers that an Executive Committee meeting to expand these opening and reform -- of the opening of the national economy.

And with regard to the new cooperatives, there's -- important groups -- agreement. Also there's one cooperative, it wasn't for other sectors, just for this cooperative, and they talked about expanding this -- this particular sector. Secondly, the hiring of workers who are not members of the cooperatives from than three months, before, it was only up to three months and other regulations, they were allowed a year, so there can be non-members of the cooperatives who can hired.

And with regard to release from pain, and taxes; it three months, now it's going to be 6 months a year, tax exempt, and you don't have to pay taxes or over
(inaudible) you earn from the companies, and this was last week these were announced, and I think this will represent a big change.

The second set of measures is regarding the banking system in Cuba. I think it's the first time that it's actually recognized what difficult exist in the Cuban banking system, and so the state functions will now be separated from the business functions of the banks.

There will be new instruments, and services that will be provided to all the population including the private sector, there's even a decision to stimulate lending. I am not sure what the details will be, but there will be new loans available for the country, starting about a month from now, approximately. So these were some of the new measures that have been decided on a week ago. So these speak to the continuity of that process.

What else has been done though? Two years ago, also, new regulations for investments were approved; the attempt is to transform Cuban state businesses so they have greater capacity to make decisions. Now in terms of result, we don't have information about how many new investments have been approved in Cuba, in general, not just in development.

What is true is that there are proposals by over 300 businesses in Mariel, and outside of Mariel as well. And not long ago, Mariel, the first six businesses had been approved from different countries, they can now begin to operate there, and what's interesting is that, thanks to December 17th, there has been tremendous growth in tourism now.

There has been in the last four months, 14 percent growth, and in terms of Americans visiting the island, this has gone up over 20 percent. So this is a significant figure, and it reflects a new perception.

And here I have for you, the result of a survey by a Florida-based company on the business environment in Cuba for foreigners who have businesses and who work in Cuba. I don't have the previous one, unfortunately, I don't know where I've
put it in this machine, so I can't do the comparison. But I think it's interesting to see, especially the responses by those business people, to this survey.

I have four of those responses. The first one is related to how they see the future for the investments of their business in Cuba in the next four months, and the response is very positive there, overwhelmingly positive. Even I was surprised by it.

The second one, is also very positive, if we take into account that only 10 percent feels that their businesses could suffer in the country or could decline in the near future in the country. The second one is also very positive. And the third one, related to expectations for the next three months, very short-term also, mostly positive for these business people, for the first three months of the year.

And the last one, the most of sensitive of all, I think, where Cuba has had serious problems in the last few years, and so have foreign businesses. The response is also positive, the financial situation of the country and how it is perceived by these businesses in Cuba.

So definitely this tells us that there is a change in perceptions regarding the country and its economy, and a significant part of change, of course, is associated to the news we got on December 17th.

And finally, that last company has a projection for growth for Cuba which is also very positive, between 3.4 for 2015, and 5.3 percent for the year 2017. And I think that's good. I think we are looking at important transformation of Cuba's image in the eyes of business people, and of the rest of world.

The last -- it's not the last actually -- but the -- one more point that I wanted to discuss, it's related to the pace of transportation, this has been discussed, and I will quote Raul Castro, something he said yesterday, and it was quoted in the newspaper, Gamma. When he was talking about the reform process in Cuba, and I will do it as slowly as possible, so the interpreters can translate it.

He said, human beings are the ones who put forth the proposals, also those who approve it, also those who lead the country, we don't always have experience
in these tasks, therefore everything we do needs to be subject, always, to critical -- or constructive criticism, rather.

So I think there’s something that slowing down the transformation in Cuba, and it is related to the lack of expertise. And secondly we have some rather blurry lines, and this has not been resolved from an academic perspective or from a political perspective; and some of these boundaries, some of these lines really have a lot of weight.

For example, what is of the state and what isn’t, what is proper management, the relationship between planning and the market, the experience of a government that’s very focused on income rather than efficiency, and there is also equality, and that’s another issue, another area that needs to be defined in our country.

And finally -- I know I’m almost out of time -- I wanted to talk about after 2015, because usually we talk about the present and the past. What Cuba is facing, this year is a serious process, and many different processes are taking place at the same time, and next year there will be a new Congress for the Communist Party, there will be a significant modifications of the country’s constitution, and during the first phase of a long-term development program, will be discussed, there will be a new generation of political leaders leading the country, and this is what we all hope, that this process, this reconstruction, this rebuilding of the U.S.-Cuba relationship will continue.

Also the process of improving relations between Cuba and the European Union, and an agreement needs to be negotiated with the Paris Club, and there will be a more open economy with greater participation by the market from foreign direct investment, and new economic agents.

We will need to think about the role of the new Cuban Diaspora, which is different from the previous one, in everything, including their plans for their lives. And Cuba will become a new society, will need to have new characteristics, so in this process and this aspiration of becoming a prosperous country where at some point, perhaps, we can approach countries such as Columbia, or Mexico or Chile.
We still don’t want to lose what the Revolution has helped our country gain, these other countries have not reached us in terms the development expressed as the wellbeing of much of their population. And it's true that we are not having an IMF meeting this year, that's good. But we had a fundamental involvement in the fight against Ebola in Africa. This is something none of those countries did. Thank you. (Applause)

MR. PICCONE: Thank you, Juan. I think that was a great way to start with a comprehensive look at the various factors a look ahead which is really important. Arch, please give us your reflections?

MR. RITTER: Thank you very much. It's a great pleasure and privilege to be here at Brookings, I thank you for the opportunity, Ted. It's wonderful to be in Washington for a good-news, good-times conference on Cuba.

In fact, when I was trying to sum up my message in the form of a title, the title that came up was, The Cuban Economy, Good Times Ahead. And that is something, because us, people who have focused on the Cuban economy for some years have focused on problems. But looking forward things look a whole lot better in Cuba now.

Well, what I would like to do in this presentation is to talk about macroeconomic prospects in the short, medium, and long term, but focusing on the medium and long-term, and then I’d like to make a couple of comments on prospective institutional structures for the Cuban economy in the long term.

Well, first the short term. I define the short term as being one in which the U.S. policy does not go that much further, and in which reforms within Cuba moves slightly, but in a dramatic way, so it's close to the status quo with gradual changes. I think as Juan indicated in his chart, the benefits of that are being predicted for the next few years. I think the impacts of American tourism in Cuba, of remittances and so on, are going to be positive, modest at first, but building, building to a tsunami in the future.

So, in the short term I think the results look good, maybe not ultra dramatic, but strong. In the medium term, I would define that as being full normalization, but without dramatic, major changes in economic policy within Cuba. I would guess that
that might start in, maybe the last years of Raul's Presidency, or maybe after his Presidency.

And then, I think, with full normalization we are going to see major amounts of investment in Cuba from the Cuban-American community, from the United States, and from other countries who want to invest in Cuba to get access to the U.S. market. So I think we are going to see major increases in foreign investment. I think we are going to see big increases in exports, a big technological transfer.

We are going to see major synergies between the Cuban-American community in the United States, especially Miami, and Cuba, and those should bear very, very good fruit. One question mark in my mind, one ambiguous element in all of this, is Mariel, the export processing zone constructed $850 million by Brazil that will have to be repaid at some point. That is proceeding slowly, and there are -- the difficulty -- well, there are a couple of problems with that.

One is, that it may be very successful, in a sense, because China and other countries may invest there in future to get access to the U.S. market; paying no taxes for 10 years, and then only a 12 percent tax thereafter, and other benefits. But the problem for Cuba is limited value-added, limited taxation. The problem for the United States may be special access to its market, with a sort of high implicit subsidization. So that's a question mark.

In the longer term, I would define that as full normalization, plus major reforms. Major reforms being monetary and exchange rate, unification, convertibility, further liberalization for small and medium enterprise, and so on. My prediction would be that at that point there should be major expansion, major improvement in the Cuban economy.

And I would draw on Alexander Gerschenkron, some of the old timers here might remember that name, but he wrote a book back in the '60s entitled The Advantages of Being a Latecomer. When one is moving into modern technologies late, you adopt the latest technology, the best technology; that gives you an advantage.
Well Cuba has a huge international backlog of technology which it can incorporate in services, agriculture, construction, everything. So, that should increase productivity in all sectors of the economy that should be very positive. So my thinking is that in time, Cuba should do very well.

A comment I would like to make if I have time here, on future institutional structures. Cuba could have many possible institutional, economic futures. Right now it has a mixed economy, state sector, joint ventures, cooperative sector, private sector, we are going to see the state sector shrink, we are going to see that -- or the corporate sector expand, small enterprise sector expand, and maybe joint ventures which are state-foreign combinations become more important.

Well, this raises a major issue for me, and just as background, on the one hand, Cuba has a significant and large population of independent entrepreneurs. In fact, Fidel said back in the ’70s or ’60s that he wanted Cuba to be a giant school for socialism. As it has worked out Cuba has been a giant school for entrepreneurship, for various reasons that I won’t go into. So with the various liberalization moves that have been made, we’ve seen entrepreneurship burst above ground and flourish.

On the other hand, Cuba has a large conglomerate, oligopolistic, monopolistic state enterprises, many of them military-owned, many of them involved with some sort of crony state capitalist phenomena. So, my concern in future, the easiest thing for some future Cuban Government would be to privatize the state enterprises by simply selling them these conglomerates to big, foreign buyers. Walmart’s, Lowe’s, McDonalds, Hilton, whatever.

That would be the easiest thing to earn revenues, that would improve technologies pretty quickly. The long-term cost would be profits being expatriated forever, there would be distributional implications of that concentration of income in terms of the owners, and loss of Cuban character, I would say.

Well, the decision then is whether to permit sort of a Walmartization of the Cuban economy in 10 years or so, or to cooperativize it, that’s another option, or to
boost small Cuban enterprise. Well, in order to prevent some sort of Walmartization, this is going to require a strong foreign investment policy to define the character of the foreign investment and foreign takeovers. So that’s a tricky thing.

Speaking personally -- and this is my last comment -- I really like Toronto, I really like Miami, I really like Cleveland, but sort of, but I would not like Havana to become a copy of even Toronto, but definitely not Toronto. So, I would like Cuba to maintain its uniqueness, and that is going to require some control on foreign investment, and the evolution of the private sector. Well, the same thing goes for Cuba, for I would Cuba to keep its Cuban character.

So many thanks. (Applause)

MR. PICCONE: Thank you, Arch. I think we’ve got a great way to look at the various issues on the agenda. We’ve got maybe 20 minutes or so to have a dialogue. Let me pose a question, that I think was sparked, in part, by Arch’s typology of, you know, full normalization plus major reforms, that idea which is quite hopeful, will involve getting there from here, a tremendous number of zigzags and steps forwards and steps backwards.

And I’m wondering if the three Panelists could comment a little bit on that interim period between now and then, I’m thinking in particular of the dynamic of the embargo. We would still face a very comprehensive U.S. embargo that will require Congress to take action, and the question for us in the United States, of course, is to have a really lively debate with as much information as possible on the table about the pros and cons of the embargo.

And I’m just wondering if you could play out for us a little bit how you see the debate around the embargo affecting the pace of change in Cuba. Will it be more likely that Cuban Government will want to wait and hold back on a process of reform until it actually sees that the U.S. is prepared to lift the embargo?

Or, will it choose to go ahead with the process of major reforms regardless of the pace of change on the embargo, because it sees, ultimately, the day
when the U.S. market will open up at great advantage to the Cuban economy? Could you guys, comment on that briefly? All three of you, please?

MR. SELIG: Well, I'll leave it to my colleagues to comment on what the reaction is likely to be in Cuba, but obviously legislative action is required to lift the embargo. And I think the President has taken many of the steps towards normalizing relations but, in fact, Congress must pass legislation to do that. And so, I'm not good at the parlor game of guessing what the timeline and process might be to get there, other than to say that I think it's been clear by this administration that we are encouraging the Congress to do just that.

But I think, Ted, to your point, I think we do have to be careful about maintain an appropriate pace in this process such that we don't lose enthusiasm down the road, which is to say, I think there's been a lot of excitement here, in the United States, a lot of excitement, I understand, in Cuba, I think that's reflective of the sold-out -- overflowing crowd you have today.

And what I would hope wouldn't happen, is that would begin to wane if the embargo was not lifted in the near term, which I think, really, causes all of us to have to be, you know, vigilant and continue to kind of work within the constraints that we have to work within, to talk about the benefits of the end point in this journey.

MR. CORDOVI: Well, as Paul McCartney said, it is a long and winding road, and in my personal opinion, really, it's a long, long, long and winding road, because the embargo is more than one law it's really a net of laws. And it's difficult to lift embargo in, maybe in one year, or in two years.

I don't see the end of the embargo in the next one-year-and-a-half, but in terms of the process in Cuba, and the pace of the process in Cuba, I want to remark that the environment and context is everything in business, and of course, if Cuba can have a better context in order to make business with -- it's good, and maybe, maybe the pace of the transformation could be a different dynamic in the context.

For instance, when I showed the slide, the business environment and the
business perception for the foreign companies today is quite different, and many, many different groups of businessmen is going to Cuba every week, in order to smell, to see what is happening in Cuba, and it's the first time that at the end of the tunnel is really close. It's the first time.

So, in my personal opinion, it could be positive, if the pace of the lifting of the embargo -- go ahead in the next month.

MR. RITTER: Well, a very quick response. I agree with what has been said. I think if the embargo were to end quickly, which is unlikely, I think that would encourage a much more rapid process of reform in Cuba, but with just -- there's slow unwinding, as you put it, of the embargo, I can't see that the reform pace is going to accelerate that much.

Raul Castro has shown himself to be a very careful, a very cautious reformist, unlike his brother, who would make massive changes very, very quickly. Raul seems to be very pragmatic and very cautious in his actions.

So I thought he has a couple of more years in his era. I think that he will want to consolidate and to tweak the reforms that are in operation, and he would like to solve the monetary issue, but that also is a difficult one to disentangle. So, I think the process of reform is going to wait until the embargo happens, which is going to wait until something happens in Congress.

MR. PICCONE: And of course some people say, well, Congress isn't going to start moving on this until more change happens in Cuba. So there is a real dynamic that gets complicated very quickly on this, and ultimately both sides need to make their own decision based on their own interest on how, and the timing of going forward.

Why don't we open it up to any questions that you may have. There should be a microphone coming forward, if you could identify yourself, and try to keep your comment relatively brief. And I see, yes, Ricardo, please?

MR. DORES: I am Ricardo Dores. So just a quick comment, so now
that you've mentioned that it's a (inaudible) dynamic, right; things happening in Cuba, things that could happen in the U.S. Congress, U.S. in general. So I think we have to take into account also that interest might be very different from each side.

And my point is, that there is a huge asymmetry between Cuba and the United States, in terms of economic dimension, political power, and all that. So, I mean, restoring full economic ties with Cuba, is not a big deal for the United States. So the power of this is symbolic, it's very symbolic, so it's very important from that point of view.

For Cuba, restoring full economic ties with the United States is a huge deal. It could change everything forever, in every possible dimension. So I think it's understandable that the Cuban side would like to proceed carefully, not to derail, not to do anything that could derail the whole process.

So, again, let's bear in mind, that asymmetry, when we analyze, you know, the dynamic of this process. And by the way, I mean we all know that, but Cuba is not imposing sanctions on the United States, it's the other way around. So, and obviously Cuba is suffering from the fact that it's a very small country, so I mean, the list for priorities, I mean for the U.S. in terms of the strategic issues, it's not important.

So if Cuba were (inaudible), it would have been very different; so I think it's important to understand that, a small country, and it's a big deal for Cuba, this whole process. So, I mean, it's understandable, in my opinion, that this is proceeding the way it is. Thank you.

MR. SELIG: Can I just make one comment?

MR. PICCONE: Sure.

MR. SELIG: Because of course I think we've concurred that from an economic perspective, we are starting at likely different places, and there are likely different indications for our respective countries, but I would like to say that I also believe that we do have a commonality of interests. And that is, we both hope that these changes that have already been made, and that will be made, will empower the Cuban people, and will fundamentally move Cuba towards greater openness and prosperity.
And that is something the United States wants. I believe that is something that the Cuban Government wants, and hopefully that endpoint will help us meander through this long and winding road, together, effectively.

MR. PICCONE: Other questions, please? Can we get a microphone?

MR. GOMEZ: As a lay person --

MR. PICCONE: Can you identify yourself, please?

MR. GOMEZ: James Gomez from New York. As a lay person, I'm not a Cuba expert, what more can be done on an executive action basis, by the President without congressional action to further open up relations? Or normalize relations between the two countries?

MR. SELIG: Sure. Well, I'm not sure that I could be precise in terms of additional executive actions. What I can say is that what we are doing, what the entire administration is doing is, I think, talking about the benefits of where we hope this process will take us. So, I think there is -- there is in fact complete consensus within the administration that the old policy was failing, and that this is a policy that should continue to march down the road towards.

It is more than just the embargo, however, there are also our restrictions, for example, in the Commerce Department, about what we can't do. So, as Ted said, I'm responsible for trade and investment for the United States in advancing our export interests, because of other regulations, we, for example, are not allowed to provide export assistance to U.S. companies at the moment, outside of that narrow band of industries that were previously allowed by licensed.

So, I think there are other things, and as I think, Juan said, this is not just one law, this is a network and Web of laws, so, you know, hopefully we'll be able to continue to chip away at them.

MR. PICCONE: Well, let me comment on this question, which is a very important question, because I think it's an ongoing debate about how much authority the President has to go further. The general sense had been, especially over the last several
years, that the power of the President was obvious, in the things that he could do, exceptions to the embargo to move forward.

The announcement of December 17th, and the announcement since then, the President has used most of that authority, in my view, to do what he's done. And now, I think the burden falls on, number one, those end actors on the U.S. side, to take advantage of the changes that the President has made.

It's not just travel and remittances, I mean, we can now extend further economic and trade opportunities, maybe not with the help of the Commerce Department, but through private initiative. And the Airbnb is a perfect example of how a U.S. company can do something, get involved in the Cuban market, that also very much fits the overall policy approach Stefan mentioned, of empowering the Cuban people, and allowing them to develop their own economic activities.

I think a lot more can be done, including in the charitable, humanitarian space, people to people and humanitarian types of academic exchanges. There is so much more that can done, and we should really fill in the cement of this brick house that we are trying to build as quickly as possible, and take advantage of those changes.

What more the President can do? Is really, I think, not much more, in my view. I think it falls to Congress to have its own debate and discussion, and in the meantime, for other actors to fill in the gap.

SPEAKER: I have a question.

MR. PICCONE: We have lots of hands now, so let me take three at a time; up here, Rolando, and then here, and then in the middle.

SPEAKER: Rolando Anillo, I'm an Attorney. Going back to the question about what else could be done specifically on the U.S.-Cuba relation, by removing Cuba from the list of the terrorist countries, there would be certain impact on export regulations. Do you anticipate any publishing in the Federal Reserve of those changes soon?

And specifically the impact on export of the U.S. component for export from third countries; I believe there would be a change from that percentage, and in
certain products. Thank you.

MR. PICCONE: Okay. And then, right here.

MS. DELGADO: Hi. Linda Delgado, with Oxfam. I'm just wondering, how much information do you have about what the Cuban people want, and what the Cuban Government wants with respect to development, and the Walmartization that was being discussed earlier? Do they want to move very quickly? Do they want to go slowly and protect the good, and the special? What is the sense there?

MR. PICCONE: Okay. And one more in the middle; yes, this gentleman with his hand up?

SPEAKER: Hi. José Bidondo, at the University of Florida. And wonderful presentations. I think what you are all talking about, and it's official action, actions of the state. But to what extent are these processes and releasing dynamic energy, things like the invisible hand that will have their how life, and they can go hand-in-hand, and it can lead to unforeseen effects?

MR. PICCONE: Juan, do you want to take that?

MR. CORDOVI: Okay. I want to begin with the last question, because I think this is a very, very -- a very interesting question. From my personal point of view, what's happening today in Cuba is, surely, that there has been unleashed -- processes that have been set in motion, that one way or another fall outside of the official channels. For example, what's happening in the private sector today, it's -- (inaudible) and 2,800 new restaurant in the country. And these restaurants means demand for the others, for the other business, and it's the same, like, if you see in the case of the public sector, today, the private sector have more than 18,000 rooms, in rent. It's the second largest business stories in Cuba today, and it means demand for other business.

The same thing is going on with other things at this time, in Cuba, and in other words, the same relationship, or that exists between Cuba and the Cubans who live in Cuba, and Cubans who live outside, that relationship has changed significantly.

The Diaspora, the New Cuban Diaspora, I am referring to the new
people who is going out of Cuba under the new law -- under the immigration law, and it's
different, totally different. Even in the case of the young people who -- going out of Cuba
to get some job, or to get some different career in other universities. It's totally different.
I think it is important.

And in regard to the other question, actually, what does the Cuban
people really want, what pace is acceptable to them, and what's the pace accepted by
the government? The government is very clear. The government is going to very
cautious and slowly as is required.

The process is really, really, deep, in the case of Cuba. Any change
around in the economy but such (inaudible) -- in the case of the people, whether the first
data is when Cuba launched the -- the social and economic guidelines, and the original
guideline was changed in -- about 60 percent of it was changed, and that was the first
boundary -- the first limit of the reform in Cuba.

Even the people were more concerned about it than the economist.
Yeah. Now it's different, I believe it's different now, because it's a person -- it's like a
snowballing effect in economy and Cuban society, which are very typical of any
transformation and reform process, as soon as you start with these reforms, new reforms
are required and there's snowball effect, and this creates expectations among the people.

In any case, I would like to explain something. Cuba is not Havana,
remember that. I want to explain something. Sometimes we view Cuba as if Cuba was a
Havana. Havana is very important, I'm from Havana, and from the industrial -- I mean, no
confusion with that around. I am, but when you leave Havana, it's a horse of a different
color.

And people have to have time to get used to the new situation. Nobody
goes to bed being a state official, and then wakes up being a successful entrepreneur the
next morning, so there's a period of time, that you have to give to people. And I believe
even though the government doesn't say, and this is part of the philosophy that the
government is following for this transformation, these major changes, even though it may
not stay so.

MR. RITTER: On what the Cuban people want, I don’t pretend to know, but I was in Cuba in April for a period of time, and what struck me was the optimism of everybody I met. It was sort of a changed environment. There was an interesting survey that I'm sure most of you saw in *The Washington Post*, here, about a month ago, any survey in Cuba has its difficulties, but that was about maybe one of the best ones.

Found that 7 percent were in favor of the normalization, they had a listing of people’s personal objectives, and the most important objectives, and I've forgotten that list, but that gave some indication. What I do remember, is that Cubans were asked, do you have a favorable opinion of Fidel, Raul and Obama? I remember these numbers. They put Fidel 41 percent, I think; Raul 46 percent favorable opinion, Obama 58.

SPEAKER: No. Much higher.

MR. RITTER: And that struck me until

SPEAKER: Eighty, 80 percent, much higher.

MR. PICCONE: Oh, 80? Oh. I'm sorry. Well that seemed to be very impressive to me, incredible, but then I thought in Canada, we would get exactly the same result.

MR. SELIG: So maybe I can just quickly do the first one, which is, how do companies avail themselves of opportunities that currently exist before the embargo may be lifted in the future? And so obviously it is important for U.S. companies to understand the categories of goods and services that can be current exported to Cuba.

The best way to do that, frankly, is to address specific questions to one of two places, the Bureau of Industry and Security, BIS, and in the United States Department Commerce, or the Treasury Department’s Office of Foreign Assets Control, which is call OFAC. So I think those are the two places to go.

What I would say again, as a former business guy, this is about knowing your market, knowing your customer, understanding the challenges in order to be successful within the constraints that currently exist.
MR. PICCONE: I'm afraid that we have come out of time, and we'll have lots more time to continue and get deeper into some of these issues. Please stay in your seats, because we are just going to have a switch of the Panel, and we'll begin right away. The next Panel will be on issues of financing Cuba's development, which is a critical part of the puzzle.

But please join me in thanking the Panel for this discussion. (Applause)

MS. KOTSCHWAR: I'm Barbara Kotschwar, I'm a neighbor from across the street, at the Peterson Institute for International Economics. I'm with Georgetown University. And I'm thrilled and honored to be part of this very interesting conference. I think we've already learned a lot and we have much to learn from this Panel which is on financing challenges in Cuba.

And the participants are particularly well placed to talk about this. Cuba obviously has challenges to financing its growth, development and trade, as a result of external factors, the embargo, but it also has a number of very interesting and very complicated domestic challenges which, hopefully, will become more and more relevant and overshadow the external factors.

We have a wonderful Panel, starting with Richard Feinberg. And anybody who has been paying attention to Cuba over the last little bit knows Richard Feinberg, but I will introduce him anyway.

He is a Non-Resident Senior Fellow in the Latin American Initiative here at Brookings, and in the winters he is a Professor of International Political Economy at the School of International Relations and Pacific Studies at the University of California, in beautiful San Diego. And does his field research in Cuba, where he has done seminal working emerging entrepreneurs in the middleclass, so he can tell us when Cubans, you know, go to sleep as bureaucrats and wake up as successful entrepreneurs.

He is also an avid consumer of Cuban services, and so it always comes back and shows us the quality of the Cuban service economy through his haircuts. And
so he was also at the National Security Council where he was the Principal Architect of the 1994 Summit of the Americas, so he has a wide experience in Inter-American relations, and served as the President of the Inter-American dialogue.

And I'm not going to read the rest of your bio, because that will take too much time, but his publications are available, and the most recent on Cuba are available on the Brookings website. Good reading for all.

Saira Pons, comes to us from Cuba, she's a Researcher and Instructor at the Center for the Study of the Cuban Economy. She is a 2008 Graduate of the University of Havana in Economics. She's a Statistician and an Econometrician, and she's been looking at foreign direct investment in Cuba, issues of inflation, taxation, human capital. Has done some really interesting work on fiscal policy in Cuba, so I'm really interested and looking to see what she has to say.

Germán Ríos, is the Strategic -- Director of Strategic Affairs at the CAF, the Development Bank of Latin America. He has a long history also. He has taught Macroeconomics at the Catholic University in Caracas in Venezuela, he is an expert on fiscal policy, cost benefit analysis and macroeconomics. And he will be talking to us about the challenges of infrastructure, and what the CAF is doing and is planning to help Cuba with its growth and development.

And last but not least, Yaima Doimeadios, is also a Professor and Researcher in Macroeconomics and Growth at the University at the University of Havana. She was recently a visitor at Columbia University in New York last year. She's the Assistant Dean of the School of Economics in Havana.

Her publications include topics related to macroeconomic policies, economic growth in Cuba, monetary unification in Cuba, a topic that weighs heavily on many people's mind. And she will be talking to us about the internal sources of financing.

So without further ado, I'm going to ask Dr. Feinberg to give us his presentation. Thank you very much.

MR. FEINBERG: Thanks very much, Barbara. It's been a wonderful
start to the morning, there's such an atmosphere of expectation and optimism. Those of us who've been working on Cuba over the years, this is such a dramatic change and it's wonderful to be a part of such a new atmosphere.

It's a pleasure to be on this particular Panel with two outstanding Cuban economists, Saira and Yaima, and also with my good friends Germán and Barbara.

There is no more important topic for Cuba than development finance, the island, despite the optimism of the morning's panel, it's still -- the island is mired in a low-investment, low-growth trap. Investment to GDP is only about 10 percent, that's way, way, below the regional average of 20 to 25 percent; 10 percent investment GDP is not even enough to replace the aging capital stock, not enough to replace and modernize the housing stock as is obvious to anyone who visits the major cities in Cuba.

If we take the official numbers of GDP at 80 billion then we need another 10 percent of that to be -- for investment to get to your 20 percent total. That means Cuba needs $8 billion more per year, in investment, most of which would have to come from external finance.

So how do we get that additional $8 billion in external finance each for Cuba? And I would identify four major potential sources for this investment finance. One, tourism; two, other forms of foreign investment outside of tourism; three, a topic already broached today, the Diaspora, both the New Diaspora as Juan Triana discussed, as well as the older Diaspora, and the international financial institutions.

So first, on the tourism; tourism is clearly the one area where you can get a quick shot of growth for Cuba. Who, here in this room doesn't have friends and relatives who are dying to visit the island? The constraint, in fact, is on the supply side. Can Cuba put together enough beds? Can it overcome the shortage of rooms, as well as the other services required for a good and healthy tourism sector?

And can Cuba put in place, not only, you know, hotels and rooms, but also the quality of services, and the variety of tourism destinations that will be necessary for repeat visits to make tourism sustainable in Cuba?
Last year the Cuban Government released a portfolio of 246 desired investment projects. Tourism was at top of that list, a whole series of potential projects, including tourism, condos, golf resorts, all laid out by the Government of Cuba.

They even told us how much it would cost to play a game of golf, 70 to 85 bucks; 18 holes, not bad, much cheaper than in Florida. So all of you guys who like to play golf, the potential is laid out by the Cuban Government.

However, at the same time, the government, according to that report, is setting aside most of the really juicy tourism opportunity for itself. That is to say, the high-return, low-risk locations of urban Havana, and the Varadero Beaches, in those prime areas, according to the Cuban Government document, international participation will be the exception. That is to say, the safe yields are reserved for state-owned firms, especially Gaviota.

But, do Gaviota and other Cuban state-owned enterprises, do they have the capital, and do they have the hospitality expertise to ensure repeat visits, and to build beds fast enough to meet the surging demand?

I would argue that in tourism investment, it’s time for the Cuban Government to place the national economic interest above the interest of particular state-owned enterprises, and to open the door wide to international investment in tourism. Also, that the government now, not later, design a smart regulatory framework new institutions, to ensure sustainable and healthy tourism.

The second major source would be foreign direct investment outside of the tourism sector. Given Cuba’s very poor credit rating, Cuba will continue to have very limited access to bank finance even after being removed from this terrorism list, so that Cuba will have to look to foreign direct investment, which is the official Cuban Government policy.

Minister Malmierca has suggested a target of $2.5 billion of inflows per year. We all know, and I think that we discussed more in the panel this afternoon, many, many reasons why foreign investment -- investors, in general, with some exceptions,
remain very frustrated with the Cuban business climate; delays and uncertainties with regard to monetary reform, foreign exchange shortages, rigid labor market practices, inadequate and poor infrastructure, and the extraordinary lack of transparency with regard to project approval.

We hope that many of these longstanding constraints will eventually be eased in Mariel. We hear stories of some early project approvals that Juan Triana mentioned, but with distressingly little detail.

Fundamentally the Government of Cuba will have to decide, does it really consider foreign direct investment a major pillar of its future development strategy? And will it make Cuba cost competitive, cost competitive with regard and relative to alternative locations for investors in the Caribbean and worldwide?

Third source of foreign investment, a topic largely forbidden up until now, that Juan Triana put it on the table, the future role of the Diaspora, the old and new in investment. Two million individuals in the United States, that’s nearly 20 percent of the population on the island, and infinitely richer in financial assets.

Remittances, the good news here, is remittances are projected to jump from 1.2 billion a year, sometimes the numbers you see in the media are exaggerated, from 1.2 billion to double, to about 2.4 billion next year, as a result of President Obama’s easing of transfers and raising ceilings.

Much of these transfers will go to finance the emerging private sector, but so far, those investments have to be informal, sub rosa, based on trust, therefore they are sub-optimal and less efficient than they would be. So what we need in terms of flows from the Diaspora, we need to lift them out into the sunlight, so that they can be more efficient and more legal.

The final source of the flows would be the IFIs, and Germán will discuss the CAF, U.S. of course is not a member of the CAF. Cuba is the only country in the world, other than North Korea which is only half a country, that’s not in the Bretton Woods institutions. It’s up to Cuba to decide when, when, not if, when it wants to join the IFIs.
But the U.S. should not stand in the way. With the normalization of diplomatic relations, the U.S. should look to the normalization of international financial relations with Cuba. The U.S. Executive should open discussions with our Congress on amending legislations that restricts U.S. policies toward Cuban engagement with the IFIs.

So, in conclusion, these four potential sources of international finance, tourism, other FDI, the prosperous Diaspora, and the resource-rich international financial institutions; together, and with the right incentives in Cuba, of course, these four sources could inject the required 8 billion per year, to propel Cuba onto a more dynamic and sustainable path of economic growth.

Thank you. (Applause)

MS. KOTSCHWAR: Perfect! Thank you very much. Next, we'll hear from Saira Pons. Dr. Pons?

MR. FEINBERG: Okay. Thank you very much for the invitation. I'm going to speak in Spanish because I feel much more comfortable, I'm going to try to speak and slowly as possible, to give time for the simultaneous interpreting.

I'm going to talk specifically about the dilemma, shall we call it, faced by public financers prior to the transformation process that's taking place now in the Cuban economy. One point, a fundamental point of the transformations that are taking place right now, is to grant greater autonomy to state enterprises that is required, a change in the relation -- in the relationship between the state enterprises and the state.

So that (a) these enterprises can have and control with greater leeway and freedom, and make decisions with regard to investment, with regard to salaries and other aspects. This entails a change between the way in which the state engaged with these enterprises, which was direct control there over, of all the resources of these enterprises to moving towards a more -- and relations that is more based on, shall we -- we could call a modern state.

Modern public finances, as state -- enterprise, state, relationships based on taxes, subsidies, and contracts. What is the risk entailed in such a change in this
A relationship? The fundamental risk is a drop of -- an automatic drop, and in the revenue for the state, and for several reasons, firstly, in Cuba, the tax administration is not a developed administration.

And this is because they were used to dealing with large -- very controlled enterprises, and now they need to start to change their procedure, so they can deal with companies that need to voluntary reports -- reporting, and if there's greater autonomy, there will be greater production, or productivity and greater efficiency, but that is not necessarily what is happening in the 2000s.

And one of the reasons why there was a sort of regression in decentralization in the '90s was precisely because the state enterprises had ceased to contribute as they should to the state. So the relationship between a weak tax administration and this dilemma where greater autonomy doesn’t necessarily generate greater productivity.

This is one of the elements that could cause a reduction in the revenue of the Cuban state. Another element that might influence this is the significant number of tax exemptions being granted to foreign companies.

Archibald Ritter was talking about this, for foreign companies, they are 8 years, and for those in Mariel, it's 10 years. So this means that a significant portion of new companies that will develop in the Cuban economy in the next few years, will simply not be contributing to the state budget. Significant production expansion will not necessarily mean the same increase in the budget.

And then finally, we have our national, non-state-run enterprises, and these today contribute approximately 4 percent to the total public revenue. So it's a very limited contribution, and a significant part of the explanation for this, is that trend towards tax evasion that these businesses show for various reasons that we can discuss later.

But among these, again, we see the weakness of the tax administration in terms of estimating the revenue of these companies, the very high fiscal load, that these businesses represent, and the lack of a tax culture, which means that often, there
is no understanding -- and also the weakness that I mentioned that makes these companies sometimes report incorrectly, they don't understand also that they can receive something in exchange for this payment.

They think it's a payment that they need to make in order to get a license, et cetera, but they don't understand that this is an important mechanism that will then translate into health services, education, et cetera. They don't understand this link, and so the decision tends to be underreporting or tax evasion. So that's another factor that can affect public finances in this transformation process.

So, what is the dilemma that the state faces? Well the main problem is that 50 percent of public spending today goes to health and education exclusively. They represent 20 percent of our -- Cuba's GDP, and this is an expenditure that has great limitations in terms of being able to be reduced, because if there is consensus among the population in Cuba today, it is that universal and free health and education are sacred. Not to be touched.

So there are two elements, public revenue, if there's decentralization, and there could be a decrease here, and also what I mentioned about tax evasion, so there could be a significant increase in the fiscal deficit for this reason. And I think we will talk about this more later, but this really points to an urgent need to develop a public debt market, that is consolidated.

For approximately two years now, the Cuban Government has been issuing sovereign bonds, but these are bought only by Cuban state banks, 2.5 percent interest, 20 years, et cetera. So it's not yet an organized market in the sense that there is no free of participation, not everyone can have access to it. So, these are probably the next steps that we should take, at least in terms of renegotiation or the sale of these debt documents that cannot be renegotiated at this point.

So, anyway, these are the points that I wanted to refer to. Thank you.

(Applause)

MS. KOTSCHWAR: Thank you. Very interesting. Now we have
Germán Ríos. Thank you.

MR. RIOS: Thank you. My first dilemma is whether I should speak English or Spanish, but since I don’t have much time I will speak Spanish, it's faster for me. But I will try not to be too fast

First of all, I wanted to thank Brookings for the work it’s done. Ted, Richard, and the rest of the Working Group on Cuba, because truly, they have opened many doors; they do marvelous work. And those of us who have an interest in Cuba, and who are watching what his happening there, I think it’s an academic and intellectual contribution that they’ve made that has been fantastic, so I want to congratulate them, and tell them how happy I am to be here.

I wanted to refer to three points. One regarding infrastructure. I work at CAF, the Latin American Development Bank, it's multilateral, it's similar to the Inter-American Development Bank or The World Bank. We specialize in infrastructure, and on this, first of all, I would like to discuss some of Cuba's investment needs, regarding infrastructure, and what instruments could be used in the short and medium term to attempt to satisfy some of these needs.

Secondly, I wanted to talk about small and medium-sized enterprises, and as Richard has said, it is a very dynamic sector. And given the financing restrictions that exist currently for this sector in Cuba, we should also think about ideas, the ways that we could support them.

And finally, I wanted to talk about the relationship that my bank, CAF, is developing with Cuba. We have a lot of hope and expectations, and working with my colleagues from the University of Havana, with Brookings, with the Inter-American Dialogue, the Council of the Americas, and many others who are interested in this.

The challenge faced by Cuba in terms of its infrastructure, is huge. Basically they need to renew their infrastructure, and this would involve enormous investment, but if we can compare them to the rest of Latin America, as was done in the first panel, we see that the rest of Latin America is also facing huge challenges in this
field.

And in the case of Latin America where we invest 3 percent of our GDP, we should actually invest 6 percent of it in infrastructure, so fiscal resources that the countries have available for this, plus anything that multilateral organizations can provide is simply not enough. And this is the case in Latin America, and will be the case of Cuba as well; it cannot be done without private sector participation. So that is one comment I wanted to make.

It is calculated that in Cuba, there is a need to build or repair over 4 million houses. And infrastructure in terms of highways, ports, airports, train systems, public transportation, it would be about $25 billion that would be needed. And these challenges even touch other areas that are important, such as water, and water projects where the entire infrastructure needs to be modernized. Energy as well, telecommunications in this is a very important one for some of the topics mentioned by Richard.

How can we finance these areas? It's very complicated because normal financing will take time. Cuba, as a non-member of the multilateral organizations will not really be able to do some of what other Latin American countries did at the end of the '90s, and the early 2000s when they had their reform processes.

They had to support loans in various fields for infrastructure, health, education, even the IMF supported them in some of the -- and these were (inaudible) were very -- significant and very large projects, which could not be carried out in this case.

Where I see greater possibilities would be in co-financing with development agencies from other countries. BND from Brazil, China's Development Bank, the KFW from Germany or with French cooperation at CAF, we are co-financing renewable energy projects, and other kinds of projects where some of these organizations. And as Ted was saying, we need to try to find those gaps where we can gain access and these amounts will not be enough, probably, or the first phase but they
will be interesting.

We also need to find other ways to invest in infrastructure. We are having an interesting experience in Columbia, Peru and Uruguay, where we are raising funds from investors, and I'm thinking here of the Diaspora, and some of these people might be interested in contributing to these funds, but this would require many changes in the institutional framework.

A lot of technical cooperation, this is fundamental because we would need to prepare a byline of projects that can be financed, and for this we would require a lot expertise in many of the areas we will be working on. And I think the infrastructure revolution in Latin America is an experience that will be very important for Cuba.

For example, what is happening now with the PPPs, and I will refer to these very quickly, because I think this is more of a long-term issue, because in order to be a PPP you need some macroeconomic conditions that are not present in Cuba yet. So we can have this set of projects, and we can have the possibility of having contracts with different types of the specific conditions for what we are doing.

So, quickly, I will go on to the small and medium-sized enterprises, the SMEs, I think there's great potential in this field in Cuba. We need to find a way to finance them, the traditional way in Latin America is to finance these through, in second-tier loans, or special line of credits, credit lines for SMEs, and this can't work in Cuba because of lack of debt in this financial system.

But we could work with infrastructure as we did -- as we will in infrastructure through cooperative funds. For example, an institution could be CAF, or some other bank could establish a fund which is based on a partner, a third partner, and this could be used to finance these SMEs.

And to conclude, I would like to tell you a little bit about what we, at CAF, are looking towards for the future, and how we think we can support Cuba.

Not long ago, last week, there were some statements by Enrique García, the President of CAF, where he said that our long-term objective was for CAF to become...
a member of our institution, for which there are no requirements, in principle, because the U.S. is not a member of CAF, but I'm sure there will be some complications as long as the embargo is there.

For Cuba, some complications, not only to be part of CAF but also any other organization will be, where will they get the cash to make the necessary contributions, and they will need to make some sort of fiscal effort for this to work. I think it's important because it's a way to leverage financing and development. We signed a Technical Cooperation Agreement with the University of Havana; my dear colleagues who are here with me.

And we hope that that will be -- also as Ted mentioned, a possibility for academic exchanges between Cuba and the rest of Latin America so we can take advantage of the integration of that university with the productive sectors, and the Cuban Government, in order to stimulate technical corporations in certain areas that we can work on. Energy, for example, biotechnology, where there are opportunities and where we can explore with the University of Havana any exchanges and research opportunities that exist.

Also, we are working on creating these funds. This is very preliminary work. One of the problems Cuba has, obviously, they are not a member CAF, but there is a precedent, during the earthquake we supported Haiti, and they are not members of CAF, but through another third party that was a member of CAF we were able to do this.

So, out of the 19 member-countries we have, we see that there's political will to support Cuba, and I am convinced that very soon, we will be able to establish a fund with one of these countries, so that we can help finance SMEs in Cuba.

The last point would be that -- it would be good to work with Havana. I've been there several times, I've met with several authorities there, and our membership, 17 Latin America countries plus Spain and Portugal, they are looking to promote better and deeper relations between CAF and Cuba, and I think in the short term we will be working on technical cooperation, small projects to fill in the gaps.
And we will try to work on the financing of specific projects in the area, of SMEs particularly, and hopefully, thereon, we will be able to contribute through financing for some of the bigger infrastructure challenges that Cuba is facing, and we hope it will not be too far in the future. Thank you. (Applause)

MS. KOTSCHWAR: Muchas gracias, Germán. Thank you very much, Germán. And now, if we could give the floor to Dr. Doimeadios?

MS. DOIMEADIOS: I'll try to stick to the question on how to finance the investment we need to grow; right. And it is certainly a challenge, and I completely agree my colleague that the most important part in this financing, is made by the external sources, because filling the gap in investment that we have today with internal savings sounds impossible.

I mean, we would have to reduce the private consumption that is already very depressed, which is not an option. Or, we would have to increase the external debt which is not an option at all in this moment. But, I wouldn’t underestimate the possible -- the possible importance of some room for external sources to finance growth as well.

So, I'm going to refer to four or five of them, in a very optimistic way, but anyway, I think they are important. I think they are important because they would define, as well, not only the amount of resources available, to grow, but also the return -- the returns that this foreign investment, or other influence would have if they come to Cuba today.

The first of them is what we call productivity gains, mainly through efficiency increases. We had -- we did some statistical estimations and we, surprisingly, found that the average efficiency in enterprises in Cuba, is between 15 and 20 percent if you compare them with the most successful enterprise by sector. And that, of course, is very, very low.

Of course, this number is not the same in every sector, in tourism it's a bit higher and in agriculture it's way much smaller. But just to give us an idea. Well, first of all, why do we have this -- such a low efficiency in the Cuban economy? We think it's
mainly related to the incentives and the institutional environment that is avoiding, let's say, actors, enterprises, individual, to develop more rapidly.

We estimated that only -- well not only, because it's not that easy, but if we get to achieve an increase in productivity, a sustained increase in productivity by 3 percent for a number of years, and this is something difficult today, but it's something that we accomplished, to get in the '90s already.

If we obtain this increase the needs, or the minimum needs of investment to grow 6 percent would drop from 20 percent to 15 percent in real terms. Let me make myself clear. This is not that we only need 15 percent, I'm going to be clear, this is the minimum amount that we need to sustain this growth. So, productivity, again, can be one way to relax this dilemma of resources that we are facing.

The second possible source of financing is, let's say, it comes from a possible recomposing of GDP. I don't know if we understand the idea but I wanted to mention two facts. The public spending in Cuba is one of the largest in the world. And that can be consistent with our idea of socialism. I mean, it is expensive to keep the levels of social development we have, and we don't want shortcuts in this.

But the public spending is not only social spending, and we think there is a good opportunity of savings in public spending related to public administration, and we had some estimations as well in efficiency in the public sector, and we found out that Cuban public sector is among the most effective in Latin America, but it is also among the most inefficient in the region. Again, related mainly to public administration.

Some steps have been made in this direction. For example, the number of ministries has been reduced in the last two years 34 percent, and the number of public enterprises was reduced in 27 percent. Also, there is an acknowledgment by the government that we are -- not we, but the government is very inefficient in managing small-scale enterprises, and that's why it is incentivizing this change in the property to cooperative sectors in this small-scale level.

And the amount of workers that are now involved in these non-state
enterprises is rising rapidly, and it is -- it has been said that we expect it to be 35 percent of the labor force in 2016, I mean next year. So, that can give us another source.

The third source, possible source, I made myself clear, I'm being optimistic here, can come from a positive reactive of the export sector to the change in relative prices that can come from the depreciation we are expecting to have in the next month, of the domestic currency -- of the official rate in the domestic currency.

Today, every dollar that a hotel or any other export-oriented enterprise, gets to obtain, is valued 1 to 1 with the Cuban peso, and that of course is an implicit tax to the sector, export sector. And at the same time, it is a subsidy to those enterprises that sell in the internal market but demand imported products.

So we are betting on the idea that once this huge distortion is corrected, and of course depending on the possibility of the domestic supply to react, to adapt, because this is not the only obstacle, we really expect a positive outcome in exports.

The last source can come -- and it's very related to this one, can come from the possibility to lower the incredibly large income elasticity of imports that we have in our economy that for me, is the main restriction to grow today. And just to give you an idea, for every dollar that we get from tourism, nearly 50 percent goes to buy imported products.

So increasing tourism, of course it is a way to finance, but if we don't do something, not to avoid losing this income, the return of this increase in tourism and also foreign investment will not be as expected. So, again, net export positive -- net exports, and a change in current account might also turn into a way of financing rather than receiving the destiny.

Just a final idea, because I was going to sum up, but just a final idea, I'm not really sure that this new environment, as Saira was saying, is going to cause a large public deficit in the future. It is true that I think that taxes -- our tax system is very slow and, let's say, I don't know, but inefficiently -- at all -- we don't know how to do it, and we are doing that really slowly.
But I want to remind that these enterprises are public. We ear giving them more autonomy, and maybe we are charging, or we will charge less taxes in the future, but if they really to get react and get more profits, half of those profits in joint ventures are a certain level, are going to be for the budget as well. So that might change the picture.

Although, we would have to expect, how is the public sector going to react to the depreciation when an important number of enterprises are going to get, let's say, exposed, facing problems in their accounting?

So, to sum up, I strong believe that what to produce, I mean, exports better than non-tradable goods? The level of productivity in that production and the degree of efficiency in institutions and public administration, that accompany the process of changes we are leaving, can become important sources of financing as well. Thank you. (Applause)

MS. KOTSCHWAR: Thank you very much. Very interesting, all the presentations, and I think that, you know, you've all raised a number of very strong points, and some very interesting questions.

And just to start off the question period, I'd like to hear a little bit more reflection and I think all of the panelists are in a good position to talk about this. What steps would need to be taken over the next, sort of over the short term, in order to help increase the productivity of the non-states enterprises, as the states to devolve the role of the state-owned enterprises in the internal revenue?

And also, what sorts of elements need to be put in place, in order to increase the possibility that the state-owned enterprises will become more productive and will be able to play a more important and a more autonomous role in helping to finance, not only the Cuban economy's budget, not only the Cuban Government's budget, but also help to stimulate an environment in which you can see increases for productivity?

So I don't know who wants to take that.

MS. DOIMEADIOS: I'm going to -- well, it's two different questions, one
part is productivity in the non-state?

MS. KOTSCHWAR: Right.

MS. DOIMEADIOS: And the other is, and what really concerns to me, because it's the larger part, the productivity in the state-owned. I think that two important things are related to the productivity, this new sector of non-state enterprises.

One of them is competition. We have to -- we should, and if that's something we didn't take into account in the '90s, I think we should stimulate competitions in almost every of these new activities sectors, that are opening now, because giving them market -- power, power of market, I mean, will only give them large profits and will go against their opportunity to reach international levels of competitiveness. So, one for me is competition.

The second is technology. I mean, if we are betting n activities that are very low technology demanding, and that are not connected to the international market, because they are not exploring into the activities, we would be making a big -- a huge mistake, because if we take into account that those people that are starting to work there, are highly qualified, most of them -- I don't know most, but a good percentage of them has a degree, and that would be a very -- let's say, a social waste. So, that's the second.

And of course, as Germán has said, we would have to support this new sector with a good development in infrastructure, not only technology but also infrastructure, otherwise it would be very difficult to increase productivity. I'm thinking, for example, in agriculture, it's almost completely private or cooperative, and still their efficiency is very, very low.

Why? No technology, very competition, no supporting transportation or other infrastructure service, so it's really difficult for them. And of course, they are facing an incomplete market that is giving them the opportunity to earn, I would say, disproportioned amount of profits.

Now that's in the non-state, but talking state-owned enterprises I think we would have to change, I'm thinking that we are about to do it, but not yet that we
would have to change the whole incentive system. Today, the system is designed exactly for the opposite. I mean, the winners in this system we have today, are not only individuals, but also enterprises. The winners are the one who produce less or even with less efficiency. Even the price, the way we form state-owned enterprises' prices are based exactly on their cost.

The biggest their costs are, the biggest are the profits they get, so that's insane. That's one thing. I don't want to take a long time on this, because this is not the point, but just one thing related to the labor force.

We would have to change, and this is painful for us, for Cubans. We, Cubans, we are used to have everything, everybody has everything. So we are coming from an environment with full employment, no layoffs, a very narrow wage scale, and of course, low productivity, so the incentive is to work less each time.

We are trying some system now, but the way has to be not to give more wages, which is, of course, great and very welcome, but we have to link the wages, and of course the enterprises’ profits to their productivity, otherwise we won't be able. And we would have to take a very close review to the safety net. We are facing a very wide safety net, and the incentive, again, for a regular Cuban is not to work, and he would still be receiving any social benefit as any regular worker, or even the best more productive worker.

MS. KOTSCHWAR: I think that's a tremendous panorama of the intertwined challenges facing the Cuban economy. And I think, you know, some questions about how the opening with the United States can potentially help Cuba overcome some of those challenges, and I'm sure will come up in the questions.

And on that I'd like to open it up for questions. Please state your name and your affiliation even if you've asked a question before. Some of our Internet viewers may just be joining us and will want to know who asked that brilliant question. I think a mic should -- there's a mic right there, so I think the gentleman over there, has a question. Thank you.
MR. RODRIQUEZ: Carlos Rodriquez, with the Cuba Study Group. I have a question for Saira. You mentioned that the tax collection from the (inaudible), amount to about 4 percent of the revenue budget of the state. What percent is the equivalent percentage of the savings of having taken the 35 percent of the population that was in the state budget as an expenditure; and taking it out of there? How does those two compare?

And my question for the Panel, in general, is if we are looking to make this macroeconomic transitions that are going to be necessary in the future, has anybody made any projections of where Cuba is going to end up in terms of foreign debt at the time of all -- when this process is completed? Given the fact that most likely the state will need to incur significant budget deficits to smooth the macroeconomic transitions on the populations?

MS. PONS: Actually, the drop in public -- in the size of the public administration, yes there was a drop of around 560,000 were removed from the payrolls of the public sector, but however that expenditure and public administration has not dropped. It's not (inaudible) if you compare the performance, it's nothing that actually I'm not capable of explaining well to you, but if you analyze the official figures, the expenditure in public administration has actually grown.

There were fewer, over the last few years, after 2008, when Cuba faced quite a complex financial situation, there were cuts in different parts of the items budget, like social systems, investment in different things, but there was no reduction in public administration expenditures.

So the way I understand this phenomenon, is that in actuality, even though there has been mergers between different ministries, there's a reduction in the number in government office, the functions in and of themselves, of oversight and control, that many agencies of the central government is to oversee and control the state-owned enterprises.

These control functions have not been reduced because we are waiting
for development of measures to lead to autonomy in the state-owned enterprise sectors, so therefore that's why there can be institutional changes, and remove certain ministries, but if the functions of the public administration haven't change, the expenditures will not drop. It's very unlikely to reduce these expenditures.

But this 35 percent reduction in public administration did not take place with the corresponding reduction in the number of individuals who work with the government. But one of the elements that has raised revenue in the state coffers, is the individual entrepreneur sector, because it's people who work -- freelance workers. Because the dynamics of this sector, the independent entrepreneurs, and the number of persons involved, et cetera, is not being directly reflected in tax collection and based on studies conducted by the tax agency, indicative of more than 60 percent of these, no question, under-report significantly their income.

So these are some aspects, I want to put up, this is just not exclusive of Cuba, it's common. It's been common in many countries that have forward in this economic centralization -- decentralization in developing market economies, et cetera, that they require a transition period of more than a decade, to be able to develop the proper institutions to -- in the public administration that are consistent with the new system, or with the state-owned enterprises another fundamental change is that's coming about in state-owned enterprises is they try to change governance of these state-owned companies.

Trying to create Boards of Directors for these state-owned enterprises in some way, in addition to management of these companies, to have different committees to represents the state's interest that are not -- it would not be directly administered telling that state-owned company what it has to do, but rather a Board of Directors that's made up of, even academicians would be members of the -- in the decision-making, for the decision-making process, and to increase productivity, but based on the objectives that are in the best interest of Cuban society.

This is one of the things that could be done to avoid what happened with
the decentralization in the ’90s, which happened -- which represented a backsliding in
decentralizing, because we didn’t successfully establish in the state-owned enterprises to
meet their contributions. They were supposed to, they were supposed to contribute a
certain amount to the revenue of the state, this is one of the changes that has come
about, and this may --

MR. FEINBERG: -- your question. In my model, there is no increase in
external debt, because there’s no borrowing. It’s all equity investment, or export earnings
in the service sector in the case of tourism. I was very glad that the Yaima emphasized
the links between investment and productivity, obviously with a -- there’s a lot of
headroom in Cuba to increase productivity, so if you have a large productivity increase,
then the amount of foreign currency that you would need might diminish somewhat.

But I think there’s a link between all these sources of international
finance and potential productivity savings. As Arch Ritter emphasized importing
technology through joint venture, for example, could enable Cuba to leapfrog
dramatically.

The offer on the U.S. -- the U.S. offer on the table to provide all sorts of
telecommunication and Internet services, there’s no reason that Cuba couldn’t be wired,
totally, within two years, if it were really to open up to the offer that is on the table. The
possibility for the Diaspora to provide both finance and expertise, the idea of technical
assistance from CAF and other IFIs, and other sources of international education and
technical assistance, all those, together, could provide really tremendous leaps in
productivity on the island.

But, as I think Yaima and Saira, both, have emphasized, the state-owned
enterprises remain the core of the economy and there are huge inefficiencies built into
those institutions. We’ve seen in other efforts to -- around the world to improve the
efficiency of state-owned enterprises, unless they face a tight budget constraint, you will
not get the results that you want in efficiency. And a tight budget constraint in a Socialist
system, is very difficult to impose because of the politics, and so that will be a big test
going forward.

MS. KOTSCHWAR: Your turn.

MS. DOIMEADIOS: Just, I completely agree with Richard. Just to add, the public debt today is about 50 percent, not the external one, the public debt. It is true that we are having modern, traditional sustainability criteria to decide which is the most suitable or, again, sustainable debt, external and public.

Now, how is that going to move in the future, the public part? It depends completely on how much do you want to keep protecting, socially protecting, I mean. Individually, I mean, people, but I’m talking directly to enterprises. It was acknowledged already in the guidelines that enterprises that wouldn’t get to survive in these new, more demanding, more competitiveness, demanding environment would have to be closed, that that hasn’t happened yet. And I honestly don’t know, how are we going to perform that in the future, because of course that would mean jobs, among other things.

Of course this, as you were mentioning, this movement of work or labor force in cooperative sectors, gives us the opportunity to perform this change in the future. But, again, if we keep subsidizing enterprises that we know cannot survive, this deficit will get to, I don’t know what.

Now, depreciation is completely vital in this decision, because the truth is that today, with the over-valued currency, we really don’t know which of these state-owned enterprises are profitable or not. And we are subsidizing, for example, hotels, mainly (inaudible), that lives -- or tourism completely, and it seems to be very profitable, receive subsidies from the budget, which is completely insane.

And some of the companies, enterprises, that we think are not profitable at all, do not. So, again, we have like a veil in the middle and we cannot know for certain how sound or clear the public accounting is. So, after the currency unification process, we would have more data to analyze and to decide.

Again, the question is, after this, what are we going to do with those enterprises that we know will not be able to survive. Maybe because they are very,
technologically, obsolete, or maybe because the product they produce is not competitive internationally, et cetera.

MS. KOTSCHWAR: Ted, may I take one more? One more question over there, let's take David Lewis.

MR. LEWIS: Thank you, Barbara. Gracias, Brookings. David -- Manchester Trade here in Washington. It sounds like we are going around and around and around, and nobody wants to say the word, which is political will.

And it's very hard to compete in a seller's market, and Cuba is now in a seller's market because capital can go anywhere in the world, maybe with the exception of North Korea, and in this region, Latin America and the Caribbean as CAF will tell you, there is no dearth of projects anywhere for equity capital to say, oh, let me go to the Dominican Republic, Jamaica, Nicaragua, Mexico, Chile, wherever.

And they are saying we've got the political will to do what it takes so it's very nice to say, come, there's a good environment. But I don't know any of my clients with equity capital who are going to say, yeah, I'm going to do that, but where is the rule of law guarantees, where is the institutionality that's going to make sure, you know, my risk is minimized.

So I'm curious, particularly, Richard and Germán, because, you know, we've done this all over the world. This is not new, it's not nuclear physics. What's the political will scenario that you see in Cuba right now for that? Otherwise it won't happen.

MR. RIOS: Well, I work for a multilateral, so I cannot talk about political will, but I'll try to tell you something about my personal experience going to Cuba. But let me make one point first related to the debt. You know, also, history teach us that many of these cases of countries with external debt, you know, they could move forward with a package of IFIs working with them.

So, from my point of view I see that they have to make an effort, a fiscal effort, I don't know -- I think that it's complicated, but they have to do it, because they need to make room to let the multilaterals in, because this is the debt that you need now,
it's long-term debt, it's product-based with nice financial conditions, and I know that, you know, they have -- they are afraid because the rate of increasing on the fiscal, I know that but, you know, without that it will be difficult for them to move forward.

With regard to the other question, and we see what is going on in Latin America, everybody is creating funds in local currency, we are doing 3 in Peru, Uruguay and Columbia, you know, the Chinese are also investing everywhere. I think, you know, my perception is that, you know, they are -- in this seminar we were in Havana a month ago, when we listened to the economists and to the government officials, they know exactly what are the problems.

You know, it's amazing. And they could tell you how the unification of the peso will work, and everything, they know that very well. And this is not only the academics, also the officials know this very well. So, my feeling, and this is not CAF talking, is that I see the political will, and I see there will be -- they will be moving forward towards having (inaudible) institutionality to do all this mechanism we are trying to put in place in Cuba.

MS. DOIMEADIOS: I wasn’t asked the question, but just one thing. I haven't heard anywhere in the newspapers, press, or officials saying that, we will do what it takes. I haven't heard that, actually. I mean, we are willing to -- and I mean, we, not the government, but Cubans, to incentivize foreign investment, first because we need it.

Not just because of the money they bring, but because they bring a lot of very important things that we are lacking, like, how to do things, how to manage, how to open to the world. So we need to learn from them. I wanted to say this. Now we won't do whatever it takes, because we all know that foreign investment has -- or have experienced in many countries, not good results or -- anyway, result.

But I do feel the political will, yes, if we ask, and Triana was talking about it, the few entrepreneurs, foreign entrepreneurs that we've had in our country for 20 years, you will listen to, I would say, like 100 complaints to the system, and they would be right, undoubtedly. But, I don't have enough information of how many of them have left
Cuba in 20 years. That's one point.

If they would be afraid that they would be expropriated or something like that, I believe that they would have taken their money away a long time ago. So, that's one thing. It is a risky market because it's completely new, it's a completely different system so it's not the same in the rest of the regions, but it's also like a virgin market, so they also say that their preferability is way much large in Cuba that in any other scenario.

This is not my area of expertise, so I will just add that, yes, I feel that they political will, it was in the '90s, but in the '90s we were seeing that, and I think it was quoted like this, as *um mal necessário*, like, something, we need it but we didn't want it, but I think now, we need it and we want it. So, maybe that can help to your --

MS. KOTSCHWAR: Perfect. Well, I think Saira and Yaima, I think you've offered us some very revealing, very open, and maybe some very revolutionary economic analysis out of Cuba that I think has given us a large scope for thought.

Germán, your practical solutions from the point of view of the CAF, opened up lots of possibilities. The funds that you suggest, maybe there are possibilities for regional projects, to start forming and for others to join in; and Richard, as always, a great spot-on analysis of the possibilities and the challenges in Cuba.

So, please join me in thanking this wonderful Panel, and thank you, for the Interpreters and the organizers. (Applause)

MR. FEINBERG: If people could take their seats please? So our first two panels this morning focused on the bigger picture -- macroeconomics and finance. Now we're going to drill down to the human level where change -- and in fact the greatest and most visible in Cuba so far. As we've already heard official numbers place the number of cuentapropistas or self-employed at about 500,000. However my own calculations as you add in private farmers, non-authorized informal sector, grey area firms, as well as moonlighting, that is to say people who during work in state owned enterprises, then on evening and on the weekends work also in the private sector, one
foot in each, you could have as many in fact, as many as 2 million Cubans -- 40 percent of the active labor force working at least one foot already in the private sector. That is a much more potent and larger force than is commonly recognized in the official statistics and conversations.

These self-employed firms were the first out of the gate. They have changed the face of Havana and other major urban centers. Many of them are industrious, they are courageous, and they have captioned the imagination also of the international media. Now here's one of the big questions for this panel now. Are these imaginative small-scale enterprises the cutting edge of economic transformation? Are they building momentum, creating new constituencies toward an inevitable march toward the more market oriented socialism? Or are these small scale businesses merely a safety valve, sopping up unemployment and providing some better consumer services but all within the traditional framework of a centralized state socialism? That's one of the big questions we'll discuss on this panel. As Ted Henken has already pointed out and will point out -- the number of cuentapropistas seems to have plateaued at around half a million. What are the big obstacles to their further expansion? Can the new Obama offers on the table, and expanding tourism, remittances, trade with the private sector, which is on the table -- not yet picked up -- can that new Obama offer stimulate a second surge and ignite a new stage in private sector expansion? John McIntire on the panel will give us some inspiring stories about very recent innovations in cross streets ITC services. Then we also have non-agricultural co-ops that have been slow to take off, but now the government seems committed to shedding at least the many government restaurants and other petty services and transforming them into worker managed cooperatives. Can these new cooperatives become a major pillar of the new Cuban economy? And will these cooperatives be truly independent entities?

We're lucky to have with us as our lead speaker now -- Rafael Betancourt who will go into this. So now without further ado, let me quickly introduce our three panelists. You have their bios. All of them have deep roots in Cuba. Rafael
Betancourt, an economics degree from University of Florida, now a professor at the University of Nevada, he has decades of experience in international development and project management. He's currently with Havanada Consulting. Rafael is a leading authority on this new field of non-state cooperatives in Cuba. He'll be followed by Ted Henken, a sociologist at Baruch College. With impressive foresight, Ted wrote his dissertation a decade ago on this very topic of microenterprises in Cuba. He remains a foremost authority on the subject. He recently published with Archibald Ritter from the panel -- the book *Entrepreneurial Cuba: The Changing Policy Landscape*. And Ted maintains the popular blog El Yuma. And then finally John McIntire who was born in Cuba, retired in 2004 from a successful career in investment banking. He's now an early stage investor in education technology, John is a co-founder of Cuba Emprende -- the largest entrepreneurial training program and small scale business incubator in Cuba. They'll speak in that order. Rafael.

**MR. BETANCOURT:** How do I get this going? Can somebody give me some help here -- oh, okay, here we go.

Good morning, thank you Richard, thank you Brookings Institute for inviting me. My first three of four slides are about the statistics basically of the non-state sector compared to the state sector. So I hope we can distribute those minutes and charge them for it to, because they're going to make use of it.

Basically the employment in the state and the non-state sector has actually -- you can see the figure there, the employment in the state sector has decreased somewhat in these last five years. And the state sector -- the employment in the other state sector -- because other private are mostly farmers. So small farmers together with the cuentapropistas, or the actual people who have licenses to practice an activity that is legally allowable, to be done privately -- these are the figures that we're picking up here. And the cuentapropistas -- the number of members of cooperatives which do not include the small farmers that are in CCS or in the Cooperativa Credit Servicia, which are the ones that group private farmers and provide credit and services,
has basically leveled. If we look at the new cooperatives, we see the -- we look at the percentage of women, it's a very interesting thing that the state enterprises have 45 percent of the employment are women. But as you go down to the private sector you have a significant reduction in the number of women -- particularly in the farmers and the private license holders, and then cooperative, you have 14 percent in the agricultural and 22 percent in the non-agricultural. These women, these young women, are both students of mine. They have a small glass, stained glass window cooperative in Old Havana.

As we can see in terms of the number of economic units, the number of cooperatives has actually declined from over 6,000 to around 5,500 in the last few years because there's been a consolidation of cooperatives and some have actually failed, to maintain their effectiveness or productivity and they have been converted into -- or turned over as leased land to small farmers. The number of enterprises has also declined but incredibly as we were mentioning today, as Saira was saying and Yaima, there is not -- there has not been a reduction in the public enterprises -- the public administered enterprises which would be the budgeted, el (inaudible) or the budgeted sector. So we hear a lot but the number of budgeted units remains relatively the same.

If we look at the cooperatives themselves, the farmers and workers cooperatives, there has been basically relative stability in the CCS which is the ones that group private farmers and the CPAs and the UBPCs have actually declined a little bit. And so the statistics show for the first time the number of cooperatives in 2013 that are non-agricultural. And this is the first time it appears in the statistics. So focusing on the non-agricultural cooperatives, I don't like to use a negative term, it just seems that we characterize something but it is not. (inaudible) likes to call them urban cooperatives. I'm hoping that some of these will also be in rural areas someday. So I called service and manufacturing cooperatives. There have been 498 approved a year ago. And I don't know if the new state mandated one that was referring to speaks about a new group. We've been waiting for a new group to be announced but it hasn't been yet. So we're about a year into a process that has no new set of cooperatives approved.
And of these, 329 are operational. A third of those are retail markets, farmers’ markets basically that have been turned over from the state to the workers. They’re in other activities as well. Fifty-three percent are in Havana, and some are -- the other two provinces that have the most are Artemisa and Matanzas by the way. I’m with Matanzas’ baseball team, not Havana. (laughter) Just to make a note here. Sorry for you.

But the important thing is that there’s a concentration, I was teaching last year in Guantanamo and I could barely see the presence of the private sector or the cooperatives, I think there’s one in Guantanamo. So again the point that there’s Havana -- and then there’s not Cuba, it’s a very important point to make. Seventy-seven percent are former state owned enterprises that have been turned over to its workers. And only 23 percent are grass roots initiatives. And that has a lot to do with the fact that you can only form a cooperative based on the 201 activities that are approved. And those activities are practically only three that are professional -- translator-interpreter; I have a license as a translator-interpreter, Juan you should try to get that. It's good. I’m a self-employed licensed TCP. And there is one for carrying out accounting services and a third one which I don’t remember. So those are the only three. So you have a limit there, a cap. There are over 500 applications that are pending.

The service and manufacturing co-ops, I just put some photographs here. And the last one is the cooperative of ornithologists; they are the only ones who are allowed to export. They haven’t done too well. But they are the only ones -- so we have a precedent. There is one cooperative that is allowed to export.

So there’s a -- we were expecting another -- the announcement was made of another 13,000 small and medium sized enterprises by 2017 all coming from MC, from the Ministry of Domestic Trade. They will basically split off about 9,000 inter-cooperatives and the smaller ones that have four or less workers, into basically units with private workers that lease the facilities from the state. And I just wanted to note a few -- just some achievements of these cooperatives in the short period that they have been
working. One is that these are -- many of these are -- the government itself is admitting to these achievements and more and better services and products, and a very real public acceptance. People in Cuba are really optimistic for the cooperatives. There's a sense of belonging and ownership that its members are developing. They have definitely achieved higher incomes, sometimes three and four times the previous income. And they have established commercial relations with agricultural cooperatives and private workers, whereas it had a lot more difficult time establishing commercial relations with state suppliers.

The grassroots, non-agricultural cooperatives have shown more capability, more ability in legal issues, accounting, marketing, and management.

Problems -- just very quickly, go over them. The question of inputs, the provisions for these -- this is their first and major complaint. Every time you speak to a non-agricultural cooperative they complain about this -- the lack of a wholesale market, the lack of planning, they are not included in the state plans. So therefore there's not a particular amount of goods that are destined for them to have to compete with the state enterprises. There is variable support by the relevant ministry. They are always connected to a ministry. Some ministries like transportation have provided a lot of support, others, very little. There is a very uncertainty about the future of their capital goods which right now belong to the state but they are basically paying them through the maintenance and so on. So at some point, for example the buses, to the urban bus cooperative will -- they are basically going to pay for them in the next two years. And what's going to happen? Are they still going to continue to be property of the state, of the enterprises that they broke off from?

The rents are inflexible, for example the Cooperativa la Casona, the restaurant across from (inaudible) has -- it's a huge building and they're paying on basically square meters. And so they're paying 4,000 CUCs a month, just in rent. And so there is this inflexibility of adjusting to the particular conditions of each. The centralized approval process is horrible at this point. Any new cooperative has to be
approved by the Council of Ministers, after receiving the approval of the corresponding ministry. Sometimes it just gets stuck there because there are some ministries that are not approving -- therefore thus elevating to a higher level, the proposal. The lack of training programs and business services and the question of financing which we already addressed and I don't want to get into.

Constraints that exist -- the grassroots cooperatives, I already spoke about that already. Only can come from allowable TCP activities and the 201 allowable activities have not changed in over two years and there's this thing of what's going to happen with the professionals. The access to external markets and investment capital is a constraint. The double currency and the multiple exchange rates which affect the state sector more than the private and the cooperative sector.

The second -- the lack of second and third tier cooperatives, the lack of cooperative federations, except for ANAP, which is basically a federation of the agricultural cooperatives and it works both as a federation and as an institute. It has a mixed function of representing the state and also representing the cooperatives. The lack of a cooperative institute makes this difficult because whoever represents the cooperatives is also representing the state. There is a lack of enabling legislation and public policies to begin with, non-agricultural cooperatives are not allowed in the Cuban Constitution. So that's just the beginning. And there is really a need for networking for cooperative movement world-wide that can be an ally to this process. And this is the report of the National Cooperative Business Association after its trip to Cuba last July. And now they have formed the formally, the Cuba Cooperative Working Group and they are really moving forward this agenda here, and so the new cooperatives in Cuba's economic strategy. I think to begin with there are definitely TCP limitations -- I'm sure Ted's going to talk about this, to operate and to grow. But there's also a bias in favor of this Horatio Alger story, right -- that these private workers are the heroic individuals who are going to create successful businesses and bring us into the future. In fact I think that the new cooperatives are a lot closer to those elements that will be part of Cuba's
emerging small and medium enterprise system. Because to begin with the basic tenet is that -- is this phrase, Socialism -- is social property of the fundamental means of production. And cooperatives, while the United States it's debated whether they're private or public -- in Cuba it's clearly a social form of property. And you can expect a lot more induced non-agricultural cooperatives as Cuba trims its very big and heavy public sector, public administration sector. And you really don't have a choice. When you release thousands of units from the state sector, you can only do two things. You can sell it to the highest bidder or you can turn it over to its workers. Well, sell it to the high bidder and that's what happened in Eastern Europe. That's experienced here. You're just basically converting this whole sector into a capitalist sector. And that's not the intention of the country. And finally, there's pressure from below to expand the grassroots cooperatives which will make a difference.

Finally, can Cuba co-ops become an element of sustainable development? I think so. And I think it can be really part of a social and solidarity economy in which the state sector and the private sector and the public administration all have its roles. But definitely, as we move into a diversification of our property and management matrix, a cooperative is definitely going to be a major player in this. Thank you very much.

(applause)

MR. HENKEN: All right while they're getting my slides up here, let me thank Ted Piccone for the invitation. It's an honor to be here with so many colleagues from recent vintage and from vintage from the 1990s from when I did some of my research in Cuba. I wanted to also thank Wayne Smith who's here. When I was a graduate student at Tulane University many moons ago he gave me some of the seed money from Johns Hopkins where I first went to Cuba to start some of the research and this was in 1999 I think. So thank you for that.

In our book that Arch Ritter and I wrote together, *Entrepreneurial Cuba* -- we do have a chapter on cooperatives. But your presentation is a bit more fresh in terms
of the things that are happening right now. So I learned a lot. And some of what you said, as you did say will serve as background for my presentation -- especially in terms of opportunities within Cuba but also the obstacles within Cuba. So I won't repeat but I may just nod in your direction to say footnote Rafael.

What I'd like to do, is someone is helping to get my slides up -- when that comes up, what I'm going to do and I rarely do this. But as a way of introducing the topic and also extending my thanks to a couple people, I want to read the opening page of our book, a paragraph on the opening page.

Prior to 2010 serious study of this sector -- the sector of self-employment or microenterprise, was taboo, because state policies had consistently stigmatized it as illegitimate and banished it to the shadows. The title of the dissertation that Richard mentioned was, Condemned to Informality. Even since 2010 small private enterprise has been relatively under analyzed within Cuba. A trend partly remedied by the important work of Omar Everleny, Perez and (inaudible) Alejandro as well as Juan Triana. So it's also an honor to be here sharing the panels in the room with two of those three economists who have done pioneering work from within Cuba on this same sector. Elsewhere the earliest and most rigorous work on the subject is easily that of Cuban American economist Jorge Perez Lopez who in fact was also here this morning. He wrote a book in 1995, 20 years ago and that book was titled *Cuba's Second Economy From Behind the Scenes to Center Stage*. He was being optimistic back in 1995. That book set a high bar for those who might follow him. In the ten years between 1995 and 2005 however public policy became increasingly antagonistic toward microenterprise and pushed self-employment known as trabajo por cuenta propia in Cuba, back behind the scenes once again. And it was essentially eviscerated or extinct by 2005. But then the events that have unfolded since 2006 both in Cuba and the United States have changed things. I also wanted to give a shout out to Joe Scorpaci, Richard Feinberg and Phil Peters. Their work has been an exemplary model for its rich ethnographic reportage and
it original dispassionate analysis of Cuba's now reemerging private sector. So I guess they're working on my slides here.

So what I'll do is I'll just dive right in. The title of my talk today is Enterprise in Cuba, Citizen Empowerment, State Abandonment, or U.S. Business Opportunity? And I use those three terms because there's kind of a question mark as to what's happening here and Richard referred to this at the beginning. Is the Cuban government brushing the crumbs of the economy off the table so that the Cuban people can live off of them, or is it really partnering with, or unleashing the power and potential of Cuban entrepreneurs? And that question I think is still open because if you look at those 201 private sector occupations which are the same occupations as Rafael mentioned that you can do as a cooperative, there are a handful, and I'll refer to some of those in a second and John will present on one of those handful, that are truly innovative modern -- we heard before about competitiveness and technology from one of the earlier speakers. Those fit the bill. But the vast majority is survival. So is the state just abandoning people to their own fate? Remember this could be seen as economic freedom, but it also could be state abandonment. That's why I use the term state abandonment. Remember trabajo de cuenta appropria could be translated as on your own-ism. You are on your own, good luck, right?

So any luck with getting my slides running? Maybe I have to open it up here. No, no, no? Hello is anyone out there? Well, let me start with this then and maybe someone will come and show the bells and the whistles of the presentation. One minute? Okay, great.

When Arch and did the research over the last 15 years for this book, we often heard two expressions from Cuban entrepreneurs who tried to tell us their situation, their struggles, and kind of their philosophy. The first expression was el ojo alamo, and gorda e caballo, thank you. We should go on the road here right? And the second expression is e que tenga tienda. So if you need the translation. The eye of the owner fattens the horse. And whoever has a store should tend to the store and if not, then sell
the damn thing, right? And so, this is popular wisdom we heard from Cuban
entrepreneurs who have essentially said -- hey, I'm trying to run a business and I know
the closer I am to the horse of the business, the horse is going to get fat. But if the
business is run by a bunch of people who don't really have incentives -- then that horse
may end up skinny. Rafael Hernandez, the other Rafael, said to me many years ago
when I was a student at Tulane University, trying to explain the Cuban economy and this
system of incentives, he said -- well in Cuba we have this bizarre system where we
pretend to work and the government pretends to pay us. And so that's another way of
capturing this same dilemma about this skinny horse and the fat horse who will appear on
your screen any second. But basically the picture that I have up or I had up -- the skinny
horse is eating grass. The fat horse is running. So it's not just the fact of what happens
to the horse but what the horse does. How then can you incentivize productivity activity
versus just mere elements or activities that are centered around survival. And if you
review the 201 occupations -- Richard in a white paper he wrote at Brookings a year and
a half ago has a list. We also have the list in our book. You'll see that a number of
them -- actually, a lot of them are medieval in their orientation and about survival.

Raul's reforms -- Raul's reforms are centered around the dilemma or a
balance maybe, between ambition, prisa, and caution, pausa. Okay great, so here are
our horses. (laughter) And you see the active and the passive, the fat and the skinny.

SPEAKER: It looks like a pregnant horse.

(laughter)

MR. HENKEN: Hey if they're growing the population, that's more mouths
to feed, more economic activity. I'm the proud father of an eight month old son, so don't
be down on pregnancy, all right? So here's a hit list of my favorite roaring expressions or
phrases in Cuba today. Prisa and pausa and that I already mentioned. The one that I
want to focus most of my attention on is one that was brought to my attention by Tomas
Bilbao and Carlos Rodriguez of the Cuban study group. Last year we partnered with
them at the Association for the Study of the Cuban Economy. And we hosted five female
entrepreneurs to speak and tell us about their struggles and experiences. And when I was setting up the program, I said so, Da me los nombres des las cuentapropistas -- tell me the names of these self-employed workers. And Tomas shot back at me very quickly. Well, the first of all they don't want to be identified or introduced as cuentapropistas. They are and they call themselves emprendedoras, why? Because cuentapropista is an idea of survival, it's a government control and limited framework definition. Whereas, entrepreneur or emprendedora highlights ingenuity, resourcefulness and market savvy and that is what they were about. Granted there are many people in the Cuban economy who are on their own and surviving. But these five women clearly see themselves as something different and wanted to be presented and understood that way. A Couple of other words that are kind of between how we frame this series of reforms or updating.

And those are indicative of this balance between ambition and caution. We've already seen these numbers, so this points to the plateauing effect of a big jump in 2010. And then slow growth in the numbers of self-employed workers over the past three years. This number is a little higher if you add 2014 and the very beginnings of 2015. We're still just shy of half a million workers. Remember 20 percent of those workers -- roughly 100,000 people are actually people who work for other businesses. They have licenses, basically the same license, but their license is as a contractor or an employee of a business that's run by someone else. So that doesn't mean that there are 500,000 legal entrepreneurs, there's about 400,000 and 100,000 work for them. But the phraseology at the bottom is very important. And this is from the top down; Raul has sent the message repeatedly of a need to change our, he includes himself in this mentality. He uses the word at the bottom, quite a few of us have these biases, we need to facilitate and end the stigma and prejudice and even the demonization. I really think that he was talking obliquely about his big brother. Because his big brother was the one that was largely leading the way, and the ideological stigmatization of that kind of mal necesario back in the 1990s.
Here is just a balance sheet of some of the steps forward, qualitative changes and some quantitative changes in self-employment. Licenses are easy to get now. They used to be a bureaucratic nightmare. They’re issued pretty quickly. There’s a wider array going from about 170 to now 201 occupations. It’s still a number, it’s still limited but it’s grown. Tax policy is better, especially if you use lots of inputs. You need to have value added, especially the restaurants. They can deduct a greater percentage of their expenses before paying their taxes. And since 1968, the first time Cubans can actually employ -- private in the sector, private sector, can employ other Cubans. So those are all, I would say qualitative steps forward and quantitative steps forward. But I would say that the onerous and frustrating obstacles still blocking greater development. We’ve heard about some of these before. I’ve mentioned the fact that many of these things are not entrepreneurial. They are more medieval and survival oriented. Just a quick quote from Julia Cook who published an article in the New York Times about a year ago, she said a Cuban can go into business as a party clown but not a lawyer. Sorry to the lawyers in the audience. She can open up a bar, but not a private clinic. Sorry to the doctors in the audience. So here we have a clear division between service, kind of crumb oriented activity, the crumbs off the table, versus productive and innovative activity. We will hear a little bit more about those when we hear from John. And then there’s the list. The list could have been a negative list -- it’s a positive list, but a positive list is actually a negative thing, because it tells people only what they can do -- it doesn’t leave it open to them.

Now we have Obama, and I’ll close given that I have the two minutes this should be just right. I’ll close with the pivot of Obama. On this slide I simply wanted to highlight the element of the pivot, which I describe as a shift, moving from a failed policy of trying to destabilize Cuba and its government through isolating and impoverishing it and its people. The new policy is exactly the shift, it’s the opposite, it is a 180 degree shift, although the administration doesn’t have total control over our policy, thanks to Helms Burton. Empowerment through engagement and making Cubans more
prosperous. There's really a two track thing going on here, now those of you who studied Cuba in the 1990s will probably remember track two. This is very different from track two. This is the two track policy of reaching out to the Cuban people -- the POC, and also engaging with the Cuban government, the GOC. Remember Obama's first words in his first speech on December 17th? Today the United States is changing its relationship with the people of Cuba. That phrase was not an accident. So the idea is to reach out and empower individual entrepreneurs. But there's a sticking point here and the discussions between Vidal and Jacobson, obviously we don't have an embassy open yet because it is very technically difficult, but also the United States wants to engage the Cuban people in certain ways the Cuban government is not comfortable with. But still they are engaging on a two track system here with the Cuban government trying to reestablish relations with it in order to incentivize the government to deepen its reforms. There's a question about regime change lurking in the background. Obama clearly stated at the summit of the Americas that the United States in not in the business of regime change. Well there's people in Congress who seem to disagree with Obama and that's still the law of the land as frozen in Helms Burton. So my advice to the U.S. policy makers in this is eschew any Trojan Horse approach to entrepreneurial engage that seeks to empower the Cuban people by undermining the Cuban government.

My last slide here brings us to a win-win-win situation and this is the situation on Air BnB. I'm holding in my hand there --- I took a picture of it -- of the full page ad that canvassed many newspapers in the United States on I think it was April 3rd or so, the Sunday newspaper. And this ad says, one giant leap for man's kindness. The doors to 1,000 real Cuban homes are now open to you. I highlight this just as a quick way of saying, what the new Obama pivot specifically allow and provide in terms of support for entrepreneurship in Cuba. Air BnB is the best case example because Obama's pivot legalized purchasing services from the private sector in Cuba. But how do you purchase a service from a private sector in Cuba if you're in the United States? Well Cubans have 20 years of experience with BnB, but do they have the air? They're getting
the air very slowly with the slow internet connections that they have and the expensive ones. But the Air BnB engaged the Cuban government, the U.S. government and Cuban entrepreneurs to make this system work. They develop a work around so it's a win for the entrepreneur, more money directly into their pockets; it's a win for the U.S. consumer who can stay in a private home in Cuba. Authentic experience, a real Cuban home as a slogan, the ad says. But also the Cuban government needs now to collaborate; there's an incentive for it, to collaborate with the private sector because they're swamped by tourists -- they don't have enough rooms. And this is -- they are actually legalizing and permitting tour groups to come through to contract out and work together with paladades, with bed and breakfasts and other people.

So this is kind of an element that highlights some of the potential, and we'll hear more about that potential coming to its fruition and one example from John McIntire. Thank you very much.

(applause)

MR. MCINTIRE: Hello. I am going to pick up on some of the points that Rafael and Ted mentioned on professional services as well as cooperatives, but first again let me thank Brookings, Richard, Ted, et cetera, for this opportunity. And then I'm going to dive into one particular field of activity, one license, which I think is the one that you were trying to come up with which is computer programming.

First though, just on a big picture, again you've heard a little bit about this and I'll put it in some context. But back to the list of 201 licenses that are available. You can say there's three or five or eight, there's less than ten which are professional services. And put that in the context of a highly educated, highly trained society and the amount of investment and human capital that the Cuban state has put into it. It's just a very strange situation. And just to put this in a little bit of context and I'm not going to take this comparison too far, but Israel is a state of seven million people versus Cuba's eleven, and if you look at the education, literacy, and health indicators of Israel versus Cuba, they're identical. They are identical, in terms of years of schooling, literacy,
everything. And obviously Israel, you see the case and again I'm not going to take the comparison too far, but just to state the fact that Israel's economy is ten times the size of Cuba's. And they lead with technology, with biotech, with pharmaceuticals, et cetera, all things which actually Cuba is pretty good at. But right now it's restricted in its growth into what's being done in the state sector and obviously the government is restricted in terms of resources, et cetera, et cetera. So anyway, just to make that general point.

So back to the professional services, the less than ten. Three I think are exportable, being accounting services, and of course accountants in Cuba don't work with international accounting standards. So that's something that's probably not going to be a big issue or source of activity in the near term, I think long term it will be. Photography is a niche business. So you come down to number 103 on the list of 201. You know there's 104, but I have the original list, it's 103, I knew you were going to look -- which is computer programming. And so it's legal in Cuba, it's exportable to the U.S., under the new rules as a service. There's huge demand both in the U.S. and elsewhere. And guess what? The Cubans are world class at it. They are, from an early age, those that score high in math are tracked to certain schools, the Escuela Tecnologias, for tenth, eleventh, twelfth grades. Then they go to USI which is a world class institution and other forms of training. And I'm told that there are actually a high percentage of actual programmers, of coders versus other computer science fields like network engineers, system engineers et cetera, because that infrastructure isn't big in Cuba, so a disproportionate number of those who are steered through this track end up as coders.

So you're a coder now in Cuba and you're looking at potentially great opportunities -- what are your options, in terms of being employed and having a fulfilling work experience? I mean obviously many are in the public sector working with state companies. USI contracts a number of them to work on very important projects. And what's the big advantage of being in that situation is, in addition to a decent wage, which actually wages are going up for programmers in the public sector. They're paying as much as 90, 100 CUCs a month now which is quite a bit higher than other comparable
professions. But you have access to the internet, to do both the job you're supposed to be doing and potentially other jobs. But you have steady access to the internet in most cases, which is a very big deal. So you take a chance and leave the state sector and get your cuentapropista license to be a computer programmer. You may earn more money, certainly some are earning significantly more than the number I just mentioned. But the question is, what is your access to the internet? Cubans have gotten very very good at working offline. I know programmers through Cuban (inaudible), about 5 percent of our graduates are programmers. We know some that are already working for companies in Miami and what they do -- well, they do various things but most of their work is done offline and either then it's downloaded to hard drive or a flash drive and then transported to where it needs to go. Or they have a land line and they're using a dialup modem which they don't use it all day. They get what they need to do in the morning, download it, they work all day offline and then they push it back through a modem back to Miami or wherever else.

But still it's fraught with that risk, in terms of losing your access, and also the cuentapropista license for a computer programmer is actually one of the worst from a taxation point of view. I think you can only deduct ten percent of your cost. It's at the bottom of the list of that. And of course and it faces all the other same challenges that other license holders have, which scaling is very difficult. More than five employees the labor taxes kick in, et cetera, et cetera, et cetera. Now there are some decent size companies but it's an awkward situation where you have one or two licenses and the contractors and so on, so less than ideal.

So what could be done? What's a favorable scenario for the lab work? This is where I get to the cooperative situation, and a general comment on professional service cooperatives. I'm only aware of one, and Rafael please correct me, but there's a consultancy that in fact helps other cooperatives get started.

MR. BETANCOURT: There's four now.

MR. MCINTIRE: There are four?
MR. BETANCOURT: And two functioning.

MR. MCINTIRE: Okay. Two functioning, okay. But still, it gets back to the same point. All these educated people who only have a couple of licenses that they can, to take advantage of. And programming would be, I think it adapts itself to cooperative structure. But the question is will the approvals be forthcoming to allow this to happen? I was encouraged when I heard -- I didn't know about the announcements yesterday. I think Omar referenced, I'm not sure, maybe Juan, about being able to contract outside labor now for 12 months, and the tax holiday going up six months. That's all great to continue to tinker with the cooperative structure. But this I think is going to be key for an ecosystem to develop. And that Cuba can take its place as it should I think among societies which can actually harness the talent and the investment that has been put into its people. So I'll leave it there.

MR. FEINBERG: Great. Three terrific presentations, all very complementary. Ted how much time do we have for this panel now? Are we running -- we started a little bit late but -- we started a little bit late so maybe we'll grab a few extra minutes, but we are running up against the lunch time. Let me throw the first question on the table, then we'll open it up.

So the Cuban government has been saying they want the embargo lifted, they want the embargo lifted. But President Obama put on the table a major opening from the embargo in which he said U.S. companies could import and export with the non-state sector. That is to say with cooperatives and with the cuentapropistas. Yet to my knowledge, with maybe one or two small exceptions of the source that had been mentioned here, that processed announced the beginning of this year has not yet opened up. And we talked about all the restraints on co-ops and private sector, one major one of which was inputs. And that's precisely the offer that's on the table. Buy from the U.S. firms. What are the obstacles that need to be removed in order for Cuba, for the cuentapropistas, for the co-ops? to take advantage of the Obama offer that's on the table?
MR. BETANCOURT: The state holds a very rigid monopoly over the foreign sector in general. So imports, exports, financing is totally controlled and it seems to be -- tendency right now to decentralize access to this. So this is a major obstacle from the Cuban side. I haven't heard that there is any movement in that direction. It could be also -- there could be movement as a result of some advancement in the normalization of relations with Cuba, with the United States. But right now that is a major obstacle. And the sector that you're taking about, I know for the fact that the Minister of Communications has a stack of applications to foreign cooperatives in the information sector. And the problem is that when you export those services either internally to foreign or join ventures, or externally to a foreign client, you are basically breaking that monopoly. And that I think is what is holding it back. Now the new announcements -- they will be able to sell or purchase those products within Cuba. So a state enterprise where joint venture can do it, but at this point, I think that's one of the biggest obstacles.

SPEAKER: I mean Rafael really captured it. I call that the autabloco sometimes it's referred to that as the internal restrictions. There was a really instructive case in late 2013 of the Cuban government cracking down on some of the creative interpretations that some of the cuentapropistas had made of their licenses. So people who had licenses to be seamstresses and tailors were actually importing through mules from Ecuador and Miami, clothing and then setting up all across the island of Cuba, little boutiques on every street corner and the portales of Cuba. And then they were reselling that imported clothing. That clothing was of better quality, it was more variety, it was better price than the monopoly retail that the Cuban government has and the Cuban government didn't like that. And so instead of trying to figure out how can we recognize this so it provides goods and services at a good price, a good quality, and a good variety, it closed them all down. It closed them all down, it said like in September, October -- hey this is not in your license, you're being a little bit too creative and it gave them until December to liquidate their goods. But I've heard that what they've done, essentially is now they just use catalogues and so they still do this -- they still pay off people at the
customs and they just circulate catalogues and then people can buy their clothing that way. The same thing happened with a very inventive interpretation of a license for children's entertainment. People set up 3D movie theaters in their homes. This was very successful. And the Cuban government said, this is not included in your license. And they closed down all of the showings of Avatar in Cuba. I'm sure they still survive in one way or another. So this is a big issue and this brings us back to I think the issue of political will that was raised before.

MR. FEINBERG: Thanks. My own view by the way is that the executive branch could undertake a second round of economic liberalization. But I don't see them doing that until what they've already proposed -- which is already on the table, actually goes into effect. So we need to see to what extent the offer that's already on the table is permitted in the Cuban context before I think you'd be likely to see a second round of carving away exceptions to the embargo.

All right, we have time for -- why don't we do this Ted, since we've got a tight time constraint, I'll take three or four questions at once and then the panel can respond to those questions that they find most interesting as a way to wrap it up. Let's see how far back we can go. Who's the farthest back there? The woman here on -- yes, you please. Could you stand up and identify yourself?

SPEAKER: My name is (inaudible), Cuba Watcher. And my question is -- thank you -- my question is, to what extent is brain drain a challenge for Cuba's economic development? I believe in the 1990s and maybe after that it was seen as, there was a lot of flight of talent. But now I'm told by Cubans and others that some are returning, whether to open businesses or to invest, or to engage in other activities. Well I have other questions but I'll leave it at that.

MR. FIENBERG: That's great, okay. Do I see the hand of a leading Cuban scholar to whom we all must bend down and recognize his long standing expertise as well as a high moral character -- Phil Brenner.
MR. BRENNER: So Ted Henken alluded -- Philip Brenner at America University -- Ted Henken alluded to one of the issues that faces the Cuban government and leads to a paradox, and that is corruption. One of the reasons for clamping down on some of these private dealings is to avoid corruption, yet it paradoxically opens up the possibility for corruption. Can you speak to the problem of corruption? Is there evidence that the way in which the Cuban system is now operating with cooperatives is leading to payoffs so that people can get licenses so that they can skirt the system?

MR. FEINBERG: Okay, one or two more questions. How about the two people in the -- two hands in the back and that will be our four questions. Please identify yourselves.

MR. FLETCHER: Yes, Frank Fletcher, Danny Morgan Academy. In terms of the housing situation, it was mentioned previously that about four million houses needed to be rehabilitated. I don't see that solution coming from foreign investment. I can't see, given the minimal Cuban income that anyone would want to -- or could own apartment buildings or things, the ability of people to pay rent is just not there. But I don't know what could be done in that regard. But it's a tremendous problem -- rehabilitation of existing housing or the construction of new housing.

MR. FEINBERG: Of course if you travel around Cuba today you will see already a lot of remodeling going on by the very owners themselves of the properties. Very often with money that has come from abroad -- that is to say remittances, which may simply be donations or may be under the table forms of investment.

MS. LAWRENCE: Hi Wendy Lawrence --

MR. FEINBERG: Thank you Wendy.

MS. LAWRENCE: From the Foundation for Civil Society and Beyond Conflict. What role is the European Union and the Europeans playing?

MR. FEINBERG: Okay. All right, that's four broad questions. You don't have to tackle every one of them, but maybe if each panelist will take one or two of those questions, then we'll wrap it up. We'll start with Rafael.
MR. BETANCOURT: Okay. In terms of the brain drain, I think that after 2013 as was noted here, in January the immigration law was passed and it allows Cubans to stay abroad for a two year period after which they must return in order to renew their passport but they do not lose their properties. They do not lose any of their benefits as Cuban residents. So now you have people that are actually residing in two places. They have residency abroad and they have residency in Cuba. This allows for this reversal of brain drain. I think that the Chinese and others have shown that the people that left in a certain period of time can return with greater skills and greater knowledge and this becomes a possibility and in some cases a reality as in the case of people that are coming back from Spain with a small amount -- twenty thousand Euros will not get you very far in Spain but that will allow you to make a significant investment in Cuba. So I think that that's -- the brain drain can be reversed.

Secondly in terms of corruption, what we're seeing most is the evasion of taxes as was mentioned here. And also obtaining supplies in the black market because of the huge limitations in the wholesale -- but in terms of paying off people, there's probably some in terms of inspectors, health inspectors and people like that. But generally the licenses as was mentioned here are being issued rather expediently. And finally in terms of housing you are right, Richard, that the issue right now is the availability of building materials -- there's a lot of constraints in that and that if there was a greater availability there will be a lot more owners that are repairing their own homes.

MR. HENKEN: Let me add really quickly to the question on brain drain. Sometimes this is referred to as el robo de cerebros -- more propagandistically, but there is a U.S. policy that tries to incentivize that for doctors. You could also call it brain waste, right? And if you don't give people opportunity you're wasting that talent. We talked about that contradiction of training people really well, giving them education for free, and then straightjacketing them. So that is an issue. I heard at Lasa, just a few days ago and Puerto Rico -- a great presentation by a political scientist, sociologist, Antonio Aja, from Cuba on the demographic transition and the problems that Cuba faces. Of course they
have an aging population and they also have very high rates of immigration -- people leaving the country. Although, it is true and he did point out that Cuba's escape hatch has now become a revolving door. And that does mean that the future should -- you can bet on or depend on people going abroad and bringing back skill, know-how and money to invest in businesses et cetera.

The issue of corruption -- this is a very practical one, but also a theoretical one in that it partly is a result of the instructional structure of opportunities and also constraints -- if you're a Cuban entrepreneur or if you're a Cuban lawmaker one philosophy is to make very strict laws and make lots of laws and that's what they've done. But that really creates law evasion. So what really needs to happen is a kind of a reform so that there are fewer but well enforced and logical justifiable regulations.

The last thing I'll mention is the import export issue that wasn't really raised, but I think it's an important one on the U.S. side -- and this speaks to your question Richard. I've heard a number of U.S. diplomats say very clearly that the United States would be open to sending or allowing the export of materials to Cuba even through, if they were forced to use all import -- a very appropriately named organization since they import everything, as long as they got certification that the final customer was the private sector. So the United States government seems to be bending over backward to say we want to work with you and knocking on the door, but that monopoly on the foreign trade is a big one.

MR. MCINTIRE: Yeah, just on the same first two topics -- I think I'll leave the other two to you Richard. But just on the brain drain, I agree with the points that we made. I just go back to the fact that opportunity for -- in the end Cuba's going to be a service based economy and there have been better opportunities for trained skilled people in the services is going to be key to keeping them there. They may be coming back but the question is, are they just coming back not to work and their primary existence is offshore. They're just coming back to see family and to enjoy Cuba. So again I go back to the point of scalable businesses which cooperatives seem to be the
solution to that. And broader licensing categories for professionals are going to be ultimately I think the key towards keeping a lot of the most highly trained people in Cuba.

On the corruption issue, just at the micro level and we see this with Cuba Emprende graduates. The risk of the system now is that the individual license holder faces a set of taxation rules that if, strictly speaking were abided by, most of them would be paying more in taxes than they're making. So there's a rough (inaudible) -- 60 percent under reporting, I'm surprised it's only 60 percent. I think it's probably higher. So the taxation system then is perverse and that lends itself to selective enforcement. So you have, as tax collectors come around and try to look at the books of cuentapropistas -- it just puts a lot of arbitrary authority in the hands of tax collectors and that's just a very dangerous situation for all sides.

MR. FEINBERG: And also on the corruption side, in addition to the points of burdensome rules that inevitably produce evasion. You have the two fundamental root causes of corruption in Cuba I would say. One is extremely low wages, and the other is generalized lack of transparency. Those are your two fundamental root causes that need to be addressed over the long run I would say.

The other point on barriers as to why the Obama offer has not yet -- which would solve so many of the problems that we have talked about in the cooperative and cuentapropista sector. I think one missing piece of it is finance. Who might provide the finance and what sort of financial trade credit guarantees might be available? And I think that's a piece that I would suggest the U.S. and the Cuban government put on the table for their future round of discussions.

Finally Wendy Lawrence's question about the role of the E.U. -- just very briefly. First of course you have direct investments from the European Union. Many of them dating from the 1990s and I expect you'll have another wave now with the new opportunities on the table. You also have the upcoming Paris Club discussions to deal with previous existing commercial debts which need to be dealt with the Paris Club which is mainly Europeans have indicated that they would be interested in focusing on. And
then finally as you know very well, the ongoing discussions about the common position and political and human rights issues that a part of that ongoing discussion.

And then finally, of course the E.U. as a group and then individual countries do have a small but in some cases very interesting bilateral foreign assistance programs, technical assistances programs in a range of areas. And I think with the willingness of the Cuban government, could be scaled up and perhaps you could have co-financing with CAP and with others to take some of those interesting projects and take them to the next level.

So with that Ted I think we can wrap up a very successful panel. Thank you all very much. (applause)

So lunch is available outside here. You have exactly 30 seconds to eat your lunch. (laughter) Thirty minutes, 30 minutes

SPEAKER: If anybody is interested in getting a discounted copy of the book that Arch and I wrote, he and I have fliers, order forms for it. Come on, be an entrepreneur, be an entrepreneur. Come on.

** Break **

MR. TRINKUNAS: Okay, I think we should get started, if folks would take their seats. Well thank you for joining us for the final panel of this fantastic conference. It's been very enjoyable to hear all the conversations so far. And I think we're looking forward to ending on a high note here.

My name is Harold Trinkunas. I direct the Latin America Initiative and the Foreign Policy Program at the Brookings Institution. And it's my pleasure to be chairing this panel today on the prospects for direct investment in Cuba – the new setting.

So I think just to put things in perspective, as we heard earlier today, Cuba really has fairly large investment needs moving forward to address some of the short-falls that have been identified in this conference. And there's some limits to its ability to meet these short-falls. We heard something about the limits to state revenues, and therefore the state’s ability to address infrastructure needs. We've heard something about the
limits of the ability of multilaterals to be part of the solution, both because of the issues raised by Cuba's membership or lack thereof in certain institutions, also just the limits of the available capital in multilaterals. Limits on access to global financial -- sort of bank lending for Cuba, due to some questions about its past debt obligations.

So given that scenario, I think when you look at the remaining options, foreign direct investment is really a major part of the solution. And in fact foreign direct investment would probably have to occur on a fairly significant scale and be sustained across quite a period of time to address some of the issues that have been raised so far today with regards to Cuba. Obviously, the U.S. Cuba rapprochement, a major part of the reason why we're all here today to discuss these issues, has opened the door for a wider, at least exploration of the issues associated with FDI and in fact foreign direct investment is very much a part of the discussion by international companies as well as in very much part of the thinking of some in the United States.

Of course we should all be wary of any irrational exuberance, as we all look at the future and I think this panel we have here today is going to help us take a very measured, and sober and thoughtful look at the issues facing the prospects of large scale foreign direct investment in Cuba. There's a number of issues that obviously will have to be addressed by the Cuban state, by the Cuban people, by foreign investors as they look at the evolution of the Cuban economy. And this includes of course issues associated with the legal framework for investments, and for dispute resolution, it includes issues associated with the approval process for foreign direct investment, and how that can be facilitated.

There's labor market issues, there's productivity issues, currency, the possibility of repatriation of profits, the issues associated with past disputes over property claims, and many many others. And I think the panel that we have for you here today will really do a wonderful job of helping us start thinking about these issues. And I'd like to introduce them in order.
First, Professor Omar Everleny from the University of Havana. He has taught and lectured at a number of universities, not only in Cuba but across the globe and he's also an extremely prolific author, on the Cuban economy and international economics. Including a co-author of the *Cuban Economy at the Start of the 21st Century* with Jorge Dominguez and other authors. So he'll lead us off.

He'll be followed by Jose Maria Vinals who will be -- he's a partner and director of international operations at the Lupicinio International Law Firm. With extensive experience in corporative project finance, working with major international companies with a good deal of experience also in Cuba as a columnist with *Cuba Economica* and a monthly contributor for *Legal Today*.

He will be followed by Mark Entwistle. Mark is the founding partner of Acasta Capital, who has been working on Cuban affairs and on business in Cuba continuously for 22 years, in a number of different roles associated with Acasta Capital, a merchant bank based in Toronto. In the past he was also ambassador of Cuba from 1993 to 1997. So really somebody with very deep experience looking at Cuban issues from the outside.

And the final discussant will be Augusto Maxwell, who's a chair of the Ackerman's Cuba practice, extensive experience on issues related to the U.S. embargo on Cuba, particularly in respect to the Treasury Department's OFAC, travelled extensively in Cuba, and also has a great deal of experience teaching about Cuba as a lecturer of law at the Columbia University School of Law.

So without much further ado, if I could ask Omar to lead us off, Omar, por favor.

MR. EVERLENY: Thank you very much. To Brookings, and particularly to Ted, and all the participants here for providing us the opportunity to express our opinions about what's going on in Cuba with regard to foreign direct investment.

I'm speaking on behalf of the University of Havana, not on behalf of the Ministry of Foreign Investment. So there are some things that I would like responses or
answers about some things. But for 10 years I've done my doctorate in foreign investment and (inaudible). So I have a good idea of the process from an academic point of view. What's been put on the table here, looking at the morning panels -- Cuba has structural problems, and therefore if there are structural problems there have to be structural trends. And if there's structural trends, there has to be investment, that is enough investment.

However, there's not enough. With the growth rate, which is around five or so percent, foreign investment must, over the next years has to pay a -- not a complimentary role as people would say in the past but has to be fundamental with regard to investment in the country and the people. This is a very different level. They talk about re-launching foreign investment, but we forget that Cuba had foreign investment since 1992 on, and it's been growing. And what we also forget is that more than 80 percent of the exports that come from Cuba are done by foreign companies. It's not that we're just beginning, starting from zero with the foreign investment, we have to recall and in some of the conferences they say to me Law 118, it doesn't have so many -- is not that different from 177. But who said that Law 177 is a bad a law?

Law 177 -- there's a lot of discretion there. Law 118 has clarified certain activities or certain amounts or certain levels of approval or certain dates -- time periods for approval of businesses. But it's a law that's quite broad. What's new, what's novel about it that the congress, based on the guidelines from the six party congress has clearly said that the vitality of viewing foreign investment as an important component. It's a priority that special development zone, Mariel, the creation, but what the document says is that we're going to create special areas, it wasn't just Mariel. Mariel is just the first one, there can be others created.

But in my view, we can't be ambitious and think about other ones until we consolidate and solidify Mariel. It was created without -- 17 December changed things and that's going to solidify this. There has been a quickening after that day, on December 17. But before that time there were bills submitted to begin projects that were
submitted. There are priorities of the state. I don't agree that the development area of Mariel can turn into a Maquila area, an offshore assembly area. I think that's a priority, but the investments have to be in high technology, and in renewable energy. I think there are certain important priorities.

China has almost no presence. They're not going to be selling to the -- China's just looking for natural resources in Latin America. There's been -- China has lots of sales and trade relations with these countries throughout Latin America and we have to -- this is what sets China apart, it's not interested. When we talk about the special development, Mariel Special development zone, remember this was during a climate where there were several factors that were in play. Cuba had to build a modern container terminal. It had to do it because the Port of Havana was inadequate. And either we develop old Havana to be a tourist point, and also there were technical problems with the Port of Havana. The tunnel didn't allow certain vessels to go through, this all had to be done with money. And there was a credit from Brazil for infrastructure works. We have to remember that an infrastructure work was to create a Port and container terminal. But the largest world PCI from Singapore wanted to find a place for trans-shipment in the Caribbean. And the need of money from Brazil and a manager, and that's how Mariel emerged.

It was clear that from the very beginning it could operate without any relationship with the United States, because much of the merchandise from Singapore is from America to Europe. It goes through there. If you remember since December 17th, with all the interests of foreign companies, there has been greater interest generated. But it is part of the development strategy of Cuba's system, is to have an important zone. Not just any zone, but an area where there is no demand for competition. There are 400 some odd square kilometers with a priority which is the A1 to A11 zone, the priority is on this. Everybody's working -- but everybody went to this Mariel Special Area. Cuba's saying this is the area, where you got to start working in it. You can see four derricks for container loading and you should see Law 118.
You could say it's a good law. It hasn't been as dynamic as we hoped it would be after a year after it was enacted. In actuality, Cuba's interest with Law 118 was to create joint ventures with 100 percent foreign capital, and all of the companies that have come in right now are totally foreign companies. In the past, this is the way it has been because the state realized with the level of decapitalization, the lack of capital available to the Cuban government, to create a new company would be much more expensive, and so it's better to have others.

So their proposal that it will be majority capital holder, ownership of Cuba, the state, but in public services, but in other activities. It's not an impediment. There's no impediment, but any proposal that is accepted, but what's being approved right now has to do with tourism and inputs, because the great demand there is, international tourism is the main thing and it's one and the same. Thirty-six percent increase in April of tourists -- of American visitors came about. That's an important figure. I don't know what they want to see in Cuba exactly. I believe the state is being very pragmatic in its decisions and in its approvals. If I was the decision maker, I would go beyond the 300 projects that have been introduced, five have been approved, but there are 20 that are in the final stage of approval. I'll give you a couple minutes more.

These are companies that come mostly from Europe. And these are companies that in a few instances have been in Cuba or they've been in the final stage and they're coming back again. I would imagine that they're beating out other companies that could come in like Unilever which has a presence in Mariel. And this company had been in -- there had been demand for U.S. property, but they decided on a modern company in the Mariel Zone. There's also been important business that has been done in the area of leasing.

They're not going to sell trucks, but they're going to have a company that's going to have high tonnage trucks to lease out to the companies in Mariel. This is an important role and there are consultancies for business. The important thing about Law 118 is it enables the creation of professional service providing industries. And the
surveys that have been conducted of all the companies that operate in Cuba and the first question we ask is the employment agency. If you ask me there shouldn't be employment agents. But the employment agency under Law 118 is different from the prior agency. The employment agency is going to try to pay the worker much more than what was paid.

The Law says that 80 percent of what's negotiated with the employer can be kept by the workers themselves. Everybody knows that this in international currencies that's one to ten. And the rate of exchange -- but any worker who works in -- makes 8, or 9, 10, then if they work outside of the Mariel Zone. And that's an incentive to want to work there.

There are a lot of difficulties, but now to wrap up, from the legal point of view, it's very important for foreign investments. But there's not enough that there's a law on the books. Cuba has to make a lot more progress in economic elements if it doesn't have a high growth rate. It's the dual-edged sword of the currency, et cetera. Everything has to come together in a more clear design, not so much in discretion and decision making process. Thank you. (applause) Once again I apologize for the time, each one has seven minutes.

MR. TRINKUNAS: Without much further ado, Jose Maria.

MR. VINALS: Thank you. Thank you very much, thank you to Brookings Institution and to Ted for organizing this event. This event is a sign that sometimes imagination can surpass reality. If some months ago, someone would have told us that we would be here, talking about Cuba and how to invest in Cuba and sharing our experience in Cuba, they would have said we were crazy.

But the reality sometimes surpasses the imagination. I agree with Dr. Omar that we have to take into account first of all that Cuba is a planned and socialist economy. That has not renounced to its socialist principals, after the announcement of Obama, on the 17th of December. In October 2011 there were 300 guidelines that were approved by the socialist party, by the Sixth Congress of the Socialist Party.
Within these 300 guidelines, some major changes have happened in Cuba. For example, the private market has started. We have seen how the private market has increased from 5 percent to up to 20, 25 percent by means of cooperatives, and by means of the individual and independent entrepreneurs. Maybe for us, this would not be a major change in the economy. But for the Cubans, this has been a revolution within a revolution.

Because Cubans, for the first time in 50 years, some of them, they have managed to get money from their own work without being in the payroll of the state, as well, the unification of the two currencies and the protocols that are being taken into account to reach that point. Cuba is the only country in the world where there are two different currencies, and the changes between these two currencies, changes. That means that there are four or five official exchange rates between CUC, peso convertible and the local peso.

And this all gives insecurity to foreign investors when they have to invest in Cuba. Within all these changes where we have to add the special development zone of Mariel, we can talk about an island within the island, or we can talk about the Cuban Hong Kong. In Mariel, companies can have 100 percent of the shares of the company. Why are they doing this? For many reasons, one of them is to create a hub in the Caribbean to be able to export to smaller ports, the goods that may come from the Panama Channel. Then as well, they want to create this place where they can attract foreign technology, where they can increase the employment rates of Cuba, and as well they can depend less on the imports.

We also have to take into account that Cuba imports twice as much of what they export. So that's one of their priorities as well. The new foreign investment law has been a small change if we compare it to the previous law. But this law has to be seen within the context of changes that are happening in Cuba since 2011. As well, both the Zonas Especiales de Desarrollo Mariel, and the new investment law, the new foreign
investment law -- they provide a new tax system, which makes things much easier for foreign investors.

During the first 8 years, foreign investors would not be paying one dollar as tax for the investments and for the results coming out of the investments that they will be carrying on. Obviously there are things that can be improved. First one, being a lawyer, is to liberalize the legal sector of course. And that would give a lot of legal certainty to foreign investors, to have independent, private, lawyers as we can find in many other places.

As well, allowing companies 100 percent fully owned by foreigners. It is true that within the law it is possible. But the reality shows us that the Cuban government is reluctant to approve 100 percent foreign owned companies in the island.

As well Cuba has a one account system. It's like a family. They get their inputs, their cash flows, and then they get their payments they have to honor. Cuba always honors the payments. But they only have one account. So there is a list where the people get their number on the list. And depending where you are on the list you get paid before or after, in time.

So, that as well has to be changed. But as Dr. Omar may explain to us later, it is important to take into account as well that Cuba doesn't have the capacity to honor foreign exchange payments because they don't have enough resources to complete and honor those payments. So they have to get into those -- they have that limitation. And that is the limitation as well for foreign companies wanting to invest in Cuba.

Legal certainty in Cuba is one of the points that most of the foreign investors ask us. Cuba, over the paper is a country that provides legal certainty to foreign investors. First of all, there are 62 bilateral international treaties that have been signed between the Republic of Cuba and 62 countries including 15 European countries, by means of which any of their national companies investing in Cuba do have the right to
go to an international investment arbitration in the event there is any problem with the Cuban State.

As well, there are many double taxation treaties between European countries and Latin American countries and Cuba, to prevent double taxation. Cuba is as well a signatory of the Geneva and New York conventions. That means that they have to enforce foreign arbitrations in Cuba. Since the 1960s, Cuba has developed their arbitration system as a method for alternative dispute resolution. Because they found that the courts, the magistrates, the judges, they implemented some kind of bourgeois system to resolve disputes. So since the 1960s Cuba has been very active in arbitration and the society in general has this experience.

As well, the foreign investment law protects any nationalization from any foreign investor. And if there is any nationalization because of a major event, they'll have to compensate the foreign investor. They'll have to compensate and pay him for his investments. As well, there’s protection in the foreign investment law against any extraterritorial effect of any other third country. So the U.S. sanctions would not be applicable for foreign investors in Cuba. And as well, the freedom to repatriate any money, any dividend, any benefit earned in Cuba.

I would like also to take into account that according to our 20 years’ experience in Cuba, we have been assisting European companies to establish in Cuba, and they have already 20 years of experience ahead of any U.S. company. The consistency of the sanctions and how the executive power in the United States, they have said that sanctions -- they have no use, and have not been effective.

And on the other side the legislative power, having those relations still in place against the Republic of Cuba, what they do is to give European companies that are going again to Cuba and they don't have limitations that the U.S. companies have, out of those windows that the OFAC has given to American companies. In this sense the situation of the U.S. companies right now, and U.S. investors, is like being in a ship.
where you think that the wind never blows in the correct direction, because you do not
know to what port you want to go. Thank you.

MR. TRINKUNAS: Okay. Thank you very much Jose Maria. I think we'll
go to Mark Entwistle next, please.

MR. ENTWISTLE: Thank you Harold, I thought what I would do is go up
to about 30,000 feet and I'm very happy to get into weeds and things on all kinds of
aspects of foreign investment but look at maybe with your permission three kinds of
things. I think we need a slight romp through the history of foreign direct investment in
Cuba to truly understand where the Cubans are now. And also just a few words about
the kind of profile, if you will, of foreign investment in Cuba and then some of the defining
characteristics in 2015. The reason why I wanted to take just a little bit of your time on
the history piece was because in Cuba everything is both political but it's also
fundamentally informed by history even if people don't really quite realize that it is. And I
often quasi-joke with, certainly with American business people who haven't had the
exposure and the experience to Cuba that Jose Maria was talking about.

And when they ask for a single piece of advice, read a history book,
about the history of Cuba. Just do that to start and a lot of what informs, underlies,
Cuban approaches to public policy decisions are embedded in history. And in terms of
foreign investment over the last say, two decades I think there's probably three major
phases if I would split them up. The years are not totally specific, but in general. From
about roughly 1993 to the late 1990s after of course the collapse of the Soviet Union and
Cuba's GDP spiral, et cetera et cetera, as we all know, there's what I would call the Wild
West period.

I was there at the time. You cannot imagine -- all kinds of carpet bagger,
charlatan, shysters, mom-and-pop shops -- you name it showed up in Cuba. They
formed hundreds of joint ventures. Frankly the Cubans were at that time struggling to
find some kind of life boat or something in the choppy waters that they were in. By the
late 1990s and into the 2000s they had pulled out of that period of course and back from
the precipice and in terms of direct foreign investment they entered into a period of what I broadly call reassertion and reassessment.

By reassertion I mean reasserting kind of a control over the situation. They learned very powerful and painful lessons from that period in the 1990s that not all foreign businessmen are created equal, and they learned the concept of diligence. You have to actually know who you're dealing with.

Many, many, many of these companies, the foreigners had not a penny in their pocket. They came from some village in Italy, or somewhere in Canada to form a pizza dough factory or whatever and in the early 2000s, what the Cubans did is they shut down hundreds of nonperforming joint ventures, cleaned up the landscape, and from that two things emerged -- one, a very strategic and almost an obsession with dealing with large operating partners. Companies that are knowable, with balance sheets, businesses that know what they're doing, on the one hand. And during that period of roughly the 2000s kind of stepping back from foreign investment in general, because it had been such a horrific experience, focusing more on subsidization strategies, relationships with countries like Brazil, of course the Bolivarian subsidy of Venezuela and friendly credit terms from wherever they could get it.

Bringing us up to 2014, the new foreign investment law, 118, which I think is an important law in the sense that in addition to its provisions, it is a political reassertion again of the importance of the return of Cuba to the global capital markets. I think the Cubans realized that they could not tread water forever and the future economic development of the country did now require some modus operandi with direct foreign investment.

Interestingly out of all that mayhem of the Wild West period, when all of these joint ventures, most of them failed, a few of the iconic poster boy joint ventures that if you were to have a Cuban Minister here or somebody who would rhyme off a list of who the top JV's success stories were -- you have Sherritt in nickel mining, you've got Pilno. They all come from that crazy Wild West period. But they were ones that were done
properly and have been tremendously durable and sustainable. And those are companies that had long-term obviously strategic visions of what to do in Cuba.

Very briefly, we often talk about foreign investment as kind of a monolithic idea about foreign investment. What I believe in fact there’s several faces or maybe even what I would call personalities of foreign investment in Cuba. And sometimes here’s the word, Cuba being opaque or opacity. I don’t think even that’s the word that captures Cuba. Cuba has a kind of a cohabitation of different realities. So inside what’s called foreign investment, you’ve got sort of multiple players all jumbled around with each other. And it forms a kind of segmenting of the foreign investment scene.

You’ve got what I would call the general -- although the ground rules are fundamentally the same. It’s how you enter the playing field that’s a little bit different. So you’ve got basically law 118, you’ve got the Cartera which is the long list of 246 foreign investment deals if you will that are being put forward. And that forms what I would call the civil framework of foreign investment.

Then you’ve got the Mariel Special Economic Zone, kind of popped over in the corner where you can have the 100 percent foreign owned companies. You can have them in the mainstream economy too, but it kind of marches to its own drum and it has got a bit of its own rhythm, and you’re already starting to see tensions created between old-fashioned joint ventures in the national economy and companies perceiving to set up in Mariel. Then you have another very, very specifically Cuban factor which is a part of the economy, and this is no grand secret, which is run by military companies under a holding company called GAESA, who have the same broad rules of engagement because they are approved by the legislative function. But they march to their own drum, they tend to be companies that are extremely well run, very efficient, so foreign investors have this kind of panoply of different portholes through which to open into Cuba.

Cuba is very segmented, it’s segmented on currency grounds, it’s segmented on property grounds, and in addition it is segmented in a way on foreign
investment. Very, very briefly, characteristics I would say of Cuba foreign investment in 2015, you've got little bit of echoes now, post December 17th of the 1990s. It's not the same. I think three big characteristics -- a sense of caution that the Cubans have based on their need for diligence, not to repeat. They want the operating partners, there's that. But they're also at the same time no longer ambivalent in which you always had a feeling in past times, they're more committed for strategic policy reasons. I think the 100 percent foreign ownership piece is important in that. And there is greater clarity around the rules to a certain extent, although I would argue to a large extent, on big ticket investment items, they have not yet been tested. But that will come. I'll stop there.

MR. TRINKUNAS: Thank you very much, and turning to our final panelist, Augusto Maxwell.

MR. MAXWELL: Great, thank you so much, Brookings for inviting me. This is a great experience. I've been involved in Cuba since 2003, and I take pride in having negotiated the first sale of Florida cattle to Cuba. And so I've been around this game a little bit, and obviously the United States is not allowed to do foreign direct investment, but we've pursued all kinds of business activities that are legal. And with the December 17th announcement, as you can imagine there was tremendous interest in this country, and Miami where I am from, I'm a proud member of the Cuban-American exile community that has so imposed its will on this process. And another member of that community, Carlos San Rodriguez is here today who is in charge of the Cuba study group that has done a lot of ground breaking work in Miami trying to point to a different direction of policy.

And so when these rules were announced and it was clear it was a new day, Carlos organized a meeting with the Miami Chamber of Commerce to talk about Cuba. What does it mean, what does this new perspective mean? And one of the things that I was struck by was an almost dismissive attitude about the idea that one would invest in Cuba. And folks were very knowledgeable about pointing out all the deficiencies in the Cuban economy, in the Cuban law, banking system. And I was struck by that. And
so my contribution was to point out that the befuddlement about how to do business in Cuba was unique to us in Miami. And my friends from Canada and Spain and other places have managed quite well to figure out how to do it.

And so the burden is now on us as Americans -- as Cuban-Americans and those who are interested in moving this thing forward to come up and catch up to speed. And I'm so happy that both Jose Maria, Mark, and Everleny have offered to help me, because I'm certainly going to need help. The idea of foreign direct investment from the U.S. into Cuba of course, is illegal. It's not permitted under the embargo. And one of the things that we have to keep in mind is where the President's authority meets with the text of the regulations. And one example is telecommunications policy. The administration through its discretion has made it clear that it wants U.S. companies to invest in the telecom space and help create freedom of communication between the United States and Cuba.

The challenge is that there is U.S. law that expressly prohibits U.S. investment in the Cuban telecommunications system. And so as a lawyer we have to kind of dance around what does the word investment mean, what does the word telecommunications, and one of the things that I was struck by in public conversations by the administration was the administration assuring U.S. companies that they at the end of the day are the ones that interpret the laws and they are the ones that enforce the laws, and we're telling you it's not an investment.

And any good lawyer for a company knows well yeah, but you might not be there tomorrow, right? And the law will still be. And someone else will read it, and cause a headache for me. So one of the real challenges in this very unique space is trying to figure out what is allowed by these new licenses, what is within the discretion of the President and what in fact can I as a lawyer sign off on after reviewing the embargo regulations and I think for the most part discretion is the better part of valor. You're not going to see heavy foreign direct investment until you see changes to U.S. law, and as a
matter of fact you have that right now. One of the bills that have been introduced in Congress today would clarify this telecom issue.

Right, it leaves the embargo in place, we’re not talking about lifting the embargo, we’re just clarifying that a U.S. telecom company can indeed set up a phone system or pursue an investment on the island. So that I think is really the state of play if you will, domestically on the U.S. side between what is legal, and what is still proscribed by the embargo.

So, foreign direct investment by the U.S. is going to go through a very different process. First is going to be the idea of changing the embargo regulations to allow it. That said, there is another set of concerns that I think are going to affect U.S. investment on the island in a way that doesn’t affect our friends from Canada and Spain. And that is that there is a large vociferous Cuban-American community that is looking over the shoulders of all that investment taking place in Cuba. And so that which U.S. investment in China, or U.S. investment in Africa or South America doesn’t have the same audience or constituency that U.S. investment in Cuba will have, particularly first movers. And so that’s going to be a whole other layer that an American company owes to itself to make sure that it does its due diligence both with government relations and public relations to properly execute a strategy with respect to Cuba.

And I would highlight two issues, three perhaps, that should be on the radar. One is the issues of claims, confiscated claims. I won’t get into the technical conversation, but there are these certified claims that go to U.S. companies that went through a process. And the other is Cuban national claims by folks like my selves who lost a few things in the Revolution. As I think about it objectively, sometimes I think wow that’s a big problem over there; other times I think about it and I don’t think it’s going to be a problem at all. But it’s something that needs to be vetted.

The second significant problem that needs to be thought through is the point that Dr. Everleny pointed out, which is there’s one Cuban employment agency. Right so, if I’m an American company, and I need to explain that I’ve hired X number of
Cubans, and I'm paying the Cuban government a hundred dollars and they're only making a fraction of that. Now there are workarounds and other things that might justify that, but that doesn't look right. And it's going to be difficult for many American companies to think that through.

And finally there's the issue of the Cuban government itself, particular members of the government, and do they really own the business or not. And so those are the kinds of issues that I think are going to be slightly different for American companies moving forward, because they're going to have a domestic audience that some of these other foreign partners don't quite have. And with that, my comments are done.

MR. TRINKUNAS: Well thank you very much to our panel, and despite what appears to be my ruthless timekeeping, we in fact just have 25 minutes left for Q&A and I know we have a very interested audience so I think I'm just going to pass directly to Q&A from the audience. Again please raise your hand, and I'll put you on the list, and if you could wait for the microphone before asking your question, and please identify yourself when you ask your question. So I think I have one here already in the front row. And another one.

SPEAKER: Yes, hello. Rafael Betancourt from Havana Consulting.

Mark spoke about greater due diligence on the part of the Cuban government in selecting foreign investment partners now than in the 1990s. There's one important change in the corporate world between the 1990s and now and that's the importance of corporate social responsibility. And yet I have not seen in any of the new legislation or in the Cuban declarations, any mention of corporate social responsibility and how it could be an added contribution of a foreign partner in partnering with Cuba, so I'd like your opinion on that topic.

MR. TRINKUNAS: Okay. Let's take a round of three questions, and then we'll come back to the panel, so I think there was one immediately adjacent to you, and then there was one further back.
SPEAKER: David Lewis with Manchester Trade, one question and a quick comment from the previous session. For the lawyers, your interpretation of communications technologies in today's world, media, TV, film. Because the tradition is that it's just phone calls, which of course used to be land lines, now it's cellular, which means anything that's floating. So I think that's going to be a challenge.

And just a comment on the previous panel, take Undersecretary Selig to task on questions. We already have various cases of large U.S. companies with allowed sales of goods allowed under the 12. And all of a sudden say well listen, you need to pay a customs broker in Havana like you do in any country in the world. And a customs broker in Havana is the state. So in order to sell and distribute the two million goods of construction materials to private citizens which is allowed, it needs to pass customs, I need to pay 30 thousand dollars. It's a legitimate amount; it's what it would cost. And basically what commerce says is, send us the requests. We may have to look at it, and do an interpretation. So, that's what this process is going to be. Because the easy part is, get on a plane and travel. That's easy. The hard part is all these little other areas so that's what you have government officials for. They're going to have to look at that case by case and answer.

MR. TRINKUNAS: One more here, and then we'll come back to the panel.

SPEAKER: Manuel Gomez, from Progresso Seminal, I'm a private consultant, primarily to our last panelist, but to anyone else who may answer, and I recognize it may be an unfair question, because it may not be the expertise of this panel, but would you comment on the chances of the telecom legislation that you mentioned, what the prospects might be?

MR. TRINKUNAS: Okay, and so we have a question on social responsibility, a couple of questions on the telecommunications sector, telecommunications law, and a question on the nuances of the relationship that will have to be resolved if we proceed. So if any of you like to jump in, we'll just go down the
panel. Don't feel the need to answer everything, just focus on what you'd like to intervene on.

MR. EVERLENY: Well the law doesn't specify that companies have a social responsibility. But taking into account how businesses are approved in Cuba, with the involvement of the authorities that deal with the environment, et cetera, I imagine that even though it is not mentioned in the law, where we talk about respect for certain elements, it is necessary I think it will be taken into account.

I think it's better to arrive late but to actually get there. And if this is going to -- and it's going to help us to know what other companies have gone through. And we are just getting started in Cuba. And I agree with you, that it should be there. But I wouldn't be too sure that the state would actually forget about this. I think this is something that will be included.

MR. VINALS: With Dr. Omar, when they were stating the clauses of a (inaudible) company or getting business approved in Cuba, it goes through different stages of approvals, and diligence studies. And normally in the articles of association and in the general business agreement it takes into account all these points, environmental issues, and as well as any potential liabilities that the business may have regarding society or the environment. The new law has a chapter only focused on the environmental issues as well. So that's an important thing to take into account as well.

And as well, the Cubans normally are 51 percent of the share stake of the company. So they will be taking into account all of these matters during the life of the company. And in addition to this, the company and the business has to be approved by either the council of the state, either the council of the ministers, or the chief of the specific organization in with which the business is involved.

So for example if it's the Ministry of Industry, or the Ministry of Agriculture et cetera, so they're always looking after the business. Not only when it is approved, but also in the day to day of the business.
Regarding telecommunications, and any other imports that may be coming from the United States; I was as well surprised by the announcements in January. Because it appeared they didn't take into account the Cuban reality. Obviously the only companies that can import goods, not only from the States but from any other country, are state owned companies or joint venture companies which are 51-49 percent. There are some exceptions of companies that are 100 percent owned by foreign investors that have the licenses to import specific goods.

But all the companies that are importing for example from the United States can be summarized in one which is the all import, as we said before. So you're always dealing with the Cuban state. As well, it is difficult to sell from an individual entrepreneur to the United States, potential clients, any service that is a tangible asset. You can always sell a translation, you can always sell an accountancy service, or you can always sell an English class or a Spanish class from Cuba. But it's difficult to sell any art, or any furniture, or whatever is produced in Cuba. Because you will have to pass through a public company.

And then about telecommunications, Cuba has recognized that they need to import around one million computers. Obviously all those computers, all that technology, all those goods would be used for the public sector, or for the public private sector in these joint venture companies and businesses. So as well, you'll be passing through the state. And in Cuba they have an infrastructure forming with telecommunications, as it happened with the telephones in the 1990s. They have still digital technology or infrastructures, and they have to adapt it to analogic. So even if we wanted to give internet to all the Cubans on the island, there should be major investments in infrastructure so that it can reach all those homes.

Right now in Cuba one megabyte of internet per month has a cost of 180 dollars. We take into account that an average Cuban earns around 25 to 35 U.S. dollars -- that is a small treasure for them. Additionally they have NOTA rooms that they want to develop, and they want to open 136 NOTA rooms which is navigation rooms.
sorry. Which is rooms where they have 45 computers, and they charge four U.S. dollars per hour of internet. And they want to -- there are now 200 navigation rooms, and they want to increase it to 400 navigation rooms. So that's a major sector that both the American -- the U.S. government and the Cuban government want to develop. But they have to see all those small engineering things to make things happen.

MR. ENTWISTLE: I just got one little piece on the CSR question, and I'll leave all the legal stuff to Gus. Totally agree with Omar and Jose Maria about the way -- to the extent that it's not explicitly covered, but to the extent it's dealt with, it's inside of the approvals process et cetera et cetera.

The one thing I would add. Foreign companies nowadays, inbound companies, American, Canadian whatever, have a CSR component now almost invariably. And in the olden days for any of you who were around in Cuba say in the 1990s or something, there used to be an old Ministry called INVEC, which was the Ministry for Foreign Collaboration, who were highly politically sensitive to humanitarian, you know CSR stuff, because of the sense that the state should not be embarrassed because it cannot supply services to its own people. That was very much the prevailing political wind at the time. That's all gone.

There's a strong CSR and community engagement piece in almost everything they do. Sherritt runs huge community development programs, and all companies do.

MR. MAXWELL: To touch on your earlier comment that technology and communications have evolved, I had the privilege of representing Air BnB on its launch of its services in Cuba. And so there are things that the current law allows, that are I think are pretty significant and revolutionary and I'm very happy to have helped with that.

But the other issue of I'm going to invest in a telecoms system, you know it used to be that the law focused on an American company's ability to connect the United States to Cuba, and that was okay. But then the idea that the United States would invest in diffusing that signal within Cuba was forbidden. And what the administration is now
saying no, no that's okay. You can invest on the Cuba side to diffuse the signal. I think that that's where the debate is and I think that that's where that legislation hopes to accomplish.

You know I'm not in the political risk game, but I think there a lot of things that indicate that type of legislation has a much better chance than it did four years ago, five years ago.

I think in the U.S. now, you're seeing a confluence now that's growing on the Republican side in particular to engage with Cuba, to see potential opportunities, and they have organized themselves with some I think significant players and efforts. And so I think that the idea that perhaps lifting the travel ban would be first, and perhaps clarifying the telecom legislation. I think those are two things that bear watching, because I think the prospects are much more favorable than they would have been two years ago.

MR. TRINKUNAS: Okay thank you, I think we have time for another round of questions, and I have Andres, and if any of you, yes (inaudible) and then, okay I'll keep a list, just raise your hand, but we'll start with Andres.

SPEAKER: I'm Andres van Hoole. I was born in Cuba, and I'm a Cuban-American businessman. And I'm an investor, invest in foreign countries, and it's great to see Cuba now becoming an area that we're talking about. Ted I think four years ago we would have never thought we would have been where we are today, at the table talking about foreign investment.

You know, investment in any foreign country is not a perfect world. We go in with a lot of reservations, a lot of issues. And we all have criteria to invest in whatever country we want to invest in. But I see Cuba going through what I would call an evolution, an evolution of the revolution if you want to call it. Where you know they're opening up the relations to the U.S., becoming closer to the U.S., the U.S. closer to Cuba. It's not without issues, it's not without criticisms. But it's something that I think is closer. I think it's good. It's also good for U.S. businesses to be involved more in Cuba
as it is for American people to be able to visit Cuba. It creates a relationship between the people, which is very important.

You all brought up so many issues, your presentations were all excellent. But at the end of the day, there are always limitations on this. But the biggest limitation we all face on foreign investment is the U.S. embargo. And really, that question that I want to ask each of you separately is, is the embargo not an embargo on U.S. businesses and U.S. companies and U.S. individuals from visiting Cuba like you can elsewhere in the world?

MR. TRINKUNAS: Thank you, thank you Andres. We'll take Chantelle's question, and if anybody else wants to jump in on this round, raise your hand and then we'll come back to the panel.

SPEAKER: Thank you, Chantelle Agarwal with the American Bar Association. I wanted to follow up on Jose Maria's recommendation for liberalization of the legal sector. What are the prospects for legal profession reform in Cuba? Because as I understand it, lawyers currently work through what is known as the Colectivo, Bufetes Colectivos. What are the prospects, is it a short, medium, or long-term endeavor? Thank you.

MR. TRINKUNAS: Anybody else, okay. Carlos do you want to? I think right here on this--

SPEAKER: My question is for Augusto, you mentioned that you were involved in facilitating some of the contacts with the legal background with Air BnB, could you just describe a little bit more -- share a little bit more about how that came about and you know, I see it really as I mentioned in my presentation as a model of success and one of the few areas where we can say it was a win-win-win-win in terms of Cuban entrepreneurs, U.S. customers, Cuban government and the U.S. government and I'd love to see that replicated, so I'm interested to know how it happened.

MR. TRINKUNAS: All right I think if we can just go back to the panel, then we'll start with Augusto this time, then come back and with you Omar.
MR. MAXWELL: Well Air BnB -- it was a wonderful experience to me -- an incredibly talented, intelligent group of young people who see the world in a quite different way and saw an opportunity. Their model was tailor made for this opportunity. It doesn't require them to build anything on the island. They had in the past received requests from Cubans to rent their houses on the Air BnB platform, and there was some lawyer somewhere in San Francisco that says you can't do that, that's illegal. The embargo prohibits an American person from any transaction in which a Cuban has an interest direct or indirect unless licensed. And there was no license to do it.

So when December 17th came along, they looked at the new general TSB, and said wait I think this is legal. We don't have to affirmatively block a Cuban from using our site. We went down the island, did our due diligence, did what we thought was necessary here, in D.C. and in Havana. And gave them legal advice, and it was really, launch the button.

They also were able to take advantage of the fact that there were also existing workarounds, sort of mini-Air BnBs, in Spain and in some other countries. So Air BnB in essence kind of rolled them up like any other bigger name brand company might. And so those are the bigger stories. I think payment is always going to be a challenge, because today we don't have direct banking relations between the United States and Cuba. I joke that my role with American companies is akin to the Larry Fishburne character in the Matrix. I walk off the building. I say you can do this, you can do this with Cuba. They're like, no you're ridiculous, I can't walk off this building. And so it is with banking.

Banks have not taken that next step and so the Air BnB model and others have to triangulate or workaround with all these rigmaroles that add a huge inefficiency to the system.

MR. ENTWISTLE: I won't deal with the lawyer stuff or Air BnB but the only piece I mentioned to Andres' question, and I'm not an American. But I do find I spend a lot of time in the United States especially after December 17th, with, you know
with your companies. There can be a sense that Cuba is kind of an empty vessel to be
filled up, and we just got to wait a little bit to kind of go over there.

I would take this opportunity to remind everybody it's a very hustley-
bustley place, with a lot of people still there. And if there's one characteristic of Cuban
economic development policy that I've certainly noted is a diversification of reliance. It's
no accident that at the same time that all the U.S. Cuba stuff was unfolding, feverish
activity was going on with the Europeans to redo the European Union political
relationship. The Japanese Foreign Minister was there, the President of France came of
course, the Koreans. Korea doesn't even have diplomatic relations with Cuba, they
offered the Central Bank of Cuba, it's not huge but it's a 60 million Euro line of credit.

So I'll I'm saying is that to go to Andres' point in a way, American
companies are caught in a very awkward bizarre kind of place right now. I'll just stop
there.

MR. VINALS: I guess American companies, they're stuck in -- what he
said before, referred to the ship. That everybody's unhappy, because it never blows in
the correct direction, because they don't know where they're going. So no one's happy.

If we compare it to the situation that the Europeans have, the Europeans
they can invest in Cuba. But when we have developed the projects, and for example we
have been quite busy with Biomass project. With the ABC companies. A Chinese
company listed in China, and the developer is a British company.

It was extremely difficult to get the security package in place. It was
almost impossible to get any financing coming from any foreign bank. Because the U.S.
embargo, although it applies to U.S. persons, it has extraterritorial effects. And that is a
fact. What happened is that European companies that had presence or that had interests
in the United States, they were afraid of doing business in Cuba.

Of those companies that wanted to open the North American market, the
U.S. market, they wouldn't do any business in Cuba. But after the 17th of December
announcement, many companies had been asking us to do business in Cuba. Because
as per the contradiction, or the inconsistency within the U.S., and taking into account that it is normally the executive power, the one implementing the extraterritorial effect of the sanctions out of the country. It's normally the Secretary of State department, then they were less afraid of getting any extraterritorial effects. So they're now more willing to invest in the island.

And they have these -- interregnum, they have these period of time until there is a waiving of the U.S. sanctions by the Congress, if there is, after 2016, to get in the island, do investments, and have a stronger position towards any North American company that wants to invest. Brazilians, Mexicans, Chinese, Vietnamese, Angolan, Spaniards, British, Italians, French, they have been doing business for the past 20 years in Cuba. So that's one point.

What I would recommend to the American companies right now? I would recommend them to protect their intellectual property rights in Cuba. There is a registry. You can register your company names, trademarks, et cetera. So that when you get to Cuba in the future, you won't see someone else drinking Coca-Cuba instead of Coca-Cola. That's one point.

The other thing we recommend to our U.S. clients is to go there in one of those 12 categories, the one regarding market research et cetera, and talk to their potential counterparts. The Cuban parties that would be negotiating, that would be their clients that would be their partners. And see what they want, what they need et cetera.

And as well to talk to the foreign companies that have been doing business in Cuba for the past 20 years to see the pros and cons and what exactly have been their challenges. Then regarding the legal profession very briefly, it is true that the Cuban lawyers, they are either in companies. They either work for the state, the ones that are practitioners, or they are in firms, legal firms. These firms, they either belong directly to the Ministry of Justice or through the Asociacion de Bufetes Colectivos, indirectly belong to the Ministry of Justice.
So the profession is not privatized, and it's not liberalized. This means that at the end of the day, the Cuban lawyers, they are on the payroll of the Cuban state. Which means that any foreign company, as for example, Unilever, which we have the privilege to represent in the Zona Mariel, when they have to engage their Cuban lawyer, they have -- I mean they're engaging someone that at the end of the day is on the payroll of their counterpart which is the Cuban state. So that's one point.

If there was a possibility to privatize and liberalize the profession, it would be within one of the cooperative licenses, which means that you need at least three individuals, and they can start up a business, but for that they would need a license. And until that comes up they won't be able to develop their profession. It's not in the short -- I would say in the agenda right now. But it may come in the mid or long term, because to grant legal certainty to foreign investors, they will need to have lawyers that work only for them and do not have any direct or indirect conflict of interest.

MR. EVERLENY: Quickly to answer Andres, I'm going to make a -- Cuba is on the first floor, the U.S. is on the second floor, I'm going to make a simile. And then there's a stair and we're going up the stairs and when we get to the top we have to eliminate one of the stairs that's missing because that's the embargo, because that prevents us from getting to the economic conditions that we need. But also, we shouldn't grow desperate.

We have to remember it's only four months since the 17th of December. And so I believe that the history as the Ambassador says, history shows that not everybody is prepared for such a rapid response, it requires time, it has to sink in. It's got to be gradual. People have to change their mind-set. And there are people that won't. Everything takes time.

But what I'm sure of, rest assured everyone, is that events like this will make it possible to create the necessary public opinion to know that a hindrance that blocks, that it's the embargo. That's one of the things that have stood in the way until now. There have been timid attempts but it requires big letters of intention and the
interest that's been showed shows us that's there's been interest in Cuba. This response is dialogue. Cuba hasn't set up an embargo against the United States, it's the other way around. Thank you.

MR. TRINKUNAS: Thank you very much. We've arrived at the end of our time. Thank you to all of our panelists and to our audience for joining us. And Ted Henken gets the last word.

MR. PICCONE: Great, well, it would really be impossible to summarize what we heard today. It's incredibly rich and I want to thank everyone who participated. Thank you for all of your wisdom and thoughts. Let me just give some very quick reflections.

When I step back and think about where we are and what we heard today, it sounds to me like a dance of two elephants, where they have on one hand, they're stuck in their own places where they come from. In the case of the United States, we're stuck in a place called the embargo. There's a reason for the embargo, there's a lot of history behind it. But we are clearly stuck.

And then the Cubans have a certain model, a socialist model that they're trying to adapt to the new 21st century economy. But it comes with a lot of problems, and a lot of challenges, and we heard about those in great detail. So the question is, how do you then get to something that's different, that's going to change, and it seems to me that the solutions on the table are really incremental and it's going to take time.

And so you see the big challenges that we've all heard about today, and then you come down to reality and you see what is a set of really rather incremental changes. And that's a big schizophrenic and frustrating, but I feel like that's what we're taking away in the current situation.

We heard from Juan Triana, certain important takeaways around the macroeconomic trends. Somewhat optimistic looking at say a year or two from now, let's see how that all plays out, whether it's in the tourism area, banking, foreign direct investment. But we also heard from our second panelists, especially Yaima and Saira,
the real challenges on the front of fiscal revenue, tax structure, the basic incentives of the economy, the problem of wages and productivity. And will Cuba decide to leap frog ahead on the technology front, for example, or again for the protection of its model, move very slowly and cautiously and be kept, I think, perhaps a little bit behind from where it could be.

We also heard about the microeconomic trends, the cooperatives, the cuentapropistas, what's happening in the services sector -- a lot of interesting movement in those fields, and a lot of hope. But in the end of the day, it's still the micro economy, it's very small, and it's not really having the impact that Cuba needs to move ahead.

We heard then about the role of the international community. Both of course the United States with Stefan Selig in the beginning, what the president has been able to do, what Congress now could do, needs to do, very important looking ahead, but we also hard importantly about the Europeans and the Canadians and their experience on the island, way ahead of the United States.

But we also did not hear as much about the role of countries like China and Venezuela, maybe Mexico going forward, Brazil of course -- very important players in moving Cuba into a whole new place in the world. I think the discussion about the role of CAF from German Rios is important to see an international financial institution come to the table and begin to engage more directly and that's a very positive sign I think of what's underway. But at the end of the day you have a situation on the ground that feels constrained, but with lots of windows of opportunity, and I think kind of your analogy about from the Matrix, kind of going off on a ledge, is what's required here, some risk-taking to help move that forward.

I want to in particular give thanks to Harold Trinkunas, who's the director of our Latin America work, and has been very supportive of all of our work on Cuba. I don't see Ashley Miller, here she is in the back. Ashley is my research assistant who has made all of this happen; I can't tell you enough. (applause) All the details that go into
bringing our Cuban visitors here, travel and everything else, it's always very complicated but very rewarding. Also Emily Miller, who's been helping behind the scenes.

Special thanks to Richard Feinberg who has really been the intellectual leader of our work on Cuba, and I rely on him a great deal for his wisdom and advice.

Can I just ask that you bring your headsets out to the desk when you walk out, any kind of garbage so that things don't spill on the floor, and we'll have transcripts online as soon as we can get them up, written, audio, and video. And look forward to seeing you again, thank you for coming.
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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