On the morning of December 17, 2014, I was walking casually down a placid side street in Havana, making my way toward a gray, concrete building where a conference on relations between the United States and Cuba was entering its third and final day. I was one of a dozen or so U.S. scholars gathering in a large auditorium full of some 200 Cuban diplomats, scholars, and graduate students. As I approached the entrance way, I could sense a heightened energy in the air, a buzz of expectation. “What’s up?” I inquired. “We’re expecting a big announcement later this morning.”

“No doubt something about Alan Gross [the United States Agency for International Development (USAID) contract worker being held by the Cubans allegedly for spying],” I ventured.

“Yes, maybe coupled with the release of the remaining Cuban Five [formerly five, now three Cubans convicted of spying on anti-Castro Cubans in Miami and being held in U.S. jails]. Won’t that be wonderful?” exclaimed a random Cuban standing outside the building entrance.

Then the stranger added, “We’ve been told that around 11 a.m. they will put up big screens and show ‘live’ the speeches of Obama and Raúl.”

That really caught my attention: jointly orchestrated presidential statements of this sort are very rare in international diplomacy. They were totally unprecedented in what for decades had been hostile relations between Washington and Havana. Maybe it’s something more than just a spy swap, I conjectured.
I had been arguing for several months that “the stars may finally be aligned,” that after so many disappointments and delays the Obama White House might now be well positioned to move forward decisively on U.S.-Cuban relations. “Raúl Castro Ruz, facing a weak economy, appeared genuinely interested in better relations,” I had told the Financial Times two weeks earlier.

But Obama and Castro would go even further than I had anticipated.

In the Havana auditorium, the Cubans naturally gave their own president first billing. While the presidential speeches were delivered simultaneously, first we watched Raúl, followed by the U.S. leader.

The image of the Cuban commander-in-chief sitting at an unadorned table was stark, spectacularly outdated in terms of visual media aesthetics. Eighty-three-year-old Raúl Castro, who had served as head of the Cuban armed forces his entire adult life, was wearing his light olive military uniform, with four visible stars on each epaulet. Hanging behind him were modest-sized pictures of Cuba’s national heroes, most notably Jose Martí. Castro chose to read his speech from pieces of paper that he held at an angle, apparently to facilitate his vision. He held a prepared text, making it clear to all Cubans that the speech he was about to read was official policy, approved by himself and the senior leadership, the all-powerful political bureau of the Communist Party of Cuba, which Raúl chaired as first secretary of the party’s Central Committee. He fully expected all Cubans to fall into line behind his authoritative pronouncement.

Raúl began cautiously, his demeanor sober. “Throughout these 56 years of Revolution, we have kept our unswerving loyalty to those who died in defense of our principles since the beginning of our independence wars in 1868. . . .”

Then the Cuban president switched gears, relaying details of the phone conversation he had had the day before with President Obama, in which they made headway on “some topics of mutual interest for both nations.”

The first bombshell: “As Fidel promised on June 2001, when he said ‘They shall return!’ Gerardo, Ramon, and Antonio have arrived today to our homeland.” The Cubans in the audience screamed loudly. For years, the country had been plastered with posters of the “Five Heroes,” the five Cuban men being held in U.S. prisons for spying.

Raúl continued, “For humanitarian reasons, today we have also sent the American citizen Alan Gross back to his country. . . and [released] those
persons whom the Government of the United States had conveyed their interest in,” referring to 53 political prisoners who were being released over a series of weeks.

And then, quickly, the central message: “We have also agreed to renew diplomatic relations . . . We propose . . . mutual steps to improve the bilateral atmosphere and advance towards normalization of relations, based on the principles of international law.” A second, much louder scream emerged from the stunned audience.

Their president continued, “We acknowledge our profound differences, particularly on issues related to national sovereignty, democracy, human rights, and foreign policy. I reaffirm our willingness to dialogue on all these issues . . . We must learn the art of coexisting with our differences in a civilized manner.”

The remarks were as brief as they were laden with historic impact. In unison, the ecstatic audience jumped to its feet and spontaneously sang the Cuban national anthem. Friends embraced, wet tears streamed down the cheeks of many. One Cuban colleague turned to me and whispered, “I feel such a relief, as though a huge burden has been lifted from my shoulders.” Another Cuban woman added, “I too feel as though a dark cloud has dissipated, for the first time in my life I can glimpse the sunlight.”

The remarks of President Obama were then broadcast. Again, the Cubans were very happy, but it was their own president who had marked the definitive break with the past. It seemed to be the dawning of a new era in Cuba’s relations with its mighty northern neighbor—and for many Cubans, the dawning of hopes for a brighter future. On the streets of Havana, groups of students could be seen marching behind the national flag, cheering and singing.

Cubans were so taken aback by the news that many thought it miraculous. Indeed, the date of the announcement was none other than the celebrated day of Saint Lázaro, the patron saint of cures and miracles, who is melded with the Afro-Yoruban-derived deity Babalú Ayé.

Henceforth in Cuba, this memorable day, a dramatic turning point in Cuban history, would be referred to as “17D” (diez y siete diciembre).

Other diplomatic missions in Havana were knocked off balance. So long as Americans had stood on the sidelines, other nationalities—Europeans, Brazilians, Canadians—had seized center stage in Havana’s diplomatic theatre. Suddenly, the 800-pound gorilla had stormed into the room, and other nations feared that their glory days were behind them.
Ambassadors from the European Union complained to me that the White House had not had the courtesy to at least inform them of the big announcement ahead of time (although the State Department had begun informing European capitals the previous evening). Some predicted that European investors would now rush in, before the big U.S. corporations arrived in force.

Later that week, a senior Chinese diplomat remarked to me with a smile, “Now we know why the Cuban government is projecting a high growth figure for 2015! They are anticipating a rush of U.S. tourists.”

The question remained, however: Why, after so many decades of mutual antagonism, had Washington and Havana suddenly decided to smoke the pipe of peace?

**Why Now?**

In the case of major diplomatic initiatives, especially ones that mark a sharp break with the past, there is often more than one explanation behind White House decisions. In this case, motivating factors included 1) international diplomacy, 2) changes under way within Cuba (and U.S. perceptions thereof), and 3) shifts in U.S. domestic politics. All of these elements had to come together, pushing in the same direction, to account for the dramatic policy shift.

**A Latin American Ultimatum**

At the 2012 Summit of the Americas in Cartagena, Colombia (best remembered for the misconduct of U.S. Secret Service agents), the Latin Americans ganged up on President Obama, demanding that Cuba be invited to the next summit or they would not attend—not that most Latin American leaders cared for Cuban communism, but most Latin Americans harbored a visceral dislike for the harsh U.S. commercial embargo against Cuba. Many diplomats felt that decades of implacable U.S. hostility had served only to hand the Castro government an excuse for internal repression; in their view, a policy of engagement would be more likely to produce positive change on the island. The Latin Americans wanted to fully reincorporate Cuba into inter-American institutions, and the periodic Summit of the Americas meetings were among the dwindling number of institutions from which Cuba was still excluded.
Initially, U.S. diplomats discounted the Latin American threat not to attend the next summit, scheduled for Panama City in April 2015. Just bluster for public consumption, they maintained. But as the date for the Panama meeting approached, the Latin Americans repeated their ultimatum: No Cuba, no summit.

President Bill Clinton had initiated the Summit of the Americas in Miami in December 1994. Although the conclaves of 34 heads of state and government moved around the capitals of the Western Hemisphere, the United States still played a leadership role at most meetings. In recent years, as Latin American governments formed various inter-American groupings that purposefully excluded the United States (and Canada), the Summit of the Americas meetings took on an even greater salience for U.S. diplomacy in the region.

So the White House was boxed in. To preserve the summits, it would have to accept Cuba at the table. But it did not want to risk a tense atmosphere where the president of the United States appeared to be sitting uncomfortably near a bitter antagonist, at the insistence of other (smaller and weaker) nations. There was a real danger that the other Latin American leaders would roundly applaud the Cuban representative, to the embarrassment of the U.S. delegation.

How to fix the entire setting? The answer: advance U.S. interests and follow through on a policy change President Obama had wanted to make for years by altering the very nature of the U.S.-Cuban relationship. Transform it from one of antagonism to one of, if not friendship, at least normality. Be courageous and extend an olive branch of peace and friendship. The Latin Americans would love it. Indeed they did. And Raúl Castro delivered in spades.

Once in Panama, Raúl took his turn to speak at the plenary session of leaders. He opened with a long list of traditional grievances against the United States. Listening live to his remarks in the Panama Convention Center, I was worried. “No, it’s not possible that Raúl is going to mess this up,” I said to myself. Just as my mood was turning to despair, Raúl paused and turned toward Obama, who was seated just a few yards away: “President Obama, I do not blame you. As you have said, you weren’t even born yet.” A nice gesture, I thought. Castro continued, rising to the dramatic moment: “I have read your books, Mr. President.” Castro smiled, “Not every word. . . .” And then the clincher: “But I have concluded that you are an honest man, a man true to his humble origins. . . . I admire him.”
It was a remarkable tribute from a proud communist revolutionary to the leader of the free world, and a far cry from the more traditional Marxist analysis, so frequently uttered by Fidel Castro, that all U.S. presidents, regardless of their initial intentions, were or inevitably became tools of American capitalism and imperialism and hence hostile to Cuban socialism and independence.

For the rest of the summit, Barack Obama was a widely respected figure—and he will likely remain so throughout Latin America and the Caribbean for the remainder of his presidency. He will be seen as the courageous man who had stood down the powerful lobby of right-wing Cuban Americans, the brave, open-hearted U.S. leader who was willing to accept political diversity in the hemisphere, even at the doorstep of the United States. The smarter minds in Latin America well understood that the United States was acting out of strength and self-assurance. They knew that over time, the United States would change its Cuba policy, but it was Cuba itself—its internal affairs—that would eventually undergo the most profound change.

New Cuban Rhythms

When Fidel Castro fell seriously ill in 2006, his younger brother, Raúl, stepped into the breach as acting president, formally becoming president in his own right in 2008. In comparison to Fidel, who displayed unshakeable ideological affinity for socialist planning and visceral antagonism to the United States and international business, Raúl showed himself to be a cautious pragmatist. He allowed a small-business private sector to emerge, permitted markets in residential real estate and cars, allowed most Cubans to travel abroad without special exit permits, and began to make noises about seeking more foreign investment. Cuban cities started to buzz with new businesses, and citizens no longer feared voicing their criticisms of the regime’s poor economic performance.

The U.S. Interests Section (a diplomatic representation short of an embassy) was slow to report on these departures. It housed little expertise in economics, instead maintaining a standard focus on human rights abuses. It reminded me of the U.S. compound in the Soviet Union during the mid-1980s, when most residents, whether diplomats or journalists, discounted the changes being engineered by Mikhail Gorbachev: “We’ve seen
these piecemeal reforms before, they are superficial and easily reversed,” was a common refrain.

So I had taken it on myself to investigate the economic reforms under way in Cuba, and to explain them in three separate monographs, published by the Brookings Institution during 2011–13 and widely disseminated in Washington policy circles. I gave one of them to the lead policy adviser for Latin American affairs at the National Security Council (a position I had held during the administration of Bill Clinton). He called a few days later and asked that a half-dozen copies be delivered to the White House, so that he could distribute them around to his colleagues.

When a country begins the transition from an authoritarian top-down economic model toward a more market-driven system, U.S. diplomats reflexively seek to assist the pro-reform factions and to bolster incipient private enterprise. Once the U.S. government began to see such an opportunity emerging in Cuba, the forward-leaning officials naturally wanted to engage. The White House began to consider the obstacles—in U.S. politics and in U.S.-Cuba relations—that stood in the way of initiating a new era of positive engagement. But to shift its policy on Cuba, the White House first had to remove the political obstacles strewn throughout the complex, contentious U.S political system.

The handoff from Fidel to Raúl—brothers with remarkably different personalities—was another critical factor in creating an opening for a U.S. policy shift. Fidel Castro had proven repeatedly that he relished an antagonistic relationship with the United States. When Bill Clinton began to ease restrictions in February 1996, Castro ordered the shoot-down of two small civilian planes piloted by Brothers to the Rescue, a provocative exile group based in Miami. The Cubans had repeatedly urged the U.S. government to halt the flights, warning of consequences. Nevertheless, the Cubans had other options, such as buzzing the unarmed aircraft or forcing them to alter their flight path. Surely, Fidel, who served as his own well-informed desk officer for U.S. politics, appreciated that a deadly shoot-down would stop Clinton in his tracks and sour bilateral relations. Fidel had met with senior aides shortly before the shoot-down and had asked: “Who here thinks we are prepared for good relations with the United States?” Not sure what the correct answer was, the aides remained silent, until one responded, “No, comandante, we are not.” “Correct!” proclaimed Fidel. The shoot-down decision also coincided with a domestic crackdown on political opponents.
Despite a reputation for being tough, even ruthless at times, Raúl seemed less likely than his older brother to indulge in histrionics and sudden reversals. Raúl promised to be a more reliable interlocutor. And for several years Raúl had been making noises about wanting a more normal relationship with the United States. Furthermore, Raúl had very good, hard reasons for seeking better relations across the Florida Straits. As will be explained shortly, Cuba’s international economic strategies had reached a dead end, and the island economy was very badly in need of more foreign exchange. A surge of tourists from the United States—even better if combined with a loosening of restrictions on monetary remittances by Cuban Americans—would carry with it a quick injection of hard currency into the anemic Cuban economy.

We do not have access to the conversations within the political bureau of the Cuban Communist Party (Partido Comunista de Cuba, PCC), the country’s true decisionmaking body. But one can easily imagine Raúl Castro relaying his decision to establish diplomatic relations with the United States in order to breathe life into the Cuban economy and make Cuban socialism more sustainable. He would have to assure the PCC that he would not sacrifice the gains of the revolution and would proceed cautiously and slowly. Nor would he compromise Cuba’s political system or national sovereignty. Who among the PCC top leadership, close colleagues for many decades, would challenge Raúl’s authority or doubt his reliability?

Miami and Washington

In the 1950s Cuba was a popular playground for American tourists seeking escape from the northern winters. Overnight railroad sleeping cars combined with steamships crossing the Florida Straits—and increasingly, regular airplane service—brought Havana nightlife and Varadero beaches easily within reach. The island was all the more comfortable for the presence of many brand-name U.S. corporations that supplied the nation’s electricity and banking services and owned much of the industry and agriculture. Many leading hotels were also familiar to U.S. visitors; some of the hotel owners were infamous mafia capos such as Myer Lansky and Santo Trafficante Jr. (the *The Godfather* movie famously fictionalized a mob conclave in Havana on the eve of the 1959 revolution.) Celebrities of the day, such as swimmer Esther Williams and Senator John F. Kennedy, and a regular stream of performing artists, including Ginger Rogers,
Earthia Kitt, and Frank Sinatra, filled in the scene. A resident on the island, Ernest Hemingway immortalized the nobility of Cuban fishermen in *The Old Man and the Sea* (1952).

These intimate connections made it all the harder to comprehend—or accept—that a regime in Cuba would suddenly oust American businesses and diplomats. Even more frightening was that at the height of the Cold War, it would declare itself an ally of the Soviet Union. More shocking still, Cuba would become the staging ground for Russian nuclear-armed missiles, threatening America’s strategic superiority and sense of invulnerability. The Cuban missile crisis (October 1962) is remembered as the most dangerous moment in the Cold War.

At first, the United States was captivated by the saga of the bearded young fighters descending from the Sierra Maestra mountains to defeat the evil, blood-drenched dictator Fulgencio Batista (who famously fled Havana on New Year’s Eve 1958). But soon Americans were shocked and outraged at the anti-American, left-wing rhetoric of Fidel Castro. In a quick succession of escalating actions and reactions, Castro expropriated U.S. properties and dismissed U.S. diplomats, the United States slashed commercial ties, and the Kennedy administration launched the ill-fated Bay of Pigs invasion. Few imagined that U.S. economic sanctions against Cuba would become the most comprehensive and long-lasting in the history of U.S. international relations and endure for more than 50 years. The U.S. economic embargo (which the Cubans label “the blockade”) has prohibited nearly all forms of trade and investment. Congress later codified the embargo in the 1996 Cuban Liberty and Democracy Solidarity Act, better known as the Helms-Burton legislation.

At the outset, heated U.S. opposition to the government of Fidel Castro was grounded in Cold War logic. But as hundreds of thousands of Cuban emigrants settled in south Florida, increasingly Cuba policy became a matter of domestic politics.

By the 1990s, Florida had become a crucial swing state in presidential campaigns. In the 1992 contest, Bill Clinton narrowly lost the state to George H. W. Bush, but he did carry counties in south Florida with heavy Cuban American populations, including Miami-Dade County. During his first term, Clinton worked hard to turn around Florida politics, and his Cuba policy was very sensitive to Cuban American opinion. Hillary Clinton’s sister-in-law, a conservative Cuban American, regularly directed materials on Cuba policy into the White House fax machine, and some
of those made their way onto the president’s desk. (As Clinton’s national security adviser on Latin America, it was my duty to respond to some of those contentious faxes.) Clinton regularly consulted with Cuban Americans in the Florida Democratic Party, and politics influenced his decision to host the first Summit of the Americas in Miami. When the shoot-down occurred in early 1996, Clinton was furious and promptly huddled with his Cuban American allies to consider how to best mitigate the political damage. In the landslide 1996 elections, Clinton easily carried Florida. But in 2000 Al Gore’s presidential hopes were undone in the Florida recount, and Cuba policy had played a role: the decision by the U.S. Department of Justice to return young Elián González to his father in Cuba, following his mother’s drowning during their treacherous passage from the island to the United States, had been extremely unpopular in south Florida.

By the time of the 2008 presidential campaign, Barack Obama’s team sensed that opinions on Cuba policy were shifting in south Florida. Many of the original hard-line refugees were passing away. More recent arrivals were less concerned with combatting communism and more interested in maintaining ties with their relatives and friends on the island. While making clear his distaste for Castro’s communism, Obama pledged to relax restrictions on travel and on family remittances by Cuban Americans. In a foreshadowing of future events, Obama asserted in one of the Democratic primary debates that he would not shy away from meeting with America’s foes, including Castro. Early in his presidency, at the 2009 Summit of the Americas in Port of Spain, Trinidad and Tobago, Obama went further, promising a “new beginning” and a “new direction” in U.S.-Cuban relations and asserting: “I’m prepared to have my administration engage with the Cuban government on a wide range of issues—from drugs, migration, and economic issues, to human rights, free speech, and democratic reform.”

Obama moved cautiously during his first term. As promised, his administration eased restrictions on travel and the sending of remittances by Cuban Americans (a return to policies of the Clinton administration, revoked during the Bush years). The president lowered the anti-Castro rhetoric. But Obama did not seek to dismantle the long-standing economic sanctions that prohibited most trade and investment between the United States and Cuba. The White House waited to see what impact its mild measures would have on Cuban American politics. Obama carried Florida, albeit narrowly, in his 2012 reelection bid and did reasonably well among Cuban Americans; according to exit polls, he split their votes with Mitt
Romney, including in Miami-Dade County. The White House concluded that Obama could move forward on Cuba policy without incurring political damage and that a more relaxed policy could even be a political winner.

An opinion poll of Cuban American voters in Miami-Dade County taken in early 2014 provided further evidence that a forward-leaning Cuba policy could sustain political support. An overwhelming 71 percent of respondents supported Obama’s relaxation of travel restrictions. Of particular interest, 68 percent favored the establishment of diplomatic relations with Cuba. Further, a majority approved of a policy that would lend support to independent business owners in Cuba, with approval especially strong among younger voters and recent arrivals. A nationwide poll revealed similar trends, with 56 percent of respondents indicating support for normalizing relations or engaging more directly with Cuba. After the breakthrough of 17D, pollsters continued to find that more positive engagement with Cuba had traction within the Cuban American community and nationwide. Indicative of the power of the presidency in setting a foreign policy agenda, by July 2015 nearly three-quarters of Americans—and 83 percent of Democrats—said they approved of the United States reestablishing diplomatic relations with Cuba, up 10 percentage points since January. A similar majority favored ending the U.S. trade embargo.

In Obama’s second term, Cuba fit squarely within a broader theme of his foreign policy: engagement with unfriendly regimes in the hopes of negotiating mutually beneficial gains. By lessening tensions, the thinking went, engagement might also nudge those nations’ internal politics toward more openness—and more positive opinions of the United States. The 2015 nonproliferation accord with Iran—the most important foreign policy achievement of the Obama administration—fit this narrative. Cuba and Iran became legacy issues for the Obama presidency.

In moving forward to normalize diplomatic relations and relax some travel and other economic restrictions, Obama departed from the traditional foreign policy approach of tit-for-tat bargaining, of requiring that the other party make reciprocal “concessions” before moving forward. The problem with this historical, step-by-step approach is that it effectively placed Havana in the driver’s seat: if Cuba did not want to move forward, it could counter U.S. offers with impossible demands, or even take steps to undermine Washington, as Fidel Castro had done with the 1996 shoot-down. Instead, by choosing to move forward unilaterally, Obama reserved the strategic initiative for himself. The president felt confident that he was
acting from strength: for the United States, Cuba was a small island no longer posing a strategic threat, so he could afford to risk new approaches. Obama also felt that in the long run, a more open U.S. posture would be likely to help Cuba move toward a more open economy and, quite possibly, more pluralistic politics. Nevertheless, there was some risk that the Cuban government could reverse the forward course of its internal reforms, making Obama look naïve and weak. Fidel Castro had engineered such backsliding during the late 1990s, once he felt more securely in power following the shock of the collapse of the Soviet Union. Now, while a resurgence of the hard-liners in Havana could not be ruled out, a full-fledged reversal seemed unlikely. Raúl Castro was personally identified with the reform process. The rest of the world—including socialist nations such as China and Vietnam—had moved even further in their economic reform programs and with obvious success. Indeed, crushing the hopes of millions of Cubans would be the more dangerous path: history suggests that popular revolts occur precisely when hopes have been raised and then suddenly dashed.

New U.S. Rules Governing Travel and Commerce

Following the announcement of the decision to normalize diplomatic relations, Secretary of State John Kerry traveled to Havana, and on August 14, 2015, formally raised the American flag in front of the reopened U.S. embassy. A similar ceremony had occurred at the reopening of the Cuban embassy on 16th Street in Washington, D.C., earlier that summer. During 2015 the executive branch issued a string of new regulations governing travel and commerce with Cuba, revising the long-standing Cuban Assets Control Regulations (CACR) and Export Administration Regulations (EAR). Previously, the administration had authorized travel under 12 categories, but most travel still required specific licenses issued by the U.S. Treasury’s Office of Foreign Assets Control. Now, individuals who fell within the 12 categories would no longer need to apply for a license to travel. They would only need to check a box on a simple form and self-validate the category under which they would travel, promising not to waste their time in purely touristic activities, which remain prohibited by U.S. law. The 12 authorized categories covered a wide range of possible activities:

- Family visits,
- Official business of the U.S. government, foreign governments, and certain intergovernmental organizations,
• Journalistic activity,
• Professional research and professional meetings,
• Educational activities,
• Religious activities,
• Public performances, clinics, workshops, athletic and other competitions, and exhibitions,
• Support for the Cuban people,
• Humanitarian projects,
• Activities of private foundations or research or educational institutes,
• Exportation, importation, or transmission of information or information materials, and
• Certain authorized export transactions.

The new regulations sought to make travel easier by authorizing regular commercial airlines (as opposed to special—and expensive—charter flights), as well as cruise ships, ferries, and yachts, to travel to Cuba. The administration also authorized the use of U.S. credit and debit cards in Cuba.

Remaining caps on remittances to Cuban nationals (excluding Cuban government or Cuban Communist Party officials) were lifted. U.S. citizens traveling to Cuba could carry any amount of cash for donations to Cubans. Remittances were allowed not only for family members but also for humanitarian projects or to spur the development of private businesses, which is how some Cubans had been using them for years.

In a potentially significant innovation, U.S. citizens were now authorized to engage in commerce—exporting and importing—with independent Cuban entrepreneurs, authorized as self-employed persons (cuentapropistas) by the Cuban government or otherwise documented. In addition to trade, U.S. citizens could assist such entrepreneurs by establishing programs of microfinance and business training. U.S. citizens engaging in authorized activities were allowed to establish a physical presence in Cuba, such as an office, retail outlet, or warehouse, in order (for example) to sell materials for the construction of privately owned buildings or private agricultural activities.

On humanitarian grounds, the U.S. Congress had previously relaxed restrictions on U.S. sales of certain agricultural goods and medicines. Otherwise, commerce with state-owned enterprises, which still dominate the Cuban economic landscape, remained prohibited with one big exception: telecommunications, which was controlled by the state monopoly, Empresa de Telecomunicaciones de Cuba S. A. (ETECSA). U.S. firms were
now authorized to sell an array of telecommunications services, including hardware and software and consumer devices.

As a result of this multipronged easing of U.S. economic sanctions, U.S. travel to Cuba surged in 2015, and the Cuban government reported a doubling of its GDP growth rate to 4 percent. For U.S. policy, the increase in travel allowed for more people-to-people contact between Americans and Cubans. And the purchase of products and services from the emerging Cuban private sector—including private restaurants, bed and breakfasts, and artistic creations—helped to sow the seeds of a more market-oriented, pluralistic economy.

But the Cuban government was slow to respond to the more innovative segments of the U.S. offer. At the end of 2015, it had not yet established efficient facilities to permit sales with the private sector—whether by omission or design—but was instead allowing bureaucratic obstacles to maintain the trade embargo. ETECSA had not seized on the offer for telecommunications equipment and services; reportedly, it had turned down a proposal by Google to facilitate Internet connections throughout the island. Why the Cuban foot-dragging? The state trading companies that monopolized international trade were not accustomed to dealing with the emerging private sector. Their only experience with the U.S. market was in agriculture and some medicines; U.S. exporters had been supplying the Cuban market since 2000, when the U.S. Congress carved out an exception from the general embargo. The Cuban trade sector would need to innovate, yet the lumbering public sector was slow in adapting to new opportunities. Further, some in the Cuban government objected to a trading scheme that would, in effect, privilege the Cuban private sector over state-owned enterprises. Ricardo Cabrisas, vice president of the Council of Ministers and the senior official in charge of international economics, lectured a visiting U.S. secretary of commerce, Penny Pritzker: Cuba would “forever” remain a state-directed socialist economy; the market would be allowed only a secondary role. Meanwhile, rather than focus on taking advantage of the Obama offers and building on them, the Cuban government preferred, in its public rhetoric, to continue to rail against the U.S. economic embargo, as if little had changed. Indeed, U.S. sanctions still prohibited investment and most commerce.

From their October visit, Pritzker and her technical team returned with a deeper awareness of the many roadblocks—bureaucratic, ideological, and legal—to economic change facing Cuba and U.S.-Cuban relations. Rodrigo
Malmierca, the Cuban minister of foreign trade and investment who is generally labeled a leader of the pro-reform thinkers within the Cuban elite, suggested to Pritzker’s delegation that he was not opposed to sales to private entrepreneurs, but that U.S. products would have to pass through Cuban state trading firms. The U.S. delegation wondered how the U.S. export and import firms could verify that the end-users were indeed legitimately in the nonstate sector. U.S. companies wanted the U.S. government to issue further regulations clarifying such procedures. Another serious lacuna in the U.S. regulations was finance and banking. U.S. financial intermediaries continued to ask for further clarifications as to what transactions they were permitted to support with commercial credits. International trade typically moves on credit, and the cash-strapped Cuban economy was especially in need of payments assistance. Cuba had been diverting its purchases of agricultural imports from U.S. farmers, affirming that other nations were offering credit to finance their sales of foodstuffs.

Some U.S. firms in the information sector were able to enter the Cuban market. With their lighter footprint, they gained Cuban government consent without having to pass through the multilayered approval process that awaits more traditional foreign investors. Airbnb, the online lodging rental service, added Cuba to its website and rapidly signed up some 2,000 preexisting B&B businesses for inclusion in its list of local hosts. U.S. telecommunications carriers, including Verizon and Sprint, have offered long-distance calling, albeit at high roaming rates. Sony Music inked a deal giving it rights to distribute certain Cuban recordings. A group of U.S. investors gained programming rights to rebroadcast Cuban television and other media via a new channel, CubaNetwork. Nevertheless, the weight of the U.S. embargo on economic exchange remained in place: most potential U.S. trade and investment with Cuba was still off-limits. The Cuban position on U.S. equity investments, should U.S. regulations permit them, was offered by Minister Malmierca during a visit to France: “We won’t keep out American business people, they are welcome, but we want to keep our relations diverse. We don’t want to be tributary to anyone.”

As the first anniversary of 17D approached, senior U.S. government officials debated whether to risk another round of commercial liberalization measures. Those opposed to further significant steps argued that it made sense to wait until the Cuban government had reorganized its international trade bureaucracy to facilitate transactions and had resolved internal tensions between its orthodox and pro-reform tendencies. Others
asserted that the Obama administration should double down: Obama had already taken the heat from Cuba policy hard-liners and Republicans, and public opinion polls showed strong and growing support for administration initiatives, so why not push forward? With some responsiveness in Havana, Obama’s Cuba legacy would be more firmly embedded in history.

The double-down position largely prevailed, and on January 26, 2016, the Treasury and Commerce Departments announced further amendments easing sanctions.\textsuperscript{11} Responding to business input, the new regulations freed U.S. banks to provide credit for authorized exports. Responding to Cuban government objections that previous U.S. regulations had favored the local private sector, the new rules permitted sales, on a case-by-case basis, to certain Cuban government agencies and state-owned enterprises for products that “meet the needs of the Cuban people,” in the areas of agriculture, artistic endeavor, education, food processing, disaster preparedness, public health and sanitation, residential construction and renovation, public transportation, and the construction of infrastructure, including water supplies and energy. The new regulations also sought to remove remaining obstacles to commercial air service, and to facilitate the production in Cuba of U.S. media programming, including movies and television shows.

\textbf{Obama in Havana}

On the afternoon of March 20, 2016, Air Force One landed at José Martí International Airport in Havana, Cuba. For the first time ever, an American president had traveled to Cuba for the express purpose of an official state visit. (In 1928 Calvin Coolidge had only come for an inter-American conference in Havana.) Barack Obama was warmly embraced (outside of some official circles) by most Cubans—for his positive engagement and its promise of better economic relations, his intelligent discourse and elegant yet respectful composure, and for mirroring the multiracial Cuban population.

Just prior to the forty-eight-hour sojourn, the Obama administration had announced yet another round of initiatives eating away at the economic embargo. U.S. citizens were now permitted to travel independently, without a sponsoring organization, although still were required to engage in educational activities and meaningful interaction with the Cuban people. Direct mail service was re-established: after fifty-three years, on March 16, 2016, the first direct flight delivering mail from the United States arrived in Cuba. Cuban citizens, such as athletes, artists, and academics, were
permitted to earn compensation while in the United States. Although the prohibition on importing most Cuban-made goods and services remained in place, a new exemption was allowed for Cuban-origin software.

To the relief of Cuba’s increasingly strained hospitality industry, the U.S. and Cuban governments authorized Starwood Hotels and Resorts to refurbish and manage—but not purchase—two hotels in Havana, including the elegant Hotel Inglaterra (owned by the state tourism enterprise Gran Caribe), and possibly one more. Other U.S.-based hospitality chains seem likely to follow.

The president’s schedule was designed to promote more fluid movements of peoples, goods, and ideas across the Florida Straits, and to nudge forward economic reforms on the island. Obama dined at a privately owned restaurant in downtown Havana, San Cristobal Paladar, and publicly praised the cuisine. He met with groups of private entrepreneurs and political dissidents. At his final and most public event, he engaged in sports diplomacy by attending, with a visibly chummy Raúl Castro, a friendly baseball game between the visiting Tampa Bay Rays and the Cuban national team (the U.S. squad won 4–1). The overflow crowd was festive, yet remarkably well-behaved.

At a special event arranged by the White House and meant to highlight enterprise and opportunity, Obama’s remarks followed themes aligned closely with those developed throughout this book. And I was honored when White House speechwriters approached me to help craft those remarks. The president told his Cuban audience:

To its credit, the Cuban government has adopted some reforms. Cuba is welcoming more foreign investment. Cubans can now buy and sell property, and today many Cubans own their own homes and apartments. It’s easier for Cubans to travel, to buy a cellphone, for farmers to start cooperatives, and for a family to start their own business. . . . Cuba’s economic future—its ability to create more jobs and a growing middle class, and meet the aspirations of the Cuban people—depends on growth in the private sector, as well as government action. . . . Entrepreneurs flourish when there’s an environment that encourages their success. When professionals like architects and engineers and lawyers are allowed to start their own businesses, as well. When entrepreneurs can get loans from banks—capital to start and expand their businesses. And then we need wholesale markets
where you can buy supplies. When there’s a single currency and modern infrastructure so you can get your goods to market and import supplies. . . . And I can tell you one of the reasons I’m so confident in the potential of the Cuban people is because you have some important advantages. Your commitment to education and very high literacy rates—that gives you an enormous advantage in the 21st century.

In his remarks, Obama singled out one of the millennials portrayed in chapter 7, Yon Gutiérrez, cofounder of AlaMesa, an app to connect Cubans to restaurants. Also at the event was Yamina Vicente, whose event planning business is described in chapter 6. That evening she confided to me at an after-party in Havana: “I cried during our meeting with Obama—and I rarely cry. Here was the leader of the most powerful nation on earth meeting with us, and listening to us with sophisticated understanding, when our own leaders never ever do.”

Obama assured the Cubans he would continue to call on Congress to lift the remaining economic sanctions, but he added that the Cuban government could help—by allowing more U.S. firms to trade with the Cuban private sector and cooperatives—and could now permit transactions with
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some state-owned enterprises. So far, the Cuban government has permitted very few such transactions. Some U.S. firms—Verizon and Sprint; Airbnb; now Starwood Hotels and Resorts; and various U.S. commercial airlines, ferry services, and cruise lines—are signing deals. But most visiting U.S. business executives have departed empty-handed, discouraged either by the many Cuban government–imposed obstacles to commerce they encountered on the island, or by the remaining U.S. sanctions. One action that could help: Cuba’s settlement of outstanding U.S. property claims arising from expropriations in the early years of the revolution. And the country could encourage a meaningful bilateral human rights dialogue. In effect, the U.S. president has tossed the ball into the court of the Cuban government.

A Road Map for Open for Business:
Building the New Cuban Economy

Open for Business traces Cuba’s efforts to rebuild its economy following the disappearance of its long-term patron, the Soviet Union. Chapter by chapter, the book explains how the resilient Cuban leadership established economic relations with the dynamic emerging market economies, at home authorized the launching of small-scale private businesses, and, more haltingly, opened a window to foreign investment—all this without yielding power over most economic resources and decisions. Open for Business explores success stories in this new local private sector and among foreign-owned firms, suggests new patterns for future expansion, reports on how Cuban millennials see the changes taking place in Cuba and on what they aspire to for themselves. Finally I speculate on how Cuba is likely to look in 2030.

The next chapter in this book reviews the past performance of the Cuban economy in international perspective. Compared to other nations, Cuba boasts good results in delivering social services but poor outcomes in producing individual consumption items. The chapter dissects Raúl Castro’s 2011 blueprint for “perfecting socialism” for its critical revelations, bright spots, and internal contradictions. Among the most significant reforms-in-progress today are the growth of the small-business private sector, the promised opening to foreign investment, the emergence of markets for family residences and cars, and greater freedom for Cubans to travel abroad. These welcome innovations have raised hopes for a sunny future, one offering Cubans greater opportunities to develop their creative talents and the human capital accumulated in higher education. But
many structural problems have not yet been adequately addressed, and despite an uptick in 2015 from the surge in U.S. visitors and remittances, economic growth has remained disappointingly sluggish. Industrial and agricultural production has continued to lag, and savings and investment remain well below the rates necessary to drive an economy forward. Merchandise exports are insufficient to relieve the foreign exchange tourniquet that continues to place severe downward pressure on economic activity; for 2016, Raúl Castro pointed to lower international commodity prices to warn of another disappointing year of low growth. Overall, economic performance is well below Cuba’s capacity to produce goods and services and to raise the population’s standard of living.

U.S. citizens and policymakers often think that they are the only sun in Cuba’s universe. In fact, since the burnout of its long-term benefactor, the Soviet Union, Cuba has forged trading partnerships with many other nations. These partnerships, and in particular those formed over the last two decades with emerging market economies (notably China, Brazil, Mexico, and Venezuela) are the subject of chapter 3. Initially, Cuba reached out to Europe, Canada, and a widening array of friendly states in Latin America. Currently, Spanish firms manage many of the expanding number of hotels and all-inclusive resorts in Cuba, where tourists enjoy sun and surf, explore Cuba’s protected coral reefs and hidden mangrove forests, or experience Havana’s many cultural offerings. A Canadian company jointly owns mining operations in Cuba’s Holguín Province, providing Cuba with valuable foreign exchange earnings. In joint ventures with Cuba’s national petroleum company, large Chinese petrochemical firms extract oil from onshore wells. Most recently, a Brazilian construction firm is modernizing the Mariel Port so that it can accommodate very large container ships transiting the newly widened Panama Canal as well as host international investors in a highly touted special development zone. Initially the emerging market strategy bore fruit, as two-way merchandise trade soared from under $2 billion in 2003 to over $8 billion in 2008. But rather than being the early take-off stage of a vibrant expansion in Cuban commerce, 2008 turned out to be a peak achievement, after which Cuba’s emerging market trade fell backward. Cuba could not generate the exports required for balanced trading relationships, and its emerging market partners tired of extending credits that Cuba proved unable to repay. Nor were these partners able to develop sufficient on-island investments to generate the value-added exports that would anchor sustainable commerce. The lesson from
the emerging market experiences: no set of geopolitical alliances will provide Cuba with the capital and technology it needs unless it creates a more welcoming investment climate and becomes a more efficient and reliable business partner. Today, the exhaustion of the emerging market strategy—not only the slump in Venezuela—explains in part why the leadership of the Cuban Communist Party elected to seek a rapprochement with the United States.

Chapters 4 and 5 offer a full analysis of Cuba’s foreign investment regimes. Chapter 4 carefully examines the new foreign investment law and the promising Mariel Special Development Zone and describes the numerous barriers that prospective investors face in entering the Cuban market. Also assessed is the exciting portfolio of investment opportunities that Cuba is now advertising on the world stage. Chapter 5 offers a rare look inside existing joint ventures and drills down into seven case studies in mining, brand exports (Cuban puros cigars), hospitality, and consumer products. The case studies find that profitable joint ventures are already making valuable contributions to the Cuban economy. If Cuba improves its business climate, foreign investment could play a central role in increasing the productivity and competitiveness of the Cuban economy, creating new opportunities and higher wages for the Cuban workforce, and diffusing dynamism throughout the economy.

Within the Cuban state socialist system, there exists a dynamic independent private sector some two million strong, along with a middle class that may constitute a majority of the population—and these are rapidly emerging to define the new Cuba. As chapter 6 reveals, the growing private sector is sopping up some of the workers laid off from bloated state payrolls and providing the Cuban consumer and international tourist with a widening range of more attractive goods and services. A common imagery fixes Cuba as a poor society whose middle classes departed in the wake of the revolution; yet in Cuba today the middle class has been replenished (albeit with depressed levels of private consumption). But it remains to be seen whether the powerful Cuban state is prepared to allow private business and the overlapping middle classes to extend their wings and grow. In-depth conversations with two dozen pioneering entrepreneurs and informal conversations with many others around the island suggest the energy and dynamism of the emerging private sector, but also reveal people’s chronic frustrations. Among the common complaints (some noted by Obama in his remarks to entrepreneurs in Havana): the inaccessible state banking
system, scarcity of critical inputs and of commercial rental space, burdensome taxation, and more generally the uncertainty surrounding government regulations. These barriers must be lifted if private initiative is to thrive and the Cuban economy is to emerge from its prolonged stagnation.

The millennials (ages 20–35, also labeled Generation Y) will define the new Cuba, if not today certainly in a future that is rapidly approaching. In chapter 7, the rising stars of the next generation describe with remarkable frankness their dreams for themselves and their beloved country. In original interviews recently conducted in Cuba, a dozen charismatic millennials imagine the new Cuban economy and society they would like to build, and the obstacles that must be removed for their aspirations to be realized. The interviewees also comment on Cuba’s new relationship with the United States and how they hope it will evolve over the next 10–15 years. The final chapter dares to peer out to 2030 and to imagine three distinct scenarios for Cuba’s future: 1) stalled reform, where forces of inertia maintain their grip and many millennials exit; 2) decay, where an ugly botched transition descends into economic stagflation and an explosion of hellish vices; and 3) a sunny soft landing, where comprehensive economic reform yields higher per capita incomes and consumption, and the political outcome is wide open.

Cuba harbors ample assets—more than many other nations undergoing transitions from their authoritarian heritage. But Cuba is also saddled with destructive liabilities that Cubans would do well to recognize and exorcise. Cuba watchers can only hope that wise leadership emerges and that Cuba has its fair share of good luck. In that case, “Open for Business”—the banner on government brochures that today is an advertising slogan but still an aspiration—will become a vibrant reality.