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CUBA'S TOURISM SECTOR:  
ENGINE OF SUSTAINABLE GROWTH AND PROSPERITY?

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## P R O C E E D I N G S

MR. PICCONE: Good morning, everyone. Welcome to Brookings. My name is Ted Piccone. I'm a Senior Fellow with the Latin American Initiative in the Foreign Policy Program, and we're here to talk about Cuba, and specifically, Cuba's tourism sector, and whether it is an engine of sustainable growth and prosperity.

We are releasing today a report which is a result of many, many months of work that our two co-authors have conducted in Cuba and elsewhere, Richard Feinberg and Richard Newfarmer. I'll have an introduction for them in just a minute.

But I do want to mention that we're gathering today at a particularly interesting time. It's always interesting when it comes to Cuba in my experience. And there are two major events underway after, of course, the big breakthrough in relations between the United States and Cuba December, 2014. We're almost at the two-year anniversary, and in the last two weeks we've seen some important developments both here in the United States and in Cuba. The passing of Fidel Castro, of course, is a very important milestone and, particularly, I think, a symbolic one given that he had already stepped down from power and passed the baton to his brother, Raul, who has been managing an economic reform process in which the tourism sector is particularly important. We're going to hear a lot more about that.

And then, of course, the election of Donald Trump to the White House, and the Republican control of both houses of Congress, mean that there are some changes in store probably for U.S. policy toward Cuba, and that's a big question mark as to what that's going to look like, but just in the last week some of the tweets we've seen from President-Elect Trump and Vice-President Elect Pence signal a hardening of the approach, desire to renegotiate a deal that puts human rights and political reforms, and economic reforms as a condition for continuing the normalization process.

So the timing of this event, we had no idea we'd be in these circumstances, but it's going to be a very interesting and lively discussion.

Our choice of this topic is important because there are, as I said, a number of reforms underway in Cuba on the economic side. But I do want to point out that as far as United States law is concerned, there is a prohibition on U.S. tourism in Cuba. But the liberalization of the travel categories by the Obama administration has meant a tremendous increase in the number of U.S. visitors to the island, and it is in that context that we'll be talking about this phenomenon.

So we'll be hearing from Richard Feinberg, who is a Nonresident Senior Fellow with us here at Brookings, and a Professor of International Political Economy in the School of Global Policy and Strategy at the University of California San Diego.

You might know him. Over the last several years, he's been working closely with us on a series of reports, and his most recent book, which is available in the back of the room, "Open for Business: Building the New Cuban Economy," which was published this year by Brookings Institution Press.

Richard has many years of experience in government at the National Security Council and the Treasury Department, among others, and is a well-known expert on inter-American affairs, and we look forward to his remarks.

He's partnering with Richard Newfarmer, who is Country Director for some African countries, but I think that's quite relevant, actually - Rwanda, Uganda, and South Sudan - at the International Growth Center, which is based out of the London School of Economics and Oxford University.

Richard has also many years of experience working in the area of trade and competitiveness, including issues at the World Trade Organization, and we will be hearing from him as well on some of the findings of the report.

And then we'll have a panel discussion, and we'll be joined by Hannah Messerli. Hannah Messerli is Chair of the International Institute of Tourism Studies, and is the Eisenhower Research Professor of Tourism Policy at George Washington University.

She has spent eight years at the World Bank working again in the area of trade and competitiveness, and is a well-known expert on looking at the comparative qualities of the tourism sector around the world.

Then we'll open the floor for question and answers. I want to thank in particular for the support for this work the Kimberly Green Latin American Caribbean Center, and the Steven J. Green School of International and Public Affairs at Florida International University, and we'll be doing an event in Miami with them at FIU in January.

So thank you all for coming, and I turn the floor over to Richard Newfarmer.

MR. NEWFARMER: Thanks, Ted. It's a pleasure to be here. We thank Brookings for all of the support that they've given Richard and me in this project.

When Richard and I sat down to begin to think about Cuba in the next stage, he had sensed a wonderful work on looking at the whole Cuban economy, and Ted mentioned his book is back there.

We thought it would be interesting to look at the tourism sector in Cuba because it had all of the problems that unwinding the socialist system required action upon in order to be able to move forward and move towards a more international and open country.

You had problems with labor. You had problems with management. You've had a whole system of state-owned enterprises, we thought it would be quite interesting.

Since that time, when we began the study, of course, the international context has changed. So now the questions seems to be looking much more at who benefits.

Well, the good news is we were talking about that question to some degree. So let me give you some of the headlines that come out of this report summarized in five points.

First of all, you all know, or may know from reading the newspaper that tourism is booming today in Cuba. The question of who benefits is the question that I think has become much more salient in recent time. Many people advocating reversing the U.S. current opening towards Cuba have suggested that maybe too much of the resources go to the security sector and the military. And so analyzing that question in this study I think has become certainly germane.

The question that also drove our analysis was to what extent will the industry become a force for development because there are those who argue that maybe tourism really doesn't help development all that much so the report looks at that.

If I give you the short answer to both of those questions, I would say that the industry, in fact, is benefitting a wide swarth of Cuban society, and it has the potential to drive sustainable development in the long run. So we'll talk about that in the course of today.

That said, the industry in Cuba actually has fallen behind other destination in the Caribbean and is operating well short of its potential. The reason for that is a combination of state-owned enterprise development on the one hand, and regulatory obstacles on the other. We'll examine that as well.

Beneath the surface, however, of the big numbers that we see coming out of investment in Cuba in the state-owned enterprises is a very dynamic private sector

that is emerging, one that really has come about in the last five or six years in part because of some deregulation, but this has taken the form of new B and Bs, bread and breakfast restaurants that are owned privately. And, of course, transportation, to say nothing of a whole series of activities that are related to the industry that we might think about as the private tourism cluster. We (inaudible) this up, it turns out that this constitutes now about 30 percent of the entire tourism industry in Cuba.

The government has ambitious plans for the development of the industry. It would like to accommodate 10 million tourists by 2030. This would represent almost a tripling of new visitors coming to Cuba.

We wanted to look at this number because it was really fairly important for your view of whether or not the industry could produce sustainable development. As it turns out, we think, according to our calculations which we will review in just a minute, that unless Cuba changes some of its policies, it's very unlikely to reach this goal.

Finally, we think that should there be reform in Cuba, it's really in the U.S. national interest to support this reform process, and there are various things the U.S. can do to do that. So let me leap into the main thrust of analyzing those five points.

I'm going to talk a little bit, and Richard and I are going to do a tag-team operation here so just to make this interesting.

Cuba has abundant tourist attractions that could be a driver of Cuban growth coming into the future and eventual prosperity. And just to try to whet your appetites on this, I want to show you the tough research that we had to do.

This is actually Cayo Santa Maria, Santa Marta, excuse me, in the north part of Cuba. Cuba has fabulous beaches, so I'll say no more on that, but just rest assured that the tourist attractions are quite substantial.

And the industry is booming, as I mentioned. This graph shows simply the wave of new arrivals, visitors per year, and as you can see, since the opening in the early 1990s with a revival of the industry in the 1990s when 750,000 tourists were coming, they are now up to over 3.5 million. There is also a bit of an up tick in 2015 which is important. Some increase in the number of visitors by 16, 17 percent.

That said, the revenues coming from the tourist industry don't really correspond to the graph in the left, and what you see is that there was a peak in the mid 2000s. Of course, the financial crisis loomed large for Cuba as it did for the world economy in 2008-2009, so earnings going to Cuba actually turned down very substantially in that period.

The good news is that revenues are increasing, but the important point is there's not always a correlation between the number of visitors coming, and the revenues accruing to the country.

Today, the benefits of the industry are, in fact, widespread. It's one of the main sources of growth in the economy. In fact, I would say it's the, almost the most important source of growth in the economy. It's the most important export that Cuba has.

Tourist revenues are equal to roughly two-thirds or three-quarters of all merchandise exports over the last three or four years. The numbers vary, but it's very clearly the largest export coming from Cuba.

Some 70 percent of tourist spending stays in the country because the industry spends on wages, it spends on food and beverages, and, therefore, agricultural products. Of course, there's a myriad of expenditures on cultural activities, music and the like, in Cuba. We do an estimate of this and that's the reason we think that this is so important in terms of developing the whole economy.

And finally, we have to recognize that the industry is a major source of information and contact with the international community, and, indeed, that's been the case so far. Moreover, Cuba has considerable room to grow further into the future.

This graph shows simply the number of visitors relative to the population of the country. And as you can see, Cuba is about half the Dominican Republic and Costa Rica, countries that have sort of industries that look pretty much like what Cuba could be. So as you can see, the caring capacity, if we want to use that term, of Cuba has yet to be reached.

That said, the industry has not really contributed as much to the growth as it could of Cuba, and there are important signs showing that, in fact, it's falling behind. And so we looked at this in some degree.

This graph shows Cuba once again in comparison with the Dominican Republic, Costa Rica, and the Americas generally. That dark blue line is the percentage of GDP that the World Tourism and Trade Council, sorry, the Travel and Tourism Council calculates the industry contributes to the economy.

We have a lot of faith in the direct numbers, less faith in the total numbers, but in either case, you see that Cuba really is not fully mobilizing the contributions to the economy that the industry could otherwise do.

This number is actually a little bit more disturbing, and it shows an index from 1995 to the present in which we see the revenues per person spent in the local economy. And as you can see, if you look at that green line, that's all developing countries. That is money spent by tourists when they go to the country. And that number traditionally has been, secularly has been increasing.

In Cuba, however, it's been declining. And part of the reason is that, in fact, the quality of service, the quality of hotels is a little bit lower than international standards might otherwise demand.

Cuba has also like the Caribbean as a whole losing global market share. If you look at tourist expenditures as a share, spent in Cuba as a share of the world market, in fact, that number is falling. It's true of the Caribbean in general, and the reason in part is because of what's happening in the opening of tourist developments all over the world.

The international economy is becoming much more diversified, and so new facilities are opening up in Africa, a place where I'm working a fair amount now, and that's in competition directly with Cuba.

Cuba is, as I mentioned, has a lower service quality relative to other, in other destinations. Sometimes maintenance is not as good as it could be, and certainly, internet access is really quite low. So this is a major force, a major factor in the industry's development, and one that will have to be the subject of policy.

I mentioned that Rich and I were going to tag team here, so he's going to come up and talk to you a little bit about the organization of the sector, and maybe why some of those shortcomings I've just point out, in fact, occurred.

MR. FEINBERG: Okay, thanks very much, Richard. Pleasure to be here with all of you. Thanks so much for coming. I recognize many friends in the audience.

So what I'm going to present here is an organizational chart of the tourism industry in Cuba. To my knowledge, this is the first such organizational chart that has been published.

Richard and I wore out a lot of shoe leather, or should I say sandal leather, in doing this very tough research. We were able to speak to a lot of the expat

managers of hotels and resorts in Cuba. We spoke to many staff. And we also spoke to some Cuban academics.

So there are three state-owned enterprises that dominate the tourism sector, the international sector in Cuba. MINTUR, the Ministry of Tourism, two of the three, Cubanacan and Grand Curibey, report to MINTUR.

Why is that important? Because in some of the rhetoric you're hearing around Washington these days, you hear that it's all the military. But, in fact, two out of the three major state-owned enterprises are not military, but, rather, report to the civilian sector, MINTUR.

Famous hotels that fall under the aegis of Cubanacan, many of you may have stayed at the Parque Centrale, Melia Havana. Grand Caribe is charge of the Hotel Nationale, the Havana Libre, the Rivera, Inghlaterra, which, of course is starred (inaudible) with Marriott management.

We also have Nifard, however, Gaviota, the other major conglomerate does report to Gyasa, which in turn reports to MINFAR, the Department of Defense, in effect.

Now, you'll notice under Gaviota these are all the three state-owned enterprises are conglomerates. They all offer lots of different services. They are really holding companies. We only show that here for Gaviota, but it's true for the other two as well. We did this just to simplify the graph.

So Gaviota has transportation. They own small shopping malls. If you want to go on a nice cruise, as in that first photo on the cover, all of that, Gaviota offers all of those types of service as well.

These are impressive corporate entities. However, none of them publish financial statements available to the public. And, in fact, we were told that even within

the Cuban government there's a fair amount of secrecy with regard particularly to Gaviota.

That did not deter us, however. We went ahead and we created our own profit and loss statements for some of these hotels, and you can see those in detail in the report.

Gaviota is large, but it's not again the majority. Gaviota accounts for about 40 percent of the state-owned enterprise, 40 percent of the rooms in the state-owned enterprise sector all together.

However, if you add in bed and breakfast, and restrict the universe of rooms to where international visitors would stay, the four and five star, then you find that Gaviota accounts for only a quarter, about one quarter of the rooms available for international visitors.

Again, the reason we're emphasizing that here is to correct the misinformation out there that somehow all of these visitors are staying at rooms which would fall into the coffers of the Cuban security forces.

Of the four and five star hotels that cater to international tourists, most of them operate with some sort of foreign interaction. In the majority of cases, however, it's management contracts. These are Melia, Iberostar, Blue Diamond from Canada, now Starwood and Marriott. But most of those are, of the international corporation is in the area of management contracts not joint ventures. There are some joint ventures, but they account for a relatively small portion of the, only about 15 percent of the international corporation is in the form of joint ventures. The lion's share is the management contracts.

The other division here is that most of the international rooms, rooms where international visitors would stay, of those only about 15 percent are located in Havana. That is to say the state-owned enterprises have preferred to build hotels in the

beach areas, and that explains why now when you go to Havana there's a terrible shortage of rooms, and the prices are sky high.

We know four problems that need to be addressed if the Cuban tourism sector and the state-owned enterprises are going to operate more effectively. One, as I just mentioned, beach resorts are fine, but they need to diversify more. They need to offer, Cuba has the potential to offer a wide diversity of tourist products. They can do eco-tourism, adventure tourism, cruise ships, of course, medical tourism, aquatics, boating, fishing. All of these have to be done, of course, correctly, sustainably, but they need to diversify their offerings.

They know this, they talk about it, but they haven't really moved the resources, the financial and human resources into those areas to make them successful.

Another huge problem is a disincentive for inputs. My colleague, Richard Newfarmer, emphasized that there's opportunities, of course, for agriculture to link into the tourism sector, but agriculture is not adequately productive for many reasons, one of which is prices. If you don't pay farmers enough for their products so they can make a profit, it's no secret they're not going to produce a lot, or they'll sell into the black market.

Then there is important organizational issues. Hotels cannot simply hire people who come in off the street. They have to do through government hiring employment agencies, and that has a number of inefficiencies with it.

And then finally, although, again, the Cubans say they want foreign investment, but they're very slow to approve joint ventures even in the tourism sector.

Now, just briefly, bed and breakfast. There are some 16,000, probably more, but these are official numbers, of bed and breakfast that cater to international tourists. We identify what we call the private tourism cluster, which includes bed and

breakfast, the poly dot (inaudible), the restaurants, taxi drivers, artisans who sell to tourists, et cetera.

We calculate using the numbers that are available that of the roughly \$3 billion that is now coming into the country on an annual basis in the tourism sector just under a third of that, or approximately \$1 billion, is going into this non-state sector. We want to emphasize that because to restrict U.S. tourism, who would that hurt? Clearly would hurt this growing non-state or private sector.

So what we see here is that Cubans, if empowered, if given the opportunity, if given some capital and a vibrant consumer market, as is the case in the tourism sector today, that entrepreneurial talents despite existing limitations, which are elaborated upon in the report and which can be remedied, that there is a bright future for Cuban talent and innovation, particularly in the tourism sector.

Richard, over to you.

MR. NEWFARMER: Oh, yes. Visuals, just so you can see what's going on, of course, is that money is flowing in largely from the diaspora to help their friends and relatives on the island to transform rooms into bed and breakfast, which is now providing up to a quarter of the rooms for the international tourist.

This is one. You can notice that they are appealing to an English literate audience there. And this is where Richard Newfarmer and I had a glorious evening in Cienfuegos.

You notice we left out the beach pictures and the hot tubs, but just to supplement this, just to show you the dynamism here, I think almost two years ago or so, correct me if I'm wrong, Richard, II B and B opened up its facilities, and it now has over 4,000 listings in Cuba. And what's interesting about this is you can go online, get a readout of a particular B and B to see if, and you can read the reviewers' comments on,

and, of course, the person renting out to you can read the internet's comments on you, you might not like that, but as a result, it solves the trust problem, one element of the trust problem, in trying to reach all of these diverse houses in Cuba.

And the second thing, second element of trust that it solves in the payment is ex-ante. You pay on a credit card in the United States and you go to Cuba, and you show up, and they give you a wonderful room and a terrific breakfast. So this is really a growing sector in Cuba, and has enormous potential.

Cuba has big plans for the industry. Looking forward if you listen to the Minister of Tourism, he's talked a lot I mentioned about tripling the number of tourists to 10 million by 2030. They'd like to add 108,000 rooms to today's stock of about 54,000 three and four star, three to five star rooms that are now in state enterprises.

What's interesting about the plan is that they're relatively silent about the goals for the private sector, and yet the private sector is one of the dominant, the emerging sectors that's really very important.

Nonetheless, the government advertises sites to perspective investors all over the island, including establishment of golf courses, mariners, and the like.

So we wanted to look at these plans because they really identified what the Cuban government wanted to do with the industry, and how it saw the industry's development and its future.

If realized, these kinds of objectives would, in fact, usher in more rapid growth than we've seen over the last decade or so in Cuba. Growth has been rather anemic, somewhere between 2 and 3 percent maybe over that period of time. So this would indicate a step up.

So we decided we'd look at the numbers kind of seriously and see what would happen. We did some calculations based on information that we got from the

industry on the cost of construction. We estimated \$200,000 per room. We projected it out over 15 years, steady expansion of about 7 percent. We had to add in refurbishing, depreciation, hook-up charges, and basically, that's what shown in Table 5 of the report that's before you.

Let me just highlight four numbers which I think are pretty important. First of all, the goal, 108,000 rooms over this period. Secondly, the cost per room and that gives you a crossed-out line. The big number of 21 billion, \$21.6 billion it would cost to do this. You add in depreciation. You add in renovation of out-of-order rooms because there's a large stock of rooms that have been poorly maintained and basically offline. We estimate those. Put in cost number for it. We add in refurbishing cost, which hotels naturally have to do, and then we add up simply a guess about connection to the grid for electricity or telecommunications of about 15 percent.

That gives you a cumulative investment over this period of about \$33 billion. That's a big number in Cuba. It's a very big number. Just to put it into perspective, Cuba's GDP is about \$86 billion, \$87 billion today.

So we did some projection. What would this imply in terms of overall investment looking to the future? Well, if you basically project out the economy on the basis of past growth rates, and you assume the same share of investment over the period of time, but you add in this \$33 billion, you end up basically moving from some 13 percent of investment in 2016, by 2030 they'd have to be investing almost 30 percent, more than 30 percent of every dollar invested in the tourist industry. This is clearly unsustainable. So what they need to do is increase savings. They need to mobilize more savings.

How can they do that? Well, domestic savings in the B and Bs are really an important part of this story. They could accommodate many more foreign tourists in

the private sector, and it's a way of raising this very low savings rate that we see typically in Cuba through the B and Bs, restaurants. Small construction firms are providing a major source of domestic savings that go into investment.

And, as Richard said earlier, they need more foreign savings. There is two places, two basic channels where that can come from. The first is foreign direct investment in the form of joint ventures, and that could be the big bucks, but there's also room for much more investment from the diaspora, the Cuban diaspora, and people perhaps in this audience that would be willing to invest in a B and B in Cuba if the right mechanisms could be set up to do so.

Richard and I have some suggestions about ways that could actually be done to harness the potential of private savings in the United States and in other countries being funneled into the private sector in Cuba.

Nonetheless, right now the industry as currently structured is unlikely to be a driver of rising incomes without major internal policy changes. So for that I'm going to turn it back to Richard to talk about what policy changes Cuba might adopt in order to unwind this current system.

MR. FEINBERG: Okay, now for our punch lines. Based upon the analysis that you've just heard, we logically proceed to the policy recommendations that follow, some of which have already been suggested by my colleague and myself.

So we have some policy recommendations for the Cuban authorities. Of course, they will decide themselves as an autonomous sovereign state how they want to move forward, but this is what we think would be in the Cuban interest. That will be followed by recommendations for the U.S. in the U.S. interest.

As we've emphasized, they need to mobilize more funds savings. They say they want foreign investment by the way. They say it continually. They just can't quite do it. They gotta do it. Okay.

There are a number of things they can do to facilitate the really vibrant growth already. It's so exciting to visit the major urban centers, stay at the B and Bs, see how excited the owners are, how they're funneling their savings into fixing up rooms, into improving their ability to provide breakfast, et cetera, but there are mechanisms that could be put in place which would bring that industry out from the shadows and make it really official, public, legal in every respect, and encourage more capital flows.

This is complicated. I won't go into all the details here. We discussed this in other reports here at Brookings. But there are so many basic reforms that are necessary that would very much improve the functioning of the tourism sector but of the economy as a whole.

We specifically in this report have a number of recommendations for developing a tax system. Cuba as a socialist society really hasn't had a tax system. By the way, if you don't like taxes, and you want to go to a country where there are no taxes, go to Cuba. It's a tax-free paradise.

But they need to move in a direction of a much more efficient system in which taxes are used to collect resources, but also to move resources, and to ensure sustainability and equity.

We've mentioned the issue of prices. If you don't pay workers, they're not going to be productive. If you don't pay farmers, they're not going to produce. It's really pretty straightforward, and they need to fix a lot of their prices.

Then, very important point here with regard to tourism in particular, and this is in the graphs that Richard Newfarmer showed at the outset, it's okay to have big

box tourism in which working class people from Quebec or from Russian can come and enjoy some sun and surf, but they need to diversify away from that to move to higher value-added tourism, and they can do that through, they have to improve the quality of services. Cubans are naturally friendly. That's great. They're also well educated, which is wonderful. They have a sense of self-esteem, which is refreshing, and, of course, crime is very low in Cuba. But still they need more training to work in the service sector, and that's something that they really have to focus on.

And then, as I suggested, they can provide a variety of offerings that can be eco-friendly all around the island, spread it around, be more integrated into the economy as a whole.

Connectivity. Richard mentioned how frustrating it is even at the good hotels. They've just got to join the internet information age. Enough delay.

And then sustainability. Environmental norms that after all they want to be branded as a green tourist destination. Environmental norms with compatibility with high international standards. They should be more transparent. These major state-owned enterprises ought to publish annual financial reports so that the Cuban public, as well as authorities, can make better decisions.

We suggest an international advisory board of city planners and architects chosen by the Cuban government set up and given authority by the Cuban government to help them navigate this very rapid growth of both urban and provincial.

And we also suggest that they encourage high quality certification programs. I think a Certification Council member with us today. Maybe she might want to comment.

Okay. Those are recommendations for Cuba. Modestly, we suggested recommendations for the United States. We recognize that there has been an important

shift in the political environment in the United States since we began this report. Nevertheless, we put forward what we think still would be optimal in terms of the U.S. national interest that the tourism industry after all facilitates people-to-people knowledge transfer.

It bolsters the private tourism sector. We can't emphasize this enough that it's crazy to undermine the development of private industry, and that most of the money that is generated is not going directly to the security forces, but rather, is spread much more broadly throughout the Cuban economy to the benefit of the average Cuban citizen.

We suggest that the U.S. should promote connectivity by continuing the liberalization of travel, commercial airline flights, grab them while they're available, good prices, telecom industry, and openness in financial transactions. These are all things that the Obama administration as promoted to varying degrees of success, but not entirely successfully. A number of roadblocks that were not successfully removed yet.

Here is a recommendation which we think, and still think makes a lot of sense. However, it may appear out of synch in the current emerging political environment here. But we think the U.S. government should provide a general license for U.S. firms to engage in the tourism sector.

If you're going to have a lot of American tourists there, it's a huge contradiction to not allow the U.S. travel industry to provide them with safe and comfortable accommodations.

A recommendation we've made here in the past, sorry that the Cubans so far have not decided to follow this recommendation, but that the Cubans should engage with international financial institutions. That, of course, is a step they must take, but at least the U.S. should not stand in the way.

And then finally, last recommendation, a number of things the U.S. can do, it's mainly a Cuban task, but the U.S. can advance sustainability in a number of ways by creating partnerships by U.S. institutions both official and non-profit to work with the Cubans.

Thank you very much. (Applause).

MR. PICCONE: Okay. Great. Thanks for your patience while we get hooked up. I'm going to turn right away to Hannah Messerli to give us some comments on what you just heard, and then we'll have a round of discussion and comment.

MS. MESSERLI: Great. Thank you. Thank you very much. Welcome to all of you. It's a pleasure to be here, and thank you to Richard and Richard for this outstanding work.

I'd like to begin by recognizing the Herculean effort in sandals or otherwise to ask the questions, listen to the answers, and collect the data that's gone into this report, which is quite an admirable job of bringing together sector snapshots that will I think inform all of us, and importantly this discussion and those going forward.

And also to thank you for the consideration of policy going forward because often we do sector snapshots and then don't really think about what the implications are.

This paper importantly engages us to think about the role of tourism in social and economic development through the practicalities of Cuba's business environment. And those are important elements to bring together really who benefits, and how the sector can be a force for development.

And to do that over time I think is going to be really a question of developing a competitive sector, and you've touched on a number of elements that will

contribute to that in order to attract those tourists as well as investment, and my comments going forward and questions will be around those.

Fundamentally, as we look at who is coming, and also who is coming back, and as your numbers early on they show an important growth, but the question also is who's coming and who's coming back. The trophy aspect of having gone to Cuba, and going someplace that maybe has been somewhat forbidden in the past certainly creates an excitement and an interest, but over time that can certainly wear off, and some of the competitiveness issues will come forward.

And also there is the chance of a dual currency, especially the impact on the sector, will tourism as it reaches to be more vibrant and to be more competitive really be a driver for the government to address the dual currency issue, or really be an ongoing constraint or a mechanism for control?

I want to thank you both in your comments today for pointing out also, as well as in the study, the kind of bimodalness of the sector right now. There is very much the corporate presence of these major hotels in the number of locations and hubs.

Certainly, the activity specifically in Havana that's a kind of an area of the sector, and development of the sector, and then there are the B and Bs, and these more smaller, locally-driven activities around tourism.

And so as we think about the sector going forward, we have to think about those different nuances rather than in effect lumping it all into one. And, in fact, I think you've done a good job of that.

I will say once again we need to be thoughtful of, as we have with many tourism destinations around the world is to be careful what you wish for. Looking at some of the numbers going forward, if those are actually able to be achieved, it could be a real

challenge for the country in terms of stress on services, stress on delivery over time, and may not be as beneficial for Cubans overall.

So as we look at this and think about tourism both as a driver of economic and business development, and also as a driver of social development, this emphasis on the large hotels versus the B and Bs is important, and thinking about both of those in terms of competitiveness.

I will say one of the limitations, if you will, of the paper is that it focuses very much on Cuba, and I know it was beyond the scope to go farther, but when we think about Cuba's tourism now and in the future, it's very much within the context of the overall Caribbean.

Travelers have choices. Investors have choices. And I think that's very important for us to think about, particularly when we see these massive numbers of billions of dollars to be attracting to the sector.

Also, the paper does touch on briefly, and it is something that could be expanded and thought through more, the real impact of the cruise industry because that represents again, in effect, hotel rooms without being hotel rooms on the island or in Cuba itself that can really encourage visitation that could lead to returning visitors if, in fact, it's a good experience.

So in terms of competitiveness, this also drives us into the discussion which was touched on in the paper about quality of service. Competitiveness going forward for Cuba in this sector will be crucial from the standpoint of price, value and quality and managing those in the proper ratios and consistently over time. And to achieve quality of service in relation to price and value requires attracting the best workers.

The dual currency system, the paper does a great job of explaining some of the issues in terms of what is paid to the hotels, what the hotels in turn pay to the government, and then the transactions through the SOEs that pay the actual employees really shows a very small amount of money that comes down to the Cuban employees in the sector, particularly in the hotels.

Clearly, they have the advantage of attraction, or the ability to benefit from tips, but this is a fundamental challenge in both attracting good staff, and also training them over time so that the sector can become more competitive through quality of service as well as delivery over time.

A question that I raise is will the government really be able to attract the investment that you are suggesting. And when you say just do it, it's a lot easier said than done both in terms of the Cuban system. You have a legacy of ambivalence towards tourism development and international tourism development in particular, and really will there be the necessary return.

Tourism is perceived as a high-risk area for many investors, but also while there's the feel-good factor of wanting to invest in tourism and (inaudible) contribute to, there still are the practical dollars and cents going forward that investors look at.

Finally, the paper raises the point in terms of raising gains to Cuba over time with respect to policy to look at dotting the island with smaller, must customized destinations.

And again, we see these contrasts in terms of Havana, and the hubs, and some of the dispersion of activity. We see this... We see this in terms of international versus domestic tourists. We see this in terms of international versus domestic investment. And also in terms of the lower end versus the five star luxury, and the connectivity with other sectors.

So engaging in that and thoughtfulness of that over time is translated into the following. Tourism destinations and countries that develop competitive economies do this through having a diversity of products, and a diversity of locations, and diversity of source markets.

And while we certainly think about the U.S. source market, that's a huge market for Cuba going forward, Cuba's ability to develop a sustainable sector that considers the environment as well as the social implications will certainly come from a diversity of products and destinations, and really achieving some of those saving rates through, for instance, the domestic savings such as through B and Bs, as well as attracting (inaudible). Thank you very much.

MR. PICCONE: Great. Great. Thank you. Thank you, Hannah, for that very comprehensive review of the report.

And I want to bring it back to where we sit right now, and ask our panelist to reflect a little bit further. You did in your presentation, but in the potential scenarios for change in terms of U.S. policy.

And you can imagine if you were to project going forward a continuation of the growth of U.S. travelers, that means one thing for the United States and for Cuba. Even in the more optimistic scenario which we had maybe a month ago where congress might actually lift the ban on U.S. tourism to Cuba.

I mean, it's the only country in the world that Americans are not allowed to freely visit. Senator Flake has made that point over and over again. This is more a restriction on Americans than it is on Cubans. So that's one scenario.

There's another scenario in which the Trump administration decides just hit the pause button and study the issues some further, and maybe tinkers on the margins, but doesn't really do anything serious in terms of normalization.

And then there's the third scenario which is a much more worrisome, I would say, scenario in which they really do ratchet back the normalization process, including a direct hit on the travel and tourism industry.

Can you kind of give us your thoughts on various scenarios and how that affect your analysis?

MR. FEINBERG: Let me make a few points. So, first, there's a psychological effect and an economic effect. I think if Trump comes down really hard, the impact that it's likely to have in Cuba is to fortify the hardliners. They'll say, look, just as we always said, you never can trust the United States, and we have to have a really tight control of our society, and let him try to undermine us and draw back national security.

In that context, it's probable that reforms would slow because the emphasis would be on management and control of austerity and of the security situation.

That would be unfortunate both for the Cubans because reform after all is in their interest irregardless of what the U.S. does. But I would tend to think that would be the psychological impact. So the reverse, of course, of what we would be trying to accomplish.

The other point though I would make is that there's been an increase in tourism not only from the U.S. in the last couple of years, but from many other countries worldwide.

If you're in Europe today, and you used to vacation in the Negev Desert, chances are you're going to decide you'd really rather go to the safe island of Cuba. So there has been a diversion effect actually. And then most of the hotels, of course, are managed by a European or Canadian managers.

So the hotel sector will continue to grow irrespective of what the United States does, although a little more slowly. The result of that, therefore, from a purely commercial point of view is that U.S. hotel chains lose out.

We once again hand over the market to the international competitors. You want to add?

MR. NEWFARMER: Well, Richard, of course, as usual, is right. I just think that reverting to, let's say, the pre-2009 sort of situation would not only set the industry back in Cuba not massively but it would have impact, and it would, more importantly, have an impact as it works through Cuba policy. Now, here the strengthening of the anti-reform parts of the political economy would come to the fore.

That said, there's another way of thinking about it, and one way of thinking about it is what happens if Cuba kind of ignores the United States and begins to enact the kind of reforms which it itself has talked about, the devaluation and unification of the currency, beginning to liberalize more systematically agricultural output, beginning to tap into the enormous potential of the B and B sector.

In that world, the United States probably would play a smaller role. I mean, the fact is the embargo is not what's causing the slow growth of the Cuban economy. It's Cuban policies that are causing the slow growth of the Cuban economy.

So if you can begin to reform those policies, you can tap into all of the willing investors in the world that would love to come and build a hotel in Cuba, or to put money into the B and B sector, and to visit Cuba if they got the diversity of products, for example. All of these things are well within Cuba's control.

So I think a little bit depends on Cuban, or a lot depends on Cuban policy, as well as U.S. policy.

MR. PICCONE: Hannah, would you agree with that analysis in terms of, in particularly, the competitive environment in which Cuba sits?

MS. MESSERLI: Yes. I think that given the different scenarios, I really agree with both except from the standpoint that Cuba's tourism is not just about the U.S., but on the other hand we don't want to see the U.S. lose out on opportunities going forward as Richard has said.

MR. PICCONE: Great. Well, I'm happy to turn it now to the audience so we can get your questions. We have microphones, and if you could identify yourself and keep your comments short so that we get more multiple comments.

I have several hands coming down to the front, so if you want to just hand it over to the person right there. Yes?

QUESTIONER: Yes. My name is (inaudible). I'm a former member of the IMF, and I am a member of the Association for the Study of the Cuban Economy. Dr. Feinberg is a friend of ours.

I congratulate for the study that was made. I think it's very good. I do have one general comment is, of course, what is missing in the whole thing as was mentioned now is the elephant in the room. The elephant in the room being the policies that the Cuban government adopts. And that is really this big problem.

If we look, for example, at the exchange rate situation, Raul Castro has announced several time that he was going to finish that. He has not been able to do it. Why so? Because, for example, that policy has a dual thing.

First of all, the companies that receive payments in U.S. dollars, which are a lot of them have to do with the military on Cuba, are getting a benefit because then when they use that money to pay for the workers, they pay just a pittance with using the other currency.

And Dr. Feinberg said that in Cuba there is no taxes. I'm sorry. Cuba has one of the highest taxes in the world on employment. Thank you. That's all my comments.

MR. PICCONE: Thank you. Thank you. A hand here. Oh, Peter. Oh, and then Peter.

QUESTIONER: Hi. Danielsons and Travel Law. You know, I think there's three things that the Cubans are worried about, or that they like, that they want to keep.

First of all is a good education system, healthcare, and sustainability, environmental sustainability. And if you look at other models in the world. Costa Rica has all of those three things.

And so when you consider Cuba's transition after the Castro, after Raul Castro resigns, would the Costa Rica model be a good blueprint for Cuba to follow?

MR. PICCONE: Okay, thank you. And one more behind you. Peter.

MR. QUANDO: Hi. Peter Quando, National Security Archive Cuba Project. Again, a great congratulations on all the details. This will be extraordinarily useful reading for those of us who go back and forth and tell others to go to Cuba.

But I do agree with some of the, the two previous comments that there seems to be a missing component, and I would phrase it a little differently. The Cuban philosophy and effort to hold onto the principles of the revolution in which tourism, of course, was a key issue at the beginning.

And the study is very far looking, but there's an immediate issue right now with Raul Castro, the transition of government there, the instability, sense of instability particularly now with Trump.

I'm wondering if you could comment specifically on the Cuban government decision recently to suspend new licenses for the private restaurants, and what that really is about in the framework of how what's going on right now in Cuba is hitting up against some of the efforts of the Cuban government to maintain its status, and some of its principles in serving the vast majority of Cubans who actually aren't in the tourism sector.

One of the things that is difficult for those of us like myself who go to Cuba, eat at those wonderful restaurants that have sprung up, is that the owners of those restaurants are buying up all the good food in Cuba and the prices of food for average Cubans who do have some access to a little money has skyrocketed and that is of concern to the Cuban government. They're facing a lot of criticism about that, and I think brings us to the discussion that I'd love to hear your opinion on is this conflict now with tourism butting up against the whole issue of the larger society and the good of the larger society.

MR. PICCONE: No, that's a great point. You start your report I think in, or at least what we've put on the website noting that the Cuban economy is really facing major economic challenges. This is not the Cuban economy of even a year or two ago. You call it an anemic economy.

So all these are putting great pressures on the system to provide for the broad slough of population. So any comments you on these --

MS. MESSERLI: I'll just make a very quick one with regard to the initial question with respect to Costa Rica. Costa Rica actually is a very interesting model that people could look at and potentially follow and learn from. It has done a very good job of developing certification and creating a quality and standard across the country which is something that is recommended in the paper as well.

And also I just on this last comment would just make a very quick observation which tourism can be pretty organic. When you move away from those, the big investments and the big hotels, and as we've seen particularly with the growth of the B and Bs, and some of the related activities and around the cluster, it can grow quite quickly (inaudible) organically, and that's both a blessing, but also can be certainly scary I think to the government. So thinking that through will be quite important going forward. Thank you.

MR. NEWFARMER: Just on the -- actually, those are terrific questions. Let me start with Peter's first. Basically, what has happened is the government has issued new enforcement regulations to the B and B sector, and they have in effect kind of wanted to clamp down on the rapid growth of particularly (inaudible) and the restaurants enforcing rules which had been more or less loosely interpreted. Like, for example, the number of chairs in the restaurant.

Why is this? I mean, it doesn't make sense in a way because you would like to see this expert sector growing, and yet they're crashing on it. Well, the larger context is one of austerity as Ted pointed out.

The July measures that were announced are very severe. When you talk about reducing your imports by 15 percent, that's a very big number. To get to that number, this is because largely the kind cutoff in Venezuelan subsidies, to get to that number, for example, they're going to reduce public lighting by 50 percent. That's a huge number. Right?

So we're looking at an austerity period not like as bad as the early 1990s, but certainly very difficult.

Remember what happened in the 1990s. That's useful. Because at that point, it was, the decision was taken to come back to opening up the tourist industry as a

source of long-term foreign exchange earnings. They realized that was what they had to do because of the end of the Soviet subsidies.

My guess is that over time, that will be appreciate. In fact, I'm kind of hoping our report will be read by the powers that be precisely because of this.

In the short term, cracking down on the polyaries I think reflects, one, on the fact that the state-owned restaurants are not able to get foods. You're absolutely right. And so the competition between the private sector and the state sector occurring at the margin, you know, you get these reactions within the polity I'm guessing for the protection there to be, to try to limit the growth of the sector.

Secondly, in the short term, there is this contradiction between feeding a tourist and feeding a population. The only way that can be solved over the long run is as Richard was suggesting is to gradually phase in price liberalization so you create incentives to produce more food, right, on the one hand, and then secondly loosening up exchange rate restrictions through the dual currency system and the multiple exchange rate system which taxes exports, including tourism by the way, and subsidize imports, which is exactly the opposite of what you want to do.

So unraveling this process is not going to be easy. We have specific suggestions in the report to how to begin to manage the agricultural sector that we think you can liberalize to begin with, keep the state system in place to buy and make food available, particularly low-income people in the city, and cushion the impact of the shock of price adjustment on them over time because that's the only way.

But agencies like the World Bank and the IMF have learned through the costs of the transition economies kind of how to do this sort of thing, and that's one of the reasons why Richard's recommendation of allowing them to engage to the extent the Cubans to. I think there are mechanisms to deal with these sorts of things.

The last point I want to make just real quickly has to do with the education and healthcare issues. This is obviously some source of pride to the Cubans. One of the difficulties that the Cuban government has is extracting resources from this dynamic sector.

Right now, they're doing it through very inefficient mechanisms. They're doing it through the dual exchange rate and the dual currency rate, and taking those monies to some extent, and putting them back through the budget into education and health.

Our view is if you put in place a modern tax system, our point taken on taxes, by the way, but a modern tax system not a labor tax system, you tax the right thing, you tax consumption not savings, those kind of things would allow them to take resources out of the sector and put it into health and education on sustainable basis.

MR. FEINBERG: Yeah, absolutely. So on Costa Rica, Ted and I published a book about two years ago on the Cuban economy in which we include an article by Bertha Trecoese, a leading Costa Rican economist, precisely so the Cubans reading the books could take a look at Costa Rico and say, gee, you know, they've done pretty well. What lessons can we learn?

And one of the lessons is if you want to maintain a good social service sector and quality health and education, you have to have a productive economy, and then you tax that productive economy and move those resources into social services.

The hard truth is the quality of social service delivery in Cuba is declining and declining dramatically. So it just is not sustainable to say, oh, we have to keep the economy where it is. We can't allow anymore inequality. We can't allow any private sector. That contradicts the whole concept, the whole ability to maintain the gain of a

revolution. The only way to maintain the gains of a revolution is continuing the reform process not the reverse.

Why the backlash? My interpretation is some of it is ideological, et cetera, but I think a lot of it is vested interest. That the bureaucracy relatively speaking has perks and prestige. And those perks and prestige are threatened by the emerging middle class and private entrepreneurship. And that's an ineffective political struggle, and the bureaucracy is now trying to lash back a little bit, but I think you're clearly on a losing path. Eventually, the private sector will continue to grow.

Just the other comment on -- okay, yes. Both in my book and in our paper, we do talk about this implicit tax on labor, absolutely. We call it the highest labor tax in the world, like 90 percent or so.

When I said it's not a regular tax system, I'm sure you know what I mean, and this is an implicit tax as opposed to an explicit tax done for certain explicit purposes in a visible and transparent way. That's what's missing.

MR. PICCONE: I mean, I think what's coming off in the conversation is that Cuba is facing some real crossroads because it can't maintain the gains of the revolution without diversifying its economy. It knows that. It's begun doing that. It's been very slow. U.S. is a piece of that puzzle, but they don't want to be certainly dominated by the U.S. economy, so there are many different moving factors, and the result is -- and also, they haven't engaged the international financial institutions.

And how they're going to do a currency unification devaluation, plus all the development monies that could be unlocked precisely to build up the infrastructure for this and other sectors, it's very hard to understand.

And so maybe with the passing of Fidel, there's an opportunity here if Raul is thinking beyond his own term which ends, he says, in February, 2018, just 15

months away, that there really is a moment of change here where they're going to accelerate this opening and diversification to the rest of the world.

Let's take another round of questions. In the way back. Yes.

MR. NELSON: Thank you. Hi. David Nelson with GE. Thank you for your study. Very, very interesting and very useful.

You have projections on the cost side of expanding the tourism sector which is great. What about projections on the revenue side? And this could be obviously linked to different scenarios in terms of policy options that out there, but that would be really useful to see what the revenue side of the agenda is, or the expectation.

And secondly, just a thought to see what your views on this on the discussion about the perception that there's some back and forth in terms of the policy toward the opening, do you think that might be linked to maneuvering within the elites for the succession that's going to happen that Ted (inaudible) coming up in the next 14 months?

MR. PICCONE: Okay. Others? Yes. Here in the front.

MS. SPECK: Hi. Mary Speck, formerly with International Crisis Group. I'd like you to explain a little more what you mean, Richard, and congratulations for an excellent book, about the emerging middle class. You talk about it in your book as well.

Is this really an emerging middle class? Are we talking -- there always, of course, a middle class. Even in communist Cuba you could call middle level bureaucrats and professionals the middle class, and is this really new people entering the middle class, or are we talking about really people who are former bureaucrats, doctors, who are renting their homes on the side and earning a little money, and perhaps getting access to these goods through contacts through the old system?

And if there's an emerging middle class, what about the upper classes and the lower classes? By definition there have to be. Who are the upper classes? You said at the beginning that the military is not the only group that is investing. They're certainly one of the most prominent. We've seen that since the 1990s. So how are the others? Is it party contacts that allows you to get involved in these joint contracts? And what about the lower classes in Cuba? So this is a big question I realize.

In Cuba, as in all of the Americas, race is a proxy for socioeconomic class in many cases. Do we see them as benefitting at all from the tourist sector or any of the others of these joint ventures?

MR. PICCONE: Okay, thank you. One more. Yes.

QUESTIONER: Hi. (inaudible). I'm a student from the George Washington University. This question might seem a little biased, (inaudible) who has suffered the effect of inefficient socialist policies. This is a big concern for me.

So you mentioned that tourism in Cuba is a major force exposing Cuba society to international knowledge. But then we see how Fidel Castro's passing has ignited some very naive and romantic reactions like that of Canada's prime minister that doesn't account for all the tortures and hardships that the Cuban people endured during his dictatorship.

So isn't tourism contributing to this idealized version of the Cuban government, or the Cuban revolution?

MR. PICCONE: Well, why don't we take one more? Yes. Right there. I missed her hand last time. I'm sorry. Go ahead.

MS. HONEY: Thank you. I'm Martha Honey with the Center for Responsible Travel, and I had two questions.

First of all, thank you for an excellent paper. Lots of statistics that many of us have been trying to get, and now you've gotten them which is extremely helpful.

But I did have two questions. Your statistic of 70 percent of tourism earnings staying in the country, this is for a Caribbean island very high, and I'm wondering if you looked at the different types of tourism, for instance, the Casa Particulares compared with the all inclusive resorts, and if there are differences, if you're able to determine differences.

And then the other question I had is around the direct foreign investment, and your conclusion that there needs to be internal reforms to attract foreign investment. I think what we've seen in a number of countries is that many times international corporations, particularly hotel corporations, prefer to do management contracts rather than direct investment particularly if it's a not very secure, and tried and true economy in which they're investing.

And so I'm wondering how much of it is reluctance from foreign investors to invest versus structural problems in Cuba.

MR. PICCONE: Great. Thank you. Great questions. Who would like to start first?

MR. NEWFARMER: I'm anxious to hear Richard's response to the middle class question --

MR. FEINGERG: I'm ready. I'm ready.

MR. NEWFARMER: -- but I'll give you more time to think.

On the revenue side, we didn't do projections on revenues. It's a point well taken. Part of the difficulty is what is the framework of the presentation, or of the scenario that you put together.

If you put together a scenario in which quality goes up, in which connectivity improves, in which the policy environment is changed rather substantially along the lines we have suggested, the revenue side could flip around.

Remember that graph that I showed you of the declining revenues per visitor. That could easily, not easily, but it could progressively be turned around.

Hannah mentioned a lot about the quality diversifying product and the like. That could happen in Cuba, and one could envision that scenario.

And one could equally envision a scenario of continuing kind of deterioration in that revenue per visitor, especially as competitive destinations open up around the world, and even the Caribbean. You know, the product in the Caribbean can be very sophisticated. Cuba is not ready to compete in that market, but yet it is there. So we didn't really do those kind of projections. It's a point well taken.

On the issue of how does tourism feed into the perhaps kind of romantic view of Fidel Castro and the Castro government? If anything, I think it helps to dispel it. I mean, if you visit Cuba, you talk to the Cuban people, and you get a chance to see the struggles that they confront.

You'll see the difficulties they have when meat is not in the stores, and they would like to buy it. Or that they don't have access to the internet. We frequently got asked if we had any movies on our computer.

This is telling us something about the country, and I think that's, that kind of interpersonal knowledge I think is really very important.

On the 70 percent staying in the economy, it's obviously much higher in the bread and breakfast part of the store because individual entrepreneurs mind very well their expenditures and their revenues, and they are often taking capital they have.

They're investing their own savings. They're putting it at risk. They're supervising it. So the linkage effects are much stronger than in the big beach hotels.

That said, I think there's much the Cubans can do, and this is a major point of our report, to increase that domestic value added. And that involves liberalization of agricultural products. It involves more imports, and to be able to import more, you have to export more.

Well, to import, what do you want to import? You want to import things like fertilizer for agriculture to allow your yields to increase. Yields in Cuba are abysmal relative to what they are in the Dominican Republic. Why is that? Well, part of it is they're not able to get fertilizer and machinery and the like into the economy because they're not generating enough exports, hence the importance of the foreign exchange reforms that we have been talking about.

You're absolutely right on the question of foreign direct investment. Foreign direct investment is not going to come without major reforms. I would suspect that you would get a fair amount of companies that would be willing to put up equity capital in much larger volumes than you now see.

Right now in many of the joint ventures, we didn't talk about this too much, but many of the joint ventures at the outset, those with the management contractor are being asked by the government to put up debt capital. Debt capital is short term in tenor, so five-year capital mainly for construction purposes at very high interest rates, 8 percent, 9 percent. I mean, these are astronomically high when you assume that international interest rates may be at 1 percent, right?

So the point is that if you had a more reasonable policy environment, you could bring in foreign capital I think that would be rather substantial. So with that, let me turn it over to Richard.

MR. FEINBERG: Yeah, that was great. And let me just add in a bit here and there. In terms of David Nelson's question, yeah, we didn't do projections. Right now that Cuba is bringing about 3 billion a year, so if they triple the number of tourists so your baseline is what, 9 to 10 billion, then, of course, if you can improve quality, et cetera, it would go up from there, an extremely important increase in foreign exchange earnings given the size of the economy, and given their current exports. So a tremendous impact even at the baseline.

This question of success in maneuvering, of course, it's a very hermetic government. The politburo does not circulate. They don't give press conferences. They don't publish op-eds. They're invisible. In my experience, the intelligence communities also do not have access to these fellows.

So my view is that when the next -- the current regime is still living off of the legitimacy of having made the revolution. They'll be stepping aside largely. The new folks coming in, let's say it's Diaz Canale, people of his generation, what's the source of their legitimacy? All they've done is survive as bureaucrats. They don't have any legitimacy in the eyes of the population. They're going to have to produce economically if they're going to gain legitimacy for the regime. That's why I think they are likely to accelerate economic reform, *ceteris paribus*. We'll see.

Yes, and the question on Martha's point, good points about FDI, but I have even under current conditions in Cuba where the business environment is lacking in many, many respects, as you pointed out, I have met many investors both from large companies, as well as smaller investors, who go to Cuba and say we're ready to put money on the table. We're ready to put investment capital on the table even under the current circumstances, and the Cubans hem and haw. So there are possibilities not just for management contract, but for actual investment.

Now, Mary Speck's great question, and she's playing off of something really in my book in which I say many Cubans, maybe the majority of Cubans are middle class defined as the way the World Bank and others define middle class these days, is if you have a salary above a certain minimum level, if you own your own home, which most Cubans do actually, if you have access to a basic social net, basic social services, if you're educated at a certain level, small family size, female participation in the work force, all those indicators much of Cuba is middle class.

Now, that's the group of people that would tend to produce the entrepreneurs. They have the education. They have access to some capital, et cetera. A common question or criticism is, well, poor people, including Blacks on the eastern part of the island, have less access to participating in the entrepreneurial sector. Among other things, they don't have access to capital. Yeah, because they don't have relatives abroad, and they're not producing it at home.

What's the answer to that? The answer to that is banking system in which anybody with a good project irrespective of their current income level, could get a loan, and that's what doesn't exist in Cuba today. There is no banking system where smart people with bright idea can get micro finance, basically. I know a lot of U.S. NGOs have gone down there and said, hey, we can help you set up a micro financial system. So far, at least to my knowledge, the Cubans have hesitated. But those are where the solutions are.

I mean, just very briefly on the issue of upper classes, lower classes. Of course, there's an elite in Cuba. Again, they're not very visible. My general sense is, and maybe history will prove me wrong, that relatively speaking, this is not a kleptocracy in which the people at the top are ripping off billions and getting super rich. There's no evidence that I've seen of that.

Yes, the very senior people some of their relatives live in Spain, or they travel, they're part of a global jetset, yes, there is some of that. But relatively speaking I think this is -- a hallmark of the Cuban revolution is not luxury consumption, not conspicuous consumption, and I think that's indicative.

Yes, there are some poor people. This idea that inequality is the result of market reform, hello. Have you traveled around the island where these people say that? You go to the eastern part of the island and there is rural poverty, and that's not the result of recent economic reforms.

What's the answer to that rural poverty? Well, part of it would be the agricultural reforms that we've all been talking about, and manufacturing. I've spoken to some manufacturers who do say with the right wage structure they would go into Cuba, particularly the eastern part of the island, and set up maquilas and this sort of thing.

We all might say, well, who wants to work in a maquila. I'm sure many of the poor people in the eastern part of the island of Cuba would be happy to work in a maquila. And so those are the opportunities that have to be opened up.

MR. PICCONE: Just some final comments, and we'll wrap it up.

MS. MESSERLI: Please go ahead. I'm fine.

MR. PICCONE: Hannah.

MS. MESSERLI: No, I'm fine. Go ahead.

MR. NEWFARMER: Just on the point of foreign investment, one of the problems, one of the interesting conundrums is how do you develop the B and B sector and attract perhaps all that capital from Miami without alienating yourself from the property and the assets?

I mean, right now an apartment in downtown Havana costs about the same as what an automobile would cost in Cuba, which is to say for \$50,000 you can

have a nice one-bedroom apartment. For \$100,000 you can buy something very good. Well, in that world in which prices are quite repressed, if you were to open up immediately you'd have a flood of capital, and Cuban nationals that own that property would be alienated from it. They'd have to sell it then because they, of course, they'd make money in the process, but they'd be selling at a fire sale.

I think there is one thing that could happen as part of a transition mechanism is to set up a system of mortgage finance in which you have a bank perhaps with some sort of international guarantee that could provide debt capital against a CD issued in Miami for investment in the export tourist sector in Havana.

Those taking on that debt, which could be at a much lower rate than what they would now pay, the only thing they don't have access, what they pay is (inaudible), but even if you did it at 5 percent or something, it would still make a lot of money because the sector is growing so rapidly.

So it would be a way for a Cuban in Havana to maintain control of their property, but to develop them while tapping foreign savings, and that number could be a big kind of number.

MR. PICCONE: You know, this last point reminds me that you have within the liberalization of U.S. policy tremendous more flexibility for Cuban Americans to travel back and forth and send remittances. It's hard to imagine that that piece of it would be rolled back. It's actually quite popular in Miami, and so that could provide an ongoing source of capital for this sector in particular in Cuba, and so I wanted to mention that.

Well, I think it's fair to say we've had a bit of a master class today on the Cuban tourism sector, but also I think more broadly on the Cuban economy and politics, and it's going to be very interesting what happens in the coming months.

Thank you all for coming, and we look forward to seeing you the next time. Thank you. (Applause)

\* \* \* \* \*

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.

Carleton J. Anderson, III

(Signature and Seal on File)

Notary Public in and for the Commonwealth of Virginia

Commission No. 351998

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