

STEPS TO ECONOMIC NORMALIZATION WITH CUBA: A ROADMAP FOR US POLICYMAKERS

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The US embargo, which has long defined US-Cuba economic relations, turns 54 this year, amid increasing signs that both Cubans and post-baby boom Americans are ready for more political and economic engagement. Cuba is haltingly embracing the market. The Raúl Castro regime has allowed Cubans to buy and sell property, lifted restrictions on other private economic activity, and allowed more freedom of movement of Cubans within and outside the country. Raúl Castro has announced that he will retire in 2018. For its part, the United States, while continuing to criticize the Castro regime for its repression of basic civil and human rights, has quietly loosened restrictions on Cuban American remittances to family members on the island and has opened the possibility of travel to Cuba to wider categories of Americans. Migration talks have resumed, and discussions on restarting direct mail service are ongoing.

In our book *Steps to Economic Normalization with Cuba: A Handbook*, we argue that the time to plan for economic engagement is now. We leave aside for others (many of whom are published in this and previous ASCE Proceedings) the issue of how political normalization would be achieved, and urge policymakers to also think about what needs to be done to make economic normalization as fair as possible. Cuba analysts often point out that the restrictions on Cuba-US economic exchange stem solely from the US side. Many voices will emerge to urge instant eco-

nomical normalization once political normalization is in sight. Lifting the embargo, however, will not, by itself, ensure an economic environment conducive to free and fair exchange. Experiences in transition economies have shown that timing matters and a well-thought out approach can have important consequences for the longer-term economic and political structures of the transition country. The argument that US sanctions are all that is holding back US-Cuban economic relations has some merits. However, rushing to dismantle US sanctions and unilaterally opening US markets to Cuban goods and services may not be in either country's interest. Cuba needs to put proper institutions in place and liberalize its own barriers to trade and investment. Without those measures in place, dismantlement risks the loss of a golden moment to help Cuban workers and consumers develop a structure of fair competition and to help US companies and their workers get a fair shake in the new Cuban economy. Our study focuses on US companies, but our prescriptions aim towards helping the two countries prevent the emergence of market distorting oligarchies, as happened in Russia. We urge US and Cuban firms, policymakers and academics to begin now to engage in a discussion of how to best structure a post-embargo economy.

A HALF-CENTURY OF SEPARATION

There are three likely paths to economic normalization. The path overwhelmingly preferred by Raúl

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Castro is *Gradualist Normalization*. The foremost models for this scenario are China and Vietnam. Along this path, a single party will continue to control Cuban politics, but allow economic reforms to occur step-by-step. There will be significant overlap between political and economic normalization. First steps along this path have already been taken. If gradualism continues to be the way forward, the challenge for the United States will be to link each step forward in the normalization of US economic ties with appropriate measures to ensure that workers as well as US firms gain additional rights in the Cuban economy.

Another scenario, illustrated by Russia and the Ukraine, is *Big Bang with Monopoly Capitalism*. Here, capitalism quickly replaces state ownership, but monopolies and oligopolies soon control the “commanding heights” of the economy, and the new owners fiercely resist reforms that would foster competition. Such a big bang may have a veneer of democratic institutions, but will tend toward autocratic leadership. In this scenario, the United States will need to scramble to help Cuba establish basic institutions and the rule of law in the brief period before autocratic leaders and monopoly capitalists establish a firm grip. This brief period is key for Cuba to enact serious market-oriented reforms. Once it passes, vested interests within Cuba will make it very difficult to get the rules and institutions right. In this scenario, the challenge not only for the United States, but also for countries that have already established their investments in Cuba, such as Brazil, Canada, and Spain, is to ensure that behind-the-border barriers and anticompetitive practices do not flourish and ensure that Cuban regulators not be “captured” by their respective industries.

A third stylized scenario, the one most aligned with US interests is one we term *Big Bang with Market Capitalism*, in which a transition to the market is accompanied by a transition to a more democratic political system. Poland and the three Baltic states followed this path when Soviet control ended in 1990. The Raúl Castro government and officials who control state-owned enterprises dread this scenario the most. If big bang political reform is coupled with

Cuba’s own embrace of market capitalism, the need for the United States to pursue a reciprocal approach to normalization will almost disappear. Of its own accord, Cuba will enact nearly all the reforms outlined in this paper and the United States can gladly implement the “concessions” we suggest. The main thing left to negotiate will be a comprehensive bilateral free trade agreement, to deal with a few outstanding issues, and to guard against backsliding. We consider this the least likely of the three scenarios, but our reading of the tealeaves could be wrong.

Political normalization, when it happens, will open the door to economic normalization. Our thesis is that the door should be opened carefully and in both directions. Some scholars argue that unconditional US withdrawal of sanctions and complete opening of US markets to Cuban merchandise, services, and investment offer the fastest path forward for Cuban economic progress. We disagree, for two reasons.

First, we believe that Cuba’s embrace of *all* tenets of a market economy can best ensure rapid growth—as happened in the Baltic States and Poland after the end of the Cold War and Soviet control.

Second, past experience shows that rent seeking is deeply embedded in the great majority of economies that are emerging from a socialist past. As a rule, vested interests strongly resist the reduction of tariff and nontariff barriers to foreign competition, oppose foreign investment, and protest the adoption of modern intellectual property laws and commercial codes. Reciprocal negotiation can tilt the political economy balance in favor of liberalization—because certain firms and workers in the transition country grasp the immediate benefit, to themselves, of reducing barriers that protect the home market. This has been the European Union’s experience in its extensive network of association agreements. It was the US experience with the North American Free Trade Agreement (NAFTA), and bilateral free trade agreement negotiations with Central America, Morocco, Korea, Peru, Colombia, and many others. We believe that the same reciprocal arithmetic offers the most certain path toward Cuban liberalization. With this background in mind, we turn to practical steps.

The US government should begin now to engage the Cuban government in specific steps to liberalize trade that fall short of lifting sanctions, but would help create a climate favoring a market economy and fostering entrepreneurs with a stake in positive US-Cuba economic relations. The Council of the Americas Task Force on Cuba identified a number of measures that could be undertaken without congressional approval. These could be part of an “early harvest” to reward Cuba if the government implements economic reforms that encourage private enterprise, paving the way for US companies to resume regular business activities on the island once normalization has taken place.²

INITIAL STEPS TOWARDS NORMALIZATION

Basic Trade Agreement

Once the Helms-Burton law is waived by a presidential finding, Congress should ideally approve (or at least not disapprove) the establishment of normal commerce with Cuba.³ Then, a first step in the normalization process would be the conclusion of a bilateral trade agreement—*not* a free trade agreement, just a basic trade agreement.

Precedents for bilateral trade agreements are those between the United States, on the one hand, and Vietnam and Russia, on the other, prior to their accessions to the WTO (in 2007 and 2012, respectively). Given that Cuba’s bound tariffs, while high, are not out of line with the bound tariff schedules of many developing countries, it seems likely that most of the US negotiating effort in the bilateral trade agreement will be devoted to a multitude of nontariff barriers, starting with the fact that the Cuban gov-

ernment is the dominant importer of goods and services.

Reciprocity Measures: A first step in the negotiating process would be for the United States to expand the list of goods that US firms can sell to Cuba. The United States and Cuba should identify tariffs and nontariff barriers that could be lowered or eliminated vis-à-vis each other’s products. The parties would then conclude a bilateral trade agreement, containing a reciprocal grant of MFN. In the US, this would need to be approved by a congressional joint resolution.

Sugar Exports

Historically, sugar has been Cuba’s dominant export crop, but the sector has faced a stiff decline. Increasing access to the US market could be a step to reinvigorating the industry. In this, Cuban exports will face large hurdles. The domestic US sugar market is protected through a system of tariff-rate quotas (TRQs) that regulate the import of raw cane sugar and refined sugar. Before it was eliminated in 1960, Cuba’s sugar quota was 2.9 million tons, the largest of any country; however, it is unlikely that Cuba would be able to regain its historic sugar quota. The current quota-holding countries obviously will fight against any reallocation of their existing quotas to Cuba and the US sugar industry will staunchly oppose any increase of the overall TRQ level to accommodate Cuba. Despite these obstacles, with the right concessions from Cuba, a way might be found for Cuba to regain some of its erstwhile sugar quota.

One option for Cuba would be to access the US market through the Caribbean Basin Initiative (CBI), which provides Caribbean economies duty-free ac-

2. See Council of the Americas and Americas Society (2013).

3. These measures are detailed in Chapter 5 of Hufbauer et al, on which this paper is based. Congress can override a presidential determination of full compliance and thus revoke an annual waiver of the Jackson-Vanik Amendment, and Congress must vote approval of PNTR to establish permanent US commercial relations with Cuba on an MFN basis. Scholars might question whether these provisions are consistent with US obligations under the WTO since Cuba is a member and theoretically entitled to MFN treatment from the United States. While the question has never been litigated, if US practice was challenged, the United States would likely invoke GATT Article XXI Security Exceptions. Section 204 of the Helms-Burton Act, titled Termination of the Economic Embargo of Cuba, gives the president the authority to “take steps to suspend the economic embargo of Cuba,” upon submitting a determination that a “transition government in Cuba is in power.” Additionally, upon submitting a determination that a “democratically elected government in Cuba is in power,” the president has the authority to “take steps to terminate the economic embargo of Cuba.” See Cuba Liberty and Democratic Solidarity (Libertad) Act of 1996 at www.gpo.gov.

cess to the US market for certain goods including sugar, syrups, and molasses. Another avenue by which Cuba could gain market access is one of the US Sugar Re-Export Programs. Under these programs world raw sugar can enter the United States without the application of a TRQ, if the sugar is used in one of the following ways: (1) refined and re-exported; (2) refined and re-exported in a sugar-containing product; or (3) used to produce polyhydric alcohol.⁴

Reciprocity Measures: In exchange for gaining access to the US sugar market, Cuba should implement reforms in its own agricultural sector to provide greater market access for US goods. The role of the Cuban government as the sole purchaser for most imported goods reduces efficiency, and consumer choice. To facilitate trade, and in exchange for access to the US sugar market, Cuba should implement reforms to allow US exporters to work directly with end-users and remove product variety restrictions.

Pleasure and Medical Tourism

One of Cuba's main businesses is tourism, and this will get much bigger with normalization. In fact, tourist destinations in the Caribbean dread the day when Cuba can compete on equal terms for the American tourist dollar.

American tourists spend approximately \$6.4 billion annually in the Caribbean, but very little in Cuba.⁵ According to the Cuban Statistical Office, Cuba's annual earnings from tourists of all nationalities were approximately \$2.4 billion in 2010. By comparison, Puerto Rico, with a third of the population of Cuba,

earned \$3.6 billion from foreign tourism in 2010. US travel to Cuba is currently highly restricted through a licensing program operated by the US Treasury's Office of Foreign Assets Control (OFAC). People-to-people programs have loosened the restrictions on Americans visiting Cuba, but the number remains small: 103,000 non-Cuban American visitors in 2012 and 476,000 Cuban-American visitors.⁶

Cuba allows joint venture arrangements with major hotel and resort chains based in Europe and Canada. Typically, the financial arrangements call for 50–50 joint ventures, and the foreign partner has operating control. Restrictions exist: State-run employment agencies are in charge of hiring and managing employees, as well as setting wages and paying employees (Feinberg 2012). Foreign investors pay wages to the state agency in hard currency, while the state agency pays local workers in Cuban pesos.

One promising area is medical tourism. For Cuba, this sector remains small, generating around \$40 million annually (KPMG 2011) but the potential is large. Cuba's cooperation in providing doctors to neighbors such as Brazil and Venezuela and its leadership in the fight against Ebola in Africa reinforced the positive international image of Cuba's medical sector. Once travel relations are normalized, Americans could take advantage of Cuban clinics. Some private insurance companies have begun to explore the options of covering medical procedures and costs incurred abroad.⁷ If and when the United States discovers medical tourism as one answer to the inflated cost of health care, Cuba could be a destination.

4. US Department of Agriculture, "Sugar Re-Export Programs," www.fas.usda.gov/itp/imports/sugar/sugarreexport.asp (accessed on March 26, 2013).

5. This figure is according to the US Bureau of Economic Analysis estimates of the total US travel expenditure (travel payments excluding passenger fares) to the Caribbean in 2012; data accessed through International Transactions database http://www.bea.gov/iTable/index_ita.cfm.

6. According to Morales (2013), the number of European visitors to Cuba declined from 671,000 in 2007 to 577,000 in 2011, as the Great Recession took its toll.

7. Bruce Einhorn, "Medical Travel Is Going to Be Part of the Solution," Bloomberg Businessweek, March 17, 2008, www.businessweek.com (accessed on March 12, 2013). In March 2008, Blue Shield and Blue Cross signed agreements with seven foreign hospitals, in Costa Rica, Ireland, Thailand, Turkey, and Singapore. The hospitals are accredited by the Joint Commission, a US nongovernmental organization that offers accreditation and certification of hospitals, primary care, clinical, and other medical services in the United States and overseas. The federal government and the states jointly fund Medicaid, for people of limited means. Consequently, any use of Medicaid assistance abroad would require both state and federal authorization.

Reciprocity Measures: When US sanctions are lifted, American citizens will be able to travel freely to Cuba to enjoy tourism activities. In the same breath, Cuba should take steps to ensure that US tourism firms have the same standing in Cuba as do Canadian, Spanish, Chinese, and other companies for investing through joint ventures and wholly foreign-owned enterprises and for bidding on government contracts. The United States could further encourage trade by fostering medical tourism, capitalizing on Cuba's strength in medical services. With appropriate certification of Cuban facilities, and with permission for US health firms to invest in Cuba, the US Congress might permit the Department of Health and Human Services to authorize Cuban hospitals and clinics to provide Medicare and Medicaid services.

International Financial Institutions⁸

Following political normalization, Cuban membership in international financial institutions (IFIs)—the International Monetary Fund (IMF), the World Bank, and the Inter-American Development Bank (IADB)—are an early step in the process of economic normalization that would open the door to grants, loans, and technical assistance, all badly needed to establish a functioning economy. None of this will happen without US approval.

Reciprocity Measures: In order for Cuba to become a member of the IFIs, the Cuban government will need to request membership. With congressional consent, the United States should support this petition, or at least not block it, essentially the same approach the United States took in the case of the OAS. A first step will be for President Obama to attend the OAS meeting in Panama, the first at which Cuba will be invited.

Brass Tacks: Deeper Integration

Following the path taken by Mexico, Central America, and several Caribbean countries, Cuba would benefit enormously from deeper integration with the US economy. The path to deep integration is not

easy: partner countries must take politically difficult steps to embrace the tenets of a market economy, covering everything from trade barriers to investment to labor rights. Below, we describe several markers on the path to deep integration. The subjects we have chosen are not exhaustive, but they do illustrate the challenges if Cuba decides that it wants more than an arm's-length commercial relation with the United States.

Investment Agreements

The heavy lifting to make Cuba an attractive location for investment needs to be done in Havana. If Cuba wants serious FDI, the country will need to upgrade its practices.

Cuba has recently passed a new foreign investment law aimed at increasing FDI flows. Previous such attempts, started with Decree-Law No. 50 in 1982, which allowed foreign investment in principle, followed by Foreign Investment Act (Law 77) in 1995 and Decree -Law 165 in 1996, permitting free zones and industrial parks. However, the take up was modest given a large number restrictions. Multinational corporations are generally required to form joint ventures with state enterprises (tourism and mining are exceptions), they must employ Cubans vetted by the government, and they are subject to price controls and other interference from government officials. The new 2014 law may enhance Cuba's FDI position, but the jury is not yet in. After normalization, Cuba could aim to quickly attract US companies by negotiating the suite of investment agreements typically offered by the United States.

Steps towards a bilateral investment agreement:

The gentle starting point for a US-Cuba investment agreement could be a Joint Commission on Trade and Investment (JCTI)—basically a “get-acquainted” dialogue between policy officials. In the 2002 US-Uruguay JCTI, the parties discussed six areas: customs issues, intellectual property protection, investment, labor, environment, and trade in goods.⁹ Another common US launching pad for either a free

8. This section is largely based on Feinberg (2011).

9. US State Department, “U.S. Relations with Uruguay,” fact sheet, November 2012, <http://www.state.gov/r/pa/ei/bgn/2091.htm> (accessed March 14, 2013). For more details on the JCTI, see “US-Uruguay Joint Declaration of Signing of Agreement Establishing a Joint Commission on Trade and Investment,” US Embassy Montevideo, April 11, 2002, <http://archives.uruguay.usembassy.gov> (accessed on March 20, 2013).

trade agreement (FTA) or bilateral investment treaty (BIT) is the trade and investment framework agreement (TIFA). TIFAs are non-binding, do not involve changes to US law, and therefore, do not require congressional approval. The TIFA establishes a work program for addressing issues including intellectual property rights, regulatory issues, information and communications technology and electronic commerce, trade and technical capacity building, trade in services, and government procurement.

Put simply, BITs establish the terms and conditions for foreign direct investment (FDI). The United States currently has signed 41 BITs; and Cuba has signed 61. Given Cuba's enthusiasm for BITs, an agreement with the United States might seem an easy proposition. But BITs come in different flavors, and the current US model BIT may be the most demanding in contemporary usage. From the standpoint of aspiring partners, the more difficult features of the latest US model include strong transparency obligations; commitment not to require the use of technologies that give a preference to domestic companies; and commitments not to waive or derogate from the operation of domestic laws that protect labor or the environment, coupled with commitments to enforce domestic laws in these areas and to recognize International Labor Organization (ILO) conventions and multilateral environmental agreements.

Reciprocity Measures: In exchange for access to large volumes of capital and expertise, Cuba should implement reforms to ensure US firms are treated equally as Cuban enterprises and established foreign investors like Canada and Spain. Additionally, the United States should press Cuba to reform its labor practices such as the system of wage determination, decisions to hire and fire, and collective action rights and responsibilities, which are generally considered inconsistent with ILO standards.

Open Skies for Civilian Aircraft

According to the US Department of Transportation (DOT), the number of passengers on direct flights from the United States to Cuba has steadily increased over the past few years. While current flows are significant, in the wake of economic normalization and an Open Skies agreement, travel to Cuba could be substantially larger. This influx of tourism activity could translate to roughly \$1 billion in additional tourist receipts for Cuba.

Reciprocity Measures: The United States should ease restriction on licensing for charter flights further. In return, Cuba should allow US air carriers unrestricted market access to Cuban airports. As an initial step, the United States and Cuba could revisit their existing ASA and negotiate an expanded agreement to allow more airlines to operate scheduled air services to Cuba. The US FAA should assess Cuba's IACC for compliance with ICAO safety standards, which would allow Cuban airlines to operate scheduled air services to US cities.

Cuba participates in a number of important multilateral agreements related to intellectual property rights (IPRs), including 16 World Intellectual Property Organization (WIPO) treaties and the World Trade Organization (WTO) Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), which establishes minimum standards for the protection and enforcement of IPRs.¹⁰ Intellectual property provisions in Cuba's bilateral and regional agreements are generally more limited in scope. Most of Cuba's BITs include coverage of intellectual property, but these provisions vary in standards of protection, definitions of IPRs, and recourse to dispute settlement procedures. In anticipation of expanded access to their respective markets, establishing trademark ownership and securing distribution rights are key IPR issues for both Cuban companies and US. But controversies have erupted in two contexts: (1) in the case of Cuban state-owned companies at-

10. Specifically, TRIPS provisions cover copyrights, trademarks including geographical indications, patents, industrial designs, integrated circuit designs, and protection of undisclosed information (e.g., trade secrets and know-how). In addition to standards of protection, TRIPS establishes enforcement measures including civil and administrative procedures and remedies, border measures, and criminal procedures. For a detailed summary, see Ilias and Fergusson (2011).

tempting to register trademarks in the United States that are the same or substantially similar to trademarks formerly used in connection with expropriated businesses and (2) in the case of non-Cuban companies registering brands in the United States that are claimed, by Cuba, to be strictly of Cuban origin. These were central issues in the high-profile disputes over the rights to Havana Club rum and Cohiba cigars.

Reciprocity Measures: Bilateral IPR issues are clearly intertwined in politics. However, we offer a few reciprocity suggestions to resolve the most acrimonious disputes. Once these “hot button” cases are settled, the United States and Cuba should find themselves in reasonable agreement on IPR questions. Cuba should agree that Bacardi & Co. owns the Havana Club label for the US market if, within a reasonable period, Bacardi & Co. establishes a distilling plant in Cuba. Meanwhile, the United States should agree that Havana Club Holding S.A. owns the Havana Club label for the rest of the world. The same division of the market should apply to the Cohiba label. Next, as part of the normalization process, the United States should repeal Section 211, bringing the United States into compliance with the WTO TRIPS Agreement. To conclude the process, Cuba should establish a credible forum for resolving complaints related to IPR infringements, including those that relate to the piracy of copyrighted and patented goods, practices that are relatively widespread in Cuba.

Offshore Oil and Gas Exploration

One of the main obstacles of oil and gas exploration in Cuba’s ultra-deep waters is the extremely high cost of drilling. US sanctions prohibit US companies from investing or engaging in commercial activity with the Cuban government or any Cuban entity. US sanctions also prohibit the use in Cuba of technology or equipment with more than 10 percent US content. Since the United States leads much of the technology and equipment used in deep water oil and gas industry, it is difficult for foreign companies to acquire the necessary equipment.

Reciprocity Measures: Cuba should give US firms equal footing in the oil and gas sector, allowing them

to invest through joint ventures and wholly owned companies. In exchange, the United States should eliminate the content requirements that currently restrict the use of technology and equipment essential to deep-water exploration. The United States has a near monopoly on this technology and Cuba is severely limited by the restrictions currently imposed.

Another area of cooperation relates to prevention and remediation of oil spills, which is a major US concern following the Deep Water Horizon oil spill in the Gulf of Mexico. The United States has taken initial steps toward preparedness. For example, it has licensed US companies to provide equipment and services required in case of a spill. Cuba should reciprocate by engaging in direct government-to-government dialogue to develop a joint preparedness plan.

Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBT) Regulations

Despite Cuba’s seemingly comprehensive SPS system, there will undoubtedly be barriers to expanded agricultural trade. Given stringent US SPS and TBT rules and regulations, Cuba will likely require some assistance in the harmonization of provisions, and the United States should play an active role in providing technical assistance. The SPS provisions included in the Central American Free Trade Agreement–Dominican Republic (CAFTA-DR) provide a useful precedent. The FTA established SPS and TBT committees and, for the first time, included a trade capacity-building chapter that worked in coordination with the committees to assist in the implementation and conformity of SPS and TBT procedures. The SPS committee identified “regional SPS priorities” for CAFTA-DR countries. These included, among others, the development of risk assessment methodologies, upgrading laboratory infrastructure, and strengthening national WTO/SPS enquiry points. US government agencies provided financial support and technical assistance to the CAFTA-DR countries to bring their SPS and TBT regulations in line with US and international standards. The United States should consider initiating a similar partnership with the Cuban government to facilitate the harmonization of standards and avoid unnecessary

delays in moving agricultural products. In return, Cuba should undertake reforms that allow US agricultural producers to expand and diversify their market share in Cuba.

A US-Cuba Free Trade Agreement (FTA)

Negotiating a bilateral FTA would be extremely challenging and unlikely to occur in the medium term. The Cuban government has indicated its intention to transition more economic activity from the state to the private sector, over the next four to five years, with the private sector eventually accounting for roughly 45 percent of GDP (Sullivan 2012b, 26). But this will require deep and comprehensive reforms. Before the United States considers a bilateral FTA, Cuba will also have to upgrade its labor standards. If an FTA is eventually negotiated, it will entail reciprocal concessions between Cuban firms (whether private or state-owned) and private US firms. For the United States, it will be important not to fully open its market to Cuba unilaterally, before Cuba has already implemented or is willing to undertake crucial reforms. Otherwise, in our view, the Cuban authorities will have little reason to negotiate a meaningful FTA.

CAFTA-DR could serve as a model for a bilateral US-Cuba FTA. The agreement includes an extended tariff phase out schedule, safeguard measures, and a number of capacity-building measures to assist the CAFTA countries with the transition and bring their trade practices in line with US and international standards.

CAFTA-DR delayed the duty-free treatment of certain products deemed the most sensitive and included separate provisions for specific goods. For example, duties on some US non-textile and manufactured goods were phased out over a period of up to 10 years. It is likely that the United States would invoke some of these longer phase-out periods, together with special terms for certain goods, notably sugar.

Another important element of CAFTA-DR that could serve as a model for a US-Cuba agreement is the capacity building provision. The FTA includes a separate chapter on trade capacity building focused on helping CAFTA countries implement the provi-

sions of the FTA, through technical assistance, training, and cooperation. The international financial institutions (International Monetary Fund, World Bank, and Inter-American Development Bank) also played a large role in CAFTA-DR capacity building and could play a similar role in Cuba, which will undoubtedly require technical and financial assistance to update its hard and soft infrastructure.

CONCLUSION: US OFFENSIVE AND DEFENSIVE INTERESTS

American trade negotiators often speak of “offensive” and “defensive” interests, meaning concessions they want and concessions they might give. The largest US “offensive” interest, of course, is Cuba’s transition from a state-run economy and autocratically governed country to a market economy, democratically governed. Unless Cuban leaders and people welcome this transition, it will not happen. Optimistically, we think the transition has already begun, though at a very gradual pace. Realistically, we think the transition will continue on a gradual path, not as a big bang.

Our evaluation of US offensive and defensive interests is couched within this forecast, first listing changes that the United States might offer as enticements for Cuban reform, and second listing changes that the United States might want to ensure an orderly transition and appropriate US participation in the Cuban economy. We emphasize again that substantial political normalization is the precondition for exploring this economic menu.

What Can the United States Offer Cuba?

The United States can table a long list of potential concessions, beginning with measures to unwind the embargo and possibly concluding (a decade or more later) with deep economic integration. However, in our view it is essential that each US concession be matched by a Cuban concession of roughly equivalent value.

When the moment arrives to embark on economic normalization, skilled American and Cuban negotiators will have their own ideas as to the proper sequence. So will political and economic constituencies in both countries. The order of policy changes scheduled in the two preceding sections broadly sketches

what we regard as a sensible sequence of concessions. More precision from academic observers is probably not useful.

We conclude with the strong recommendation that, from the standpoint of US interests, economic normalization must be seen as a reciprocal process. If, instead, the United States offers most of its economic concessions in the immediate aftermath of political

normalization we foresee two unfortunate results. First, Cuba's economic normalization will likely proceed at a slower pace, accompanied by greater favoritism to vested interests and greater corruption of public officials. Second, US firms and citizens will be pushed to the back of the line for commercial opportunities in Cuba.

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