ECONOMIC RELATIONS BETWEEN CUBA AND THE UNITED STATES: FROM IRRATIONAL EXUBERANCE TO A COOL SHOWER

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In December 2014, the United States announced a series of measures to liberalize transactions with Cuba in the areas of trade, tourism and remittances. This announcement, the subsequent re-establishment of diplomatic relations between the two countries, and President Obama's visit to Havana, caused a groundswell of enthusiasm in both countries. In particular, there was an anticipation that expanded trade with the United Sates and a surge in U.S. tourism and investment would lead to an important improvements in Cuba's economic performance and lift the standard of living of its population. Were those expectations justified? I believe they were not.

Confidence in the Cuban economy has declined substantially since the beginning of the rapprochement between the two countries. The index of business confidence constructed by Pavel Vidal[2] surged during 2015 and peaked in the third quarter of the year, as the perceived negative influence of the U.S. embargo declined. But the index fell thereafter and it has been in negative territory since then. It reached its lowest point since inception in January 2017 before recovering slightly through March. This turnaround reflected the shift from a bubble of "irrational exuberance" to the recognition that several unfortunate but uncontroversial facts pointed to a darker outlook.

First, based on current legislation, there is not much more that any U.S. president can do that would help the Cuban economy, even if he wanted to. Second, there is a whole lot that the Cuban authorities must do to deal with the widespread distortions that hinder the growth of the island's economy, *even* if the United States were to eliminate the embargo. Third, the reforms that have been implemented since Raúl Castro took command of economic policy have been either paralyzed (for example in the exchange rate and labor market areas) or reversed (as in agriculture). Fourth, the near-term outlook for the Cuban economy is considerably worse now than it was at the peak of collective enthusiasm around the time of Obama's visit, largely because of the fully predictable implications for Cuba's energy supplies of the severe economic crisis in Venezuela. Since July 2016, the Maduro government has slashed oil deliveries to Cuba by more than one half. Cuba's real GDP declined by 1% in 2016, in spite of the continued strength of tourism and of higher nickel prices in the second half of the year. For 2017, I am forecasting that output will fall by about 3%, even in the absence of further cuts in oil exports by Venezuela.

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1. An earlier version of this article was presented at the February 2017 Conference of the Cuban Research Institute, Florida International University, in Miami, FL. I am grateful to Jorge Sanguinetty for his comments on a previous version of the paper.

2. See Vidal Alejandro and Hernández-Catá (2016).

Table 1. Selected Economic Transactions Between Cuba and the United States

	2001	2005	2010	2014	2015	2016
U.S. exports to Cuba[a] (million $)	7	369	363	299	180	214
[% of total Cuban imports]	[0.0]	[5.3]	[3.8]	[2.5]	[1.5]	[2.3]
Tourist arrivals from the United States[b] (thousands)	155	119	326	359	459	609
[% of total arrivals]	[8.7]	[5.1]	[12.9]	[11.9]	[13.0]	[15.2]
Cuban-Americans[c]	76	82	263	267	298	327
Other U.S. visitors	79	37	63	91	161	282
Estimated tourist revenue from the United States (million $)	148	110	261	304	367	609
[% of total revenue from tourism]	[8.7]	[5.1]	[12.9]	[11.9]	[13.0]	[13.0]
Remittances (million $)	1011	1144	1920	3129	3354	3445
[% of Cuba's GDP]	[3.2]	[2.7]	[3.0]	[3.9]	[4.0]	[3.9]
Total value of transactions with the United States[d] (million $)	1166	1623	2544	3732	3901	4268
[% of Cuba's GDP]	[3.7]	[3.8]	[4.0]	[4.6]	[4.5]	[4.5]

a. Exports are from U.S. Department of Commerce, Bureau of the Census.
b. Arrivals of Cuban-American tourists are calculated by multiplying arrivals from the "Cuban Community Abroad" by the proportion of these arrivals originating in the United States. Historical data for these two series are from Maria Dolores Espino (2013), and data for more recent years are from Oficina Nacional de Estadística e Información (ONEI).
c. Data for remittances are from Morales (2014).
d. Remittances, exports of goods, and revenue from tourism.

So what can, and should, be done to foster the restoration of truly open and profitable relations between Cuba and the United States? Clearly, each side will have to take a number of important actions, all of which are readily identifiable, rationally justifiable, technically feasible, and clearly in the interest of both countries. Yet, these actions will face considerable political opposition on both sides of the Straight of Florida, and therefore, in my view, they will not be implemented anytime soon. Nevertheless, it is useful to identify clearly what must be done to transform the unrealistic expectation of the recent past into a program that can be achieved provided the political will is present.

This article begins with a review of the recent evolution of economic transactions between Cuba and the United States. (The main indicators used in this review are presented in Table 1.) This is followed by an examination of the principal actions that should be taken by both Cuba and the United States to ensure that the rapprochement leads to a significant improvement in Cuba's economic situation.

U.S-CUBAN ECONOMIC RELATIONS SINCE THE TURN OF THE XXI CENTURY: EXPANSION IN SPITE OF THE EMBARGO

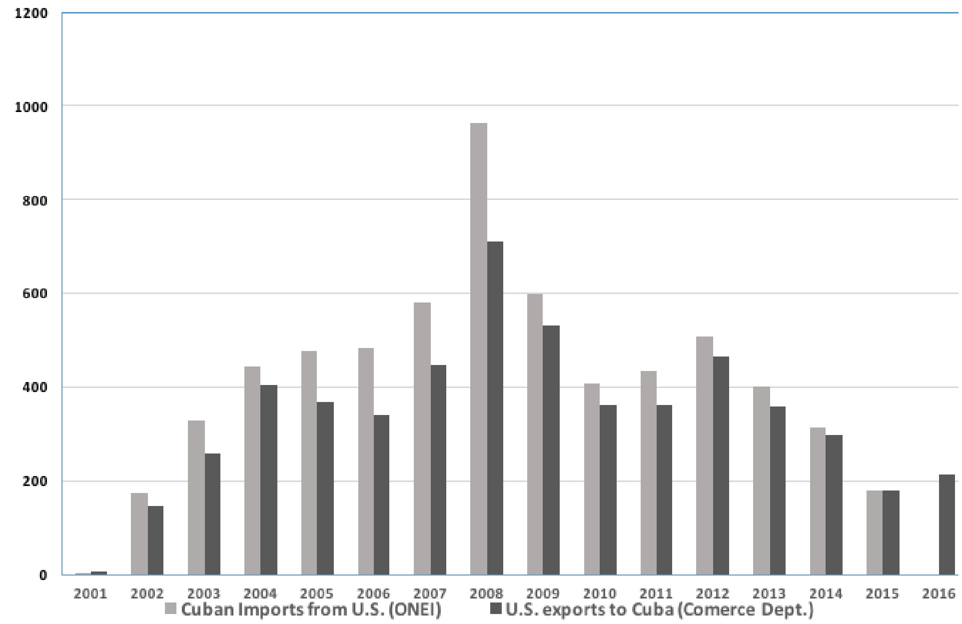
Since the 1960s the Cuban economy has been subject to an "embargo" or "blockade" (depending on whether you adopt the U.S. or the Cuban phraseology) imposed by the United States. As a result, economic transactions between the two countries were essentially interrupted for several decades. More recently, however, flows of trade, tourism and remittances between the two countries have increased significantly.

U.S. merchandise trade with Cuba

- The value of **U.S. merchandise exports** to Cuba, as reported by the U.S. Department of Commerce, rose from virtually nothing in 2001 to a peak of 712 million in 2008, but it declined steadily thereafter to an annual average of about $200 million in 2015–16, or 2.3% of Cuba's total imports.[3] According to Luis. R. Luis (2014), this decline reflected "the displacement of American products by Brazil, Vietnam and other nations and strained international liquidity in Cu-

3. So far these exports have consisted largely of food and medicines.

Figure 1. U.S. Exports to Cuba as reported by the United States and by Cuba *(millions of U.S, dollars)*



Source: Oficina Nacional de Estadística e Información and U.S Department of Commerce.

ba." U.S. exporters may also have been discouraged by falling prices for wheat and other grains during this period.

- A major factor restricting U.S. exports is that Cuba has to pay for U.S. goods in cash or through financing from third countries, while non-U.S. exporters can offer private credit or government financing. This problem became particularly acute with the liquidity shortages associated with the crisis of 2008–09, both in Cuba and worldwide.
- In spite of the decline since 2008, the level of U.S. exports is not negligible: in 2015 the United States was the eighth largest exporter of goods to Cuba. By the standards of U.S. trade with other countries of comparable size, however, the numbers are very small: for example, in 2015 the United Sates exported $7,134 million to the Dominican Republic. Another sobering indication of the size of U.S. exports to Cuba is that they are currently lower in nominal terms than they were before the start of the revolution. In 1958 imports from the United States reached $547 million or almost one fourth of national income, while in recent years they have been running at less than 1% of GDP.
- While there is no reason to expect a sharp rebound in U.S. exports to Cuba in the short-term, the scope for an expansion in the medium-term is substantial, provided that existing U.S. restrictions are removed. These include prohibition to export U.S. products to Cuba (with some exceptions) and to provide export-financing, as well as restrictions on business travel. U.S. International Trade Commission estimates reported by Colby-Oizumi (2016) suggest that U.S. exports could more than quadruple over the medium term relative to their average annual value 2013–15, provided U.S. restrictions are eliminated. She emphasizes that trade is currently constrained not only by U.S actions but also by Cuban government practices. In particular, Cuban exports and imports are subject to official authorization; most are contracted by government agencies, and distribution is controlled by the state. If both U.S and Cuban restrictions were removed, Colby-Oizumi reports that U.S. exports could increase more than five-fold over the medium term.

Figure 1 displays two numbers for each year: U.S. exports to Cuba as reported by the U.S. Department of Commerce (dark histograms); and Cuban imports from the United States as reported by the Cuban statistical agency ONEI (light histograms). Conceptually, these two numbers should be equal. In practice, however, the numbers reported by Cuba are systematically larger than those reported by the United Sates due to insurance and transportation costs, differences in statistical methods, and probably over-invoicing. For example, in 2005 ONEI reported imports from the United States of $476 million, or 29% more than the value of U.S. exports to Cuba reported by the United States. By international convention imports are measured on a cost-insurance-freight (cif) basis, and exports on a free on board (fob) or free alongside ship (fas) basis. This may account for 10 percentage points of the difference between the two series. A regression of U.S.-reported vs. ONEI-reported series yielded a coefficient of 1.2 and a t statistic of 28.8, implying that the difference between the two series exceeds the cif/fob ratio by a statistically significant margin of 10 percentage points, suggesting the presence of systematic over-invoicing.[4]

U.S. merchandise imports from Cuba, as reported by the United States, have remained at zero through end-2016. For some reason, however, ONEI has reported small values for Cuban exports to the United States in recent years, peaking at $0.6 million in 2008 and declining thereafter. By way of comparison, in 2015 the United States imported $4,776 million from the Dominican Republic. And in 1958, Cuba exported $490 million to the United States, or just over 22% of national income.

U.S tourism in Cuba

Arrivals of U.S. tourists (other than Cuban-Americans) surged from 52 thousand in 2009 to 282 thousand in 2016. This represented only 7% of total tourist arrivals to the island, so that the potential for further expansion is probably substantial. This performance was supported by a steep rise in the number of flights from the United States to Cuba, from 1,694 in 2009 to 4,794 in 2015 and to 7,461 in 2016.[5] So far, U.S. arrivals have been restricted to 24 categories of visitors.

ONEI recently reported that 'arrivals from the "Cuban Community Abroad"' reached a peak of 427 thousand in 2016, or 11% of total arrivals. María Dolores Espino (2013) estimated that the proportion of these arrivals coming from the United States had risen from 51% in 2009 to 70% in 2012, and more recent data suggest that it rose further to 77% in 2016. In Table 1 and Figure 2, Cuban-American arrivals were estimated by multiplying ONEI's total arrivals from the "Cuban Community abroad" by the estimated share of arrivals from the United States in that total.

On the basis of these numbers it can be inferred that total arrivals by all U.S residents (*including* Cuban Americans) surged from 359 thousand in 2014 to 609 thousand in 2016, or almost 13% of total arrivals to Cuba. Expenditure by these tourists was roughly $367 million in 2015, or 15% of the island's total tourist receipts, assuming that per capita spending by U.S. and Cuban-American tourists is equal to the average for all tourists visiting Cuba.[6] Again, however, Table 2 shows that the Dominican Republic registered 10 times as many arrivals from the United States in that year.

4. In a recent article (2016), I presented regressions for Cuba's 14 largest trading partners (excluding Venezuela). The regressions showed significant evidence of over-invoicing in 11 out of 14 countries, with double-digit over-invoicing coefficients for Argentina, Ukraine, France, and Mexico.

5. According to The Havana Consulting Group (2017).

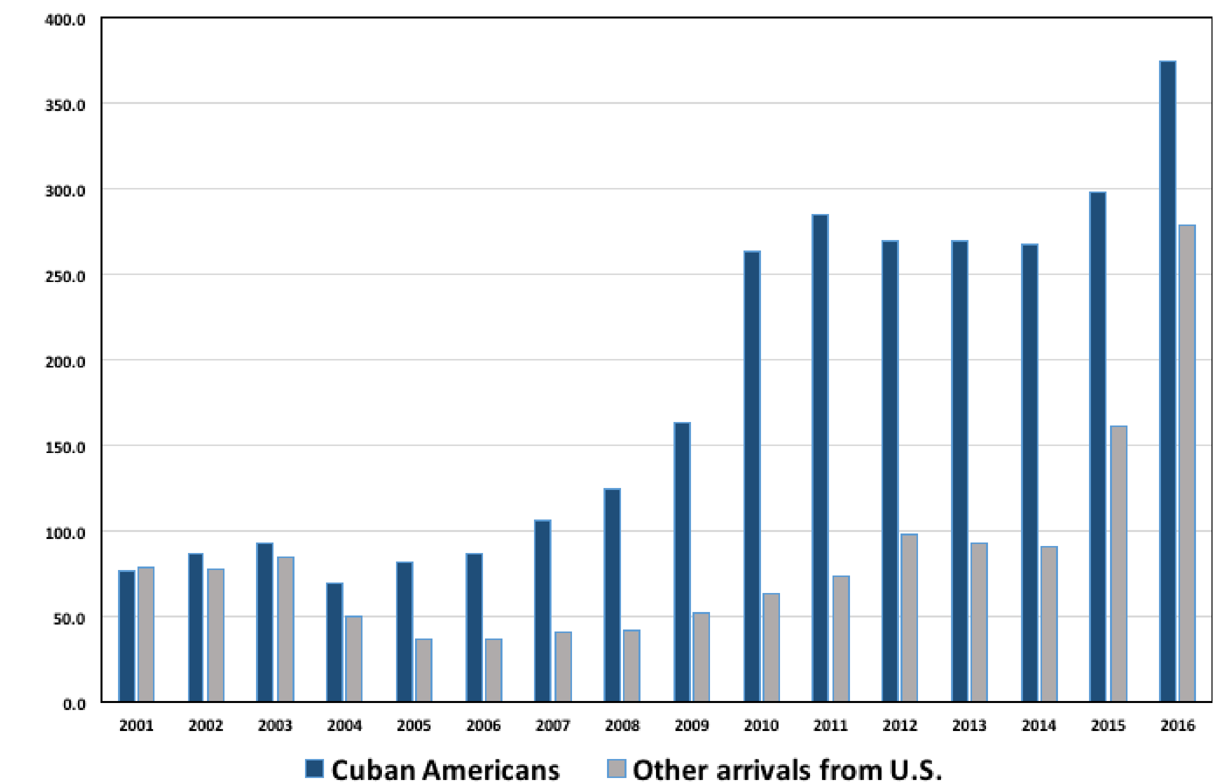
6. This may be an overstatement inasmuch as the share of cruise visitors in U.S. tourist arrivals is above average, and that per-capita expenditure by cruise tourists in general is known to be below average. This bias may be offset by the fact that U.S. tourists *in general* have higher per capita spending than tourists from most other countries.

Table 2. Cuba and the Dominican Republic (2016) and Cuba (1958)–Selected Transactions with the United States

	Cuba, 2016	Dominican Republic, 2016	Cuba, 1958
U.S. exports (million U.S. $)	215	7134	547
U.S. imports (million U.S. $)	0	4776	528
Toursit arrivals (thousand persons)	652	6559	323
Remittances (million U.S. $)	3354	4901	na

Source: U.S. exports to and imports from Cuba are from U.S. Department of Commerce. U.S. exports to and imports from the Dominican Republic are from COMTRADE. U.S. tourist arrivals are from ONEI and the Central Bank of the Dominican Republic. Remittances are from Morales (2012 and 2017). 1958 Cuban data are from Alvarez-Díaz (1965). Data for tourist arrivals in 1958 refers to arrivals from all countries., not just the United States.

Figure 2. Tourist Arrivals in Cuba: Cuban-Americans and Other U.S. Visitors (Thousnd visitors)



Source: *ONEI*, María Dolores Espino (2013), ONEI, and author's estimates.

Remittances

According to estimates prepared by Emilio Morales (2013), foreign remittances received by Cuban residents increased from $1,011 million in 2000 to $3,554 million in 2016—an average annual increase of nearly 17.2%[7]. These numbers may appear to be very large, but I believe they are the best we have. The alternative estimate of $1,260 in 2014 provided

7. Wikipedia data for the period 2011–2015 suggest that the United States accounted for more than 85% of these remittances, and Spain for about 10%. Orozco and Hansing (2011) estimates for 2010–2011 are 68% from the United States, 13% from Europe (mainly from Spain) and 19% from Latin America. They report remittances from Cubans working in Venezuela at 8% of the total, which makes their estimates more credible.

by Orozco et al (2016) seems much too low as it implies growth rate of only 2.5% per annum relative to the $813 million estimate last provided by the Cuban authorities in 2001[8]. (Since then, no information on remittances has been provided by ONEI.)

The total value of transactions in trade, tourism and remittances between Cuba and the United States amounted to an estimated $3.9 billion in 2015, or roughly 4.7% of Cuba's GDP. This is significant although, as shown in Table 2, it is small both by historical standards and in comparison with other countries of comparable size, like the Dominican Republic. There is clearly room for considerable growth in bilateral transactions provided both countries take the necessary steps.

Migration

Since the early 1960s large numbers of Cubans have emigrated in every year, mostly to the United States. ONEI data indicates annual net emigration flows ranging from a low of just under 1 thousand in 1977 to a peak of 142 thousand in 1980, the year of the Mariel boat crisis. In the period 2000–2012, net emigration flows ranged from 29 thousand to 47 thousand. The U.S. Department of Homeland Security also reported a large rise in Cuban permanent visa migrants to the U.S. during that period. There are, however, substantial differences between these numbers and those published by ONEI, mostly for three reasons: (i) differences in definitions and coverage; (ii) ONEI data include Cuban emigration to countries other than the United States; and (iii) ONEI reports emigration on a net basis and therefore includes gross immigration to Cuba with a negative sign. This latter category probably includes Cubans returning to their country of birth after a period spent abroad. (ONEI does not report data for gross emigration.)

Then comes an astonishing development. ONEI data for 2013–14 show a massive and unprecedented swing from net emigration from Cuba to net *immigration* to Cuba. This is particularly astonishing given that U.S. data continue to show a strong increase in gross immigration of Cubans in that period. How can this swing be explained? Luis R. Luis (2017) has reported data for gross immigration of Cubans into Spain and Mexico, probably the two major destinations other than the United States. These numbers are used in Table 3 to construct a proxy for *total* gross emigration from Cuba. Subtracting from this total ONEI's number for total net emigration of Cubans suggests that *gross immigration into Cuba* may have exceeded 100 thousand in 2013–14. This is a very large number that is not easy to explain. Roger Betancourt (2017) has suggested that this apparent mystery reflected the interaction of two factors:

Table 3. Cuba, Emigration and Immigration *(Thousand persons)*

		2012	2013	2014	2015
1	Cuban emigration (net)	46.7	-3.3	-1.9	24.7
2	Cuban emigration (gross)	45.3	42.0	56.7	71.8
2a	to the United States	32.8	32.2	46.7	54.4
2b	to Spain	9.3	8.4	7.9	7.8
2c	to Mexico	3.2	1.4	2.1	9.6
3	Estimated Cuban immigration (gross)	-1.3	45.3	58.6	47.2

Source: U.S. Homeland Security Department, ONEI, and Luis (2017).

1. the Cuban Migration Act, Decree-Law 302 of January 2013, that allowed Cubans to leave the island for up to two years (renewable) without any permit other than a passport; and
2. the increased attractiveness of the Cuban labor markets resulting from the reforms implemented by Raúl Castro's administration since 2011, and particularly the rise in private employment.

Betancourt hypothesizes that successful economic reform in Cuba reduces the incentive to migrate (on a temporary as well as a permanent basis), but also changes the composition of migration by providing greater incentives for temporary migration. Specifically, it would encourage double dipping by temporary migrants who would obtain a U.S. visa, take ad-

8. ONEI reported current account transfers of $812 million in 2001 and $820 million in 2002. At that time, that concept included mostly remittances and a small amount of net donations. After that, official numbers for current transfers bounced around in a way that suggests large-scale *outflows* of transfers to an unknown destination. There has been no official explanation of this statistical mystery. However, see Hernández-Catá (2013).

vantage of the U.S. welfare system, and then return to the island and join the emerging private sector, possibly investing some of the funds they obtained in the United States. This explanation is credible and it is the best we have so far.[9] However, the magnitude of the estimated reflow of migrants in Table 3 would seem to imply an extraordinarily high sensitivity to the relatively modest reforms implemented by the Raúl Castro administration. In any event, Cuban data for 2015 show a sharp turnaround from net immigration back to net emigration, which suggests that the phenomenon may have been temporary—perhaps because the domestic labor market reforms were also largely temporary. Nevertheless, by historical standards the estimated flow of gross immigration into Cuba remained quite large in 2015.

RECENT U.S. MEASURES

What can be said about the effect of the measures announced by the Obama Administration in December 2014? These measures included provisions to facilitate banking transactions for U.S. exporters, such as the opening up of correspondent accounts between U.S. and Cuban banks, and an increase in the range of U.S. goods that can be exported to Cuba (to include telecommunications equipment, construction and farm inputs). So far, these measures do not appear to have helped much: U.S shipments to Cuba rose in 2016 but remained well below their level in 2014. The measures to facilitate organized trips to Cuba appear to have had a much stronger impact: total tourist arrival from the United States jumped by almost 70% from 2014 to 2016 while arrivals excluding Cuban-Americans more than tripled. Finally, the maximum annual level of remittances allowed for each Cuban-American was raised from $2,000 to $8,000, which is likely to have a positive effect in the period ahead. All things considered, Luis R. Luis estimated the combined impact of these measure on Cuba's real GDP at 0.5% in 2015, and a little more in 2016. These effects are not negligible, but they certainly will not offset the deflationary impact of the fall Venezuelan assistance.

On October 14, 2016, the U.S. Department of the Treasury and the Commerce Department's Bureau of Industry and Security announced new measures to amend and expand existing regulations. These measures would:

- increase opportunities for scientific collaboration between the two countries and "expand access to medical innovations";
- allow U.S. persons to engage in joint medical research projects with Cuban nationals;
- authorize imports into the United States of Cuban-origin pharmaceuticals approved by the U.S. Food and Drug Administration;
- authorize the provision to Cuba of services related to "developing, repairing, maintaining, and enhancing certain Cuban infrastructure";
- waive, subject to certain conditions, the rule preventing foreign vessels from entering a U.S. port for purposes of loading or unloading freight for 180 days after calling on a Cuban port for trade purposes.

Some of these measures appear to be significant, although it is not entirely clear how they will be implemented be the Trump administration.

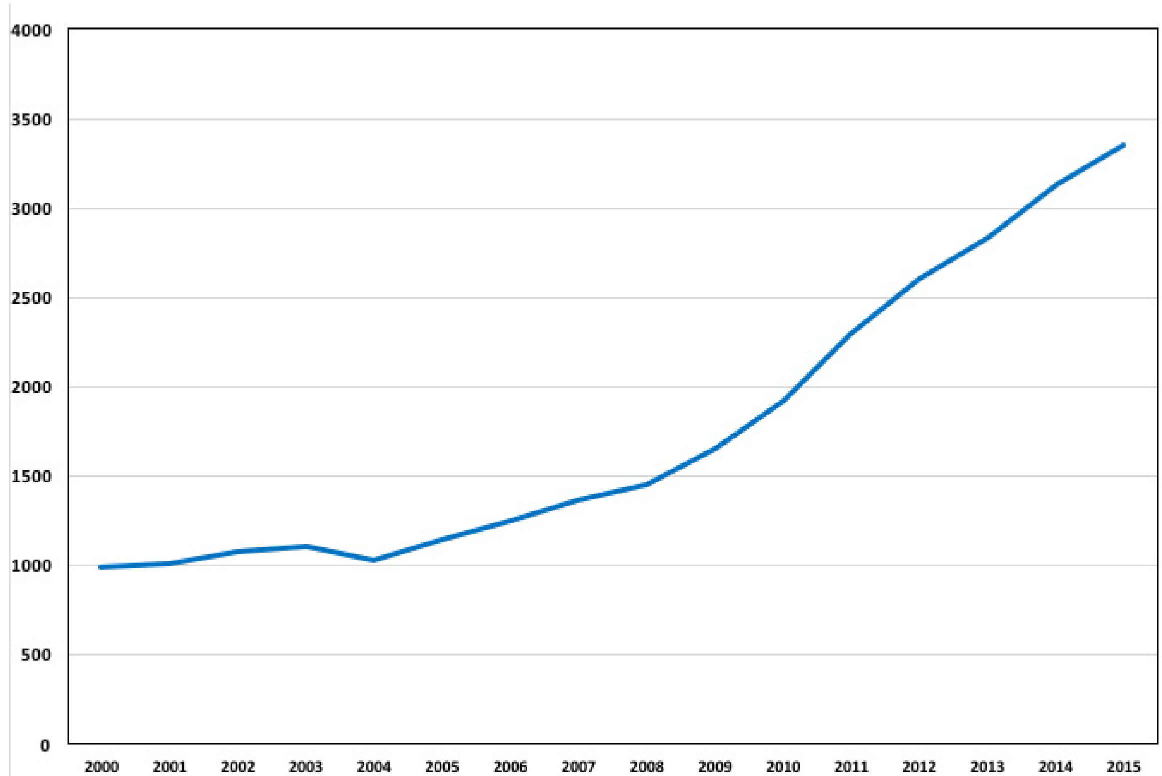
HOW CAN TRANSACTIONS BETWEEN CUBA AND THE UNITES STATES BE EXPANDED FOR THE BENEFIT OF BOTH COUNTRES

The Agenda for the United States

For both countries to experience the full benefits of improved economic relations, the Congress of the United States will have to abolish the Helms-Burton (H-B) Act, but only as part of a negotiated settlement that includes significant economic and political liberalization in Cuba. At present this law does not serve any useful purpose, except that it could be used as a carrot to elicit reforms from the Cuban government. Once H-B is out of the way, the basic conditions will be established for mutually beneficial trade tourism, and investment, provided Cuba takes the appropriate policy measures.

9. Anecdotal evidence suggests another possibility. A number of Cubans that had migrated to European countries, in particular Spain, and had been unable to find a job are reported to have returned to Cuba, taking advantage of the Cuban Migration Act.

Figure 3. Cuba: Remittances from Abroad ***(Million U.S. $)***



Source: Morales (2011 and 2017)

- The free movement of persons could be a welcome addition to the opening-up of trade relations. It should include Cuban athletes, artists, as well as academics who would have the right to participate in professional meetings in the United States, provided that the Cuban government allows them to do so without fear of retaliation. Free movement of athletes in both directions would potentially increase remittances, and the reopening of the historic baseball winter leagues in Cuba would stimulate U.S. and Cuban-American tourism. Free movement of medical personnel would also increase remittances and help to absorb returning doctors from Venezuela in case of further cuts in oil deliveries to Cuba.
- Under current law, the U.S. Executive Director at the International Monetary Fund (IMF) must vote against Cuba's admission to the organization. While the (weighted) voting power of the U.S. Director at IMF's Executive Board is only 17% at present, many other member countries would almost certainly vote with the United States (for political or diplomatic reasons, or for fear of retaliation against the institution which is explicitly considered in the H-B law), effectively blocking Cuba's entry. With the end of H-B, the U.S. Executive Director could be instructed not to oppose, or even to support, Cuba's request for membership, which would guarantee admission. This would open the way for membership in the World Bank and its substantial financial and technical assistance resources. As a separate matter, Cuba's return to the Organization of American States would open the way for membership in the Inter-American Development Bank.
- The U.S. government and its agencies could complement the contributions of the IMF and the World Bank by providing technical assistance in areas such as fiscal and monetary policies, banking regulation, anti-trust and pro-competition legislation, the design of an efficient unemployment insurance scheme and, last but not least, statistics. Over time, U.S. agencies, including the Treasury and the Federal Reserve,

could also assist in modernizing Cuba's pre-historic financial system, including the creation of markets for Treasury bills and bonds, commercial paper, and equities, an active discount window at the Central Bank of Cuba, and the development of a monetary policy based on sales and purchases of government securities.

- In cooperation with universities, the U.S. government and its agencies could sponsor educational programs (including scholarships and seminars) aimed at improving the understanding of market-related economics by Cuban students, and the workings of U.S. markets and institutions.
- Finally, the United States will have to deal with the difficult task of resolving the claims related to U.S. assets expropriated by the Cuban government—admittedly a difficult problem, but one that negotiators have been able to resolve previously in Eastern Europe and Russia. In recent years, Cuba has successfully negotiated debt rescheduling agreements with several countries including Russia, China, Japan and Mexico as well as with the Paris Club, demonstrating that agreement on these complex issues is possible if there is good will on all sides.

Cuba's Agenda

Without minimizing the political difficulties raised by the actions required from the United States, it is clear that the catalogue of measures that the Cuban government must take is much longer and even more challenging politically. Jorge Sanguinetty once observed that the Cuban economy had confronted not one but two blockades: the *external embargo*, imposed by the United States; and the self-imposed *internal embargo*.[10] I believe, as he does, that the second embargo has been much more damaging than the first. The challenges that the government will confront in dismantling the internal embargo are substantial. I will comment briefly on some of the most important ones.

- Cuba should approach freer trade with the United States by allowing domestic enterprises, private and public, to make their own decisions *based on consideration of profitability*—not on the ideas of politicians and bureaucrats. Furthermore, openness should not be seen as an opportunity to obtain special deals from the northern neighbor. Cuba's history has seen too many political deals (the U.S. sugar quota, the subsidies from the Soviet Union, and the Accord with Venezuela) to which the Island's economy became addicted and which provoked disruption and suffering when they were eliminated.
- Cuba should establish favorable conditions for efficient producers by **removing price controls**. Any unfavorable effect on the poor could be offset through targeted fiscal transfers.
- The government should move promptly to complete the **unification and liberalization of the exchange system**, which unavoidably will involve a devaluation of the non-convertible peso (CUP). The gradual and sectorial approach pursued so far provides ammunition and time to those who oppose the reform, and it introduces a greater multiplicity of exchange rates and distortions. Dozens of countries in Eastern Europe and the former Soviet Union liberalized their exchange systems early in the reform process and devalued their currencies without suffering any fatalities. Cuba needs a devaluation of the peso to stimulate exports and production. Moreover, the fear that a devaluation will necessarily bring about inflation is based on a myth—unless monetary policy is unduly relaxed, the depreciation will lead to a once-and-for-all increase in prices, but not to a lasting inflationary process.
- As the exchange system is liberalized, it will be critical to abolish the **state monopoly on foreign trade**, and to discontinue the practice of managing the balance of payments via import restrictions.

10. It so happens that I once quantified these two effects without knowing that I was dealing with the "two embargoes". See Hernández-Catá (2011), particularly the regression results in Table 2. Note that the negative impact of domestic policies is larger in all cases than the effect of the external blockade.

- Cuba has demonstrated the ability to direct **fiscal and monetary policies** toward the long term objective of macroeconomic stability—although events in recent years have raised doubts about the firmness of that commitment. As the economy is liberalized it will be essential to re-affirm the commitment to fiscal discipline, among other things by restoring a surplus in the government's *current* fiscal balance (the conventional fiscal deficit plus government investment), which had been the norm since the early 1990s. Right now, however, the economy is in recession and this will justify a moderately simulative macro policy for some time, particularly if the disintegration of the Venezuelan economy leads to a further cutback in oil exports to Cuba—and a simultaneous reduction in Cuban exports of professional services. This would be have been a great time for Cuba to count on a lender of last resort, but bilateral obstinacy has deprived the country from using the financial resources of the IMF.
- Even before the H-B act is abolished and before Cuba could become a member of the IMF, **the government should engage in a dialogue with the IMF** and seek to benefit from its technical assistance. At the same time Cuba will have to prepare for membership and this will require improving and opening up a **statistical system** that has experienced interminable delays and is clouded in unnecessary secrecy. Except for merchandise trade and tourism, data for external current account transactions are available only through 2013, and data for the capital account have been invisible for decades. The balance sheets of the banking system, including that of the Central Bank, are nowhere to be seen, and there is not a published word on anything related to transactions in convertible pesos (CUCs). The problem is getting worse year after year. For example, the publication of useful information on the structure of government subsidies to enterprises has been discontinued, and complete data for the national accounts and the external sector for 2015 were released only in the spring of 2017. I am sure that technicians at the national statistical office are doing their best. But obsession with secrecy on the part of senior government officials prevents ONEI from providing timely information to the Cuban people, academic researchers, and the international community.
- An important achievement of the government since 1994 has been the virtual elimination of the subsidies to state enterprises that were provided after the collapse of Soviet assistance with the objective of disguising open unemployment. In addition, since 2011 hundreds of thousands of redundant workers have been transferred from the state to the private sector. These developments have resulted in a large increase in *active* employment and allowed a fairly rapid growth in production to proceed with low inflation. Moreover, open unemployment has not increased appreciably since the transfer operation started, although the number of discouraged workers appears to have increased. Yet, after an impressive start in 2011–12, the transfer of employees out of the state sector has now run out of steam, essentially because the list of private occupations into which state workers can be legally transferred has been almost exhausted. From now on the government will have to consider allowing private activities in sectors that heretofore have been the exclusive province of the state, like education, health, and sports. No doubt this will face strong opposition from certain sectors, partly on ideological grounds. But there is no ethical reason why private clinics and schools should not be allowed to operate; free health care and education could continue to be provided by the government to those who truly need it. Allowing private consulting companies to perform freely in areas such as economic, business, legal and accounting services would also be a positive-sum game.
- The increase in the **private labor force** that has occurred in recent years and the prospect for greater flexibility of wages are encouraging. But there is an aspect of the Cuban labor market that continues to be exceedingly bothersome: the discrimination against Cuban workers employed by

foreign private companies or governments. The practice of receiving payment in foreign currency from foreign entities but remunerating the workers in non-convertible pesos at the artificial one-to-one exchange rate amounts to the imposition of a huge discriminatory tax. It has been condemned by the International Labor Office and by free labor unions around the world, and constitutes a sad example of the exploitation of workers by the communist bureaucracy. It must be eliminated expeditiously.

Foreign **direct investment** could play a valuable role in bringing capital, technology and management, for example in sectors such as infrastructure and hotels. However, investments by large foreign companies in a small country like Cuba raise the danger of special deals between investors and corrupt government officials, and they will have to be carefully vetted. The renewed interest in direct investment should not detract from attention to foreign **portfolio investment** which could play an important role provided that Cuba's financial system is modernized and macroeconomic stability is maintained.

CONCLUDING REMARKS

The actions listed in the previous section are not only in the interest of good relations with the United States but also in the interest of Cuba itself. Yet, they have faced, and continue to face, considerable opposition in Cuba. The main reasons for this opposition are well known: the distaste of Marxist-minded officials and intellectuals for any measure they regard as "neo-liberal"; concern that economic reform will be a Trojan horse for political liberalization and cause the government to lose political control; and fear on the part of some officials that they will lose their privileges. Other concerns are nobler, even if they are misguided. Many in Cuba believe that market-oriented reforms will do away with the emphasis on poverty alleviation. This need not be. There is another less obvious reason which has to do with what Eric Fromm called "fear of freedom"—the fear by those used to a predictable, albeit poor, existence, that life under a liberalized system will become riskier and more complicated.

In the United States, and particularly in parts of the Cuban-American community, opposition to a rapprochement is grounded on a profound distaste for the Cuban regime. This attitude is justified by the long tradition of repression and violation of human rights in the island. For a long time it was also justified by the Cuban government's assistance to terrorist organizations that endangered the security of the United States and its allies. The future will tell whether this problem has been resolved. Obviously, some believe that it already has, as illustrated by the Obama administration's removal of Cuba from the list of countries supporting terrorism. For those, like this author, who are primarily interested in the welfare of the Cuban people, the key question at this stage is how the Cuban government can be persuaded to implement the reforms that are required to deliver an appreciable improvement in the standard of living of the population.

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As far as I can see, President Donald Trump's June 2017 speech on Cuba included a lot of words but basically no enforceable measures. At most, it was a cool shower signaling that no further liberalization measures should be expected for now. Any statement about what future actions by this administration could entail for the Cuban economy is hostage to fortune. It would seem that Trump dislikes the Cuban government, but he has failed to articulate a strategy that would encourage the adoption of more liberal and rational policies.

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