

The Value of Engagement with Cuba

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Mr. Chairman, Members of the Committee:

Thank you for inviting me to testify on a subject of great importance to American foreign policy in this hemisphere: United States relations with Cuba.

Many experts did not expect Cuba's political system to survive the horrendous economic troubles it suffered when the Soviet bloc disappeared a decade ago. To hasten its demise, Congress passed new laws in 1992 and 1996 that strengthened American economic sanctions. As a result, Cuban imports became more expensive, Cuba encountered higher costs and new difficulties arranging shipping for its trade, and investment in Cuba became more risky for foreign companies that were interested in forming joint ventures.

Yet Cuba's political system survived and remains stable. Its economy stayed afloat and restored a measure of growth by allowing foreign investment, allowing farmers to sell their surplus production on the open market, allowing limited small enterprise, allowing Cuban citizens to hold foreign currency and to receive family remittances from abroad, and by building a new tourism industry that has now replaced sugar as the top foreign exchange earner.

These modest market-based reforms have increased incomes and living standards for millions of Cubans and brought new ways of doing business to workers and managers who before had only known the ways of state planning.

However, they leave many of Cuba's problems unsolved. Growth and job creation remain insufficient, and not all Cubans are able to benefit from the opportunities available in the new sectors of the economy. Highly educated and skilled Cubans often work in tourism-related jobs far below their qualifications because that is the only option for them to earn a good income.

As they confront these challenges, Cubans know that they will one day see a change in leadership, a turn to a new generation that did not fight the revolution that brought

socialism, but rather grew up in that system. Cuba's next generation of leaders will have to decide how to run the economy, knowing that new doses of centralization and socialism will not produce the results their nation needs. And they will decide whether to preserve or adapt their current political system.

Faced with this situation, American policy toward Cuba is centered on two ideas: a justified criticism of Cuba's human rights practices, and a misguided, counterproductive attempt to block contacts of all kinds between the Cuban and American peoples.

Based on measures that are in the jurisdiction of this Committee – principally the trade embargo and the travel ban – American policy toward Cuba has created a barrier to a flow of people, commerce, and ideas that would constitute a powerful source of American influence in Cuba.

This policy amounts to an embargo on American influence in Cuba.

It has no parallel in the approaches we pursue toward communist countries such as China and Vietnam today. It is squarely opposed to the approach America adopted toward the Soviet bloc, where we championed the Helsinki accords precisely in order to promote the kinds of trade, travel, exchanges, and unregulated people-to-people contact that we prohibit with Cuba today. It may not be an exaggeration to state that if our Cuba policy had been in place toward Eastern Europe, deliberately isolating those countries from direct Western influences, the Berlin Wall might still be standing today.

It may be some time before Congress considers what to do about the Cuba embargo as a whole. However, even if that debate remains postponed, there are steps we can take that would put our policy on a constructive course and benefit our national interest.

I strongly believe that the first and most important step is repeal of the travel ban, which would bring several benefits.

Communication. America's policy of principled engagement with communist China recognizes the value of American contacts with Chinese citizens in all walks of life. This has long been a missing element of American policy toward Cuba. We should take the federal government out of the business of regulating and licensing Americans who seek to travel to Cuba to see and learn about the island and its people, to participate in exchanges or conferences, or to deliver humanitarian aid. Unrestricted travel by Americans will unleash a flood of contact with Cubans, transmitting information, ideas, and values.

Freedom and fairness. Our belief in personal freedom and limited government should lead us to deny freedom of travel only where a direct national security rationale exists. No such rationale exists in Cuba's case. Moreover, the Cuba travel ban is enforced in a discriminatory manner. The Treasury Department has assessed fines against more than 1,200 Americans for illegal travel to Cuba since the Bush Administration took office. Yet in response to Congressional requests, the Treasury Department has not cited a single

case where a Cuban American has been cited for a violation of restrictions on travel or remittances.

Small enterprise. Many of Cuba's 140,000 small entrepreneurs – especially private restaurateurs, artists, taxi drivers, and families that rent rooms in their homes – earn their revenues from foreign travelers who use their services. They will benefit greatly from the dollars that American travelers spend; their numbers will expand dramatically, they will gain independence, and their families will have better livelihoods.

Terrorism. The Treasury Department office that governs Cuba travel, the Office of Foreign Assets Control, is also the key Treasury element in the effort to break al Qaeda's global money network. Its resources should be dedicated fully to fighting terrorism, not to duties such as licensing, investigating, and fining travelers to Cuba.

Agricultural sales. Taking advantage of the provisions of the Trade Sanctions Reform Act of 2000 that permit purchases of U.S. agricultural products, Cuba has made purchases of \$366 million since December 2001, and has signed contracts valued at an additional \$120 million. The purchases cover a wide range of products including grains, poultry, livestock, apples, wood, and finished consumer products such as cereals and beverages. The revenues Cuba would earn from American travelers would greatly expand Cuba's ability to purchase American farm products. If Cuba purchases \$500 million in American farm products annually, American farm exports would expand by one percent.

Second, Congress should seek improvement in the means by which agricultural transactions with Cuba are conducted. Today, these transactions are made in a highly circuitous and inefficient manner: Cuba typically makes payment in a foreign currency such as the Euro, sending payment through a European bank, converting the currency to dollars, then sending payment to the U.S. exporter's American bank account. This process can take up to a week, and the resulting fees, foreign exchange losses, and excess shipping charges often absorb upwards of five percent of Cuba's payment. French banks are typically the beneficiary of this process, which makes American exports less competitive, and causes Cuba to spend less of its foreign exchange on American products. These inefficiencies could be eliminated, and the transactions would be more transparent and easier for regulators to monitor, by a simple licensing action whereby Treasury would authorize the direct wire transfer of Cuban payments, in dollars, to the U.S. accounts of U.S. exporters.

Finally, Congress should sunset Cuba sanctions laws that violate WTO norms by penalizing foreign nationals who do business in Cuba. The Helms-Burton Act, which sanctions foreign business executives and their families and authorizes lawsuits in American courts against foreign businesses whose investments touch properties expropriated from Cuban nationals who now live in the United States, and Section 211, which intervenes in a trademark dispute on the side of the Bahamas-based Bacardi corporation, both create needless conflict with American trade partners, and are obstacles to greater diplomatic cooperation with our allies on political issues involving Cuba. By

setting a date for the expiration of these laws, Congress would bring about an overdue debate about these laws' costs and benefits, and would force itself to decide whether they deserve reauthorization.

In conclusion, Mr. Chairman, I applaud your decision to re-examine our policy toward Cuba. Our sanctions have succeeded in compounding Cuba's economic hardships, but they have sent the unseemly signal to the Cuban people that America wants to use economic hardship to precipitate political change. And with regard to that political objective, they have been a perfect failure. The cost of changing this policy would be zero.

So I would urge you and your colleagues to consider a radical change in the orientation of our policy.

It is not necessary to invent new theories and paradigms for this socialist country that happens to be a Caribbean neighbor. Rather, we should look to the mainstream of American foreign policy. We should continue our principled defense of human rights. We should cooperate with our allies rather than castigate them for having the same trade relations with Cuba that we have with other communist countries.

And rather than hold our eleven million Cuban neighbors at arm's length, we should respectfully and confidently open every avenue of contact with them at a time when history is leading them toward a new world, and they are looking for answers.

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Philip Peters is Vice President of the Lexington Institute and served in the State Department's Latin America bureau during the Reagan and George H.W. Bush Administrations. A monograph on Cuba's economy and the new policy measures adopted in the 1990's – "Survival Story – Cuba's Economy in the Post-Soviet Decade" – is found at www.lexingtoninstitute.org/cuba along with studies of individual sectors of Cuba's economy and analyses of U.S. policy issues.