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"The President's New Cuba Policy and U.S. National Security"

Chairman Duncan, ranking member Sires, distinguished committee members, thank you for the opportunity to share my analysis of Cuban events and U.S.-Cuban relations with you in my capacity as an economist and as an observer of Cuba in the hemisphere. It is an honor to be here.

Mr. Chairman, of events in Cuba it can be truly stated that the more things change the more they stay the same. The chronic economic woes, the political control by a ruling elite and the alliances with nefarious and extra-regional actors have underscored, and often overturned, whatever possible economic and political reforms appear from time to time or the best intentions for normal relations.

Today, as the U.S. considers a new policy toward Cuba it is imperative that we separate intentions from realities and neither underestimate nor overestimate Cuba's strength and threats. My testimony will focus on three areas of concern: economic, political and foreign policy/national security.

I. Economic

Cuba's chronic economic situation is one of decline and a lack of productive output, a persistent low standard of living reflected in the low incomes of the population and the constant shortages of goods and services. After fifty years, many basic necessities are still rationed and everyday life for ordinary Cubans is a constant struggle for survival.

After an economic downturn in 2008, Cuba rated the second lowest growth rate in Latin America. Capital formation declined from 25 percent to 8 percent, the lowest in Latin America in 2011. The country's trade deficit was at $11 billion in 2008. Real wages have declined 72 percent since the 1989 economic crisis, while average salaries are U.S. $18-20 per month (Mesa-Lago, 2013).

In the last few years, the flow of Venezuelan petro-dollars has allowed a respite. According to Carmelo Mesa-Lago, the preeminent scholar on the Cuban economy, the Cuba-Venezuela relationship amounts to an estimated $11 billion, more than Cuba's yearly relationship with the USSR, adjusted for inflation (Mesa-Lago, 2013). Today, however, the collapse of the Venezuelan project signals the writing on the wall, and the status quo is simply no longer tenable. Changes, of varying nature and depth, are the order of the day.

In a remarkable admission, Raúl Castro told the Cuban central leadership in 2010, "either we change or we sink." Implicit to anyone who has studied the Cuban socio-economic system, and despite the verbal contortions used to mask the reality, the statement is incontrovertible: the institutions of central planning and state ownership of the means of production – socialism – have come into irreconcilable contradiction with the economic and social advancement of the people.

As a result of the enduring and untenable conditions, a series of economic reforms are being attempted. These include: distribution of state-owned land to farmers; dismissing one million state workers and the expansion of private jobs in self-employment and cooperatives, among others. The reforms reflect a pervasive and generalized disenchantment with the status quo. While couching the changes as an attempt to create a "sustainable model of socialism," the reforms include a major attraction of foreign investment, a shift in the labor force from the public to an emergent private sector, and the legalization of private initiative to take up the slack in state employment.

The reforms are partial, slow and tentative. Their tentative nature underscores internal divisions among the leadership concerning the reforms. Like previous attempts at liberalizing the economy during hard times, the fear that they will be rescinded abruptly is palpable. The formulations being used to prepare the population for economic reforms and for future inflows of American dollars further mask the central problem of the leadership, that of power, the defense of which may require changes in the economic area. The concentration of power in a ruling group, not any particular social or economic system, is the definition of "the revolution" in Cuba today. This internal dynamic provides a context for the effects of U.S. normalizing relations and the prospect of removing the embargo.

The Tourist Trap

In the popular mind, as well as among political actors, normalized Cuba-U.S. relations and an end to the embargo are expected to flood Cuba with tourists, dollars, goods and investors.

To assume that dropping the embargo will lead to a flow of dollars that will somehow get into the hands of ordinary Cubans and promote economic prosperity is to ignore the nature, structure and operation of the Cuban economy.

For instance, over the decades Canada has had full diplomatic and commercial relations with Cuba. Nearly a million Canadians travel to Cuba annually. They spend Canadian dollars, trade all manner of goods, and invest in joint ventures. The same is true of the European Union and a host of other countries. Yet, the Cuban standard of living has not improved. In fact, real wages are 28 percent of what they were in 1989.

For one thing, in Cuba the military owns and controls the tourist industry, accounting for some $2-3 billion a year. The armed forces own and operate GAVIOTA, the large tourism conglomerate and it also owns a 51 percent stake in joint ventures with companies like Spain's Sol Melía.

While budget conscious tourists can get a bargain by paying $150 a night for a hotel run in Havana or Varadero Beach, the housekeeper who makes the beds and cleans your room takes home the equivalent of $20 a month. The difference after costs are paid out goes to Gaviota, the armed forces tourism enterprise.

Gaviota is part of the armed forces holding company, known as GAESA (Grupo Administrativo Empresarial, S.A.), or Enterprise Management Group. GAESA is one of the most important entities in earning and controlling foreign currency, and operates a network of import and other goods distribution centers. The chief executive office of GAESA is Col.

Luis Alberto Rodríguez López-Callejo, a member of the Central Committee of the Communist Party of Cuba and, until his recent divorce, the son-in-law of Raúl Castro.

While the new economic reforms will undoubtedly channel some of the inflow of dollars to the emergent private sector, the shear increase in the volume of dollars coming into the economy will compensate for any loses to this sector.

The new reforms attempt to emulate a market economy but only to a certain degree. There is a new market for goods and services in which consumers are the buyers and the new entrepreneurs, such as restaurant owners, taxi drivers and small shops, are the sellers. This has made certain long non-existing goods and services available to larger numbers.

What is missing, however, is a market for productive resources, such as capital, land and labor, in which the entrepreneurs are the buyers using their profits to bid for labor and other factors of production. In Cuba, the state remains the owner of the all capital, land and the labor of the work force.

Foreign investors may put up the capital, but the state retains fifty-one percent control, puts up the land and hires out labor at a fixed price. That way they take up fifty-one percent of the profits, whatever rent is due on the land, and they keep the difference between what they charge for labor and the $20 a month average wage of the Cuban workforce.

It is this system that ensures that the first and largest cut of any inflows of foreign currency will go to the government, and particularly to the military. It is also this system that has been in place as a growing number of countries have done business in Cuba without a corresponding improvement in the ordinary Cuban's standard of living.

The interconnection between tourism, foreign currency and the opaque activities of the military should raise serious concerns, while also serving to explain the lack of economic prosperity for ordinary Cubans.

II. Political

The Cuban leadership also faces an existential reality: the historical leadership is on the verge of physical disappearance. The infirmities, aging and almost daily passing away of historic figures is like a clock ticking away the last vestiges of the central leadership.

Attending the exit of the historic leaders is the emergence of a new generation of Cuban leaders. The new generation is a product of the revolution. Most who have climbed the ladder in the bureaucracy possesses the two essential qualities necessary to rise through the bureaucracy: loyalty to the system and obedience to authority. One must be irreproachably loyal and committed to the system in all of its phases to be considered for leadership positions. One must be obedient and subservient to those in authority.

The new leaders, however, lack experiencing making policy or executing projects that respond to the aspirations of their generation or their class. Similarly, the true opinions and perspectives of people like First Vice President Miguel Díaz-Canel, Foreign Minister Bruno Rodríguez, and North American affairs director Josefina Vidal, who headed the most recent talks with Roberta Jacobson in Havana, are the subject of conjecture since the system has no public forum to deliberative conversations.

Cuba has a tradition known as the "doble moral" or dual morality. This means that people have become experts at saying one thing in public and another in private among confidants. What is said publicly is what determines one's rise or fall in the hierarchy. This dual morality exists at the top as well as throughout the entire system. Top officials, who are constantly watched, may express widespread criticisms in private but these are only used against them when they fall out of favor.

The fall of Carlos Lage, the virtual prime minister and Felipe Pérez Roque, the former foreign minister, is an example of a long list of new leaders allowed to rise to positions of power and then dispatched for disloyalty. Roberto Robaina and Carlos Aldana are other examples of this dynamic that serve as a warning against initiative or an innovative streak.

As a result, we have little access to what may come from this new generation of Cuban leaders when, and if, they consolidate their power and undertake a new project. One may say that Díaz-Canel is a cipher, showing no imagination, no initiative and little charisma, in short, a cog in the machine. The same could have been said about Mikhail Gorbachev when he first came on the scene. It was Margaret Thatcher who assessed him and found he was someone to negotiate with. In a few short years, after unleashing perestroika and glasnost, the Soviet Union had disappeared.

History seldom repeats itself, especially in such a dramatic fashion, but the lesson here is not to underestimate or to overestimate the strength of an opponent. The key lesson is to recognize that events, ideas and actors are all shifting dramatically. In five years, the Cuba we have known will have changed and in ten years it may well be unrecognizable.

We may either respond tactically to unfolding events, dismiss the battles of ideas and ignore changes in leadership. Or we can craft a new strategy that recognizes internal dynamics, external pressures and systemic failures.

A new strategy has to recognize the demographic changes inside the island, and it must come to accept that the primary catalyst for change is the recognition by people that their most desired aspirations are being hindered by the very ideas and institutions that formed their values, worldviews and desires for over fifty years.

This is exactly the condition in Cuba today. The institutions and ideas formed by the revolution function like a straightjacket on further economic, political and social progress. In watching the new generations of young Cubans, desperately trying to connect both figuratively and literally with the outside world, they no longer see themselves mirrored in the revolutionary project. The practices generated by those institutions and ideas have created a certain muscle memory that keeps them from jettisoning the "revolution" completely, but growing expectations and developing aspirations to form part of the larger global village have long entered into proscribed terrain.

The economic reforms, while limited in scope, for instance, are creating a new generation of self-employed entrepreneurs who no longer depend on the state for their livelihood and as a consequence are less sympathetic to its rules and regulations. The unintended consequences of the initial reforms are yet to unfold, but unfold they will. The revolution has neither the ideological instruments nor the institutional capacity to put the toothpaste back into the tube.

There are minor, but significant openings in the area of alternative ideas. Journals such as "Temas" (Themes), for example, includes studies by Cuban sociologists and others critical of the lack of progress made by Cuban women in gaining full equality, as well as the continuing racial prejudice and discrimination against Black Cubans. Similarly, the Roman Catholic Church publishes "Espacio Laical" (Laic Space) providing a modicum of debate and discussion with a critical tinge. These phenomena, however, have historical precedent and are a form of "managed criticism" to win support from Cuba's intellectuals as well as to project a more liberal façade abroad.

The present leadership is attempting to re-write the social contract by combining a more liberalized economic model with continued control of the state apparatus by a ruling group. But even this centrally controlled plan has unintended consequences.

In the midst of these surfaces changes, the reality of power often reveals itself. During the U.S. president's announcement that he would seek normalization of relations with Cuba, Raúl Castro appeared on television to make his government's parallel announcement. The fact that Castro, who makes a point of wearing tailored suits and ties in his international and some national appearances, was wearing his army general's uniform was lost on no one. The message was clear: this willingness to discuss normalization has been vetted by those who are truly in charge of the island, the military.

III. Foreign Policy and National Security

Looking at Cuba from the outside there is much to commend in its capacity to achieve its objectives in international affairs and much to raise serious concern.

Venezuela's (Bolivarian Alliance for the Americas) ALBA project, financed through the largess of its oil revenues, broadened the alliance of countries supporting Cuba. Its crowning achievement came with the establishment of the Community of Latin American and Caribbean States (CELAC) remarkable by its exclusion of the United States and Canada. Raúl Castro actually presided over this body for a year term, sending the message that an alternative now exists to the U.S.-dominated Organization of American States (OAS) with its Democratic Charter. Rightly or wrongly, Cuba is less concerned with readmission to the OAS because in its eyes the center of gravity has shifted to CELAC.

On the other hand, the United States has largely ignored the Americas in the last period. Chinese economic penetration, while substantial, is still a fraction of US trade and investment in the region, but the real penetration has been political as anti-American regimes, funded by China, have bought time to wreck their economies and thumb their noses at the U.S. Cuba has been in the forefront of propping up these regimes by exporting teachers, doctors, engineers and intelligence operatives in exchange for foreign currency.

In the past decade, Cuba has also projected its power through the presence and penetration of its security apparatus and intelligence services throughout the ALBA countries. Cubans supervise and train in a number of ministries. Personal security details for presidents and high officials are often Cubans. ALBA Defense, Interior and Foreign Ministries are honeycombed with Cuban "advisers" whose recommendations are often taken as orders.

In one instance, Cuba, having designed the biometric identification systems for the ALBA countries, has raised serious concerns. An unclassified intelligence report from the Canada Border Services Agency (CBSA) revealed that from 2009 - 2011 several Iranian nationals were using Venezuela as a prior embarkation point to circumvent Canadian immigration controls and seek refugee status. According to our research at SFS, at least 173 individuals from the Middle East (namely Iran, Iraq, Syria, Lebanon and Jordan) were issued preferential immigration documentation in Venezuela from 2008 to 2012. These were the number of passports identified by regional intelligence officials, and the total of those issued cannot be accurately fathomed.

In "Canada on Guard: Assessing the immigration security threat of Iran, Venezuela and Cuba" published by the Center for a Secure Free Society, the authors concluded: "Regional intelligence officials estimate that at least 173 individuals from the Middle East were provided passports and national ID cards in Venezuela" (7).

In 2003, the Chávez government launched *Misión Identidad* (Mission Identity) program contracting the Cuban state firm Albert Engineering and Systems, Inc. to overhaul Venezuela's information systems for passports and citizen identifications. The new system, known as SAIME (Servicio Administrativo de Identificación, Migracón y Entranjería), had a critical role:

> *Misión Indentidad's* immigration system facilitates the entry of Cuban agents into Venezuela, embedding themselves into various facets of the Venezuelan social missions and national security apparatus. Aside from Cubans, this group also used SAIME to facilitate the travel of Drug Trafficking Organizations (DTOs), Colombian guerrillas, and Islamist terrorists (6).

The SFS report looks at the links between Venezuela's former Interior Minister Tareck El Aissami and Middle Eastern terrorist organizations such as Hezbollah. The use of government-issued identification and passports to embed potential threats from the Middle East into North America via Latin America should be serious concern to U.S. national security.

The SFS report recommends that policy makers conduct independent investigations of such schemes facilitated by Iran and the ALBA countries, as well enhanced intelligence collection and sharing information with allies in the region.

It is clear that ALBA has served as a bridge to both Cuba and Iran in the penetration of Latin America. Cuba has remained clear in its vision and objective to shift the balance of power in the Americas against the United States. Its alliances have ranged from the former Soviet Union, to guerrilla groups in Latin America and elsewhere, to the forums of the Non-Aligned Movement, to its most recent foreign policy iteration, ALBA. Its real or potential alliances with Iran (which holds observer status in ALBA) and other Middle Eastern state and non-state actors are less about ideological commonality and more about weakening "the empire."

The success of its objectives constitute a combination of Cuban strategic clarity as well as the waning presence of the United States in the Americas for some time now.

The recent intention by the administration to normalize relations provides a considerable degree of legitimacy for the current Cuban government. The new policy, based on an assumption that isolating Cuba has failed to meet its intended objectives, comes at a critical moment in Cuba's internal situation: economic conditions that reflect a deeper crises in the country's social-economic system, a historical transition in the leadership of the regime, and a endeavor to find a new rationale for continuing the current political system.

U.S. Strategy

In elaborating a strategy for the United States it is imperative to guard against underestimating the strength of the Cuban regime to pursue its agenda, promoting changes that are objectively against our own national interests and to forming alliances with open enemies of this country. Underestimating leads to concessions and appeasement that contradicts our most profoundly held values and principles and lets down our guard to real or perceived threats coming from the hardline ideological and military actors in Havana.

We must be aware, for example, that while Cuban intelligence officers are elbow-deep into the high command of the Venezuelan military, that same military is intimately engaged in the drug trafficking activities of the Colombian FARC. To miss that connection is to underestimate an adversary's strength and capacity to do us harm.

Equally important is guarding against an overestimation of the enemy's strength. The existential crisis, the fundamental contradictions building up between popular aspirations and institutional restraints, and the chronically negative economic conditions all place enormous constraints on the regime's ability to maneuver and achieve its intended aims. It is a fundamental error to focus on the enemy's master plan and to ignore that even the most perfectly planned aims and strategies can often lead to unintended consequences.

In our evolving relations with Cuba, we must remain aware of the general context: that the structures and dominant institutions hamper the generalization of prosperity and the gains from trade; that the country is undergoing an inchoate political and generational transition; and that its foreign policy is at loggerheads with key elements of our vital national security interests.

Change does not always come as we might predict. If economic crises generated political and social change, then such change should have come during the "Special Period," when the collapse of the Soviet Union resulted in an estimated 35-50 percent contraction in the Cuban economy.

Today, the possibility of profound economic, social and political change is contained in the rising aspirations of a new generation of Cubans who, unlike their parents, are unwilling to sacrifice their lives for a utopia that will never come.

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