

**U.S. House of Representatives**  
**Committee on Foreign Affairs**  
**Subcommittee on Terrorism, Nonproliferation, and Trade**  
**“Trade with Cuba: Growth and Opportunities”**

**March 15, 2016**

**Testimony**

**By Richard E. Feinberg**  
**Professor, School of Public Policy and Strategy**  
**University of California, San Diego**

Thank you for inviting me to participate in this most timely hearing, on the eve of the historic visit to Cuba by President Barack Obama. Over the last five years, I have been researching and writing extensively on the Cuban economy. Change is coming slowly but inexorably, as Cuba gradually sheds its model of central planning and forges a mixed, hybrid variant of market socialism with a vibrant private sector, more open to global commerce and investment.

As U. S. relations with Cuba gradually normalize, Cuba will become an interesting if modest market for the U.S. economy but of considerable value for many individual U.S. businesses, large and small. I will discuss some of those market opportunities.

But commerce with Cuba is about much more than the mere exchange of grains and widgets. The US has waged economic warfare against Cuba for over 50 years, in an all-out effort to diminish and isolate the Cuban economy and to dislodge the government of Fidel Castro. As the U.S. pivots toward a policy of positive engagement, economic exchange can be a potent political force. This time, commercial exchange can support broader U.S. objectives of advancing market-friendly economic reform, a more robust and independent private sector, and a thriving and diversified foreign investment presence. Together, these changes do not guarantee the evolution of a political democracy, but they do make more likely the advancement of

fundamental U.S. interests: the peaceful transition to a more pluralistic and prosperous Cuba, to a Cuba more open to the world, where the new normal is the free flow of goods, services, capital and ideas between our two nations.

### **Future Export Opportunities**

Cuba imports about \$14 billion (2014) in goods and services each year. For a small economy, in relation to the reported gross domestic product of \$81 billion (2014), that's a low ratio of 17 percent. Since most Cuban products are not competitive on international markets, Cuban exports are well below potential capacity. This poor export performance constrains Cuba's ability to purchase products from the rest of the world.

Let us look ahead. Let us assume that Cuba proceeds with its market-friendly economic reforms – and hopefully accelerates the reform process. Let us also assume that as part of that reform process, Cuban rates of capital investment rise, Cuban exports become more competitive, and Cuba's capacity to import expands. Let us assume, therefore, that Cuban imports grow at 5 percent a year, over a ten year period (from 2018 to 2027). At a compound rate, by 2027, Cuba will be importing \$26 billion. If the Cuban economy really takes off and imports grow at 7 percent a year, by 2027 Cuba will be importing \$34 billion.

What does that mean for U.S. producers? Given Cuba's geographic proximity and the complementarities between our two economies, it is reasonable to project that U.S. exporters could capture 40 percent, and perhaps more, of that expanded market. U.S. businesses are certainly well positioned to provide many of the agricultural and industrial products that make up large portions of Cuba's current import requirements, as well as the financial and professional services that a more dynamic Cuban economy will require. By 2027, therefore, U.S. businesses could be selling \$11 billion - \$14 billion annually to Cuba, if Cuban imports grow 5 -7 percent per annum. **Over the ten years from 2018 – 2027, U.S. businesses could sell a cumulative \$86 billion - \$101 billion in goods and services to Cuba** (Table 1).

Even with this higher growth, the Cuban market is too modest to make a marked impact on the overall U.S. balance of payments. These projections do suggest, however, that an expanding Cuban market could make a real difference for many individual U.S. businesses.

We should recognize, of course, that such a bright scenario implies a reciprocal opening of the U.S. market to Cuban exports of goods and services. Already U.S. travelers are purchasing Cuban hospitality services. U.S. consumers will also benefit from renowned Cuban brands of rum and cigars. But a more competitive Cuban economy, fully integrated into global supply chains, will eventually produce a wide area of agricultural and industrial products, quite possibly including healthy organic foods, new life-saving medicines, computer software, and wonderful artistic creations, among many others. Eventually, we can imagine Cuba joining an existing free-trade area, such as the U.S.-Central America FTA (CAFTA-DR), which includes regional partners as well as the United States. Certainly, Cuba will no longer be the only nation in the world (other than North Korea) that remains outside of the multilateral financial institutions: the International Monetary Fund, the World Bank, and the regional Inter-American Development Bank.<sup>1</sup>

**Table 1. Potential US Exports to Cuba (USD – billions)**

	<b>2018</b>	<b>2027</b>	<b>Cumulative 2018 - 2027</b>
<b>Cuban imports growth at 5% p.a.</b>	6.8	10.6	85.6
<b>Cuban imports growth at 7% p.a.</b>	7.3	13.5	101.4

**Source:** Author’s calculations

**Foreign Investment Projects**

Cuba desperately needs massive inflows of foreign investment. Cuba’s domestic savings and investment rates are under 10 percent, whereas the Latin American average exceeds 20 percent. The only way for Cuba to close its formidable investment gap is through foreign investment. Foreign investment will bring not only badly needed capital but also modern technology, management techniques and access to international credits and product markets.

---

<sup>1</sup> Richard E. Feinberg, *Reaching Out: Cuba’s New Economy and the International Response* (Brookings, Latin American Initiative, 2011).

The Cuban government recognizes its need for foreign capital. Last year it advertised a “Portfolio of Opportunities for Foreign Investment” that compiled 326 specific projects with an initial investment value exceeding \$8 billion. The potential projects range over most of the Cuban economy. Not surprisingly, the most robust sector is tourism, at 94 potential projects. Other sectors included oil (86 projects), agriculture and agro-industry (40 projects), renewable energy (22 projects), industry (21), transportation (15 projects), construction (14 projects), biotechnology and medicine (9 projects), business (4 projects), health (3 projects), and audiovisual (3 projects).

Cuba has said that it has no particular objection to U.S. firms bidding on these opportunities, although it will seek a diversity of investment partners. Many foreign firms, mainly from Europe and Latin America but also from Canada and China, have already invested in Cuba. Well-known brands such as the Spanish Melía hotel chain, the Swiss conglomerate Nestlé, the Canadian mining and energy firm Sherritt International, and the British-Dutch multinational Unilever have long been active in the Cuban market.<sup>2</sup> Imperial Tobacco markets Cuban cigars and Pernod Ricard markets premium Cuban rum.

U.S. regulations, of course, have prohibited U.S. firms from investing in Cuba. Eventually, a new normal in cross-Straits relations will witness many U.S. firms seizing these investment opportunities, whether as wholly-owned foreign investments or as joint ventures with Cuban state-owned enterprises.

We know that U.S. investments abroad bring U.S. exports in their wake. As the Cuban economy accelerates and U.S. businesses invest, U.S. exports will also grow. The mix of U.S. exports – manufacturing, agriculture, services – will expand to include a widening array of U.S. firms. **If U.S. investors begin to compete in the Cuban market, my estimates of \$11 - 14 billion in U.S. annual exports to Cuba a decade from now may prove to have been overly modest.**

### **The Cuban Private Sector and Emerging Middle Classes**

To date, the Cuban government has authorized half a million citizens to work in the “self-employment” private sector. According to my calculations, as many as another 1.5 million

---

<sup>2</sup> Richard E. Feinberg, *The New Cuban Economy: What Does for Foreign Investment?* (Brookings, Latin American Initiative, December 2012).

Cubans work at least part time in private enterprise. Thus, as many as 2 million individuals, or 40 percent of the labor force, compose the emerging private sector.<sup>3</sup> These hard-working Cubans make up one of the future key pillars of a dynamic Cuban economy where the state sector, while still dominant, makes room for an increasingly pluralistic economic system.

The United States is already a big piece of this story of an emerging private sector in Cuba. U.S. visitors are dining at private *paladares*, lodging at private guest houses, and purchasing the creations of independent artisans. Remittances from the United States are driving many of the new businesses, and are allowing homeowners to remodel their dwellings, employ private contractors, and participate in the newly legal real estate market.

The administration has authorized U.S. firms to sell to these private entrepreneurs, although the Cuban government has yet to establish the channels through which such trade could flow. This auto-embargo ill serves the Cuban people. Now that the administration has also authorized U.S. sales to certain state-owned enterprises, perhaps the Cuban government will open pathways for trade with its legal private sector as well.

By many measures, Cuba is a middle-class society. The majority of Cubans have at least ten years of formal education, Cuban women participate actively in the labor market, Cuban fertility rates are the lowest in the Western Hemisphere, and most Cubans own their own homes and benefit from a broad if leaky social safety net. But there is one measure whereby Cuba would certainly not qualify as middle class: access to individual consumer items. Most Cubans lack what middle-class Americans take for granted: modern household appliances, rapid internet connections, an automobile with a reliable engine.

Cuba's emerging entrepreneurs and middle classes aspire to greater economic opportunity, individual autonomy, and material prosperity. It may be overly mechanical to predict that these Cuban middle classes will demand democratic capitalism, but it is safe to imagine that they will seek a Cuba that is more normal, more like other societies in the Caribbean basin where individuals have access to middle-class consumption patterns and have ample opportunities to realize their talents, participate in public affairs, and pursue their careers independent of state control.

---

<sup>3</sup> Richard E. Feinberg, *Soft Landing in Cuba? Emerging Entrepreneurs and Middle Classes* (Brookings, Latin American Initiative, November 2013)

## **The Aspirations of Cuban Millennials**

In my forthcoming book, *Open for Business: Building the New Cuban Economy*, I converse with a dozen Cuban millennials. Every one approved of the decisions by Barack Obama and Raúl Castro to normalize diplomatic relations. They expressed hope that economic relations normalize as well, allowing the free flow of goods, capital, and people across the Florida Straits. In some respects, the Cuban millennials are similar to their counterparts around the world: alert, ambitious, hard-working, cosmopolitan in outlook and interested in world travel, measuring their own creativity and results against global standards. Some have already opened their own businesses, others are improving their English in anticipation of working closely with U.S. businesses. For these dozen millennials, normal relations with the United States imply a powerful U.S. influence on the island. But Cubans also want to preserve their “Cubanismo,” the unique national identity that blends centuries of complex interactions of many civilizations – refashioned and improved to meet the exigencies of the twenty-first century.

By bolstering the Cuban private sector and middle classes, and by giving hope to the millennials, the United States can help to create conditions for a soft landing for Cuba, a gradual shift toward a more open and prosperous future. Similarly, once U.S. firms are allowed to invest in Cuba, they too will become a window to the world.

## **The Visit of President Obama**

Later this week, President Obama and the First Lady will step foot on Cuban soil. Other U.S. presidents have visited the island, to attend an international conference (Coolidge), or prior to their presidency to battle the Spanish (Teddy Roosevelt) or to vacation (John F. Kennedy). But President Obama will be the first to expressly visit Cuba for an official state visit.

President Obama will attempt to nudge the Cuban government to press forward on their economic reforms with more vigor. But more important will be the messages that he delivers directly to the Cuban people. Obama will meet with the island’s emerging entrepreneurs and middle class citizens, he will engage with civil society and political dissidents. He will attend a baseball game between the Tampa Bay Rays and the Cuban national team. He may find additional ways to mix with the Cuban people who will receive him, it can be safely predicted, with overwhelming enthusiasm.

Our president will be able to draw on his extraordinary rhetorical skills to paint a vision of a new Cuba where citizens freely exercise their chosen professions, engage directly with a transparent and accountable government, have access to the global internet, and travel abroad routinely for family and business purposes. This vision of a brighter future can be attractive enough to motivate Cubans, especially its ambitious and talented millennials, to remain on the island and for the resourceful Cuban American diaspora to invest in that vision.

In this new normal, U.S. firms and investors will engage freely in Cuba, to the benefit of the American economy and the Cuban people. Let there be no doubt, this day will come. The only question is the date of its arrival.

-----