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"TRADE WITH CUBA: GROWTH AND OPPORTUNITIES"

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JASON MARCZAK

DIRECTOR, LATIN AMERICA ECONOMIC GROWTH INITIATIVE

ATLANTIC COUNCIL

Chairman Poe, Ranking Member Keating, and Members, thank you for the invitation to testify this afternoon on trade with Cuba. It is an honor to speak on such a timely topic at a critical moment in US-Cuba relations. My testimony will focus on the geopolitical implications of opening trade as well as how to build our commercial relations, including the impediments that currently exist.

Nearly fifteen months ago, the United States reversed a 54-year policy that sought regime change and isolation but yet had clearly failed. Instead, Cuba, a country roughly equal to Ohio in terms of population and size, had cleverly used the United States' anti-Castro policies as a political jujitsu to get broader global support and play an outsized role in global affairs. Havana boasts the greatest number of embassies in the Western Hemisphere other than Washington, DC.

Before discussing trade, it is worth commenting on the geostrategic moment in the hemisphere. The pendulum is swinging away from nationalist regimes (examples include recent votes in Venezuela, Argentina and Bolivia) whose claim to power partly rested on an anti-US imperialist message. The Cuba rapprochement is accelerating the pendulum's movement.

Expanding US-Cuba trade opportunities is a strategic, long-term opportunity for the United States. Much has been done since December 2014, but Congress has the power to enact sweeping changes. A stronger commercial relationship will open up opportunities for American businesses, empower the Cuban people, and move forward broader US foreign policy priorities.

Political liberties for the Cuban people should continue to be top priority for US policy. But after over five decades, it is time to help the people of Cuba secure greater economic rights. Otherwise, the Cuban people will continue to face economic challenges that could drive instability and mass migration just off our shores—creating a potential national security threat for the United States.

Opening Trade: The Broader Geopolitical Implications

During a press conference in 1955, President Eisenhower observed that "trade is the greatest weapon in the hands of the diplomat." Trade can not only raise living standards, but is an instrument of peace, and a means to spread Western values.

The economic and the strategic importance of trade cannot be underestimated, and this is particularly true for a country just 90 miles off the US coast. Cuba carries a disproportionate amount of influence around the world and in the region for its size. For example, it is currently hosting peace talks between the administration of Colombian President Juan Manuel Santos and the FARC guerrillas to end one of the world's longest-running armed conflicts. As history has demonstrated, Cuba's outsized global role carries geopolitical implications for the United States. Expanded trade will only enhance ties, allowing for deeper engagement in a number of issues.

Further opening trade with Cuba carries ramifications for US relations and strategic priorities in the Western Hemisphere. Venezuela plays an important role in keeping the economy afloat, giving the autocratic regime in Caracas sway in Havana. Greater US-Cuba commercial relations will chip away at Venezuelan influence on the island, making it clear to those across the region that not even Cuba recognizes that the future is with Venezuela and its anti-US tirades. A deeper trade relationship with Cuba will only further strengthen our allies, such as Colombia, and convince doubters that the United States stands ready to be a partner.

The Cubans are slowly warming to greater engagement with the United States, with the mid-April Communist Party Congress to be a key indication of the extent to which linkages may deepen. But it is no coincidence that as Venezuela faces an economic crisis—including over 700 percent projected inflation this year— Cuba is exploring other options.

Cuba imports more than 50 percent of its oil. Economic decisions are linked to the price of oil, and the fate of its oil-exporting allies. For fifteen years, Venezuela has provided petroleum products to Cuba on preferential terms. Cuba receives more than 100,000 barrels of oil per day in exchange for Cuban professionals, including some 30,000 doctors and nurses, and it provides intelligence capacities to the Venezuelan government. The Cuban government also receives hard currency for its professionals abroad. This arrangement may be nearing its end, opening the door for the United States to come in and play a key role in helping to build the nascent Cuban private sector.

A stronger trade relationship—and the economic dividends it could pay for both sides—may also reduce Cuba's need to lean toward Russia in times of economic uncertainty. This could potentially deny Russia a reliable friend that carries diplomatic muscle in the Global South. On Russian President Vladimir Putin's July 2014 trip to Cuba, he agreed to write off 90 percent, or almost $32 billion, of Cuba's Soviet-era debt. Just two month earlier, Cuba was one of 11 countries in the United Nations General Assembly to reject a US-backed resolution declaring Crimea's referendum to secede from Ukraine invalid.

Pick Up the Trade Pace

Since the December 2014 shift in policy and the three following rounds of executive actions, the writing is clearly on the wall to the world. We are on an irreversible path of engagement. But, still, the United States continues to miss out. Without congressional action, the regulatory changes—while critical to pushing the door open to greater commercial engagement—have yet to produce a substantial increase in US investment and trade deals signed. Of course, the onus is also on the Cuban government and its reluctance to quickly approve projects.

The result: steady reports of new foreign business deals, while the majority of US companies await that first deal. A foreign investment law passed in 2014 helped to accelerate rapid trade growth, which doubled in the past decade. Now, with the alleviation of certain US trade restrictions, it is even easier for other foreign companies—from Mexico, Europe, and Brazil—to do business in Cuba.

Just as the United States is opening to Cuba, American companies are losing ground to international competitors. The Dutch-British consumer products company Unilever, for example, plans to invest $35 million in the Mariel Special Development Zone. The Brazilian joint venture cigarette company, Brascuba, plans to build a $120 million facility in Mariel. Spain's Meliá Hotels International plans to expand from 13,000 to 15,000 rooms by 2018, while Grupo Tradeco, a Mexican construction firm, is eyeing Cuba's infrastructure needs. And just on Friday, Cuba and the European Union (which already accounts for 20 percent of the island's trade) signed an agreement to normalize relations, allowing for closer economic ties.

Losing these opportunities to our European and Latin American allies is frustrating; losing them to competitors such as Russia and China could be reason for concern. Both countries have forgiven debt and made major investments in Cuba in the last year, clearly looking to strengthen their relationships with a country just off the coast of Florida.

More trade with the United States also could provide the Cuban people with critical resources in agriculture, medical supplies, building materials, and telecommunications devices. Though access to these goods has been expanded, Cubans will not fully benefit until the remaining restrictions—particularly those on lending and credit—are lifted. And although the Cuban GDP is only around $77 billion—on par with Hawaii or the Salt Lake City metropolitan area—it is a market with important potential for US companies in sectors such as agriculture, telecommunications and technology, and travel and tourism.

Expansion of trade would benefit the Cuban people. Greater foreign investment, better access to capital, and a more robust private sector would lead to fewer Cubans dependent on the government for jobs, income, and resources. Already privately-run businesses are replacing the state-sector in certain industries. More than 500,000 Cubans work in the private sector—a 240 percent increase in six years, representing 25 percent of the labor force. More trade would significantly boost the number of private-sector workers, creating a robust new class of empowered Cubans who could seek greater rights without the fear of job loss.

Greater economic autonomy for Cubans should be a central goal for US foreign policy as it will create a more independent populace. Throughout the world, and most especially in Latin America, the demands of a strong middle class have forced governments to offer better services and expanded freedoms to their people. Cuba will not be an exception.

The Way Forward: Building Relations

Regulatory changes, including the round in January 2016, have largely exhausted what can be done without Congress. But the administration can still use executive authority to enhance the island's commercial environment and to further US-Cuba trade for the betterment of the Cuban people.

In addition to clarifying the parameters of US financial institutions' engagement and expanding travel to include a general license for individual people-to-people exchange, the administration should remove barriers to the Inter-American Development Bank (IDB) providing assistance to Cuba. There are various avenues to do this, including US abstention at an eventual IDB board of directors vote on whether to include Cuba, or by declaring IDB cooperation with Cuba to be in US national interest. IDB membership would give Cuba access to technical resources critical to dealing with pending financial issues—such as currency unification—along with expertise in managing the new investments coming into the island.

But relations expand beyond just government actions. In 2015, the Cubans were inundated by an avalanche of business executives from multiple sectors, all traveling to learn more about opportunities in a previously closed-off nation and to meet with the relevant ministries. US governors and mayors also traveled to the island. This was a moment of building first contact and of exploring the potential trade opportunities in countless sectors—many of which were interested due to the sheer romanticism of investing in Cuba. But while US companies wanted to move quickly, the Cubans—at times apprehensive given a US policy of regime change—have taken a go-it-slow approach.

To build trust, US commercial interests should be tied both to what is possible under US regulations but also to Cuba's investment priorities. Projects that do not fit both qualifications will fall on deaf ears. Here, it is critical to understand the rationale and thinking of how Cuba perceives potential investments and how well it fits into the 326 projects identified as foreign investment opportunities by the Cuban government. Beyond that, given the over five decades of mistrust, a strong commercial relationship must come with a broader commitment to the Cuban people. Businesses like Airbnb and Sprint have followed this approach and are now operating in Cuba.

The Role of Congress

Most of the major obstacles left to achieving normalization remain in the hands of Congress. The eventual goal should be the wholesale lifting of sanctions. Although this is unlikely in the near term, growing support exists for removing travel restrictions. The administration may further ease travel restrictions prior to the President's trip to Cuba next week, but only Congress can completely remove them. Without travel limitations, US business executives—and tourists alike—could freely go to Cuba to explore new trade and investment relationships with the independent Cuban private sector, unhindered by congressionally mandated burdens on the composition of their trip.

Beyond travel, measured steps can be taken to remove codified rules that would have a broad effect without political cost. Though executive action allows financing and credit to be easier for certain industries, agriculture exports are exempt. The Trade Sanctions Reform and Export Enhancement Act of 2000 (TSRA) prohibits American creditors from extending credit to Cuba's agricultural importers. It will take an act of Congress to overturn this. Since enactment of that law, the United States has fallen from Cuba's number one supplier of agricultural products to number four. Striking just a few lines in TSRA would yield an immediate uptick for US exporters while providing important basic goods to the Cuban people.

Congress is also responsible for allowing American telecommunications infrastructure to be built. Though executive action has permitted the sale of devices and partnerships with Cuban enterprises, American telecommunications companies are still restricted in their ability to construct the infrastructure necessary for a robust system in Cuba.

Finally, although receiving less attention than actions related to travel, agriculture, or telecommunications, Congress can legislatively remove the barriers to Cuba's entry into the international financial institutions. Executive action can get around some of these obstacles, but amendments to the Cuban Liberty and Democratic Solidarity Act of 1996 (known as the Helms-Burton Act) would allow both for Cuba to join institutions like the Inter-American Development Bank as well as for funds from the institution to be spent on loans that assist Cuba. Technical support from the IDB would inject global standards in financial and economic management while providing critical assistance in transitioning to a single Cuban currency—all issues critical for enhancing US trade with Cuba.

In closing, I'd like to quote former US Secretary of Commerce Carlos Gutierrez: "What a lot of people miss who are using the argument that we should not engage economically until there are changes politically, what they miss is that the right to private property, the right to earn a living on your own, and provide for your family is one of our most precious of human rights."

Thank you, once again, for the opportunity to appear before the Subcommittee today. I look forward to answering your questions.

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