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The U.S. Embargo of Cuba

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Introduction

Opponents of U.S. policy toward Cuba claim that if the embargo and the travel ban are lifted, the Cuban people would benefit economically; American companies will penetrate and influence the Cuban market; the Communist system would begin to crumble and a transition to a democratic society would be accelerated.

These expectations are based on several incorrect assumptions. First, that Castro and the Cuban leadership are naïve and inexperienced and, therefore, would allow tourists and investments from the U.S. to subvert the revolution and influence internal developments in the island. Second, that Cuba would open up and allow U.S. investments in all sectors of the economy, instead of selecting which companies could trade and invest. Third, that Castro is so interested in close relations with the U.S. that he is willing to risk what has been upper-most in his mind for 40 years – total control of power and a legacy of opposition to “Yankee imperialism,” – in exchange for economic improvements for his people. During the Fifth Communist Party Congress in 1997, Castro emphasized “We will do what is necessary without renouncing our principles. We do not like capitalism and we will not abandon our Socialist system.”

Castro also reiterated his long-standing anti-American posture, accusing the U.S. of waging economic war against his government and calling for “military preparedness against imperialist hostility.”
A change in U.S. policy toward Cuba may have different and unintended results. The lifting of the embargo and the travel ban without meaningful changes in Cuba will:

- Guarantee the continuation of the current totalitarian structures.
- Strengthen state enterprises, since money will flow into businesses owned by the Cuban government. Most businesses are owned in Cuba by the state and, in all foreign investments, the Cuban government retains a partnership interest.
- Lead to greater repression and control since Castro and the leadership will fear that U.S. influence will subvert the revolution and weaken the Communist party’s hold on the Cuban people.
- Delay instead of accelerate a transition to democracy on the island.
- Allow Castro to borrow from international organizations such as the IMF, the World Bank, etc. Since Cuba owes billions of dollars to the former Soviet Union, to the Club of Paris, and to others, and has refused in the past to acknowledge or pay these debts, new loans will be wasted by Castro’s inefficient and wasteful system, and will be uncollectible. The reason Castro has been unable to pay back loans is not because of the U.S. embargo, but because his economic system stifles productivity and he continues to spend on the military, on adventures abroad, and on supporting a bankrupt welfare system on the island.
• Perpetuate the rather extensive control that the military holds over the economy and foster the further development of “Mafia type” groups that manage and profit from important sectors of the economy, particularly tourism, biotechnology, and agriculture.

• Negate the basic tenets of U.S. policy in Latin America which emphasize democracy, human rights, and market economies.

• Send the wrong message to the enemies of the U.S.: that a foreign leader can seize U.S. properties without compensation; allow the use of his territory for the introduction of nuclear missiles aimed at the U.S.; espouse terrorism and anti-U.S. causes throughout the world; and eventually the U.S. will “forget and forgive,” and reward him with tourism, investments, and economic aid.

Specific Considerations

Tourism

• If tourists are allowed to visit Cuba, the Castro government will follow the same practices of the Soviet Union and Eastern European countries in the past: tourists would have to obtain visas from the Cuban Interest Section in Washington; their travel would be controlled and channeled into the tourist resorts built in the island away from the major centers of population; and tourists will be screened carefully to prevent "subversive propaganda" from entering the island.

• American tourists will have limited contact with Cubans thus their influence would be limited
- Cuba's security apparatus tightly controls most of the tourist resort areas such as Varadero, Cayo Coco, etc. They are off-limits to the average Cuban. Employees in these resorts are carefully screened by the government and programmed to tell the visiting tourists Castro propaganda line.

- Tourist dollars would be spent on products. i.e. rum, tobacco, etc. produced by state enterprises, and tourists would stay in hotels owned partially or wholly by the Cuban government. The principal airline-shuffling tourists around the island, Gaviota, is owned and operated by the Cuban military. Carlos Lage, the Czar of the Cuban economy, reiterated on April 2, 1998, that the economic objective of the Cuban government was "to strengthen state enterprises."

- The Cuban government would select which U. S. airlines and cruise companies will be allowed to visit the island and which U.S. companies are permitted to invest in joint venture with Cuban State enterprises.

- The economic impact of tourism, while providing the Castro government with much needed dollars, would be limited. Dollars will flow in small quantities to the Cuban poor; state and foreign enterprises will benefit most. Since Cuba lacks a well-developed native tourist infrastructure, a large percentage of the tourist dollars spent on the island will be sent abroad by the foreign entities from Spain and Canada operating hotels and nightclubs.
• A large influx of tourists into Cuba will have a dislocating effect on the economies of smaller Caribbean islands such as Jamaica, the Dominican Republic, Bahamas, and Puerto Rico, highly dependent on tourism for their well being. Careful planning must take place, lest we create significant hardships and social problems in these countries.

• Since tourism will become a two-way affair, with Cubans visiting the U.S. in great numbers, it is likely that many will stay in the U.S. as illegal immigrants, complicating a rather thorny issue in American domestic politics.

Trade

• No foreign trade that is independent from the state is permitted in Cuba.

• Cuba would export to the U.S. most of its products, cigars, rum, citrus, vegetables, nickel, seafood, biotechnology, etc. Yet, since all of these products are produced by Cuban state enterprises, with workers being paid below comparable wages, and Cuba has great need for dollars, the Cuban government could dump products in the U.S. market at very low prices, and without regard for cost or economic rationality.

• Many of these products will compete unfairly with U.S. agriculture and manufactured products, or with products imported from the Caribbean and elsewhere.

• If the U.S. were to buy sugar from Cuba, it would be to the detriment of U.S. or Caribbean producers.
Cuban products are not strategically important to the U.S., and are in great abundance in the U.S. internal market, or from other traditional U.S. trading partners.

There is little question about Cuba’s chronic need for U.S. technology, products and services. Yet, need alone does not determine the size or viability of a market. Cuba’s large foreign debt, owed to both Western and former Socialist countries, the abysmal performance of its economy, and the low prices for its major exports make the “bountiful market” perception a perilous mirage.

From the U.S. point of view, therefore, the reestablishment of commercial ties with Cuba would be at best problematic. It would create severe market distortions for the already precarious regional economies of the Caribbean and Central America since the United States would have to shift some of these countries’ sugar quota to Cuba. It would provide the U.S. market with products that are of little value and in abundant supply. And, while some U.S. firms could benefit from a resumed trade relationship, it would not help in any significant way the overall U.S. economy. Cuba does not have the potential to become an important client like China, Russia, or even Vietnam.

Investments

Cuba has promoted investments in tourism as its highest priority and only recently has begun to promote investments in other sectors. Cuba has not yet attempted to link Foreign Direct Investments (FDI) with technology transfer. Nor has it permitted
greater individual freedom in economic matters. While the Cuban government is allowing some workers to operate independently, these activities are highly regulated. Unlike China, Cuba has not legalized private agriculture or manufacturing.

- Investments will be directed and approved by the Cuban government. The Cuban government is unlikely to create a level plain field for American companies, allowing some to invest while discriminating capriciously against others.

- U. S. investments in Cuba would be limited, however, given the lack of an extensive internal market, the uncertainties surrounding the long-term risk to foreign investment, an uncertain political situation; and the opportunities provided by other markets in Latin America and elsewhere. Modest initial investments would be directed primarily to exploiting Cuba's tourist, mining, and natural resource industries.

- The Cuban constitution still outlaws foreign ownership of most properties and forbids any Cubans from participating in joint ventures with foreigners.

- Joint ventures are only permitted with state enterprises; many of these are now under military control.

- It is illegal for foreign companies to hire or fire Cuban workers directly. Hiring is done by the Ministry of Labor. Foreign companies must pay the wages owed to their employees directly to the Cuban government in hard currency. The Cuban government then pays out to the Cuban workers in Cuban pesos, which are
worth 1/20 of a U.S. dollar, pocketing 90 percent of every dollar it receives.

- While Cuba's foreign investment law provides protection against government expropriation, all arbitration must take place in the corrupt and arbitrary government offices where little protection is given to the investor. There is no independent judicial system in the island.

- Foreign investors must also confront political uncertainties that do not exist in many other countries. They must contend with the possibility of the regime's reversing policy, the legal questions surrounding previously confiscated properties, and potential sanctions against foreign investors that cooperated with the Castro government in the event that an anti-Castro government comes to power.

- Castro's opposition to market reforms will limit the extent to which the private sector emerges and functions effectively, and thereby will slow, if not prevent, attaining a measurable degree of economic recovery. While Castro and hard-liners recognize the need for economic recovery, they also see the likely erosion of political power and control that accompanies the restructuring of the economy along free-market rules. Adoption of market reforms may well represent a solution to the economic crisis, but a full-blown reform process carries with it the risk of loss of control over society, as well as the economy, and threatens to alienate some of the regime’s key constituencies.
WHY MAINTAIN THE EMBARGO

The embargo should be held as a carrot to be lifted when Cuba changes its current system and develops a democratic society. The embargo is not an anachronism but a legitimate instrument of U.S. policy for achieving the goal of a free Cuba.

While most of the freely elected governments in Latin America pursue moderate, neo-liberal economic policies, Castro has deliberately staked out a position as the last defender of Marxism-Leninism. In October 1997 he held a meeting in Havana of Communist leaders from all over the world to reassert the supremacy of communist ideology and to plan for a “comeback” when capitalism fails.

The lifting of the embargo now will be an important psychological victory for Castro. It would be interpreted as a defeat for U.S. policy and as an enforced acceptance of the Castro regime as a permanent neighbor in the Caribbean.

The long held belief that through negotiations and incentives we can influence Castro’s behavior has been weakened by Castro’s unwillingness to provide major concessions. Castro prefers to sacrifice the economic well being of his people rather than cave in to demands for a different Cuba. Neither economic incentives nor punishment have worked with Castro in the past. They are not likely to work in the future.
Not all differences and problems in international affairs can be solved through negotiations or can be solved at all. There are disputes that are not negotiable and can only be solved either through the use of force or through prolonged patience until the leadership disappears or situations change.

Ignoring or supporting regimes that violate human rights and abuse their population is an ill-advised policy.

The Castro era may be coming to an end if for no other reason than biological realities. Fidel Castro is seventy-three and deteriorating physically. U.S. policy should stay the course and wait for Castro’s disappearance.

The gradual lifting of the embargo now will condemn the Cuban people to a longer dictatorship and the perpetuation of a failed Marxist-Leninist society.

The gradual lifting of the embargo entails a real danger that the U.S. may implement irreversible policies toward Cuba while Castro provides no concessions to the U.S. or concessions that he can reverse.

A piecemeal lifting of the embargo will guarantee the continuance of the present totalitarian political structures and prevent a rapid transformation of Cuba into a free and democratic society.
The lifting of the travel ban without meaningful and irreversible concessions from the Castro regime could provide the Castro brothers with much needed foreign exchange. It would represent one of the first steps in ending the U.S. embargo and prolong the suffering of the Cuban people.
SPECIFIC ISSUES

If the U.S. has relations with China, why not with Cuba?

Relations with China were propelled by U.S. strategic and economic interests 1) to counter growing Soviet power; 2) to increase U.S. influence in Southeast Asia; and 3) to tap the one billion-dollar China market.

Cuba is small, poor, and strategically and economically unimportant.

In Latin America, the U.S. has followed a regional policy that fosters human rights, neo-liberal economic policies, and democratically elected civilian governments. U.S.-Cuba policy should be no different.

The U.S. has been willing to intervene militarily in Grenada, Panama, and Haiti to restore democracy. In Chile it established a military embargo against the Pinochet dictatorship. In other countries it supported free and transparent elections. Why should U.S. policy toward Cuba be different? Aren’t the Cubans also entitled to a free society?

The Cubans are suffering economically because of the U.S. embargo.

The Cubans can buy any products, including food and medicine from any country in the world. Dollar stores in Cuba have numerous U.S. products, including Coca-Cola, and other symbols of American consumerism. American dollars can purchase almost anything in Cuba.
There are shortages in Cuba of fruits, vegetables, potatoes, bananas, mangos, boniatos, and other foodstuffs that have been traditionally produced locally. What do these shortages have to do with the U.S. embargo?

The reason for Cuba’s economic suffering is a Marxist system that discourages incentives. As in Eastern Europe under Communism, the failed Communist system is the cause of the economic suffering of the Cubans, not the U.S. embargo.

Tourism, trade and investment will accelerate the downfall of Communism in Cuba as it did in the Soviet Union.

There is no evidence that tourism, trade, or investment had anything to do with the collapse of communism. Tourism peaked in the Soviet Union in 1980, almost a decade before the collapse of communism. In the Soviet Union tourism was tightly controlled with few tourists having any contact with Russians.

The collapse of Communism was the result of a decaying system that did not work, the corruption and inefficiency of the Communist Party, the economic bankruptcy of the Soviet Union in part because of military competition with the West, an unpopular war in Afghanistan, and the reformist policies of Mikhail Gorbachev that accelerated the process of change.
The driving force for capitalism in Russia and China is not trade or investment but a strong domestic market economy, tolerated by the government and dominated by millions of small entrepreneurs. The will to liberalize the economy does not exist in Cuba.

**Cuba is a potential economic bonanza for U.S. companies.**

Given Cuba’s scant foreign exchange, its ability to buy U.S. products remains very limited. Cuba’s major exports, i.e. sugar, tobacco, nickel, citrus, are neither economically nor strategically important to the United States.

Lifting the embargo would create severe market distortions in the already precarious economies of the Caribbean and Central America since the U.S. would have to divert some portion of the existing sugar quota away from these countries to accommodate Cuba. The impact of tourism diversion toward Cuba would profoundly hurt the economies of the Caribbean and Central American countries.

Cuba, cited as one of the worst political and commercial risks in the world by several recently issued country risk guides, lags far behind China and Vietnam in establishing the necessary conditions for economic development and successful corporate involvement. Current foreign investments are small and limited to dollar sectors of the economy such as the tourist industry and mining. American companies are not “losing out.” In a free Cuba, U.S. companies will quickly regain the prominent role they held in pre-Castro Cuba.
If we lift the Embargo, U.S.-Latin American relations will improve.

Cuba is not an important issue in U.S.-Latin American relations. The U.S.-Latin American agenda includes as priority items trade, investment, transfer of technology, migration, drugs, environment, and intellectual property rights. Cuba is not a priority item on this agenda.

While publicly many Latin American countries oppose the embargo, privately they are extremely concerned that Cuba will divert investments from their countries to the island, and particularly that tourism will flock to Cuba, to the detriment of the Caribbean economies.

The Embargo has failed to overthrow Fidel Castro. Why not lift it now?

The embargo was never established to overthrow the Castro government. The embargo was established to punish the Castro government for the confiscation of American properties and to pressure it to slow down its move into the Communist camp. The embargo has been maintained to show that Marxist-Leninism does not work as an economic or political system and to use it as a tool to extract human rights, economic and political concessions from the current or future Cuban government.

While not all embargoes have worked, the embargo imposed on the apartheid regime of South Africa and the military embargo of the Pinochet dictatorship in Chile did work and forced political changes in both countries. India’s sanctions on Nepal in 1989 contributed to political reforms there. The embargo of Iraq is forcing the Saddam Hussein dictatorship to provide some concessions to Western nations.
Without major internal reforms in Cuba, the Castro government and the military, not the Cuban people, will be the main beneficiary of the lifting of the embargo. While some prosperity may trickle down to the Cuban people, state enterprises, many now under military control, will benefit most.

The Castro regime will use this newly-acquired wealth to strengthen its hold on the Cuban people, to rebuild its military apparatus, and to engage again in supporting anti-American terrorist and violent groups in Latin America and elsewhere.

To trade and invest is a country’s right not an obligation. The U.S. can trade with whomever they want. As soon as Cuba respects human rights, releases political prisoners, holds free and internationally supervised elections, the embargo should be lifted. To lift it now is to provide Castro with a gift he does not deserve.
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