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U.S.-Cuba Relations: a new beginning or much ado about nothing?

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By Jerry Haar

Former Federal Reserve chairman Alan Greenspan, in a 1996 televised speech, referred to the continued overvaluation of stocks as "irrational exuberance" — an apt expression today in the wake of President Barack Obama's Dec. 17th announcement of a policy to normalize relations with Cuba.

It is wishful thinking to believe that the renewal of diplomatic relations with Cuba will lead to removal of the U.S. trade embargo with that nation. Only Congress can suspend the Helms-Burton Act — a law that requires a transition to democracy in Cuba, restitution of confiscated property of U.S. citizens and the absence from power of both Castro brothers.

Nevertheless, it is important to highlight the implications of the U.S.-Cuba normalization accord and the eventual removal of the trade embargo in several key areas:

•Remittances and financial services. Under the new agreement, the limit on remittances from Cuban-Americans to family in Cuba will be raised from $500 to $2,000 per quarter, and remittance forwarders will no longer require a specific license. Remittance levels are currently $2 billion, so the potential injection of four times as much capital into the Cuban economy would be huge. The Cuban government also would win big, because it charges a "processing fee" of 10 percent on all remittances. With their Venezuelan ATM "temporarily out or order" and neither Russia nor China able to whip out their checkbooks, Raúl Castro needs hard currency desperately.

•Tourism. New rules still prohibit U.S. citizens from traveling to Cuba, except for those who fall within 12 currently existing categories; however, those permitted to do so, will no longer need to seek formal approval from Treasury's Office of Foreign Assets Control. Were the embargo to be lifted, the IMF predicts both winners and losers in Caribbean tourism. "Curiosity tourism" to Cuba would surge, with prices rising and Cuban infrastructure, at capacity already, unable to accommodate the large influx. U.S. travel to Cuba would probably be a "one-off" — that is, not a repeat destination like the Dominican Republic where price, quality and service are far superior to Cuba's.

•Trade. The U.S. and Cuba do have a trade relationship; however, it is restricted primarily to agricultural commodities and products, medicines and health care products. However, U.S. commodity exports to Cuba have declined by nearly 57 percent during the last six years. Under the Obama plan, U.S. firms would be permitted to export building supplies, inputs for small farmers, and products that Cuban entrepreneurs could use to establish small businesses. Removal of the embargo in its entirety could create huge opportunities for telecom equipment and a wide range of industrial exports from the U.S. and selected Cuban imports (e.g., rum, cigars).

One big caveat, however: Who is going to finance trade with Cuba and under what terms? Without U.S government guarantees (the Export-Import Bank or Small Business Administration) for trade financing and insurance, neither banks nor companies will extend credit to a nation that is notorious for failing to make good on its loans. And one should not forget that all import, wholesale and retail operations must go through Cuban state companies, all controlled by the military, that will earn a windfall of revenue in both tariffs and mark-ups on goods for final sale.

•Access and affordability of goods. Cubans can buy a wide range of imported goods — providing they are available and affordable (doubtful on both counts). Samsung products (South Korea), Toshiba laptops (Japan), Adidas athletic shoes (Germany), Diesel jeans (Italy) as well as gray market goods coming from third countries can be purchased. But at what price? The average annual income in Cuba is $240. It is seven times greater in the Dominican Republic, nearly five times more in Haiti, and 15 times more in Jamaica. So even without the embargo, how attractive is the Cuban consumer market — a market where the monthly wage is equal to one Cohiba cigar?

•Property. Compensation for confiscated property is a requirement of the Helms-Burton Act for removing the embargo. The 6,000 claims, valued today at $7 billion, were filed by individuals (80 percent of the claims) and companies such as Coca-Cola, Exxon, Starwood and Colgate-Palmolive. The Cuban government does not have the financial capacity to meet these claims, so how will they by settled? (Laughingly, Cuba claims the U.S. owes it $100 billion for harm caused by the embargo.)

While Dostoyevky reminds us that to live without hope is to cease to live, hope must be grounded in realism. One-sided deals do not work. The next steps are up to the Cuban government — further and faster economic reform and initiatives toward political liberalization. As José Martí, Cuba's national hero, exclaimed: "It is a sin not to do what one is capable of doing."

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