

Cuba and the United States: Beyond the Hype, a Long Road

Written by Michael J. Bustamante

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MICHAEL J. BUSTAMANTE, MAY 7 2015

On December 17, U.S. President Barack Obama and Cuban head of state Raúl Castro interrupted regularly scheduled programming to make simultaneous televised addresses. The occasion? A historic, until then secret deal that surpassed even the most optimistic Cuba watchers' expectations for what might be achieved in bilateral affairs during the remainder of Obama's second term. For starters, both governments reached a solution to the thorny problems of Alan Gross and the remaining "Cuban Five"—individuals imprisoned in Cuba and the United States respectively, and whose release from jail had been high on their home governments' wish lists. More surprising, however, was the agreement to begin pursuing full normalization, starting with the reestablishment of diplomatic relations. On the streets of Havana, and even in many corners of a changing Miami, expressions of disbelief, joy, and relief filled the air.

Four and a half months later, excitement and interest in Cuba continues unabated. Treasury Department travel rules have been eased, and an unparalleled number of Americans are flocking to Havana on legal, if often prohibitively expensive, cultural exchange tours. Conan O'Brien and Governor Andrew Cuomo have come to town, as has a delegation from the NBA. The American flag has even become the most stylish national standard appearing on Cubans' T-shirts, tights, and tank tops. More substantively, Presidents Obama and Castro recently held their first public meeting, sitting down in front of the press at the Summit of the Americas in Panama—this, remarkably, after Castro delivered a stinging fifty-minute speech summarizing Cuban grievances against U.S. power since the nineteenth century. Thereafter, President Obama recommended that Cuba be eliminated from the U.S. government's list of "State Sponsors of Terror," removing a major obstacle to the opening of embassies and future business ties.

Despite high-level progress, however, average Cubans—especially those not positioned to directly benefit from the flood of new visitors—already seem to have dispensed with the exuberance that greeted both governments' historic announcements in December. Less interested in rhetoric than results, many island residents have returned to long cultivated attitudes of resignation, anomie, or cautious expectation. Rule changes in the United States mean some now have access to greater remittance dollars from family members in Miami—money that can be used for home improvements or as capital for founding one of 201 types of small businesses now legal on the island. On the other hand, for those without relatives abroad, or suffering the effects of recent flash floods, the back and forth of statecraft is likely to matter little until it translates into a direct impact on their wallets.

To expect transformative outcomes so soon, of course, is unrealistic. Still, looking ahead, informal observers and the media would do well to take a cue from such popular registers of skepticism. With the bulk of the embargo still codified by U.S. law, and with several other complex issues (property claims, the status of Guantánamo Bay, claims for damages caused by the embargo) unlikely to be resolved any time soon, the path to complete "normalization" and dramatically increased trade remains cluttered with obstacles.

Even more important, the road to greater, widely shared prosperity and openness on the island does not pass through Washington alone. Since coming to power (provisionally in 2006, then officially in late 2008), Raúl Castro has repeatedly argued that Cuba's problems are not only or even primarily the fault of the U.S. embargo. Ironically, Cubans broadly in favor and starkly opposed to their government's political model agree. Investors might talk of Cuba

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as a “virgin market” primed for an influx of U.S. capital and goods. Yet paradoxically, for staunch defenders of the island’s status quo, cautious reformists, and anti-government dissenters alike, a new chapter in U.S.-Cuban relations conjures feelings of risk and uncertainty as much as the expectation of clear-cut reward. A realistic assessment of Cuba’s future under a new dynamic with the United States, therefore, must begin not only with a sober appraisal of what the United States can and cannot achieve, but an honest reckoning with the complexity of the island’s predicament.

The Fallacy of U.S.-Cuba Causality

Few countries in Latin America have experienced (or suffered) as intense and intricate a relationship with the United States as Cuba. From the “apple” ripe for the picking of John Quincy Adams’ expansionist nineteenth-century imagination to ground zero of the Latin American Cold War, the island has long served as an object of U.S. ambitions and fears, desires and suspicions. Conversely, from the moment Teddy Roosevelt and his Rough Riders arrived on Cuban shores uninvited in 1898, resistance to U.S. hegemonic presumption has been consubstantial with Cuban nationalism. All the same, Cubans developed a deeply symbiotic relationship with their northern neighbor. Not for nothing did Fidel Castro raise funds for his 26th of July Movement in the 1950s in New York and Tampa. Even at the height of revolutionary fervor and bilateral conflict in the early 1960s, Cuba’s most popular music group, Los Zafiros (The Sapphires), sounded distinctly like a Latin version of the Platters.

To this day, vestiges of U.S. influence—from the old Hershey sugar mill to a storefront on Havana’s Neptuno street reading “RCA Victor”—are plain to the chance visitor. It is no surprise, then, that an inordinate number of history books and media portrayals place the island’s conflict with Washington front and center. Cuba’s revolutionary leaders fueled this perception, deriving political legitimacy from a narrative that cast the island as perpetually under siege—long after CIA plots and exploding cigar schemes had been abandoned. Yet in the United States as well, following Castro’s break from Washington, the tendency to portray the revolutionary regime as nothing but a proxy of Soviet interests revealed the continuing difficulty of seeing the Caribbean nation as anything but an appendage of a foreign power or strategic interest.

Such trends have distracted attention from the island’s in-house developments, challenges, and ideological struggles. Too often historians and analysts have fallen into the trap of seeing Cuba *only* as a function of its ties (or lack thereof) to the north. The Revolution, one influential school of thought argued, “went communist” in 1960-1961 because U.S. opposition to even modest reform “pushed” Castro into the arms of the Soviets. However, staking out this position often meant ignoring the homegrown social and political forces simultaneously fueling Cuba’s process of radicalization.

Dilemmas Internal and External

As with the past, so goes the present. Today, Cuba stands at a crossroads where intertwined foreign and domestic variables once again defy simplistic explanation. The Revolution’s founding generation is dying, and chronic inefficiency, severe capital depletion, and overinflated public payrolls have finally moved the government to embark on permanent, if thus far gradual, economic reforms. From the tone of some media coverage, though, it would seem that the solution to all of Cuba’s difficulties lay just ninety miles and a trade sanctions regime away. Already, European and Canadian tourists are rushing to see the island “before it changes,” envisioning a Havana suddenly awash in Starbucks and U.S. brands.

Not so fast. In the long term, potential trade between the United States and Cuba represents a multibillion-dollar business. Yet Cuba’s ability to acquire U.S. or, for that matter, additional foreign goods will continue to be constrained as long as the island fails to boost domestic production and exports. Under the Trade Sanctions Reform and Export Enhancement Act of 2000, Cuba already purchases roughly \$300 million a year in U.S. foodstuffs (down from a high of over \$700 million in 2008). As numerous economists have argued, however, the fact that Cuba imports up to 70 percent of its food supply puts a crippling drag on its trade balance, especially considering that only 40 percent of agricultural land across the country is currently under production. Thus far, efforts to hand unused state land over to private producers, via long term leases, have yet to make a significant dent in lackluster domestic output.

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While some foreign collaboration in the sector is now being encouraged, progress has been slow.

Nor in other arenas of the economy will island authorities simply give up state control or regulatory prerogative in pursuit of sorely needed investment dollars. Per the terms of Cuba's reformed 2014 Foreign Investment Law, the most feasible modality for entering into business on the island remains a joint venture with a corresponding Cuban state company. By now Cuba's central planners have learned—the hard way—the costs associated with overdependence on a single external suitor. Still, even if Cuba were to aggressively court U.S. investors down the line, it is unclear whether American enterprises would be willing to entertain the terms Cuban regulators require for a deal. As it stands, officials remain picky about the types of foreign investments they authorize; rules bar the direct contracting of Cuban employees by foreign businesses; and the Ministry of Foreign Commerce is promoting a narrowly targeted, specific basket of investment opportunities, even in the comparably liberalized trade zone being built around the newly refurbished Mariel Harbor. By contrast, smaller-scale, transnational synergies, including with capital from the Cuban diaspora, have been shunned as insignificant—a shortsighted position given the sizeable role diaspora Cubans have already played as silent partners in the expansion of those small enterprises that are allowed.

Finally, U.S. rules still heavily restrict the types of ties American businesses can contemplate in the first place. Under new regulations issued by the Treasury and Commerce Departments, U.S. companies are now allowed to export telecommunications, agricultural, and construction equipment to the island. The New Jersey-based company IDT, for instance, has entered into a deal with Cuba's ETECSA to improve the quality and cost of phone communications. In the case of agricultural and construction materials, however, sales must, per U.S. law, be destined for private individuals and producers. To date, the Cuban state, holding a monopoly over bulk import trade, has yet to specify whether or how it will serve as middleman, nor have U.S. regulatory authorities made clear whether such a role from Cuban state institutions would be welcome.

Neither Spoiler Nor Saint

Overall, greater ties with the United States alone will not make or break what Cuban officials euphemistically call the “update” of Cuba's “social and economic model.” If anything, the temptation of cheap U.S. goods in a fully post-embargo landscape may make it more challenging for the island to confront its chief economic imbalance: the overwhelming reliance of the country on the services sector (chiefly tourism and the export of medical care) for over 70 percent of GDP, to the exclusion of a healthy productive base.

A new dynamic with Washington, though, may shuffle the strategic calculus of various players in the game. With opportunities in the U.S. market looming, reformers within the Cuban state may jump at the chance to make a buck, while U.S. and other foreign businesses' resistance to insular red tape may subtly inch economic openings forward. Even so, officials wary of losing bureaucratic prerogative, or ideological hardliners reticent to allow further concessions to global capital, will continue to struggle internally over the pros and cons. Given island authorities' sensitivities to maintaining nationalist appearances, too crass an effort to push the process along from Washington may do more harm than good.

At the ground level, meanwhile, ginger hopes for the future coexist with mounting fears of the unknown. Today, the private sector on the island is larger than at any time in recent memory. Nonetheless, licenses for “self-employment” are tightly regulated, needlessly specific, and, with few exceptions, concentrated in hospitality and other non-productive, menial occupations. As a result, the expansion of small business thus far has been insufficient to meet the state's goals for slashing public payrolls without generating substantial unemployment. For the most part, Cuban officials have proven unwilling to open more strategic or professionalized sectors of the economy to private or cooperative hands. And even those private businesses that do exist still often have to flirt with, if not reply upon, the black market to survive. With the real economic action still managed from the top, some fret that the coming tide will not lift all boats. Already critics from the left have denounced what they see as a march toward crony state capitalism, with military-run holding companies dominating the tourist trade and Washington positioning itself as a potential ally of the transition.

For those hoping bilateral detente will encourage greater political openness internally, the verdict is likely not to be in

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for years. Outright opponents of the government are divided on the issue, some fearing that the United States has abandoned political principle for crass economic gain, others viewing the removal of the U.S. bogeyman as a necessary step for increasing their domestic legitimacy and range of action. To be sure, public discourse on previously taboo issues had gingerly expanded even before December 17. But if the display outside the recent Summit of the Americas was any indication—Cuban government loyalists and their detractors got into a fistfight—the challenges remain substantial.

Perhaps it is only a matter of time before the levee breaks and U.S. capital comes flooding in. Yet if that is the case, already marginalized portions of the island's population with little interest in ideology—the elderly, Afro-Cubans, rank and file state employees without access to foreign dollars—understandably worry about falling further behind. In the best long-term scenario, Cubans might hope for a soft landing, a continued opening of economic and political space not only from the outside in but from the bottom up. At the same time, however, citizens are keen to maintain the state's commitment to economic equality and basic social protections. Such a balancing act would represent a tall order for any post-socialist society in flux. Success in achieving it, clearly, will hinge on far more than U.S. tourists, dollars, and merchandise.

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