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## PROSPECTS FOR RELATIONS AND TRADE BETWEEN THE UNITED STATES AND CARIBBEAN BASIN NON-MARKET ECONOMIES, PARTICULARLY CUBA

*Roberta Salper\**

### INTRODUCTION

Support for ideologically diverse and experimental approaches to development has increased in U.S. policymaking circles since the advent of the Carter Administration. However, underlying verbal recognition must be the acceptance of ideological pluralism in both economic and political affairs.<sup>1</sup> An examination of the "Prospects for Relations Between the United States and Caribbean Basin Non-Market Economies, Particularly Cuba" thus becomes, in effect, a specific analysis of the advantages, deterrents and possibilities involved in moving beyond verbal support for alternative forms of social and economic development — that is, in moving from the podium to the negotiating table.

### US-CUBAN COMMERCIAL RELATIONS

Logically, the development of commercial relations between two countries follows the previous establishment of a political relationship. Normally, political recognition is secured and the groundwork is laid for the exchange of ambassadors before attention is focused on economic issues between the two countries.

Logic therefore would dictate that a paper addressing itself to the "Prospects for Relations and Trade Between the United States and Cuba" would first discuss the larger political issue. Trade policy would then be placed within this broader framework.

Logic, however, has not been the overriding characteristic of US-Cuban relations for the past nineteen years. So it should not be surprising that trade policy and future economic relations loom as the major negotiating obstacles in reestablishing diplomatic relations between the two countries. The trade embargo levied by the United States, the claim for U.S. property nationalized by the Cuban government and Cuba's

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\* Institute for Policy Studies. I would like to thank Kenneth Frankel for his help in preparing this paper.

1. For a definition of ideological pluralism, see Roberta Salper, Coordinator, Ad-Hoc Working Group on Latin America, *The Southern Connection: Recommendations for a New Approach to Inter-American Relations*, Washington, D.C. (February 1977), pp. 9-14.

counterclaim for reimbursement for the defense of the Bay of Pigs appear to be major points of contention which must first be addressed.

Yet, barely two years after Gerald Ford called Fidel Castro "an international outlaw," there appears to be a softening of previous hostilities and a greater American desire to change the U.S. policy which Senator Frank Church has characterized as "petulant and self-defeating."<sup>2</sup> Since 1973, U.S. public opinion has increasingly favored the resumption of negotiations with Cuba and the reestablishment of political ties. In a recent poll conducted by the Potomac Associates, Americans favored by a 2-1 margin the resumption of negotiations.<sup>3</sup> As for the Cubans, they have made it abundantly clear to visiting U.S. Senators, Congressmen and businessmen that they are desirous of entering into discussions with our country.<sup>4</sup>

Thus, in the ironic setting in which we find ourselves, the U.S. business community, formerly the staunchest critic of the Castro government, now constitutes one of the strongest lobbies in favor of restoring full political and economic ties. Furthermore, many agree with the Cuban government that President Carter must sign an executive order lifting the embargo before serious negotiations can take place.

There is a major unifying element to this irony: all parties involved believe that in the post-Cold War era of detente and economic interchange, it is necessary to reexamine the relationship between the United States and Cuba. Previous economic and political sanctions against Cuba were based on a geo-political view of the world and an ideological frontier, both of which have long been eclipsed by contemporary realities. After almost twenty years of socialist rule, U.S. businessmen and government leaders alike realize that the Cuban government, like the socialist states of Eastern Europe, has become institutionalized and has become a responsible economic and political entity in the global system. As such, Cuba represents a potential trading partner for the United States. Specifically, Cuba is eager to buy machinery, fertilizers, corn, wheat, computers, tractors, medicines and some consumer items.<sup>5</sup> In return, the

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2. SEN. F. CHURCH, DELUSIONS AND REALITY: THE FUTURE OF UNITED STATES-CUBAN RELATIONS. Report to the SENATE COMM. ON FOREIGN RELATIONS. U.S. Sen. p. 8 (Gov't. Printing Off. 1977).

3. W. WATTS & J. DOMINGUEZ, THE UNITED STATES AND CUBA: OLD ISSUES AND NEW DIRECTIONS *passim* (1977).

4. That is, once the embargo is lifted. For a recent statement of the Cuban position, *see* Fidel Castro's closing speech at the Second National Assembly of People's Power in Havana, Cuba (December 24, 1977).

5. Marcelo Fernandez Font, Remarks before the East/West Trade Council (October 3, 1977) (mimeo distributed by Alamar Associates, Inc., Washington, October 1977), p. 7.

island can offer the United States sugar, tobacco, lobster and other shellfish, citrus fruits and, most importantly, nickel and nickel by-products.<sup>6</sup> Cuba possesses nine percent of the world's known nickel resources and the government is actively exploiting and expanding its operations in this area.<sup>7</sup> In making their plea for resumed ties between the two governments, U.S. businessmen have been quick to note that the proximity of Cuba will make the delivery of goods to the U.S. consumer quicker and cheaper than present sources of supply.<sup>8</sup>

The United States and Cuba both understand that the new relationship between them will be substantially different from the one that existed in 1958. Under the regime of Fulgencio Batista, companies based in the United States controlled eighty percent of Cuba's utilities, ninety percent of its mines, forty percent of the sugar cane fields and all of the oil refining and distribution facilities. In that era, sixty-seven percent of Cuba's exports went to the United States and seventy percent of its imports came from this country. The \$1.7 billion in exchanged goods accounted for sixty-four percent of Cuba's trade turnover.<sup>9</sup> In addition, the pearl of the Caribbean and its capital city, Havana, were the vacationing and nightlife centers for many U.S. tourists.

Cuba, like many other developing nations, views cautiously the entrance of massive foreign investment. The new approach to foreign investment is "joint venture" — a concept now in practice in Latin America and elsewhere. Under a joint venture arrangement, developing nations attract foreign capital while maintaining control over the use of the capital. Cuba has established such joint ventures with Japan<sup>10</sup> and Mexico and has approached various companies about participating in the development of the Cuban nickel industry.<sup>11</sup>

Since 1960, when the Castro government expropriated all foreign-owned property (\$1.8 billion of which was U.S.-owned), the Cuban Revolution has been perceived as being rigidly opposed to any direct foreign investment in the island's economy. However, according to

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6. L. Theriot, *Cuban Foreign Trade: An Assessment* (U.S. Dep't. of Commerce 1978, *passim*) (Draft of forthcoming publication).

7. T. Moran, *The International Political Economy of Cuban Nickel Development*, 7 *CUBAN STUD.* *passim* (July 1977).

8. Interview with Kirby Jones, President of Alamar Associates of Washington, D.C. (February 1978).

9. L. Theriot, *supra* note 6, *passim*.

10. In 1976, Sumitomo Warehouses and the Cuban merchant marine formed a joint venture called Nippon Caribbean Shipping Company. Based in Tokyo, the new company is to be the carrier for all seaborne Japanese exports to Cuba. 8 *Q. ECON. REP.* (1976).

11. *Id.*, *passim*.

Ramon Sanchez Parodi, Chief of the Special Interest Section in Washington, "We have been able to settle all compensation issues with our Western European trading partners."<sup>12</sup> U.S. claims will eventually be settled in some manner if commercial relations are normalized.

According to a Department of Commerce study in 1978, "[S]hort of the hard currency investment capital, Cuba has recently appeared to be more pragmatic about allowing inflows of foreign capital through techniques different from traditional direct foreign investments."<sup>13</sup> Cuba may follow the lead of other CMEA countries (Council for Mutual Economic Assistance, also known as COMECON) which emphasize various kinds of cooperation arrangements with Western companies. For example, a Western firm exports a complete plant on credit and then cooperates in marketing exports from the plant when production starts. Such an arrangement enhances the countries' ability to obtain credit financing for hard currency investment projects while minimizing initial hard currency expenditure. It also provides a way to repay the Western credit through the export of part of the production of the new facility. The main attraction for Western companies is the ability to export their equipment to a market that is inaccessible by normal export techniques or where cost consideration makes offshore production for export more economical than in the United States.

Recently, Cuba has suggested forms of cooperation with the United Kingdom and Canadian and Italian companies in the tourism and mining sectors. In addition to these cooperation arrangements, Cuba may also be interested in offshore assembly ventures (called contract manufacturing in CMEA) in which a finished product is assembled in Cuba from imported components, both to supply domestic needs and to be exported.

Cuba has made it explicitly clear that it will closely examine each trade proposal and transaction involving U.S. dollars. Corporate investments in Cuba will be accompanied by a high degree of government involvement with strong stipulations for the amount of profit remittable to the United States.<sup>14</sup> Yet, despite the knowledge that Cuban trade and investment laws could be stringent, U.S.-based corporations are more than eager to involve themselves in a two-way trade that could reach as high as \$600-700 million annually. This would make the United States

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12. Seminar group, including the author, at Georgetown University (Feb. 15, 1976).

13. L. Theriot, *supra* note 6, at 55-56.

14. *Id.*, at 45.

Cuba's second leading trading partner behind the Soviet Union.<sup>15</sup> By most estimates US-Cuban trade turnover would surpass the total combined value of all Cuban transactions with the Eastern European countries.<sup>16</sup> Since the OAS embargo was modified in 1975 to allow foreign-based affiliates of U.S. companies to trade with Cuba on a limited basis, trade has already reached \$300 million.

Confident that they can establish mutually beneficial economic relations with Cuba, many business executives are willing to virtually ignore past expropriation claims in the hope of expediting the resumption of ties between the two countries.<sup>17</sup> Already more than 130 companies have visited Cuba with the intent to test the potential market. Xerox, FMC Corporation, Abbott Laboratories and the First National Bank of Chicago are just a few of the firms which have recently sent representatives to Havana.<sup>18</sup>

Of course, renewed trade relations are not without their potential dangers. Though Cuba already has firm commitments with some of its trading partners, most notably the Soviet Union, forty percent of its present trade is with Western nations.<sup>19</sup> This percentage could increase significantly when the United States enters the picture. Cuba, leery of past patterns of U.S. dependency, must be sure that it does not overextend itself with the United States to the degree that it cannot either buy or sell contracted goods.<sup>20</sup> While the Soviet Union has and will continue to allow Cuba to postpone its debt payments, U.S. creditors cannot be expected to act with the same flexibility.<sup>21</sup>

The renewal of full political and economic ties between the two countries could prove to be mutually beneficial from a noneconomic viewpoint as well. As Jorge Domínguez points out, "Science and technology are among the prime incentives acknowledged by Cuba for

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15. L. Theriot, Cuba in CMEA (U.S. Dep't. of Commerce 1977) (unpublished drafts). See pp. 4-5 and Table 1 in appendix.

16. *Id.*, see Table 1 in appendix.

17. Interview with Wayne Smith, Coordinator of Cuban Affairs, Dep't of State (February 1978). According to Mr. Smith, small claimants are not willing to support a lifting of the trade embargo before the Cubans pay compensatory claims, whereas many large companies see more prospects for recovering past financial losses by resuming trade relations.

18. Interview with Kirby Jones, *supra* note 8.

19. L. Theriot, Cuban Foreign Trade, *supra* note 6, at 15.

20. However, according to Theriot, Cuban Foreign Trade, pp. 43-44, this danger does not appear imminent.

21. J. Domínguez, *The Cuban Armed Forces and International Order*, (Cambridge, Center for International Affairs) (Harvard University (January 1977)), p. 8.

improving relations with the United States."<sup>22</sup> Cuba could offer access to its newly developed labor-intensive technologies and special skills in maintenance of machinery and equipment particularly relating to the sugar industry. In addition, a great deal could be learned from Cuba's successful public health research programs. Other areas of mutual benefit might be cultural exchanges, tourism, joint weather bureau agreements to improve meteorological coverage of the Caribbean and collaboration on marine pollution control, which is severe in the waters between Florida and Cuba and between Cuba and Central America.

#### DEVELOPMENT OF US-CUBAN POLITICAL RELATIONS

The first months of the Carter Administration bore witness to a refreshingly numerous list of positive overtures toward Cuba: a) January 1977: an apparent halt to reconnaissance flights over Cuba; and b) March 1977: a lifting of the ban on travel by U.S. citizens to Cuba and of the prohibition on spending U.S. dollars in Cuba. Subsequently, U.S. travel agencies received permission to contract with Cuban tourist offices and to charter aircraft and ships to Cuba, and most recently, direct flights between the two countries were resumed, and use of U.S. credit cards and travelers checks in Cuba has been arranged.

For their part, the Cuban government did the following: a) June 1977: released ten of the remaining thirty U.S. prisoners and announced plans to review the other cases; b) December 1977: released Frank Emmich, accused by the Cuban government of being CIA station chief in 1960-61; c) 1977-78: a resumption of cruise line service between selected ports in the United States and Cuba, and general receptivity to cultural, scientific and sports exchanges.

Finally, Cuba and the United States signed two significant bilateral agreements: a) April 1977: the accords on fishing and maritime rights, establishing boundaries in the overlapping fishing zones of the two countries; and b) September 1977: "Interest Sections" opened in Washington and Havana, housed under the Czech and Swiss flags, respectively.

Congressional activity, urging a shift in U.S. policy toward Cuba, dates from the 1971 hearings by the Senate Foreign Relations Committee on hijackings which resulted in the Fulbright-Church call for legislation to repeal the 1962 Cuban Resolution<sup>23</sup> and has been constant to the

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22. W. WATTS & J. DOMINGUEZ, *supra* note 3, at 47.

23. The OAS affirmed the U.S. initiative in July 1964, by directing all those member nations which had not already done so to break diplomatic and commercial relations with Cuba. Kennedy also found authority for the declaration

present. Activity, however, has subsided during 1977, perhaps waiting for further signals from the Executive. Congress apparently has lost, or been urged to relinquish its leadership, in moving for a shift in U.S. policy toward Cuba. From all observation points it appears that key decisions regarding the future direction of relations will emanate directly from the White House.

#### PROGNOSIS FOR FUTURE COURSE OF US-CUBA RELATIONS

Since the November 1977 Cuban commitment in Africa, the future of both commercial and political relations between the U.S. and Cuba has become increasingly linked to Cuba's activity in Africa. Furthermore, I would suggest that not only is the course of U.S. policy dependent on Cuban activity in Africa, but also on President Carter's reaction to it.

The Cubans have made it clear that they will not renegotiate the hijacking agreement, or move to discuss other issues, until the trade blockade is lifted. As President Castro recently stated,

We don't have any naval bases in the United States. We don't practice subversion or espionage against the United States. This is why we believe that it is necessary for the economic blockade to be lifted before any talks can be held. We believe that this is a very just position, because we wouldn't get anywhere otherwise. We admit the possibility of contacts to clear up this position — contacts, not talks. . . . This means that we're ready to discuss our problems as soon as the blockade is lifted.<sup>24</sup>

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of the embargo in laws passed by Congress, specifically the Foreign Assistance Act of 1961 which authorized the President to establish and maintain an embargo upon all trade between the United States and Cuba.

The President's proclamation was followed on July 8, 1963 by the Cuban Assets Control Regulations, which prohibit all currency transactions between the two countries unless licensed by the Secretary of the Treasury. Further authority for both the Proclamation and the Assets Regulations can be found in the Trading with the Enemy Act of 1917 (section 5b) which gives the President very broad authority to regulate currency "during time of war or any other period of national emergency declared by the President."

Such legal details are important because they indicate that either the President or Congress may act unilaterally to end the embargo. Congress may revoke the authorization for the President to establish the embargo or the President may simply declare an end to it. (Quoted from *CUBA UPDATE*, Center for Cuban Studies, New York City, Feb. 1978, p. 2).

For a comprehensive account of Congressional and Executive actions see *Toward Improved United States-Cuba Relations, Report of a Special Study Mission to Cuba, Before the House Comm. on Int'l Rel.*, (1977).

24. Interview in *AFRIQUE-ASIE*, in Paris (April 23, 1977).

The Cuban view on its involvement in Africa was clearly spelled out by Ramon Sanchez Parodi, Chief of the Special Interest Section, in a seminar at Georgetown University on February 15, 1978:

Our policy toward Africa is different from Cuba's relations with Latin America. . . . [I]n 1958, many African colonies were struggling for independence, and Cuba established relations, early on, with African liberation struggles. . . . [T]here was a great deal of world sentiment to accelerate the decolonization process taking place all over the globe. . . . [T]hroughout all these years, a very special and close relationship between Cuba and many African countries developed. We both have similar needs: health care, education, housing, etc., and similar cultural and historical roots create further links. Thus our close ties and desire to help date back a long time.

Clearly, the Cuban commitment to African struggles is, in essence, not negotiable. What remains to be seen is its willingness to compromise on the extent and scope of its involvement.

There is no doubt that several key presidential advisors view relations with Cuba as being advantageous to this country in the long run. Furthermore, in forging a new "North-South dialogue" and advancing the "special relationship" between the United States and Latin America, Carter promised OAS member countries that the Administration's approach to Latin America would be based on three principles: a) a high regard for the individuality and the sovereignty of each Latin American and Caribbean nation; b) a respect for human rights; and c) the desire to press forward on the great issues which affect the relations between the developed and developing nations.

Clearly, if President Carter follows these three basic principles, then he must reevaluate and eventually change U.S. policy towards Cuba. Implicit in this new approach, however, is that the Administration will have to break the Cold War prejudices concerning Cuba and Cuba's position in the world's geo-political structure. This implies that Cuba will have to be viewed as a sovereign Latin American nation. As such, Cuban programs and foreign policies must be respected and seen in their own context, and within the context of the developing world, the notion that Cuba is only important to the U.S. vis-à-vis the Soviet Union is outdated. The respect for the sovereignty of developing nations is not only an Administration goal but it is a new global tenet.

Whether the U.S. chooses to elaborate a new relationship with Cuba is still uncertain. Due in large part to the conservative trend in Congress and to the organized public opposition to liberalization of foreign policy (as seen in the reaction to the Panama Canal Treaties), there is little indication that the President will initiate new moves in Cuba's direction in the upcoming months or during the first term of his administration.