A Dramatic Opening with Cuba

Barbara Kotschwar, who was in Havana when normalization with Cuba was announced, assesses the impact and the prospects for renewed economic ties.


Steve Weisman: Barbara Kotschwar of the Peterson Institute for International Economics was in the Havana Airport when President Obama announced that the United States was going to normalize economic and political relations with Cuba. This is Steve Weisman at the Peterson Institute to talk to Barbara about this development and what it promises for the future of one of the most contentious relationships in the world. Barbara, first, what were you doing in Cuba?

Barbara Kotschwar: I was coincidentally in a seminar on US-Cuba relations for the first part of the week. But I don't think too many people in the room were expecting at least the magnitude of this announcement.

Steve Weisman: One of the things that took you there was your book written with Gary Hufbauer, Economic Normalization with Cuba: A Roadmap for US Policymakers, published by the Peterson Institute published earlier this year. What did that book say?

Barbara Kotschwar: The reason we wrote this book was that we looked at the situation in both Cuba and the US and saw that the winds of change were starting to blow a little bit harder with the economic reforms in Cuba. Since taking office, President Raul Castro has liberalized a number of economic activities. He has allowed Cubans to travel, for example, without an exit visa, which is a first. He has allowed Cubans to rent and own property.

The Obama Administration has released some of the restrictions on travel. I actually found out about this historical change in policy from a farmer from Michigan sitting next to me on the plane, who was in Cuba on a People-to-People exchange. He had been there for a week or so scoping out the Cuban agricultural sector and seeing what could be done there.

Steve Weisman: The President lifted some, but not all of the economic restrictions on Cuba. But you saw some examples of Raul Castro's policies in Havana. Tell me about that.

Barbara Kotschwar: Compared to 15 years ago, there's a lot more economic activity. There's a lot more private hacienda stores set up. There's a lot of places where you can go and buy stuff: trinkets, what they call artisan, arts and crafts. You can now legally go into a restaurant run by a small number of people, have a nice dinner, and then walk down the street and pay to see musicians playing. It's really changed the face of Cuba.

It's still a centrally planned economy. There are still real limitations on the types of economic activity. There are 100 plus economic activities that you can undertake. From being a barber to planning quinceanera parties, the traditional 15 year parties. Wedding planning is one of them. You can be a mechanic. But there are certain things that still are not open to Cubans as private enterprise.

There really is a lot more economic dynamism than there was 15 years ago. When I was there the first time, people would try to sell you stuff that was really on the margins. It
was obviously black market. And now it’s out in the open. I think that that type of entrepreneurial activity is what needs to be fostered and what’s going to bring about more pressure for greater economic openness.

As you mentioned, the releasing of some of these restrictions or lessening of the restrictions certainly does not end the embargo. The President is still constrained by the Helms-Burton Act and only Congress can do that. But allowing greater travel, allowing a greater amount of remittances to go to individuals and to support business, will help these people create more of an entrepreneurial class.

Steve Weisman: Historically, in some countries, an entrepreneurial class then demands political freedoms. That’s what Congress would be looking for as well.

Barbara Kotschwar: That’s the stated objective of the policy. I think that’s the hope of the policymakers who are trying to increase the exchange of ideas and the fostering of these micro and small entrepreneurs who will then gain a real interest in maintaining this type of economic activity.

Steve Weisman: The subtitle of your book is “a road map for US policymakers.” What is the road map now?

Barbara Kotschwar: The real message is that economic liberalization is a good thing. We kind assume away the politics. We can do that as economists, although the politics are what determine this relationship. But we look at political normalization as a point of departure and then try to see what economic normalization between Cuba and the United States would look like. What would it look like when the two countries start treating each other more as normal countries and then perhaps as super normal countries, as countries that have the greater economic stake in one another? And that would be deeper economic relations. That’s looking far into the future.

We say that economic normalization should be done in a considerate manner. It should be done slowly [while] thinking about the consequences. We warn against sudden normalization without setting a groundwork that will allow Cuba to have the economic and political institutions that will support a free and competitive market. We caution against the sort of big bang approach that was taken in Russia, where opening the economic system, which was done suddenly, led to already entrenched interests becoming even more entrenched.

And to use a less dramatic example: countries like Mexico where the privatization of the telecommunications sector led to a privately held monopoly, which Mexico now has to take great steps to roll back and to reform.

Given the nature of the Cuban economy, given the types of interests that could develop, we urge US policymakers to engage in careful conversations with their counterparts. We think that the exchange of ideas, the exchange of economic actors, of policymakers, of academics is really important. Learning about each other’s regulatory systems I think is important in advance of economic normalization.

The lifting of restrictions on traveling is very, very positive, we think. Now folks from the NIST [National Institute for Standards and Technology], for example, who manage US Standards and Conformity Assessment Procedures, should be encouraged to go to Cuba and see how the two can come to an agreement that will allow goods to be exchanged easily and fairly across borders.
Steve Weisman: Just to summarize, I think you believe this step taken by President Obama is a good first step toward that roadmap?

Barbara Kotschwar: I think so. I think it’s absolutely a good and an important first step. I think that this is something that could allow the Cuban entrepreneurial class to develop and I think it’s an opportunity for American entrepreneurs, American policymakers, Americans who are interested in traveling to Cuba to exchange ideas with Cuba and set the groundwork for negotiation between the two countries that will eventually lead to a more competitive marketplace in Cuba.

Steve Weisman: Barbara, thanks very much.

Barbara Kotschwar: Thank you.