In December 2013, President Obama announced plans to restore diplomatic relations with Cuba, ending over fifty years of official non-recognition. The decision does not lift the decades-long economic embargo, which only Congress can end, but the news unleashed speculation about the scope and nature of future U.S.-Cuba economic relations. Clearly, those with investments in Cuba, such as China, have cause to evaluate their prospects and consider what normalization will mean. The Obama administration initiative effectively declared the U.S. embargo, meant to isolate and remove the Castro regime, a failure. President Obama hopes that greater exposure of Cubans to Americans will lead to changes on the island’s political and economic systems. Some have argued the big losers are Cuba’s rulers who have used what they call the “blockade” to blame systematic failures on U.S. imperialism, close ranks, and silenced dissent. In a classic case of managed trade, however, U.S. agro-export, telecommunications, and financial firms have been given concessions to operate in Cuba. Their profits represent the special privilege conferred on them by the administration, but still denied to other U.S. business by law. ***A “Swiss cheese” blockade*** In fact, the so-called “blockade” was been eroding for years. American pharmaceutical and agricultural products, sold for hard currency, are exempt under the existing trade restrictions. Remittances and travel by Cuban exiles in the United States have expanded considerably in the last few years. Licensed travel for academics, journalists, church groups, and others have allowed an estimated 30,000 to 60,000 U.S. citizens to visit annually. Despite complete diplomatic and commercial relations with all countries in the Americas, Canada, the European Union, and the rest of the world, the Cuban regime is as politically entrenched and obstinate as ever. That the presence of Americans will lead to fundamental reform, as Obama argued in his message on normalization, assumes an exceptional ability on the part of the average U.S. tourist as a catalyst for change. The changes occurring in Cuba are largely a function of intractable economic problems combined with the regime’s flexibility in order to ensure its survival. With Venezuela, its chief benefactor, on the verge of collapse Cuba’s rulers now see the writing on the wall. In 2010 President Raúl Castro told the country’s central leadership: “either we change or we sink.” Accordingly, maintaining the political status quo has led to economic changes the government believes will lead to a “sustainable and prosperous socialism.” Reforms of the political system or in civil liberties are not on the agenda and are not anticipated by Cuba watchers. ***China and Cuba*** In efforts to prop up its threadbare economy, Cuba has increasingly courted Chinese trade and investments. After Venezuela, China is Cuba’s second largest trading partner. China is a major supplier of durable and transportation goods to Cuba. In 2006, for example, Cuba purchased 100 Chinese locomotives worth $130 million. Some 1000 Chinese-made buses and 30,000 refrigerators were imported during the same period. Chinese-made goods are a staple of Cuba’s consumer markets that rely almost exclusively on foreign imports. Eighty percent of food rationed to the public is imported, with Cuba obtaining a large share

of its annual 500,000 tons of milled rice from China. China continues to purchase about 400,000 tons of sugar annually, roughly one third of total current production. China has invested in the tourist industry, run by the Cuban military and generating upwards of $2 billion from over 3 million tourists annually, building hotels and recreational facilities. An influx of U.S. tourists paying with dollars would benefit investors’ returns. Meanwhile, the China Development Bank financed a $500 million nickel processing facility in Las Camariocas. Nickel, an alloy metal used to plate iron and brass as well as to make stainless steel and batteries, has replaced sugar as Cuba’s main commodity export earner. China’s investment fits its overall strategy of securing raw materials from the Americas. If U.S. buyers were eventually allowed to purchase Cuban nickel, investments in Cuba’s Moa nickel mines may pay off in dollar amounts. Another area of Cuba-Chinese economic cooperation is oil. Chinese oil companies have invested in seismic testing, but no drilling as yet, off the island’s northern coast. The investments have included drilling rigs provided by Petro China’s Great Wall Drilling Co. Restored U.S.-Cuba economic relations might cost China its relatively small export of consumer goods and some staples, such as rice. On the other hand, the lion’s share of Chinese investments in petroleum, tourism, nickel, and infrastructure could prove beneficial once American firms and consumers are allowed to enter the Cuban economy. ***Limited economic reforms*** What trumps forecasters is that Cuba’s current economic “reforms” are perfunctory, tentative and quite limited. The reforms are motivated by the government’s need to secure survival. As a result, its dominant concern is to attract foreign investment and foreign currency, pay the military and security apparatus – whose primary function is repressive – and reduce the government’s payroll by allowing a growing number of private initiatives to soak up the unemployed. Unfortunately, Cuba’s nascent entrepreneurs (“cuentapropistas”) cannot use their profits to bid for scarce resources and factors of production. While foreign investors can provide capital with the Cuban government holding 51 percent ownership, they are unable to bid for workers, land or equipment—except under arrangements with the Cuban government’s agents. The primary owner of Cuba’s resources remains the Castro government. High levels of corruption, arbitrary use of authority, the lack of an independent judiciary and the uncertainty of the political climate, will continue to keep many investors at bay. The World Bank’s Ease of Doing Business Index does not even bother including Cuba in its list of 189 countries surveyed. To move the Cuban economy into the 21st century will require deeper economic, as well as political, liberalization. Economically, Cuba’s viability as a destination for long-term investment will be based on the extension of markets in land, capital and labor, one effect of which is expanding the domestic market and dismantling the worst of the command economy. Politically, without the rule of law, most investors will focus on quick turnarounds on capital and avoid long-term projects fearing arbitrary twists and turns in policy. Of greatest concern is whether the “new normal” will consist of managed trade

and travel by the U.S. and a cash hungry Cuban government making limited concessions U.S., Chinese and other companies in return for dollars. If that is the new normal then it will look a lot like the status quo.