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Cuban Responses to the Economic War of the United States

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In 2019, the Trump administration’s economic sanctions against the Cuban economy were redoubled. The measures have demonstrated effectiveness in disrupting the functioning of Cuban markets and industries. Probably, the effect of the sanctions is less than what the U.S. government expected, but greater than what the Cuban government admits when it claims that the Cuban economy grew 0.5%.

Trump Administration Measures

The Trump administration added new companies, institutions and individuals to the list of entities financially blocked by the State Department, restored the ban on selling goods to Cuba that have 10% or more of U.S. components, imposed sanctions on shipping companies that transport fuel to Cuba and placed a limit on remittances to Cubans of \$1,000 per quarter.

On the financial level, regulatory flexibility adopted by President Obama was reversed. In particular, U.S. intermediary banks are now again instructed to reject any dollar payments between Cuban banks and third-country banks (known as “U-turn transactions”). In the second half of the year the tourism

sector was affected by the cancellation of cruise ship visits and the prohibition on regular airline flights from the U.S. to locations outside the capital.

After the Trump administration made Title III of Helms Burton operational, dozens of companies have been sued or threatened with lawsuits unless they reach financial settlement with the plaintiffs. We do not yet have all the data to evaluate what impact this increase in legal and financial risk has on foreign investment in Cuba. The truth is that it has not been completely paralyzed, although it is foreseeable that the sanctions will have a cooling effect on the presentation of new projects with foreign capital, at least until the next presidential elections in the United States in late 2020.

Impact in Cuba

This year, the most complicated moment for the Cuban economy occurred in September, when ships with Venezuelan oil stopped arriving. But in these extreme situations of economic warfare, a centrally planned system is an advantage. The State monopoly and the control of the markets does not work under normal conditions: it does not promote innovation and productivity. But in times of maximum currency illiquidity and restricted fuel and basic necessities, it allows the few resources that are available to be directed to the essential priorities of the country and prevents collapse.

The Cuban government reintroduced some products to the ration book, and is regulating the quantities consumers may purchase of others. In September, many government investments already in progress were halted or slowed down, there was a total or partial shutdown of various industries, and production schedules in State-owned enterprises were readjusted so that they did not coincide with the periods of greatest demand for electricity. Likewise, public transport services were significantly reduced, both by bus and by rail.

As of October, some production and services were totally or partially restored their activities. But everyday life for citizens continues to be more difficult than usual, primarily because they have to devote more time to finding and acquiring goods and moving around.

The situation has not unleashed social protests. The fact that the sharpening of economic problems is now perceived to be due to the government of the United States gives the Cuban government a political break and takes them to their political comfort zone, where they have had more experience and success historically.

Current Responses

The current Cuban economic policy is difficult to assess. The country is in the middle of an economic war and watching Venezuela drown in an economic depression without parallel.

The impasse on implementing economic changes has been partially broken, although it does not seem that all the new changes are oriented in the right direction. In the current situation, some measures will have to prioritize the short term, even if they are not the best options for the long-term economic strategy. This is the case of deciding to partially *re-dollarize* some of the consumer markets. Other measures, such as the decision to raise salaries in State institutions at a time when the fiscal deficit has reached record levels, does not seem like an intelligent decision from any economic and financial angle.

It is uncertain what impact U.S. sanctions and the current extreme economic situation will have on pending structural reforms and internal political dynamics.

In the 90s, the economic crisis known as the "Special Period" led the Cuban government to open the economy. But the economic measures in that period were taken to respond to a historical juncture and without ideological justification. As a result, many of the reforms were then reversed since the beginning of the new century.

On the other hand, the Raúl Castro government measures taken since 2008 were not taken in response to an extreme economic situation, but instead based on a recognition and upon a consensus of the need to change deficiencies underlying the economic system. It is a fact that in recent years those reforms came to a halt. Many remained as promises, but those that were implemented remain in effect.

Before the current Washington sanctions, the failures of the Cuban model for inserting itself in the international sphere were already becoming apparent. This model was based almost exclusively on the export of medical services to Venezuela.

The unfortunate impacts of the economic war of the United States on the private sector, on the daily life of the average Cuban, and on exchanges with the emigrant community, generate feelings of uneasiness towards the exterior, shifting attention to the external causes of problems. Obviously, the

Cuban government uses all its political experience to build in the official media a narrative that tends to correlate economic problems with the U.S. Embargo.

Even so, the Cuban government may make political mistakes or mismanage economic solutions to the crisis. Whatever the popular perception about the origins of the current shortages, the majority of the population suffers from lack of public transportation and less access to medicines and food. This creates a socially sensitive situation, all the more so given the unrest in several countries of the continent.

Times Change

This year, several of the ministers and vice ministers resorted again to exclusionary and inflammatory political rhetoric, using expressions and reasoning that have nothing to do with the new Cuba that has been shaping up during the last decade. For example, the Minister of Higher Education labeled as “mercenaries” a group of intellectuals who opposed the expulsion of professors from universities for political reasons.

It should be taken into account that today a large part of the population already accesses the Internet, participates in social networks and reads news and analyses of alternative Cuban media. But the government team at times seems to forget that the official media no longer completely controls the narratives and tries to make policy by changing the name of things or giving explanations that have nothing to do with the facts. For example, the Minister of Economy stated several times that the Cuban economy has not returned to dollarization, contradicting the more elementary definition of such a concept.

In reality, these two examples constitute only a sample from a cabinet that sometimes does not seem to be up to the task. The rhetoric and actions of the U.S. government are the same that have failed in the past and that the Cuban government has defeated during previous decades. But Cuban society and the economy are different today from the Cold War era and the “Special Period”.

Those who continue their terms and those who entered the Council of Ministers as of the last session of the National Assembly must ensure more inclusive and adjusted responses to the new national socio-economic context. These responses must involve all the actors that have to contribute and get involved in the solutions – with special attention given to the new generations, the private sector and the emigrated Cuban community.