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Out of Benefactors From Abroad, Cuba Turns to Its Caribbean Neighbors

Robert Looney Friday, March 3, 2017

Just when the United States seems to be retreating from competition (<https://www.theguardian.com/business/2016/nov/09/globalisation-backlash-us-economy>) in global markets, and possibly even

NAFTA, socialist Cuba is moving in the opposite direction. With the signing late last month of a new trade agreement (<http://www.caribbean360.com/news/caricom-cuba-agree-accept-others-goods-duty-free>) with the 15 countries of the Caribbean Community, or CARICOM, Cuba is looking to capitalize on trade and economic links with its neighbors.

The feeling is mutual. The Caribbean countries have begun to see Cuba in a different light following the start of the normalization of relations between Havana and Washington and the prospect of the U.S. lifting, or at least relaxing, its Cuban embargo. Instead of their old view of Cuba as a threat, Caribbean countries are coming around to seeing the country as an economic opportunity (<http://www.nbcnews.com/storyline/u-s-cuba-relations/u-s-cuba-travel-shouldnt-faze-other-caribbean-destinations-n292186>).

Cuba's changing relationship with two key countries—the U.S., its traditional nemesis, and Venezuela, its recent benefactor—are providing both the means and incentives for this turnaround in the Caribbean. For the first time since the revolution, Cuba has a chance to achieve its economic potential and become a significant force throughout the region. The absence of a major international



Caribbean leaders meet during the Summit Cuba-Caricom, Havana, Cuba, Dec 8, 2014 (AP photo by Ismael Francisco).

patron is forcing the Cuban government to confront the country's long-standing economic malaise with a market-oriented reform program (<https://www.brookings.edu/wp-content/uploads/2016/06/Cubas-Economic-Change-English-web-1.pdf>). In turn, the relaxation of U.S. restrictions, Havana hopes, will allow Cuba to grow its economy by shifting resources toward its areas of comparative advantage, such as tourism.

In the past, Cuba's benefactors, from the Soviet Union to Venezuela, have provided enough subsidies to keep the economy largely buffeted from international trends and forces. Predictably, the result was an extremely inefficient economy (<http://globalriskinsights.com/2016/03/beyond-hype-wariness-president-obama-cuba/>), one where social progress could advance much faster (<https://www.brookings.edu/blog/up-front/2014/11/06/the-cuban-economy-progress-challenges-and-opportunities/>) than the economic base. This pattern of unbalanced development has left Cuba extremely vulnerable to economic and political conditions in its partner countries—most evident in the economic crisis of the 1990s, after the collapse of the Soviet Union.

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But more recently, trouble in places like Brazil, which has provided key assistance to Cuba, has hurt one of Cuba's major hard currency earners, the medical service export industry. Cuban doctors and nurses have a long history of working abroad, but since the industry is highly dependent on government-to-government contracts rather than market forces, it has experienced extreme volatility. In 2013, Brazilian President Dilma Rousseff suspended a deal for more than 5,000 Cuban doctors to work in Brazil. Following Rousseff's impeachment last year, the interim government of President Michel Temer quickly announced a major revision (<http://www.coha.org/political-upheaval-in-brazil-threatens-future-of-universal-healthcare-system/>) of the agreement that will ultimately result in a significant reduction (<http://www.telesurtv.net/english/news/Temer-May-Oust-Cuban-Doctors-Working-in-Brazil-After-Olympics-20160719-0014.html>) of Cuban doctors and nurses participating in Brazil's "more doctors" social program.

With China more likely to play the role of an investor (<http://thediplomat.com/2016/12/china-cuba-relations-assessing-us-stakes/>) in Cuba rather than a benefactor in the mold of the Soviet Union or Venezuela, the Cuban government has responded with a series of economic "guidelines," known as lineamientos. They are meant to provide a foundation for the creation of a new private business sector—an important first step toward the creation of a market-based economy. Many of the new private-sector firms are potential exporters, but low labor productivity, international competitiveness and export capacity have seriously lagged. Government red tape, poor infrastructure and the lack of supply chains all

contribute to stagnant productivity in Cuba. More importantly, there is not enough competition (<http://bti2003.bertelsmann-transformation-index.de/95.0.html?&L=1>) in the domestic market to force firms to use resources efficiently.

The new CARICOM trade agreement should fix some of that by exposing new Cuban private-sector firms to more competition that spurs needed gains in productivity. A significant number of items, including manufactured goods, will now enter the Cuban market duty-free. CARICOM member states have also agreed to grant duty-free access to Cuban goods, such as pharmaceuticals. Based on the theory of the “new economic geography (<http://origin-www.bloombergview.com/articles/2015-01-08/one-economic-theory-to-explain-everything>)”—in which companies essentially want to move their operations from Asia closer to their Western markets—once established in the larger CARICOM market, it would be much easier for Cuban and other Caribbean firms to export to the U.S. and other countries than attempting this transition in one giant step.

These developments are not without risks (http://www.capricaribbean.com/sites/default/files/public/documents/report/the_opening_up_of_cuba.pdf) for the other Caribbean nations. Cuba could end up attracting many of the tourists who previously visited other island destinations. But a dynamic Cuban economy that provides new trade and investment channels is still a major opportunity for small island nations long plagued with low growth rates and excessive levels of debt.

That is what motivated the recent CARICOM deal, and it is why individual countries are also reaching out to Havana bilaterally. Late last year, for example, Jamaica and Cuba pledged to deepen collaboration (<http://www.jamaicaobserver.com/news/Jamaica--Cuba-pledge-to-deepen-relations>) in tourism, trade and other areas of mutual interest.

Many experts believe the tourism impact from Cuba’s normalization with the U.S. will help the Caribbean overall, although, in some cases, destinations will end up competing more directly with Cuba. Affluent travelers to the British and U.S. Virgins Islands, Barbados and the Bahamas may be attracted more to Cuba for its unique culture, terrain and history. But travelers priced out of Cuba, which remains expensive for tourists, will simply go elsewhere, as they always have.

The trick here is cooperation, rather than competing over beach destinations. Aruba and Cuba signed a tourism agreement (<http://www.travelagentcentral.com/destinations/aruba-cuba-sign-tourism-and-transportation-agreement>) last year aimed at attracting visitors as part of a dual-destination program, and other countries could follow suit.

With the embargo, the Dominican Republic, a non-CARICOM country, replaced Cuba as the region’s top tourist destination, so one might expect friction between the two countries. But Dominican

authorities and businessmen see a Cuba that is opening up as an opportunity; negotiations are expected (<http://www.caribflame.com/2016/04/cuba-and-the-dominican-rep-to-negotiate-trade-agreement/>) on a bilateral commercial agreement.

Cuba's size and looming rise are likely to change political dynamics across the Caribbean. By forming strategic alliances with Cuba, the smaller, poorer islands in the eastern part of the Caribbean will have more leverage in their own negotiations. A growing Cuba will help the Caribbean as a whole become more attractive to foreign investors looking to establish supply chains linking Central America and the Caribbean to the United States. It is easy to see a virtuous circle of growth and further reforms taking hold, which has been a cornerstone of U.S. trade policy.

Of course, most of the region's new optimism stems from the assumption that Washington and Havana will manage to move ahead with normalization and relax or even dismantle the embargo. That was a safe bet when most people expected Hillary Clinton to be president.

Unfortunately, there is little in the way of clarity (</articles/20470/which-trump-will-cuba-have-to-contend-with-the-hard-liner-or-the-dealmaker>) over President Donald Trump's Cuba policy. He has promised at different times to roll back former President Barack Obama's measures, or at least demand "a better deal" (<http://www.dailymail.co.uk/news/article-3978658/Trump-vows-terminate-normalization-relations-Cuba-U-S-t-better-deal.html>) from Cuba. So far, there have been no details of what that "better deal" would be. It isn't just Havana that is worried, but its Caribbean neighbors, who have a lot on the line.

Robert Looney is a distinguished professor at the Naval Postgraduate School in Monterey, California. He specializes in issues relating to energy security and economic development in the Middle East, Africa, South Asia and Latin America.