

BRIEF ANALYSIS

No. 427

For immediate release:

Tuesday, January 14, 2003

Should We Trade With Cuba?

by Amy Maness

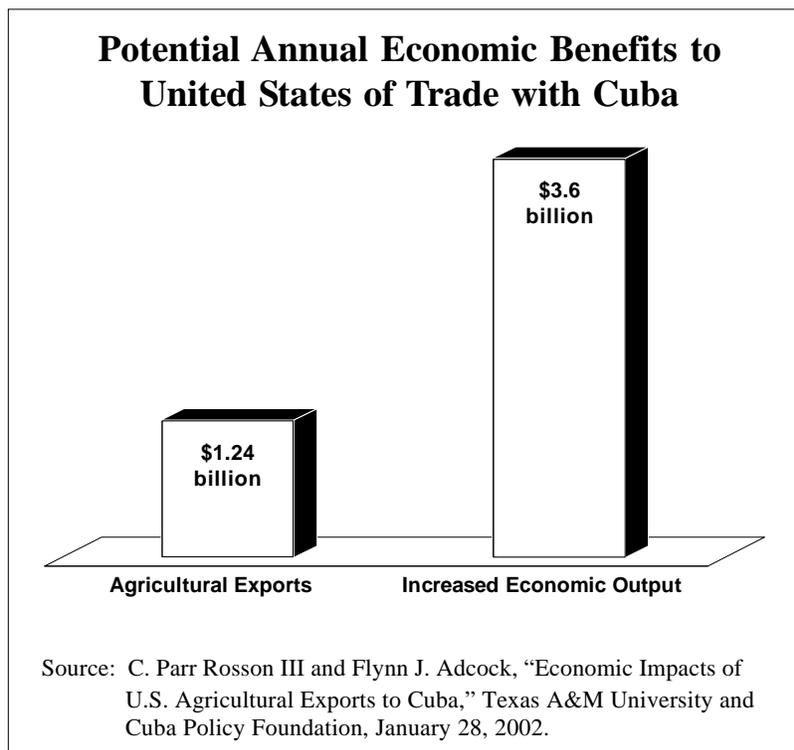
The U.S. embargo on Cuba was instituted in 1961 to overthrow Fidel Castro and neutralize the threat his regime posed by blocking all trade, except in food and medicine. The embargo was aggressively tightened in the 1990s with the enactment of the Cuban Democracy (Torricelli) Act of 1992 and the Cuban Liberty and Democratic Solidarity (Libertad or Helms-Burton) Act of 1996. All trade with Cuba was blocked, including food and medicine. However, American attitudes toward U.S. policies on Cuba are changing, and support for repealing the embargo is growing.

Passionate embargo proponents argue that trading with Cuba would strengthen Fidel Castro, whose authoritarian regime has suppressed all opposition and violated the human rights of political dissidents. They say that trade should occur only after Cuba makes significant efforts toward economic and political reform. Embargo opponents argue that sanctions actually bolster support for Castro, providing an excuse for the poor economic performance of socialism. They note that the Cuban people suffer because trade sanctions deny them access to basic necessities like food and medicine.

Both arguments miss the point that U.S. policies toward Cuba are outdated and ineffective. The threat Cuba once posed to U.S. national security ended with the collapse of the Soviet Union in 1991. Without Soviet support, Cuba was unable to maintain its mili-

tary power. And as other countries trade with and invest in Cuba, the U.S. embargo is increasingly ineffective.

Furthermore, while the embargo has not produced the desired regime change in Cuba, integration into the international economy has helped other developing countries — including socialist countries. Economic growth enhanced by trade has reduced poverty and created a middle class that supports further liberalization. Trade partners are well positioned to influence government policies on human rights and to encourage democratization.



Trading with the "Enemy." The United States has trade agreements with governments similar to that of Cuba — including China, Vietnam and North Korea.

After 20 years of economic reform, China has become one of the United States' fastest-growing trade partners, among whom it already ranks fourth. U.S. trade with China for the year 2002 was \$91.15 billion; in the month of August alone, it was \$14.51 billion. As the Center for Trade Policy points out:

- In 1978 international trade was 10 percent of China's gross domestic product (GDP), but by the late 1990s trade comprised 36 percent of its GDP.
- Due to China's reforms, 100 million people no longer live below the poverty line, and both rural and city dwellers have better access to health care and education.

Trade with China has flourished due in part to the U.S. decision to separate trade promotion from human rights issues. Trade has encouraged China to develop

BRIEF ANALYSIS

No.427

Page 2

a legal system with enforceable contracts and property rights. Thus trade is anchoring the process of democratization.

Trading with Latin America. Like China, Mexico has benefited greatly from embracing trade as a means for economic development. Mexico began economic reform by targeting trade and investment liberalization to stimulate the economy in the 1980s and 1990s. According to Angel Villalobos, a high-ranking Mexican trade official:

- Since the North American Free Trade Agreement (NAFTA) was enacted in 1994, foreign direct investment (FDI) in Mexico has grown to over \$115 billion.
- Employment in FDI firms has grown more than twice as fast as the economy as a whole, and these firms offer salaries that are 48 percent higher than average.
- Between 1993 and 1999, Mexico rose from twenty-sixth to eighth among the world's exporting countries and became the United States' second-largest trading partner.

The link between trade liberalization and increased democratization was evinced in Mexico's case by the election of President Vicente Fox in 2000, which ended seven decades of single party rule. Economic growth from NAFTA increased Mexico's commitment to trade liberalization. Mexico recently entered into free trade agreements with the European Union, Israel, Nicaragua, El Salvador, Guatemala, Honduras and several Asian countries.

Hurting U.S. Farmers. Cuba's population of 12 million is in need of everything, and other countries are offering it.

- A recent Texas A&M study commissioned by the Cuba Policy Foundation shows that U.S. farmers lose \$1.24 billion each year due to the embargo. [See the Figure.]
- Lifting the sanctions would generate an additional \$1.6 billion in U.S. GDP, \$2.8 billion in sales and 31,262 jobs.
- In the 10 months since Congress enacted the Trade Sanctions and Export Reform Act of 2000 —

allowing cash sales of agricultural commodities — Cuba has purchased almost \$200 million in U.S. food and agricultural products from 34 states.

Falling International Support. The United States has pursued trade to promote democracy in countries throughout the Pacific and the Americas. The inconsistent U.S. stance on Cuba does not have international support. An overwhelming majority in the United Nations has voted for 10 years to condemn the U.S. embargo. Of 173 countries, only Israel and the Marshall Islands have sided with the United States. Similarly, the Organization of American States has voted 32 to 1 to repeal trade sanctions against Cuba.

Many of these nations have pursued increased trade with the island nation. Cuba imports approximately \$1 billion annually from many U.S. allies, rendering the U.S. embargo increasingly ineffective.

Growing International Support for Trade. Our 42-year experiment with Cuba has shown that trade sanctions do not work. Not only has the embargo failed to remove Fidel Castro from power, it has done little to foster democratization.

Unsurprisingly, domestic support for the policy is dwindling. Last summer the House voted 262-167 to repeal the travel ban on Cuba, and the Senate considered similar legislation. Also, according to a recent poll by the Cuba Policy Foundation, Americans support lifting the sanctions by 52 percent to 32 percent. A large majority of Americans want the United States to start a formal dialogue with Cuba now.

In May 2002, President Bush announced his Initiative for a New Cuba, which would take a quid pro quo approach to opening up trade. Should Cuba hold free and open elections, the president would take significant steps toward repealing trade sanctions. Helms-Burton does not allow the president to change U.S. policies toward Cuba. However, Helms-Burton comes under sunset review next year, and the 108th Congress should allow it to expire. This would free the president to negotiate the repeal of the trade embargo and to implement other changes by executive order.

Amy Maness is an intern with the National Center for Policy Analysis.

Note: Nothing written here should be construed as necessarily reflecting the views of the National Center for Policy Analysis or as an attempt to aid or hinder the passage of any legislation.

The NCPA is a 501(c)(3) nonprofit public policy organization. We depend entirely on the financial support of individuals, corporations and foundations that believe in private sector solutions to public policy problems. You can contribute to our effort by mailing your donation to our Dallas headquarters or logging on to our Web site at www.ncpa.org and clicking "An Invitation to Support Us."