

# Cuba and its Neighbors: The Challenges of Change

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Soon after the transfer of power in Cuba occasioned by Fidel Castro's illness, the government of Raúl Castro began announcing policy measures to inject some flexibility into Cuba's revolutionary economic model. At the same time, the government acknowledged systemic deficiencies that required rectification. This acknowledgment—a departure of sorts from previous stances—hinted at a possible, albeit limited, opening of Cuba's economy and deeper engagement with the international community. Discussion of what these changes might mean brought into sharp focus the future of Cuba's bilateral relations with the United States, and especially the longstanding U.S. economic embargo on the island. Changes in Cuban economic policies also have a potentially dramatic effect on its much smaller Caribbean neighbors, many of which consider themselves competitors with Cuba over such key economic issues as tourism, foreign investment, agricultural production, and energy resources.

To discuss this often overlooked aspect of Cuba's foreign affairs, the Latin American Program joined with the Caribbean Policy Research Institute

(CaPRI) of the University of the West Indies to convene the conference "Cuba and its Neighbors: The Challenges of Change," held July 21-22, 2008, in Mona, Jamaica. The conference, part of the Latin American Program's project "Creating Community in the Americas," explored changes in Cuba's relations with its Caribbean neighbors, focusing on the key areas of tourism and investment, bilateral cooperation, energy, and security. Experts from Jamaica, Trinidad, the United States, Colombia, and Canada participated, as did several prominent Jamaican political figures, most notably Prime Minister the Rt. Hon. Bruce Golding, Minister of Tourism Edmund Bartlett, and Commissioner of Police Hardley Lewin.

Participants described the complex challenges faced by Caribbean nations as Cuba moves toward further engagement of the global economy. Some of the challenges include potentially reduced assistance in health services provided to Caribbean populations by Cuban doctors; a displacement of tourism should U.S. travel restrictions to Cuba be lifted; competition for foreign



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direct investment; and the meaning of oil and ethanol production capabilities in Cuba that are now being explored. Similarly, panelists noted the potential for close regional cooperation in areas such as the development of alternative energies, tourism entrepreneurship, and food security, in which Caribbean expertise can prove an important resource for Cubans,

**Jamaican Minister of Tourism Edmund Bartlett** elaborated on the recently-concluded partnership agreement between Cuba and Jamaica and how it will propel their respective tourism industries. He underscored that in an era of multiple challenges to the Caribbean's tourism industry (including global fuel prices, a falling U.S. dollar, and competition from other tourist destinations), regional cooperation through strategies such as multiple destina-

tion marketing can help the Caribbean maintain a leading position in the industry. The possibility of further cooperation with Cuba signifies that the Caribbean is embarking on a new era of change that will affect how people and companies conduct business.

Minister Bartlett emphasized the importance of tourism for Caribbean economies, including Jamaica and Cuba. According to the World Travel and Tourism Council, Caribbean tourism accounts for nearly 15 percent of the region's gross domestic product (GDP), almost 13 percent of total employment (approximately 2 million jobs), and 18.2 percent of total export earnings. This means that one in every five dollars earned in the Caribbean comes from the tourism industry. The trend is even more pronounced in Jamaica, Minister Bartlett explained, where tour-

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The Latin American Program's Project on Creating Community in the Americas seeks to establish an effective security community for the countries of the region and to foment strategic debate over matters of human, national, regional, and hemispheric security. The project helps to facilitate a coherent response to the radical changes in the region's security situation that have occurred since the end of the Cold War and the accelerating advance of globalization. We are grateful to The Ford Foundation for its generous support of this initiative.

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ism constitutes 47 percent of the country's foreign exchange earnings, 10 percent of its GDP, and 9 percent of its employment.

But the industry and the region are facing important challenges. Minister Bartlett highlighted how global fuel prices will affect the number of flights coming into the Caribbean. Even though geographical proximity and links between U.S. and Caribbean currencies mean that the region's products are more affordable to American travelers, a declining U.S. dollar could pose serious problems for the industry. A new generation of visitors is demanding high-tech tourist services, thus compelling the Caribbean and Jamaica to retrain tourism workers in order to deliver the new services required. Minister Bartlett explained that in order to keep the industry growing, efforts must focus on targeted initiatives such as niche marketing in specific areas like health, ecotourism, and faith-based tourism. Given Jamaica's position in the tourism industry, Minister Bartlett argued that the country would be in a position to offer assistance to Cuba and to work with other Caribbean markets to maintain the region's competitive profile.

Former Chilean ambassador to India **Jorge Heine**, Center for International Governance Innovation (CIGI) Chair in Global Governance and professor at Wilfrid Laurier University in Canada, noted the contrast between the changes in Cuba under the government of Raúl Castro and the difficulty of discerning what such changes actually mean. He noted that in the past, the Cuban government has frequently confounded world expectations. Nonetheless, he said, Cuba will occupy a central place in the hemispheric agenda for the next several years. The island confronts a multiplicity of challenges, most notably in the economic area. Although Cuba grew at a rate of 6.1 percent annually between 2000 and 2006, Heine emphasized that growth was driven mainly by increases in the world market prices for sugar and nickel as well as increased tourism, all

of which are susceptible to volatile markets. In order to sustain growth and attract investment, Cuba needs significant investments in areas such as infrastructure. Future growth prospects look increasingly promising, with the discovery of important oil reserves in the deep Cuban waters of the Gulf of Mexico and Florida Straits. Heine also noted that possible changes in the U.S. embargo towards Cuba, particularly a relaxation of travel restrictions, would provide additional support to the tourism industry on the island.

**Jessica Byron**, senior lecturer at the University of the West Indies in Mona, Jamaica, discussed the longstanding cooperation agenda between Cuba and the English-speaking Caribbean. She explained how Cuba's support for health and education has been a constant theme in relations between the island and the English-speaking Caribbean. Cuban doctors and nurses now constitute a large percentage of medical personnel in a number of Caribbean countries. Cuba's provision of medical personnel and the training of Caribbean health personnel have paved the way for wider technical assistance in health care between Cuba and many CARICOM countries. Yet, Byron noted, this assistance has also highlighted weaknesses in Caribbean countries regarding their own health and education systems, particularly the hemorrhaging of locally trained medical personnel and educators to more lucrative labor markets abroad. Many Caribbean countries have been experiencing dramatic shortages of doctors and teachers since the 1980s, as these qualified professionals began migrating to the United States and other developed countries. While Cuban doctors have been able so far to fill the gap, any changes in Cuban foreign policy priorities that would lead to a recall or reassignment of medical cooperation—due to a national emergency or trade liberalization, for example—could adversely affect many Caribbean countries. Byron also raised the possibility of transforming existing forms of cooperation into longer term partner-



ships in areas such as health tourism, and underscored the transnational links of friendship and solidarity that have grown between the Cuban people and their Caribbean neighbors.

The mounting food crisis is providing another area for potential collaboration between Cuba and its Caribbean neighbors, according to **Indira Rampersad**, lecturer at the University of the West Indies in St. Augustine, Trinidad. She compared approaches to food and agriculture in Cuba and the Caribbean, highlighting how the latter places too much emphasis on tourism and not on the development of a viable agricultural sector. By contrast, Cuba has actively pursued both sectors. According to Rampersad, this policy and the experiences acquired through foreign sanctions involving agricultural trade explain why, in spite of annual food imports totaling \$1.6 billion, Cuba is better able to manage an international food crisis than other Caribbean countries.

The Caribbean confronts a very serious food crisis with important security ramifications, Rampersad noted. Besides the global rise in food prices, the Caribbean's particular dilemma results from a combination of factors that include limited land holdings, monoculture crops, soil depletion, agricultural soil pollution, the effects of natural disasters, and a longstanding neglect of agricultural policies on account of traditionally cheap food imports. The region has reacted to the food crisis by subsidizing fertilizers and seeds to farmers and by coordinating measures such as a drastic six-month reduction in import duties for most food items, among other initiatives.

These policies, Rampersad noted, do not address the longer-term problems threatening the Caribbean's food security. She examined Cuba's approach to food security, both in terms of traditional Cuban policies in this area as well as Raúl Castro's recent reforms. Cuban food policy has consisted of a combination of programs involving uses of technology and planning (such as urban agriculture and permaculture) to maxi-

mize available resources, use of bio-pesticides and bio-fertilizers, the development of organic and semi-organic farms, and state-controlled mega-farms and corporations. In light of economic constraints and a worsening global food crisis, the government of Raúl Castro expanded several of these programs, while emphasizing the distribution and use of idle farmland to private farmers and cooperatives. In addition, the Cuban government has authorized state stores to sell directly to farmers, has provided free fertilizer and feed, and has empowered local farming associations to oversee land reallocation.

Rampersad explained how Caribbean countries have sought Cuban technical advice to adapt and apply several of these policies in the region. Countries have focused on specific aspects of the Cuban program according to their own national circumstances and capabilities. For instance, Trinidad and Tobago has begun exploring the Cuban mega-farm initiative; Jamaica has approached its northern neighbor for technical assistance with organic farming; and Guyana has focused on technical assistance to manage the agricultural impact of climate change as well as to revamp the country's sugar industry.

Turning the discussion to economics and investment, **Mauricio de Miranda** of the Pontificia Universidad Javeriana in Cali, Colombia, described Cuba's economic prospects and conditions, focusing on questions of foreign investment, tourism, and international outlook. He characterized Cuba's foreign trade as having followed an underdeveloped and dependent pattern of specialization, with sectors such as nickel and tourism having reached their maximum capabilities under current conditions. Instead of developing competitive advantages, de Miranda argued, Cuba has built its international trade insertion through exploitation of natural resources. This has led to persistent current account deficits based on a high sensitivity to price fluctuations in the international market for traditional

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exports such as sugar and nickel. While tourism has become the most important activity in the external sector of the economy, it remains a “sun and sand” product with low yields per visitor and something that places Cuba in direct competition with the rest of the Caribbean. According to de Miranda, problems with telecommunications (especially internet and digital communication), roads, and a revaluation of the Cuban Convertible Peso (CUC) complicate development of the tourism industry as well as foreign direct investment in the island in general. Indeed, de Miranda noted that while Cuba’s labor force is well trained, health and other standards are elevated, and the country enjoys an advantageous geographic position, the dual currency system, the absence of capital markets, the centralization of the public sector, and investment restrictions hinder the possibilities of further foreign investment in Cuba. He pointed to the Helms-Burton legislation and weak links between Cuban companies and foreign firms as

additional constraints on investment. The result, de Miranda concluded, is a vulnerable economy that is subject to high volatility in international commodity prices and other international market conditions, and offers limited opportunities for foreign investments.

Elaborating on the tourism sector in the broader Caribbean context, **Rafael Romeu** of the International Monetary Fund presented the preliminary results of an econometric analysis that seeks to explain the effects on the Caribbean tourism industry of an elimination of U.S. travel restrictions to Cuba.<sup>1</sup> Romeu used gravitational analysis to describe the current pattern of Caribbean tourism, in which the proximity of a very large market (the United States) has made several destinations in the region, especially smaller islands like the Bahamas and Cancún but also Jamaica and Puerto Rico, reliant on U.S. tourist arrivals. Because of current restrictions on U.S. travel to Cuba, the cost of travel between Cuba and the United States has become much larger than the actual geographic distance between the two countries. According to Romeu, this has allowed Caribbean countries, even relatively distant ones, to benefit from U.S. visitors that could otherwise be visiting Cuba. An elimination of all travel restrictions could see an important jump in U.S. arrivals to Cuba, Romeu noted, but the effect on the Caribbean depends on the extent to which U.S. visitors actually divert away from competitors. Destinations like the Bahamas, Cancún, and Aruba appear to be most threatened by an elimination of travel restrictions to Cuba, whereas some other destinations that receive large numbers of U.S. visitors, like the Dominican Republic and Puerto Rico, actually might see their overall number of visitors grow, the result of various factors including a potential increase in European tourists. Romeu highlighted the importance of developing competitive advantages, specialization, and

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<sup>1</sup> The views expressed by Rafael Romeu are those of the author and do not necessarily represent those of the IMF or IMF policy.



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improving the overall macroeconomic framework (including trade balances, inflation levels, and business facilitation), as ways the Caribbean can better manage changes in Cuba's travel relationship with the United States.

In a keynote address, **Jamaican Prime Minister Bruce Golding** characterized relations with Cuba as a window of opportunity for Jamaica, highlighting the historical character and multiple dimensions of the relationship. Noting Cuba's social achievements and its resilience in the face of the U.S. embargo, he acknowledged significant changes in Cuban leadership and policy-making, a process that countries in the region ought to support and encourage in a non-intrusive way. Golding described Jamaica's present relations with Cuba as the opening of a window of opportunity, particularly in terms of agricultural techniques, tourism, energy, and social policy. He also commented that recent dialogue between members of the U.S. Congress and the Cuban leadership has demonstrated a willingness in the United States to engage in dialogue with Cuba. Transformation has become more evident since the change of political leadership in Cuba, but it is an ongoing process that the international community needs to encourage.

**David E. Lewis**, vice-president of Manchester Trade, LTD, discussed the scenario for biofuels and alternative energies in the Caribbean and Cuba. The Caribbean has

been selling ethanol to the United States under provisions of the U.S. Caribbean Basin Initiative (CBI) dating from the early 1980s. While the region forms part of an ethanol production chain originating in Brazil, demand for the product in the United States and elsewhere has led to concerns about scale. Investment in ethanol production in the Caribbean has been comparatively low, according to Lewis, and as a consequence the region suffers from limited infrastructure and productive capacity that hinder the region's full potential for ethanol production. Despite this limitation CBI producers exported close to 300 million gallons of ethanol duty-free into the United States for 2008, and with an expected annual growth rate of 20 percent.

Lewis argued that Cuba possesses the capacity to produce biofuels such as sugar-based ethanol; even though there have been some advances in that regard, obstacles to foreign investment have hindered the development of the industry. The island also shows important promise in the hydrocarbon sector, where recent discoveries of offshore oil reserves in Cuban waters of the Gulf of Mexico have attracted much interest from a variety of potential investors. As in the case of ethanol, Lewis argued that much of this development will depend on major investments, the application of advanced technologies, and the potential partnerships that can be developed with foreign firms

Describing the current energy scenario in the Caribbean, **Zia Mian**, advisor to the Prime Minister of Jamaica, argued that the discovery of offshore oil fields in Cuba will dramatically change the Caribbean energy landscape. He reflected on the multiplier effects of economic measures designed to liberalize relations with other countries, in terms of tourist arrivals, investment and development, and energy demands. While Cuba is currently benefiting from special payment arrangements and other oil concessions from Venezuela, Mian argued that in order to maximize

potential gains, and in light of the possibility of oil exploration and drilling in its offshore territory, the island will need major investments, infrastructure renovation (including electricity plants and refining capacity), and technical expertise.

**Ruth Potopsingh**, group managing director at the Petroleum Corporation of Jamaica, described contemporary concerns about energy security and how Jamaica fares in the context of increasing risks. She argued that Jamaica's overdependence on oil (94.3 percent of the country's energy needs in 2007) has led to an unsustainable import bill that in 2007 amounted to \$2 billion, a larger figure than the country's total exports. Per capita energy consumption remains high (oil consumption for automotive fuel consumption alone was equivalent to 31 percent of foreign exchange expenditure), while the efficiency and reliability of the energy sector is low (40 percent of energy producing units are over 30 years old.) As in the case of Cuba, Venezuela's PetroCaribe initiative has become an important vehicle to help meet the country's increasing energy needs. Indeed, Potopsingh argued that both islands figure prominently in many of PetroCaribe's regional projects. PdVSA, Venezuela's oil company, has been investing in upgrades to oil refinery infrastructure in both Jamaica and Cuba and has been developing renewable energy and energy efficiency projects in which both islands have become major drivers. Through these initiatives and working groups, 16 energy efficiency and 44 renewable energy projects have been launched throughout the Caribbean region. Potopsingh described the types of policy recommendations and action plans that have emerged from work in these projects, and explained how their implementation can become a vehicle for Caribbean regional integration and cooperation.

In his remarks on the state of security cooperation with Cuba, **Rear Admiral Hardley Lewin**, Jamaica's commissioner of police, explained what he perceived to be Cuba's security

concerns in light of a changing political scenario and potential threats from the region. In Lewin's view, Cuban security is based on four pillars: the prevailing international and regional environment, the domestic environment, Cuban foreign policy, and Cuban defense and security policy. Lewin described potential threats to Cuba stemming from within the Caribbean region, including terrorism, narco-terrorism, drug trafficking, and human trafficking, though he acknowledged that

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Cuba's lesser degree of exposure to such threats stands in sharp contrast with other Caribbean countries. Domestic matters and internal security would become a much more important consideration depending on whether there is any radical political change on the island, according to Lewin. He also explained the role of the military in the evolution of contemporary notions of security in Cuba, and how Jamaica and Cuba have been developing cooperation to curtail drug and arms trafficking in the western Caribbean. Lewin noted that in the eventuality of political change in the island, Cuba, like any other country, would be facing many of the same threats as other countries in the region. In this regard, he recommended a sustained regional dialogue for tackling the region's shared security problems.



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