

CUBA'S NORMALIZATION POLICY IN A TRUMP ADMINISTRATION: POLITICAL ECONOMY PERSPECTIVES

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Obama's normalization policy is a useful starting point for analyzing policies of the Trump Administration for two different reasons. First, evidence and perspective on its effects can provide insights on the recently-announced Trump policy (The White House Press Office, June 16, 2017) both with respect to what changed and what did not change. Second, economists' analysis of policies at the micro level has been characterized as requiring the adoption of three different roles in these evaluations: scientists, engineers and plumbers in Duflo's (2017) terminology. While our policies are macro policies, they can be evaluated in similar terms. For instance, they often have general equilibrium and strategic interaction effects that can be viewed as engineering effects and are often ignored. Similarly, they require a number of adaptations for implementation that can be characterized as plumbing effects. This essay attempts to incorporate these issues systematically throughout the paper.

Obama's Cuba normalization policy focused primarily on the embargo either explicitly or implicitly. The latter has three dimensions from an economic "scientific" viewpoint: flows of persons, flows of goods and services and flows of capital across the two countries. We evaluate each dimension separately in the subsequent sections. Notwithstanding, the embargo has important non-economic but equally "scientific" aspects in terms of political interests of policy makers. The discussion of these aspects is brief, occupying a single section, but highlights interactions with economic ones in the context of the actual policies announced by the Trump administration.

Before starting on the individual sections below some general comments on the approach taken will help the exposition. For background on embargoes, the history of Cuba's and the positions taken by various economic agents and policy makers, an earlier paper (Betancourt 2013) is a useful reference. An important insight from that paper relevant for the current one is the desirability of looking at each of the three main economic dimensions of the embargo separately. Statements true about one economic dimension are often false or irrelevant about the other two. Thus, in general it obscures rather than enhances our understanding to lump them together.

Notwithstanding, in a macro setting incorporating general equilibrium and strategic interactions between different dimensions of policies is eminently desirable. It corresponds to what has been characterized as engineering aspects of policies at the applied micro level (Roth 2002). Similarly, issues of actual implementation correspond to what been characterized as plumbing aspects of policies at the applied micro level (Duflo 2017). We reconcile the need for

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clarity rather than obscurity in discussing the embargo's dimensions separately with the need to incorporate general equilibrium and interaction effects as well as implementation concerns when applying the engineers and plumbers approach to macro policies by explicitly identifying these issues throughout the discussion but especially in the last section when discussing the actual policies announced by the Trump administration.

FLOW OF PERSONS BETWEEN CUBA AND THE US IN RECENT YEARS

The flow of persons between countries takes two main forms: migration and tourism. In the case of Cuba–US relations, migration for many years was mainly a one-way flow from Cuba to the US, while tourism has become a two-way flow in recent years. Hence, we begin by providing evidence on the nature of these flows in recent years as well as brief commentary on accompanying events associated with these flows. We begin by discussing data on two main types of migration flows from Cuba to the US that are captured in US immigration data: the number of Cubans admitted as Lawful Permanent Immigrants to the US and the number of Cubans admitted as Visa–Less Aliens to the US.

Table 1 presents data on the number of Cubans admitted to the US as Lawful Permanent Residents between 1998 and 2015. These numbers reflect two entirely different types of influences. The first influence reflects the decisions of Cubans in the US to decide at any time to become US permanent residents. These individuals could have come in originally as refugees, or under a wide variety of nonimmigrant visas (B-1 or B-2, for example), or illegally as visa-less aliens. If at some point in their lives they decided to apply for permanent U.S. residence, they would show up in Table 1 in the year in which the status was granted.

A second influence reflects Cubans admitted to the US directly as lawful permanent residents. These individuals would include those claimed by their relatives in the US, for example, granted U.S. permanent resident status while in Cuba as well as those admitted under the US- Cuba Migration Accord of 1994/1995. This Accord required the US to take in a minimum of 20,000 Cuban immigrants a year as lawful permanent residents. US immigration officers select these immigrants by lottery from a pool of participants. The last lottery, held in 1998, identified about 500,000 Cubans eligible to come.

Table 1. Cubans Admitted by the U.S. as Lawful Permanent Residents, 1998-2015

Year	Number Admitted
1998	17,750
2000	20,831
2002	28,272
2004	20,481
2006	45,614
2008	49,500
2010	33,573
2012	32,820
2014	46,679
2015	54,396

Source: Department of Homeland Security: Yearbook of Immigration Statistics (Table 3, various years).

The data in Table 1 have two characteristics: a high degree of variability, reflecting numerous influences determining Cubans becoming permanent residents, as well as a trend. The average of the numbers between 1998 and 2006 is much lower than the average between 2008 and 2015 (the figure for 2016 is not available at the time of this writing). The Accord and policy factors affecting its implementation are the main determinants of the trend. More specifically, the arrival of the Obama administration in 2008 is associated with the higher average of lawful permanent residents over the 2008-2015 period. It also generates increases for each ten-year period between 1998 and 2004.

While association does not mean causation, there is no doubt that the flow of Cuban lawful permanent residents into the US increased substantially during the Obama years. Institutional analysis suggests that policy outcomes depend on formal rules as well as on informal ones prevailing at the time of implementation. Hence, Obama's well-known views on Cuba policy before his own election are likely to have had an impact on these numbers, including those generated by the consequences of the Migration Accord but also including those generated by the more recent granting of B-1 and B-2 visas associated with Cuba's liberalization of its migration law on January 13, 2013.

One of the reasons for the variability in the number of Cuban immigrants becoming lawful permanent residents is the result of individuals arriving at different times deciding to change their status in any one year. We also have data on the number of arrivals of visa-less Cuban immigrants in each of the last twelve years from the work of the Center for Immigration Studies (Luna 2016; Krogstad 2017). These visa-less Cuban immigrants are those admitted into the US under the policy popularly known as "wet foot, dry foot." They are not to be confused with those admitted into the US directly as part of the category of refugees.

Table 2 provides the numbers of visa-less Cuban aliens from Cuba admitted yearly during the period 2005-2016. Interestingly this table has the same features as the previous one: substantial variability as well as a trend. Nonetheless, there are significant differences. First, these characteristics occur over an annual period rather than a biennial one. Second, the trend is very marked towards the end of the period. While the variability depends on many factors, including individual decisions to migrate through risky mechanisms such as home-made rafts ("balseros,") the trend is easier to explain and associate with one specific policy. The year 2013 is the beginning of secret negotiations between Cuba and the US on normalization of relations.

Table 2: Visa-Less Cuban Aliens Admitted to the US, 2005-2016

Year	Number Admitted (at all U.S. entry points)
2005	9,064
2006	10,431
2007	13,064
2008	14,276
2009	7,504
2010	7,487
2011	7,821

2012	12,240
2013	17,696
2014	24,279
2015	43,154
2016	56,406

Source: Luna (May 2016) and Krogstad (January 2017) for 2016.

Among the reasons the Cuban leadership began negotiations with the Obama Administration were the deterioration of the economic situation despite their so-called reforms, fears of Venezuela imploding after Chávez's death in March of 2013, and a failure to find oil in deep sea exploration in four holes drilled in the Gulf of Mexico (Betancourt 2016). While there can be arguments as to the extent of awareness by the Cuban population of the last two issues, the population was certainly aware of the first one. Indeed, experientially it would have been even more aware than the Cuban leadership. The Cuban Standard Economic Trend Index (CSETI), an indicator of the performance of the Cuban economy, reveals a negative trend starting in August of 2013 and continuing throughout 2014 (Vidal Alejandro and Hernández Catá, 2016: Figure 1). The announcement to seek normalization of relations became official on December 17, 2014. Table 2 reveals a doubling of visa-less Cuban immigrants in the two-year period 2014-2016. Hence, its association with normalization policy is extremely strong. This effect is a striking (probably unintended) general equilibrium and/or interaction effect of Obama's normalization policy.

Indeed, if the objective of Obama's normalization policy was to increase Cuban migration into the US, one could not ask for a more resounding success based on Tables 1 and 2. The year 2015 saw more than 54K Cubans become US lawful permanent residents and over 43K Cubans admitted into the US as visa-less aliens. These figures represented a 17.5 % and a 77.7 % increase, respectively, over the previous year. Nevertheless, a dramatic change in policy took place on January 12, 2017: namely, the Obama Administration eliminated the wet foot, dry foot policy. One interpretation of this policy change would be that it was intended to make it difficult for the incoming Trump Administration to reverse normalization policy without clashing with its anti-immigrant position. For, those admitted as visa-less aliens could apply for the category of refugees immediately and have it granted at the discretion of the immigration officer working their case. But as the numbers in Table 3 below show, when compared to those in Table 2, there is a far higher level of difficulty for Cubans to be admitted in the US when coming in directly with the status of refugee.

We provide in Table 3 the figures for Cubans admitted into the US directly as refugees during a similar period. The wet foot, dry foot policy change of 2017 illustrates one strategic interaction effect of policy changes. One would expect the numbers of visa-less migrants coming into the US to be substantially reduced in 2017, since the Trump Administration's policy maintains this Obama policy change. Perhaps this feature satisfies the anti-immigrant position, appealing to its base while maintaining its credentials as a supporter of Cuba's opposition groups by insisting on concessions from the Castro regime before pursuing any further normalization steps, and insisting on limiting benefits to the Cuban military. In any event, the impact of the change on the actual numbers for 2017 is likely to be closer to those in Table 3 than to those in Table 2.

Table 3: Cubans Admitted to the US as Refugees, 2004-2015

Year	Number
2004	2,980
2005	6,360
2006	3,143
2007	2,922
2008	4,177
2009	4,800
2010	4,818
2011	2,920
2012	1,948
2013	4,205
2014	4,062
2015	1,527

Source: Department of Homeland Security, *Yearbook of Immigration Statistics* (Table 14, various years).

An interesting coupling of strategic interaction and general equilibrium effects arises as a result of Cuba's own policy changes with respect to migration in January of 2013 coupled with its announced reforms in the Spring of 2011. Table 4 presents net migration data from Cuba's statistical agency. Several observers writing in the ASCE Blog (Ernesto Hernández-Catá, February 2016; Luis R. Luis, February 2017) have pointed to a change from net emigration to net immigration in 2013 and 2014 and speculated on its causes: methodology, coverage, demographic revolution, statistical blip or mystery.

Table 4: Cuba's Net Migration Flows 2010 -2015

Year	Number
2010	-38,165
2011	-39,263
2012	-46,662
2013	3,302
2014	1,922
2015	-24,684

Source: Oficina Nacional de Estadística e Información (2015, Table 3.21).

Simpler economic explanations are available. Cuba's migration decree of January 2013 lowered the costs of emigrating substantially, directly and indirectly. Anyone who left in 2012 could take advantage of the lower indirect cost by returning and leaving again with permission to stay abroad without loss of citizenship privileges for two years (renewable twice) instead of one year. The internal economic reforms were starting to be implemented and those returning could leave again at lower direct and indirect costs if unhappy with the situation. By 2015 it was clear to many observers inside and outside the island that despite the process of normalization of relations with the US, the reforms were proceeding very slowly. Indeed, even Raúl Castro

characterized the process as “slowly but surely” (sin prisa, pero sin pausa). Thus, it is neither mysterious nor surprising that in 2015 emigration out of Cuba once again dominated immigration into Cuba by a substantial margin. Either emigrants viewed the "slowly" as a contradiction of the "surely" or their rate of time preference was inconsistent with the pace implied by the "slowly."

Migration flows are not the only person flows among countries. There are also nonimmigrant flows arising due to a variety of reasons. The two best-known reasons are tourists and "temporary" workers of one kind or another. These reasons fall in the category of B-2 nonimmigrant visas in the US. Moreover, in the case of Cuba-US flows, nonimmigrant visas are primarily tourist visas. Table 5 provides information on the number of Cuban nonimmigrants admitted to the US with B-2 visas between 2006 and 2015. In contrast to Tables 1-3, Table 5 exhibits less variability across the years. For instance, there is only one change in sign and, as a result, a steadier upward trend. In similarity with Tables 1 and 2, however, there is a substantial jump in the last two periods and the largest number was recorded in the last year reported in the table. That is, during one full year of implementation of normalization policy under the Obama Administration.

Table 5: Cuban Nonimmigrants Admitted to the US with B-2 Visas, 2006-2015

Year	Number Admitted
2006	10,606
2007	11,237
2008	15,130
2009	17,047
2010	23,745
2011	18,593
2012	21,197
2013	34,615
2014	43,737
2015	52,215

Source: Department of Homeland Security, *Yearbook of Immigration Statistics* (Table 26, various years).

Incidentally, some of these B-2 visa holders might also be counted in Table 2 under three circumstances: if they chose to overstay their B-2 visa, lie about having one in order to stay in the US, or claim political persecution. A noteworthy feature underlying the numbers in Table 5 is that the recent increase in the number of tourists, which resulted from Castro's immigration reform in January 2013 together with normalization of relations by President Obama on December of 2014, includes very different types of tourists. Some tourists are individuals who come to visit family members residing in the US. Other tourists are "cuentapropistas" [small business owners] or their agents who come to purchase goods and materials for their businesses in the island. Still others are "undercover" immigrants who come to stay permanently taking advantage of the wet foot, dry foot policy and the benefits afforded by the Cuban Adjustment

Act. Finally, the remainder come for diverse reasons associated with their roles in Cuba's society, e.g., dissidents, artists, and well-to-do members of the nomenclature.

The flow of persons moving in the other direction, i.e., from the US to Cuba, consists of two types: Cuban-Americans and "plain vanilla" US citizens. On the US side, restrictions on Cuban-Americans traveling to the island were lifted systematically by the Obama administration since 2008. Restrictions on plain vanilla Americans were lifted informally but more systematically during Obama's second term and especially after the normalization process started in December 2014. On the Cuban side, their statistical office provides information on arrivals for two categories of persons from the US: members of the Cuban Diaspora (Comunidad Cubana en el Exterior) and US citizens. The former is composed mainly of Cuban-Americans: Cuba does not classify Cuban-Americans as US citizens even if they have proof of citizenship through a US passport. Perelló (2016) reports them to have been 292,692 in 2015 (75% of the Diaspora total). Table 6 presents data on these flows.

Table 6: Tourists Arrivals in Cuba by "Country of Origin", 2008- 2015

Year	Cuban Diaspora	US
2008		41,904
2009		52,455
2010	375,431	63,046
2011	397,873	73,566
2012	384,188	98,050
2013	373,427	92,348
2014	361,228	91,254
2015	390,626	161,233

Source: Oficina Nacional de Estadística e Información (2014; 2015), *Anuario Estadístico de Cuba*, Table 15.3.

Summing up, normalization policy in a Trump Administration with respect to the flow of persons through migration takes advantage of Obama's 2017 abolition of the wet foot,dry foot policy by not altering the policy and leaving the decision to abolish it in place. This will allow the Trump Administration to claim that it is limiting unrestricted immigration from Cuba substantially while reducing the welfare abuses committed earlier by some Cuban migrants under the wet feet,dry feet policy. Moreover, it could make the case that those suffering from persecution still can come in directly as refugees. Whatever the argument, the numbers of new immigrants will be substantially reduced.

The Cuban-American community is very heterogeneous in its attitude toward normalization and attitudes can be segmented by time of arrival of cohorts in the US, according to the most recent FIU Cuba Poll (conducted in October 2016). Recent arrivals (post-1995) are most favorably inclined toward Obama's normalization policy, including the wet foot,dry foot policy prior to its abolition, but less likely to be able to vote because they have not become U.S. citizens (<https://cri.fiu.edu/research/cuba-poll/2016-cuba-poll.pdf>). Thus, the political price to be

paid by Trump's normalization policy becoming a continuation of Obama's with respect to the flow of migrants, including the January 2017 abolition, will be relatively small even in Miami/Dade county.

With respect to US-Cuba tourism, Trump's normalization policy remains the same for Cuban-Americans and more restrictive for plain vanilla Americans. Its impact is likely to be negative on tourism flows due to two factors: the new implementation climate in the US (discouraging of individual visitors) and structural factors in Cuba (inability to ensure that tourist dollars do not flow to companies associated with the Cuban military or party hierarchy). Plain vanilla American citizens must now provide evidence of belonging to one of the 12 allowed categories of visitors rather than self-declaring that they do belong to these categories. Moreover, it could be tightened informally through plumbing effects in the form of implementation barriers through the Treasury Department or immigration officers. This has happened in the past during previous administrations through various means. With respect to tourism from Cuba to the US, there is likely to be a decrease in numbers for two reasons. First, tourists coming in as undercover immigrants have their path legally blocked by the abolition of the wet foot, dry foot policy. Second, the financial costs of the visits are high, especially relative to Cuba's official average income, and less likely to be affordable unless economic reforms in Cuba accelerate.

FLOW OF GOODS AND SERVICES BETWEEN CUBA AND THE US

Most of the statements on the embargo by proponents and opponents are likely to be relevant for the flows of goods and services but not for the flow of persons or financial flows. We saw for the former that both Cuba and the US signed an international agreement over twenty years ago allowing a minimum of 20,000 immigrants to enter the US every year as permanent residents. The number the US allows to enter on the same basis (diversity visas) from the rest of the world combined is 45,000 persons. If the flows of persons were the only dimension of the US embargo, Chinese, Indians, Filipinos and Mexicans would be begging the US to declare an embargo on their countries! We shall see in the next section that the opposite has been the case in terms of binding restrictions and in many important cases is still true for financial flows.

Cuba has been limited in its ability to participate in international trade by its own economic system, perhaps as much as by the US embargo, except in some important areas. It is useful to look at Cuban trade in that context by considering aggregate patterns. Cuban imports of manufactured and agricultural goods peaked in 2008 and had not recovered by 2014. Cuba's imports from the US were mainly agricultural products, amounting to 95% to 99% of total imports during the period 2005-2014 (Colby- Oizumi 2016: p.19). The general pattern of aggregate imports during the period was similar for the US as for Cuba's other main trading partners, regardless of composition (Colby-Oizumi 2016: Figure 1). Interestingly an estimate of a lifting of embargo restrictions by the US using a gravity model suggests an increase of Cuban imports over a five-year period of about 346% relative to the 2010-2013 average (Colby-Oizumi 2016, Table 1).

One of the prominent exceptions highlighting the effect of the embargo is Cuba's exports of goods to the US. The latter have remained at zero in each of the last 20 years (US Census, Trade in goods with Cuba). Table 7 below provides details over this period on Cuban imports of US goods. Succinctly put, the table shows a great deal of variability with no trend evident.

Table 7. US Trade in Goods with Cuba (Cuban imports from the US) in million US dollars, 1998-2016

Year	Value of Imports
1998	3.6
2000	7.0
2002	145.9
2004	404.1
2006	340.5
2008	711.5
2010	363.1
2012	464.5
2014	299.1
2016	247.2

Source: US Census Bureau, International Trade Statistics, Trade in Goods with Cuba.

Cuba's trade has been characterized by a predominance of service exports relative to goods and a predominance of goods imports relative to services. The two main components of service "exports" have been professional services and tourist services. Revenues from professional services are difficult to estimate as they involve a variety of essentially barter agreements linking exports of professionals by Cuba and imports of oil in the case of Venezuela and/or payments for the professional services partially to the Cuban government and partially to the individual whose services are exported. Moreover, these professional services exports do not involve the US in any significant fashion. Cuba's data on tourist revenues, however, are easily available. Table 8 below presents the figures. These tourist revenues include income generated by all visitors classified as tourists.

Table 8. Cuba's International Tourism Revenues (in billion CUC), 2009- 2015

Year	Revenue
2009	1.899
2010	2.025
2011	2.282
2012	2.326
2013	2.325
2014	2.367
2015	2.601

Source: Oficina Nacional de Estadística e Información, *Anuario Estadístico de Cuba* (2014, Table 15.11; 2015, Table 15.12).

US citizens plus Cuban-Americans represented 13% of all visitors in 2015. Nonetheless, they probably represented a substantially higher percentage of the tourist revenues as their expenditures would include what Cuban-Americans purchase for family members and friends

while in Cuba. One surmises that it is not accidental that in Table 8 the two most substantial increases in tourist revenues happened in 2011 and 2015 (0.257 and 0.234 billion CUC, respectively). These two years coincide with the most substantial relaxations of restrictions on Cuban-Americans' spending in Cuba (2011) and the first full year after normalization under the Obama Administration (2015). A detailed chronology of the relaxation of restrictions is available (Sullivan 2017).

Summing up, at this point in time, the main impact of the US embargo's restrictions on the flows of goods and services between Cuba and the US is on limiting Cuba's ability to export to the US. Indeed, it has limited them to be zero in recent history. This fact experienced a change in January 2017 (Delgado 2017; Vinik 2017), when a shipment of Cuban marabú charcoal made by a private cooperative was allowed to enter the US. This change may or may not continue depending on how Trump's normalization policy is implemented in this regard, which is not clear at the time of this writing. One can argue that the amount of imports from Cuba is also limited by the inability of relying on trade credit from the US to finance imports from Cuba. But it must be noted that the restriction on private sector finance was relaxed by the Obama administration in January 2016 (Hirschfield Davis 2016) with not much of an effect visible in Table 7. Moreover, since trade credit is a financial flow between economic agents, it is convenient for expository purposes to discuss this issue as the first specific topic of the next section after a general discussion of the embargo on capital flows.

FLOWS OF CAPITAL BETWEEN CUBA AND THE US

Financial flows between countries involve a variety of different mechanisms: short-term arrangements such as trade credits and short-term loans secured in various ways, long-term ones, such as foreign direct investment and development loans and grants from countries or international financial institutions, and mixtures of short and long term items such as repatriation of profits, interest payments and remittances. It is in terms of restricting a variety of capital flows that the US embargo has been most effective in terms of impacting the Cuban economy directly and indirectly. On the one hand, in the case of some of the items listed above it has been as effective as the trade embargo on export of goods from Cuba to the United States. On the other hand, at least in the case of remittances, these limits have been systematically relaxed during Obama's first term and eliminated during the second one as a result of normalization policy. Trump's announced normalization policy has continued this practice.

Given the discussion on financing imports in the previous section, we start with this topic. Many countries, if not most, subsidize exports in various forms and the provision of trade credit to institutions in other countries to finance their imports of a country's goods has become commonplace. In the US, this was normally done through the Export-Import Bank of the United States (EXIM). The latter was created in 1934, under a slightly different name, to provide a mechanism that subsidizes exports with loan guarantees to institutions in other countries that import US products, especially those with weak rule of law traditions or substantial share of nonmarket organizations generating the demand for US imports. A noteworthy historical coincidence in our context is that EXIM's first loan in 1935 was to finance the purchase of silver ingots from the US by Cuba. Of course, without loans from EXIM, exporters must find other alternatives. In Cuba's case the direct impact of the embargo is that Cuban institutions have to pay for US imports with cash or use private finance rather than with loans guaranteed by EXIM

or other similar institutions, which could be one of several reasons for the variability of Cuba's imports from the US observed in Table 7.

Incidentally, since 2015 EXIM's loans have been limited by US law to less than \$10 million. Firms needing very large loans to finance exports to other countries, e.g., Boeing with respect to aircraft sales, have had to search for alternatives to support their export sales. Ironically, Boeing found one recently in the Italian Export-Import Bank (<http://www.marketwatch.com/story/boeing-finds-alternative-to-export-import-bank-2017-05-31>). American exporters of agricultural goods to Cuba are also being resourceful. They are sponsoring a bill that would deal with the need for trade credit by allowing financing through private sources rather than the EXIM in exchange for an excise tax on these exports. The revenues from the tax would go into a fund for the payment of certified claims by the US Treasury on US properties in Cuba expropriated by the Cuban government in the 1960s (Gámez Torres, 2017).

Among the long term mechanisms that have impacted Cuba the most with respect to capital flows is the inability to obtain loans or grants from the multinational financial institutions in which the US plays an important role in terms of substantial voting power, namely the IMF, the World Bank and the Inter-American Development Bank. The Helms-Burton Act, which was passed in 1996, requires the US directors at these institutions to vote against any loans or grants to Cuba. Even if the US would not provide capital flows directly to Cuba, it could do so indirectly through these institutions but this option is closed to the U.S. Government. To provide some perspective on what Cuba foregoes in terms of capital flows, the Dominican Republic, with 10.6 million inhabitants, obtained \$5.957 billion in disbursements from the Inter-American Development Bank in 2016 (Inter-American Development Bank Annual Report 2016: Table 1). Cuba with 11.1 million inhabitants obtained zero.

Another important source of long term capital flows that has impacted Cuba significantly as a result of the embargo is foreign direct investment (FDI). Of course, it is doubtful Cuba would have received substantial FDI flows from the US under its current economic system even in the absence of the embargo. Indeed, an economist sympathetic to the lifting of the embargo has provided a thorough report on the challenges and opportunities facing foreign direct investment in Cuba in a monograph sponsored by the Brookings Institution (Feinberg 2012). More recently (2016), the same author quotes Everleny Pérez Villanueva, a highly regarded Cuban economist, as the source of an estimate for an accumulated amount of FDI over the period 1990-2009 of \$3.5 billion. He also provides estimates of FDI for other countries from various sources over the same period (Table 3) (<https://nacla.org/article/foreign-investment-new-cuban-economy>) which can be used to estimate the opportunity cost to Cuba of not being able to tap into FDI.

Briefly put, the Dominican Republic received \$17 billion in FDI from all sources over the same period (1990-2009); Cuba has received zero from the US even after normalization. Incidentally, the figure for the Dominican Republic includes US FDI. In a recent year (2013) total FDI flow into the DR was \$1.991 billion and the US component was \$ 0.3735 billion or about 19%. If we apply the same percentage to the cumulative \$17 billion it would be \$3.73 billion, which implies non-US FDI in the DR of \$13.77 billion. The latter figure is still almost 4 times as much from sources other than the US as Cuba has received during the same period. This lack of FDI in Cuba has happened for a variety of reasons many if not most of which fall in the

categories described by Feinberg in his 2012 piece and are largely unrelated to the embargo. Furthermore, the situation in terms of FDI flows has not changed that much in the more recent period despite the guidelines ("lineamientos") or reforms and a new foreign investment law. For instance, Luis (2016) has estimated FDI figures for Cuba for the 2009-2015 period. FDI was \$0.438. billion in 2013, the largest annual amount during the period. It had decreased to \$0.129 billion by 2015.

In this context a brief discussion of a failed FDI attempt by a pair of US based entrepreneurs after normalization is useful. They wanted to invest in a factory that would initially assemble and within three years build small agricultural tractors (named Oggún) in the Mariel economic development zone (ZEDM). The legal rationale that would allow this FDI investment under the embargo was that the small tractors were to be sold to the private sector or to agricultural cooperatives. In the end the deal fell through because it was rejected by Cuban authorities as a project for the ZEDM. Projects like this can be easily revived and undertaken under the embargo with or without any changes in US normalization policy. All they require is the willingness of both Cuban and US authorities to let them be revived.

Last but not least, remittances are a substantial component of capital flows between countries. Indeed, they have become a main source of capital flows from high income to low income countries in the 21st century and the US-Cuba flows are no exception. The principal source of official data on remittances worldwide is the World Bank (*Migration and Remittances Factbook* 2016). Unfortunately, the country table for Cuba (p.109) has no entry data on remittances. Nevertheless, a variety of sources have tried to construct estimates over various periods.

One of the most often cited source of estimates is The Havana Consulting Group. In a recent analysis (April 2017) by its President, Emilio Morales, estimates for 2011-2016 are provided. Table 9 below reproduces them. An idea of the importance of these numbers for the Cuban economy can be gathered from the fact that revenues from total exports between 2011 and 2015 ranged from 5.87 billion CUC to 3.35 billion CUC, according to ONEI, or that they exceed the tourist revenues for each of the corresponding years presented in Table 8 and in 2015 by well over half a billion CUC's. (<http://www.cubatrademagazine.com/analysis-cuba-remittances-shifting-pattern-cuban-emigration/>)

Table 9. Remittances to Cuba, 2011-2016 (billion US dollars)

Year	Remittances
2011	2.295
2012	2.605
2013	2.834
2014	3.129
2015	3.354
2016	3.445

Source: The Havana Consulting Group.

Incidentally, the data above only includes cash remittances. Estimates by the Havana Consulting Group, cited in the previously mentioned analysis, adding the value of remittances in kind led to a total value of \$6.85 billion in 2015. The increase in remittances is also associated with the increase in Cuban migrants to the US. Indeed, the Havana Consulting Group estimates a

loss of about \$1 billion in remittances during 2017 as a result of the reduced number of migrants from the Obama Administration's elimination of the wet foot, dry foot policy in January 2017. These estimates were generated under the assumptions that the Trump Administration does not reverse this policy and it also continues to fulfill the Migration Accord by allowing between 20,000 and 25,000 permanent migrants a year into the US. Both assumptions are consistent with the formal announcement of Trump's normalization policy on June 16, 2017.

NON-ECONOMIC DIMENSIONS AND THEIR INTERACTIONS WITH THE ECONOMIC ONES ABOVE

Politicians have private interests which they often wrap up around lofty purposes. With respect to Cuba, President Obama's normalization policy was driven or inspired by his desire for a lasting legacy resulting from his two terms as President, his vision of the embargo as a failure expressed during his 2008 campaign, and the curious claim that normalization as a prelude to lifting of the embargo would lead to regime change from authoritarian to democratic even with the same people in charge. This claim seemed to appeal to Obama's liberal base despite the obvious evidence that it does not happen provided by the experiences of China and Vietnam over the last 40 to 50 years.

What can we expect about normalization policy under Trump? The formal announcement appealed to Trump's base as well as to broader themes selected by President Trump which may or may not be connected to what is actually happening. Since the conservative base is different from the liberal one and even within this base, including the Cuban-American community, the reasons for interest on the issue differ dramatically among various segments, normalization policy accommodates a broad variety of perhaps conflicting interests. In practice the policy is also likely to incorporate Trump's perceptions of himself as a master deal maker, such as his expressed views during the campaign that the US got nothing or very little in return from the concessions already made to Cuba, and the somewhat curious claim that he would seek concessions that would protect human rights. The latter is curious in terms of explaining why it makes sense to do so in Cuba but not in Saudi Arabia.

With the previous discussion as a background, Cuba's normalization policy in a Trump administration would be expected to follow along three major fault lines. First, a formal reversal of the Obama policy was unlikely and it did not take place with respect to: (1) official relations and activities such as the opening of the US Embassy in Havana and visits by US government officials for a wide variety of purposes, although the purposes will not be the same as in the previous administration; (2) changes in the Helms-Burton Act that would require action in the form of new legislation by Congress. The costs of reversals in these two areas are high politically and in the time and resources that would need to be spent on the effort ; the benefits of doing so are low, perhaps even marginally negative economically and strategically relative to the status quo.

Second, many of the features of Obama's normalization policy can be reversed formally at low cost, if desired, in a manner similar to how they were implemented, namely through executive orders and implementation directives (administrative regulations). Hence, Cuba's formal normalization policy in a Trump Administration would follow a piece meal approach in which the formal modification of any policy supported by an executive order or implementation directive would be evaluated from the perspective of its impact on the interests and goals of the Trump Administration, and its supporters or private interest groups trying to make money

regardless of their love or hate for the Trump Administration. Those areas selected for change were announced with fanfare as validating the pursuits of laudable goals from some vantage point, e.g., decreasing resources flowing to the military and the party elites and protecting human rights. Those areas selected to remain the same were either ignored or discussed with less fanfare, e.g., wet foot, dry foot policy.

Third, many aspects of implementation of formal policy arising from explicit directives, executive orders or legislation depend on the actions of agents in the bureaucracy who might interpret the formal policies in ways consistent with the intentions of policy makers or deviating from them, wittingly or unwittingly, in one direction or another due to a wide variety of reasons or circumstances. This is true of all policies in general. It is well known as a principal agent problem and it can be described as a ubiquitous plumbing problem of policy advice which is usually ignored even in Duflo's appeal to economists to become plumbers. In sum, we will be discussing primarily issues associated with the second fault line identified above and their interactions with the three economic dimensions of the policy identified in earlier sections.

The first aspect of Cuba's normalization policy in a Trump Administration worth mentioning in our context is one that did not change: namely, the repeal of the wet foot, dry foot policy associated with the implementation of the Migration Accord in 1995, which was announced on January 12, 2017 effective immediately by the Obama Administration, <https://obamawhitehouse.archives.gov/the-press-office/2017/01/12/record-press-call-cuba-policy-announcement>. One of the reasons given by the Obama Administration in the announcement was the substantial increase in the number of visa-less aliens from Cuba admitted into the US after the normalization announcement (which is documented in Table 2 and already discussed in the section on person flows). The Obama announcement left in place other aspects of the Migration Accord, including the yearly minimum number of at least 20,000 permanent immigrants to be admitted into the US from Cuba.

What the announcement did not mention, however, was the potential consequences for remittances over the next three or four years discussed in the previous section on capital flows. Keeping the policy unchanged is consistent with the anti-immigrant stand adopted by the Trump Administration, which was obviously known to the Obama Administration and may have been perceived as a mechanism to preserve Obama's normalization policy as legacy. On the other hand, the potential consequences of decreases in remittances to Cuba are less likely to have been taken into the calculation at the time the policy was announced. Yet, they provide another reason to maintain the Obama policy change from the perspective of the Trump Administration. For, the expected decline in the current level of remittances (the number of migrants sending remittances decreases rapidly with distance from year of arrival) would provide bargaining leverage in negotiations with the Cuban government in a variety of settings, including with respect to accepting deportees trying to enter illegally. Indeed, negotiations on accepting deportees are also part of the Migration Accord that were left in place and new negotiations as a result of the end of the policy were explicitly mentioned in the Obama announcement.

Finally, the wet foot, dry foot policy supported by the Obama Administration until January 12, 2017 allowed substantial and widespread fraud and abuse of the refugee provisions denounced by a broad segment of those who became aware, including Cuban-American legislators such as Marco Rubio, as reported in December 2015 by the Florida Sun Sentinel. Hence, it was low cost politically and probably a benefit for the Trump Administration to let the

Obama policy stand; it also coincided with the Trump view on illegal migration. One Obama Administration claim for the abolition of the policy was that now Cubans were being treated like every other immigrant group. This claim was, of course, not mentioned by the Trump Administration in its official June 16, 2017 announcement of its normalization policy. Incidentally, the Obama claim is accurate for illegal immigrants coming in as visa-less aliens but not for those granted refugee status. The latter are far fewer as can be seen in Table 3. A number of other less contentious policies were left in place by the official Trump announcement. For instance, those related to cruises, to Cuban American travel and remittances, and to limits on the value of tobacco and rum that could be brought into the US from Cuba trips.

Mention must be made that the interaction between migration and remittances of this choice of letting a policy stand illustrates general equilibrium effects of policies and the potential strategic interactions that arise as a result in international settings. Both of these features can be viewed as part of the engineering details economists need to consider in policy advice emphasized by Roth (2002) and mentioned by Duflo (2017) in the context of microeconomic policies. They might apply even more forcefully in the context of macroeconomic policies. Considering these engineering aspects makes sense regardless of whether or not it was actually done with respect to the wet foot, dry foot policy implicitly adopted under Trump's normalization policy. Indeed, this example may yet lead to additional effects subsequently depending on the evolution of Cuba's circumstances.

A similar issue arises with respect to restrictions on the use of trade credit to finance exports from the US to Cuba. As mentioned in the previous section, agricultural interests have been working on a bill that would allow financing by private sources in exchange for paying an excise tax on agricultural sales to fund payments of certified claims of expropriated property. This clever idea bypasses a constraint imposed by statements from the Trump Administration indicating that the US would not compensate Cuba for embargo costs. The Cuban government has tried to make compensation for costs of the embargo a required item in negotiations with the Obama Administration about compensation for expropriated properties. This approach would allow the Trump normalization policy to be tough on Cuba and at the same time permit an increase in US agricultural exports to Cuba. It provides an attractive policy change for the Trump administration if enacted by Congress.

While it would not have to revert the Obama policy change of allowing private financing, which is attractive to Republicans, it would entail a change consistent with Republican (and Democratic) agricultural interests that would potentially moot discussing claims about embargo costs. Of course, the Cuban government would have to want the exports from the US, which may depend on the availability of funds to pay and of alternative procurement sources that may be more desirable. Thus, general equilibrium effects between goods flows and capital flows as well as strategic interactions will affect the decision, which in this case is likely to be a policy change if enacted by Congress.

Among the main policy changes actually adopted by the Trump administration is limiting doing business with the Cuban military. It is an attractive policy goal for a variety of laudable reasons, especially signaling concerns about human rights. By the very nature of the Cuban economy, however, it is nearly impossible to do a substantial amount of tourism in Cuba in hotels and resorts without doing business with the military. GAESA, a conglomerate controlled by the military, is heavily involved in domestic air travel and tourism enterprises including

hotels, restaurants and stores. Limiting the gains by the military in the absence of human rights reforms was stressed in the formal announcement as a guiding principle. It remains to be seen how it is implemented in practice, which will become clearer over the next few months. For instance, the Cuban military recently took over Habaguanex, which controls hotels, restaurants and stores in Old Havana. The latter is one of the main tourist attractions in Cuba. One suspects exceptions for some of them will be made at the implementation level.

Another major policy change is that individual travel for American tourists who are not Cuban-Americans will be more limited than under Obama's normalization policy. More specifically, the granting of licenses allowing individuals to visit under the 12 categories in which people could visit Cuba in groups prior to January 2015 (Sullivan 2017, p. 26), which was relaxed by Obama, will be modified. Under Trump's normalization policy there will be some licensing needed as part of one of the 12 categories and additional documentation of the visit. But under those restrictions, which were binding between 2008 and 2014, US tourists to Cuba increased from 41,904 to 91,254 (see Table 6), or at an annual growth rate of 13.85%. Of course the increase from 2014 to 2015, after the general licenses allowing individual visits were introduced, went from 91,254 to 161,233 or at an annual growth rate of 76.69%. Since most individual travel operators have been in the business now for a couple of years, it will not take much effort for them to find ways to navigate the new restrictions by organizing groups that qualify under one of the 12 group level licenses. Nor are there new restrictions announced on travel by Cuban-Americans, which were the far more numerous visitors during the period before and after 2015. Hence, tourist visits will not increase by as much as in the last two years but they are unlikely to decline either by as much as some may hope.

In sum while there will be an economic impact from Trump's recently-announced normalization policy, it is unlikely to be as large as the more vociferous proponents or opponents of the policy will argue unless the implementation rules become really draconian. The latter could also affect a myriad of idiosyncratic aspects of US-Cuba interactions. One interesting case will be the impact on recent exports from Cuba to the US of artisan charcoal (Delgado 2017; Vinik 2017). Under some interpretation of the rules laid out by Trump's normalization guiding principles, such exports to the US could continue while others believe that the charcoal shipments would not be allowed in the future by the US. The same uncertainty applies to the Oggún tractor example mentioned earlier when discussing FDI, which was actually blocked by Cuba not the US.

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