

**U.S. ASSISTANCE TO THE ECONOMIC RECONSTRUCTION OF A TRANSITIONAL  
AND DEMOCRATIC CUBA**

Richard A. Nuccio

Special Adviser to the President and the Secretary of State for Cuba

Shaw Pittman Conference on Foreign Investment in Cuba

Washington, D.C.

January 26, 1996

Good Afternoon. I appreciate the opportunity to speak to this distinguished group. I would like to thank my friend Matias Travieso-Diaz both for organizing this latest in his series of excellent fora on Cuba issues, and for inviting the Administration to participate. I know that Matias, who is basically a peace-loving man, always encounters a lot of flack from all sides whenever he tries to put together a conference program. However, I have absolutely no sympathy for him. As I can testify from personal experience, working on Cuba is not for the faint of heart.

One of the reasons why I welcome the chance to speak with you today is because I was asked to discuss a topic about which the Administration has said relatively little publicly — our plans for U.S. assistance to a future Cuban Government. This is an issue of great importance for two reasons. First, because a political transition in Cuba could begin at any time, and the U.S. must be ready to play an active and positive role in assisting transitional and succeeding democratic governments in restoring freedom and prosperity to the island. I say this in spite of the fact that all indications are that Fidel Castro is still firmly in control in Cuba, and gives no sign that he intends to lead a political transition. Quite the contrary. But then, none of us had any reason to believe Communist rule in Russia and the East Bloc would collapse until the first bricks in the Berlin Wall hit the ground.

The second reason for this topic's importance is that a well-conceived, generous plan for assisting transition and democratic Cuban Governments should send a clear and valuable signal to those now in Cuba, both inside and outside of the current power structure, that the United States is ready to facilitate, not obstruct, their future. The United States is committed to helping Cuba build the institutions of a strong, representative democracy as well as those of a modern, vibrant economy.

In addition to being of great importance, the issue of future U.S. assistance to Cuba is also of immediate relevance, since a Congressional conference committee may soon complete work on the Helms-Burton legislation. As I have said before, the Administration shares the goal of Helms-Burton's proponents to make clear the United States intent to support Cuba's inevitable transition to democracy, but we believe the legislation's approach in this and other areas is deeply flawed.

What I would like to do this afternoon is to sketch out our approach, and in the process demonstrate why we believe that Helms-Burton takes us in the wrong direction.

### The Needs

One point of difference between Administration thinking about the U.S. relationship to a future, democratic Cuba and the authors of Helms/Burton concerns the role of foreign assistance. We don't know what the final version of the conference report will look like, but earlier versions of the bill, particularly in the Senate, have foreseen relatively little U.S. assistance. The sponsors apparently believe that private sector investment will provide all that is needed for a successful transition. Such investment must play a central role, but the Administration believes that Cuba will have needs, particularly for institution building and infrastructure, that cannot be met by private capital inflows alone.

For example, what private sector interest will there be in rebuilding Cuba's political institutions? Except for a clear constitutional framework, a representative legislature, a properly delimited executive role, an impartial, functioning judiciary rooted in the law, and a healthy civil society, Cuba has everything necessary for a modern democracy. What's more, Cuba hasn't experienced any of the give and take of democratic debate for almost forty years. Cuba's democratic history is neither as bleak as the current regime tries to portray it, nor as robust as the external opposition sometimes implies. But we have enough experience in transitions from Communism elsewhere, in circumstances which were in most cases less difficult than they will likely be in Cuba, to know that establishing institutions that will give life to a people's democratic aspirations will benefit from external support, both financial and technical. I believe, and our policy is based on the assumption, that the next president of Cuba is already living on the island. It is the leadership that emerges out of a future Cuban transition which will have to make the political commitment to reform and set the direction and content of Cuba's effort to modernize. But that leadership will almost certainly need advice and assistance in implementing the changes it desires.

For example, a new government will probably need assistance in organizing whatever elections it decides to call as part of its transition to democracy, whether that election is to select a constitutional convention, a full assembly, or Cuba's next president. As we have seen elsewhere in our hemisphere, however, elections do not equal democracy. Cuba's democracy will also require an efficient legislature, effective executive agencies for policy-making, the provision of public services, law-enforcement and other functions, and a totally revamped legal system that can protect the rights of Cubans and foreigners alike. This is merely a thumbnail sketch, not a complete list, but I believe that a future Cuban government will request help in many or even all of these areas, and probably others as well. Your host Matias has put together an excellent paper published by Duke University that outlines many of the changes that will probably be required in Cuba's legal framework. Others, including the Atlantic Council and the International Republican Institute (IRI), have undertaken similar, laudable efforts. These projects have only scratched the surface of the tremendous task that lies ahead for Cuba, a task with which the international community, and particularly the United States, can assist greatly. Without sound political, constitutional reforms, foreign investors are unlikely to move into Cuba in the numbers in which

they are needed. Without the benefit of international expertise, such reforms may be delayed or deformed.

Let me add, so that it is not misunderstood by those of good will in Havana, that the mix of public and private roles, the size and intrusiveness of the state in society, and many other critical variables will probably look very different from what the US has adopted for itself. I have always been fascinated that the voting records of our two Republican Cuban American Members of Congress look more like Democrats than Republicans on a range of issues concerning public assistance, education, immigration, and others. Surveys of Cuban Americans have long indicated a preference for a much larger role for the state in society than what one might argue is the center of gravity for US politics. I suspect that the much maligned Democratic health plan of last year would look rather attractive to a future democratic electorate in Cuba. If that is the will of the Cuban people, it is certainly what the United States will accept and respect.

Let's consider now the kinds of economic assistance that a future Cuban government might need to lift the island from its current state of near catastrophe. Many of you are aware that Cuba's economy declined by almost one half between 1989 and 1993, and that buses and tractors have been replaced by bicycles and oxen. Cuba's imports have fallen to 20 percent of their 1989 levels. As their raw materials dried up, output in most factories dropped to a small fraction of capacity; many facilities have shut down altogether. Cuba as a nation has de-capitalized in a manner probably without precedent. Apart from the few sectors in which there has been a substantial inflow of foreign investment, Cuba's infrastructure has deteriorated markedly. Buildings, including residences, are literally collapsing at an alarming rate.

The Cuban Government claims that it has now halted Cuba's economic free-fall, and has restored a modest level of growth. It believes that it has managed to do this through limited reforms to the domestic economy, including the legalization of farmer's markets, self-employment and circulation of the dollar, and through a concerted effort to attract foreign investment. Even the Cuban government admits, however, that the man in the street is unlikely to notice an economic recovery for some time. For our purposes today, we should note that the current Cuban Government is unlikely to have the resources to reverse Cuba's decapitalization, except through massive foreign investment. While some such investment has occurred, particularly in tourism and mining, it is unlikely that large flows of foreign investment will go to Cuba before it institutes more fundamental reforms to its domestic economic and political system and normalizes relations with the United States. Incidentally, this is one reason why we do not believe the radical measures proposed in Helms-Burton legislation are justifiable — the size and nature of the foreign investment now flowing into Cuba will not save the Cuban Government. The bottom line for our planning exercise is that Cuba's economy is unlikely to grow substantially under current economic policies and its infrastructure will continue to deteriorate.

What will a future government in Cuba need to reverse this state of affairs? First, it will need sound economic policy-making of the kind that has led other economies in the region out of the morass that statist economic models and corruption helped create. I am unaware of any "Chicago Boys" waiting in the wings in Havana to put things right, nor would I necessarily endorse their recommendations. Nevertheless, I think that this is an area in which international

technical assistance will be of particular value. The Spanish government has made a valiant attempt to inject some sense into the current government's economic policies, and we see in the fiscal reforms undertaken to date some semblance of a structural adjustment program. The Spanish effort, however, has been hamstrung by recalcitrance at the top of Cuba's political system, as the Spanish have been the first to admit. Unless the process of structural reform accelerates before a democratic transition takes place, the enormous potential of Cuba's private sector and the capacity of foreign investors to help resuscitate the island will remain untapped. U.S. investors should be at the forefront of this effort with the competitive advantages that only U.S. firms can bring, but this will not happen without sound economic policies in place. And such policies are more likely to be in place with international expertise to help design and implement them.

The current Cuban government has already absorbed some of the economic pain that is usually associated with reducing state subsidies and balancing a bloated budget. They have not allowed a large expansion of the private sector, and are, thus, postponing the benefits of this restructuring for the population. The portion of structural adjustment usually requiring the largest outlays of international lending — for balance of payment support — are already well underway. This should reduce somewhat the burden the IFIs will have to bear in supporting Cuba's reform process.

Much remains to be done, which brings me to the subject of Cuba's other principle requirement during a transition — improved infrastructure. We can hope that a significant portion of the rebuilding of Cuba can be accomplished by private investors with private funds. Intelligent policy choices by Cuba's new government can maximize the use of private funds to lay the infrastructure foundations for broad economic growth. Early privatizations with ample opportunity for involvement by on-island Cubans would likely form a key part of such a strategy. Such decisions will be politically complicated and challenging. Even with intelligent choices, however, there are likely to be substantial requirements for international assistance and loans for some projects, whether for roads, ports, energy plants, government buildings or other facilities. International lending is sometimes the only way to accomplish projects which are necessary but in which private investment is not forthcoming or not appropriate.

To conclude a discussion of Cuba's likely needs during a transition, we will have to mention humanitarian assistance. We all know that Cubans already suffer from serious shortages of everything from food to clothes to medicine. If serious social or even military upheaval were to occur — circumstances which the Administration seeks to avoid, I hasten to add — the humanitarian needs of Cubans could grow even more desperate. I cannot quantify for you today what level of emergency support would be required to get Cuba through the initial phases of such a transition, both because we have not yet done the necessary research and because so much would depend upon circumstances that we cannot now know. If the need were there, however, the United States would be the natural leader of an international effort to address a humanitarian emergency. It remains our hope that the Cuban Government will implement the political and economic reforms necessary to allow the island's inevitable transition to democracy to take place peacefully and without mass suffering.

## U.S. and International Capacities

After determining what kinds of assistance Cuba is likely to need during its transition to democracy and a market-based economy, the next question is who should provide it. It should not be news to anyone here that the days of large U.S. foreign aid budgets are gone. In some studies I saw last year, Americans polled on the matter said that foreign aid should be cut drastically to around five percent of the federal budget. The only trouble is that it is already less than one percent of the federal budget.

In spite of this general trend, however, there are few foreign countries with as powerful and focused a constituency as that for Cuba. It has long been a standard joke at the State Department that in the year 2010 Cuba will be the only country in Latin America receiving U.S. aid. Although I hope that is not the case for a region still likely to require external capital flows, the joke does capture the vital role that the Cuban American community in the United States will play in Cuba's future, both in terms of direct investment and in advocating official assistance flows.

While I think that U.S. official assistance to Cuba will be essential during a transition, it should by no means be the only, and certainly not the largest source of international support. International Financial Institutions (IFIs) must also play a central part in Cuba's reconstruction. I know that the IMF, the World Bank and the IDB are all watching developments in Cuba with great interest. The IMF has already had informal discussions with the current Cuban Government. We do not support IFI loans to Cuba now — IFI funding would offer the regime a way to avoid more fundamental political and economic reform — but we will eventually look to the IFIs to take the lead in key areas. We are still too far from providing large-scale assistance to Cuba to be able to pinpoint exactly how the task of aiding Cuba's reconstruction will be conceived, but we can say two things: first, that the job will likely be divided, according to the expertise, appropriateness and available resources of various donors; and second, that organizing the assistance effort will require close cooperation and coordination among donors. I would like to think that the U.S. can play a leading role in that effort, but this will require both willingness to contribute a significant amount of resources as well as political support from all other actors involved. Neither of these factors can be taken for granted. We will have to demonstrate clearly before the day when our task begins in earnest that we are serious about our resource commitments and that we can be trusted to act as reasonable members of an international team. I would argue that the Helms-Burton legislation now before Congress would damage our credibility on both these counts, but I will return to this topic in a few minutes.

Let's talk now about assistance beyond humanitarian efforts. Who can best address Cuba's likely needs for help in implementing political and economic reforms and for rebuilding infrastructure? In the area of political reform, I would envision the U.S. working closely with other interested governments, as well as the UN and/or the OAS, to help organize and monitor elections. In the post-Cold War realities of Latin America and the Caribbean, the United States has worked effectively with Groups of Friends, countries such as Spain, Mexico, Colombia, Norway, and others which shared our interest in and commitment to goals of peace and

reconciliation in El Salvador and, more recently, Guatemala. Such a Group of Friends of Cuba might provide critical international support during a difficult transition.

These same actors could provide assistance to continue strengthening Cuba's non-governmental organizations, as we have begun to do through our "Support for the Cuban People" initiatives, and possibly expand efforts to include technical support for the process of forming independent political parties. The International Red Cross or the UN's High Commissioner for Human Rights, for example, could also play an advisory role in resolving the situations of remaining political prisoners, and in helping a transition government establish suitable guarantees for the protection of all citizens' fundamental rights as soon as possible. The U.S. might be the best provider of technical assistance in the areas of judicial, police, and military reform. The Spanish and Canadians are already working in some of these areas under the current regime. The U.S. has developed experience in such projects elsewhere in the hemisphere, advising governments on how to reorganize and strengthen courts, and ministries of justice, and in professionalizing security and military forces.

Let's turn, then, to economic reforms. The U.S. has opposed IMF involvement in Cuba under current circumstances, but if the current government or a successor were to demonstrate its commitment to fundamental political and economic reform, the IMF and other IFI's would be the natural leaders in this area. They bring the most experience and the largest pool of resources to the task of helping a nation establish a positive policy environment for the private sector to power an economic recovery. It seems likely at this point that a reform-minded Cuban government would begin its tenure almost penniless, so in addition to policy advice, there could well be need for at least some balance of payment support and some debt-rescheduling. I would expect the U.S. to be part of an international group supporting this effort, as it has with other reform-minded Latin American governments. The brunt of this burden, however, would likely have to be borne by the IFIs.

We have also discussed the tremendous infrastructure needs of a transition Cuba. Wisely-chosen infrastructure projects would have a multiplier effect for an economy on the mend, increasing demand for a variety of materials, services and labor as well as laying the foundation for later growth through better roads, rail lines, ports, communications links and other services. Financing for these projects need not come exclusively, or perhaps even primarily, from assistance or international lending. OPIC support for U.S. investment, for example, could foster greater private sector participation. Other kinds of creative public/private partnerships, including debt-for-equity swaps, could allow work to begin without substantial outlays of scarce public dollars. Creative schemes for resolving expropriation claims could also jump-start infrastructure projects. I'll return to this important topic in a few moments. It seems likely, however, that certain kinds of public investments will best be accomplished through the large loans that the World Bank and other multilateral development banks have facilitated elsewhere. The U.S. has in recent years moved away from funding large, infrastructure projects abroad, so I would foresee the U.S. Government role here as primarily limited to technical assistance and support from OPIC and the Ex-Im Bank.

A particularly thorny political issue for a successor government will be how and whether to maintain Cuba's high-level of free social services, the so-called "gains of the Revolution." The Cuban economy will have to generate enough growth and government revenue to sustain these expenditures if they are to be maintained, but this is a decision that only a future government — not the international community — can make. One of the most important messages that we must send to the Cuban people now is that the U.S. Government does not intend to take these benefits away from them - regime rhetoric notwithstanding. They themselves should be able to choose their nation's course on key questions such as this through a public debate prior to multi-party elections.

### When to Proceed

I would like to turn now to one of the most critical issues in any discussion of future assistance to Cuba — when to provide it and with what conditions. The Helms-Burton bill has put this question into sharp relief. In addition to offering a limited menu of possible types of assistance from which the Administration may choose, the House version of the bill lists about 15 requirements which future transition and democratic governments will have to satisfy before becoming eligible for any assistance at all. The Administration believes that such conditions could leave the U.S. on the sidelines just when the U.S. could most assist a fledging government moving in the right direction. The sponsors of this legislation are not content to leave the decision of when to aid a transition government in Cuba to the President of the United States, the person the Constitution entrusts with leadership of foreign policy. But do we really want to stand by with a clipboard and a checklist while the first Cuban government in 37 years to embrace democracy struggles to establish itself? Is that the kind of signal we want to send to advocates of change in Cuba? It seems to me it is not.

I don't have an alternative checklist to offer you which will pre-determine when and how U.S. assistance to a transition government in Cuba should begin. But I do believe that we will need to respond to opportunities to promote a transition as soon as they develop. Our support for human rights activities through Freedom House is our first such initiative. In the actual event, I believe that there will be substantial consensus on when other, larger U.S. assistance programs could contribute to a successful democratic transition. The Administration would in any case notify Congress of its plans to provide assistance; Congress would at that time have the opportunity to make clear any disagreement over the President's plans. Until then, our legislation and plans for assistance should convey U.S. readiness to help any government committed to democracy in Cuba.

### U.S. Claims Issues

We could not have a meaningful discussion about the U.S. role in Cuba's reconstruction without mentioning expropriation claims. As many of you are probably aware, U.S. citizen expropriation claims against Cuba are valued in the billions of dollars. Nearly 6,000 U.S. citizen claims against Cuba have been certified by the Foreign Claims Settlement Commission, valued at approximately \$6 billion. Other claims may multiply that figure several times. It's easy to see that the Cuban Government's enthusiasm for nationalizing the properties of Americans and Cubans

alike means that a large percentage of Cuba's housing and productive resources may be subject to expropriation claims. Until these claims are dealt with, they could act as a brake on investment and cause tensions in U.S.-Cuban relations.

Therefore, the United States expects that a future Cuban government, out of its own interests as well as those of claimants, will meet its responsibilities under international law of providing restitution or prompt, adequate, and effective compensation for expropriated properties. Such a step will help heal old wounds and restore confidence in the institution of private property on the island.

We recognize, of course, that resolving expropriation claims will be among the most difficult responsibilities a future Cuban government will face. If the Government meets this challenge promptly and with fairness, it will significantly improve prospects for the country's economic recovery. If it does not meet this challenge, claims issues could undermine its efforts in a host of other areas. The U.S. should be prepared to work flexibly with transition and democratic governments to help achieve a successful resolution of the claims problem.

Our problems with Helms-Burton's approach in this area are well-known. Rather than allowing the U.S. Government to use good judgment and established principles of international law to resolve U.S. expropriation claims, which our government has done successfully in a number of other countries, Helms-Burton would complicate the resolution of claims immensely by creating a cause of action in U.S. courts to sue "traffickers" in U.S. claimed properties. Such a cause of action is wholly insupportable under international law, would cause unnecessary friction with our trading partners around the world, and expose U.S. businesses to copy-cat legislation elsewhere. But perhaps most relevant to the claims issue, it would seriously undermine the U.S. government's ability to obtain meaningful compensation for U.S. claims. A Cuban government would have little reason to negotiate with the U.S. or resolve claims under its own law if these same claims are the subject of lawsuits in the U.S. Helms-Burton's Title III would turn what should be a manageable problem into a nightmare.

#### Putting a Plan Together

As I mentioned at the outset, the Administration agrees with the sponsors of Helms-Burton that offering a plan for U.S. efforts to aid transition and democratic Cuban Governments makes good sense. We have begun the process of determining how the U.S. can best support a transition to democracy in Cuba, although it remains to be seen whether we will have a formal congressional requirement for a report or plan. In any case, we would welcome the opportunity to discuss our plans with Congress when they are more fully developed. Above all, we look forward to sharing our plans with the Cuban people so that they'll know the U.S. stands ready to help them in a myriad of ways when their country is ready to join this hemisphere's community of democracies.