The Dangers of U.S. Withdrawal from a Post-Castro Cuba

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Engage Cuba

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As Cuba undergoes a historic political and economic transition, the U.S. must be poised to seize this moment as an opportunity. With Russia and China extending their spheres of influence into the Western Hemisphere, U.S. national security interests are at risk. The U.S. government must acknowledge these security challenges and take steps to engage with the new government of Cuba, beginning by fully staffing the U.S. embassy in Havana.

Introduction: A Changing Cuba

Over the past decade, Cuba’s economy has changed significantly. In the age of Fidel, state-owned enterprises were king. Today, a new hybrid economy has allowed certain small- and medium-sized private businesses to grow, and there are 5,500 agricultural cooperatives in operation.1 Some estimates show that self-employment in Cuba has increased earnings potential by up to 250 percent. Cuba has also sought to ramp up its foreign investment, seeking over $2 billion per year and approving over 30 new projects in the Mariel Special Development Zone (ZED).2 But absent critical monetary and political reforms, the transformation under President Raúl Castro has not delivered the boom in GDP (gross domestic product) growth that Cuba hoped it would. The country’s GDP annual stagnation rate hovers around two percent, while its growth rate has fallen short of its target by more than half.3 Domestic production has slowed under the weight of the government’s burdensome regulations and opaque decision-making structure; exports fell by a third from 2013 to 2016.4 Lower real wages (adjusted for inflation) and tightened rationing have both accelerated Cuba’s brain drain and stimulated its black market.

Throughout this stagnation, President Castro and the Communist Party of Cuba (PCC) have maintained a high degree of control over economic activity on the island. Though the era of Raúl ushered in a new class of entrepreneurs in Cuba, business owners must navigate a challenging environment. Cubans have yet to gain the ability to incorporate as a legal entity, import wholesale, or open a private practice in most white-collar professions. But despite such an onerous regulatory regime, self-employed Cubans have demonstrated an unwavering resourcefulness and entrepreneurial spirit. One thing that has undeniably helped to nudge the Cuban people toward entrepreneurship is exposure to the United States and U.S. travelers. A 2017 survey of American travelers to Cuba observed an astonishing level of engagement between ordinary people from both countries. Not only did virtually all recent U.S. travelers patronize private businesses in Cuba; a significant majority interacted with Cuban entrepreneurs and discussed economics, U.S. culture, and the internet.5

4 Ibid.
Against the backdrop of early economic reforms in Cuba, the Obama Administration saw an opportunity. The President’s gamble on renewed engagement proved fruitful. Whereas over 50 years of severed ties yielded few benefits to the U.S., reestablishing diplomatic relations with the Castro government advanced U.S. national security interests. The U.S. State Department removed Cuba from the State Sponsors of Terrorism list in 2015, clearing a path for a series of bilateral talks on joint counterterrorism, law enforcement, drug interdiction, human trafficking, and migration. The dialogues resulted in 23 agreements between the U.S. and Cuba, with 9 focused on national security. In early 2017, the administration ended the controversial “wet foot, dry foot” immigration policy, which since 1995 had entitled Cubans to expedited legal status if they arrived in the United States by land. Ending the policy led to a historic plummet in the number of Cubans apprehended by the U.S. Coast Guard. Under President Donald Trump, much of this national security architecture remains in place, and bilateral law enforcement dialogues have continued in Washington.

Despite the continuity of agreements with the United States, Cuba’s political and economic currents are ever-changing. On April 19, 2018, President Castro will relinquish his position as President of Cuba while retaining leadership of the PCC. The president will be chosen by the National Assembly, the members of which have been pre-selected by a combination of community and labor representatives and ratified by voters. The National Assembly will likely select Miguel Diaz-Canel, the country’s First Vice President, to succeed Castro. A generation younger than the revolutionary “old guard,” Diaz-Canel has historically been perceived as a political moderate. Though Diaz-Canel has sent mixed messages to the United States as he vies for the presidency, Cuba under his leadership would almost certainly have an eye toward modest economic reforms, particularly in currency unification. The transition will test the robustness of Cuba’s institutions and their ability to facilitate a stable transfer of power, as the country has not seen so dramatic a political shift since its 1959 revolution. While the Cubans appear to be taking institutional continuity quite seriously, a transition of this magnitude will inevitably introduce unknown variables into the equation.

The Expansion of Adversarial Power

On the United States’ doorstep stand two challengers to U.S. influence seeking to extend their global reach. China and Russia have successfully expanded their economic and political spheres of influence to Latin America. Secretary of State Rex Tillerson acknowledged this alarming trend when he warned that China is using “economic statecraft” to “pull the continent into its orbit,” while Russia continues to “sell arms and military equipment to unfriendly regimes.” In a 2018 statement before the Senate Armed Services Committee, U.S. Southern Command (SOUTHCOM)

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testified that both Russia and China pose hemispheric threats, and that Cuba’s leadership transition is “unlikely to alter continued cooperation” with either country.9

“Economic statecraft” is an apt description for China’s growing portfolio of activities in Latin America. China is already the top trading partner for some of the region’s largest economies, like Brazil, Argentina, Chile, and Peru. It appears to be disinterested in direct political manipulation, although it is certainly pursuing a broader geopolitical strategy. China has opted to use economic development in the region’s transition economies as a path to “long-term dependency.”10 For many countries in Latin America and the Caribbean, there are few alternatives to reliance on Chinese capital. States with widespread corruption or nascent democracy often cannot, or will not, meet the lending conditions set by international financial institutions. Enter China, with little to lose and much to gain from dispensing short-term loans to a smattering of countries with ailing transportation and manufacturing infrastructure.

Meanwhile, Russia’s foothold is more modest, driven less by financial appeal than a targeted strategy of arms deals and energy investment. U.S. SOUTHCOM cited Russian intelligence and cyber capabilities as particularly troubling given its intent to actively undermine U.S. partnerships in Latin America.11 Russia has successfully courted the Bolivian, Mexican, and Nicaraguan armies into purchasing military helicopters.12 While Russia and China have not collaborated explicitly in the region, in many ways their efforts complement each other. Evan Ellis of the Center for Strategic and International Studies describes a potential scenario in which Bolivarian countries, backed by the security of Chinese financing, are emboldened to engage in risky behavior with Russia.13 No country in the Western Hemisphere better exemplifies this challenge than Cuba.

I. Russian Displays of Strength

Cuba and Russia have been intensifying their historically connected relationship for the better part of a decade. In 2009, Raul Castro visited Moscow for the first time since the Cold War, initiating a two-way series of official visits that culminated in 2014 with the signing of over 10 agreements for cooperation on education, health, aeronautics, energy, and infrastructure.14 Among the most significant terms reached were a €1.2 billion deal for thermal energy development, a $4 billion investment in 55 new infrastructure projects in Cuba, and a policy of 90 percent forgiveness

13 Ibid.
for Cuba’s $32 billion Cold War debt. In 2015, Russia touted its growing military influence in the region by docking its massive Viktor Leonov intelligence vessel in the Port of Havana just one day before the U.S. and Cuba entered talks to normalize relations. As it has done in other Latin American countries, Russia intends to replace Cuba’s old Mi-8 helicopters. In late 2016, Russia and Cuba signed yet another agreement to modernize Cuba’s defense apparatus through 2020, which consists largely of assistance in maintaining Soviet-era weaponry. A Russian official had announced to parliament earlier that year that Russia planned to reopen the Lourdes signals intelligence base in Cuba, which had closed in 2002 after funding dried up. Other members of the Russian government have denied this intention.

It is no coincidence that Russia has further ramped up its involvement on the island in the year leading up to Cuba’s presidential transition. As recently as March 16, 2018, the Pentagon reported that Viktor Leonov had once again docked in Havana’s harbor. Meanwhile, Russian cars will soon join Chevrolets on the streets of Havana in greater numbers. After a 12-year hiatus, Cuba in 2018 resumed importing Russian Ladas, just 2 years after the Russian truck company Kamaz signed a delivery contract with Cuba. The Cuban government is currently engaged in joint talks with Serbia to open a Kamaz production facility on the island. Putin has also taken a keen interest in developing Cuba’s transportation infrastructure, as Cuba had requested over $370 million in foreign investment for roads, railways, ports, and airports. The Russian company RZD International is investing over $1 billion in railway development, with a goal to finish modernizing by 2030.

The heightened relationship is also apparent in the energy sector. With economic conditions in rapid decline, Venezuela has been forced to cut daily oil exports to Cuba by over 50,000 barrels; at their peak in 2007-2014, Venezuelan oil exports to Cuba averaged 105,000 barrels. This dramatic reduction in oil accessibility has forced Cuba to slash imports and ration energy across the island. Seizing an opportunity, Russia’s state oil company Rosneft resumed shipments of refined oil to Cuba for the first time since the 1990s. In the absence of sufficient investment for domestic energy production, the $105 million Rosneft deal represents Cuba’s gradual transition away from Caracas and toward increased exchange with Moscow. The two governments extended their initial deal in October 2017 to continue petroleum cooperation and expand Russian oil donations. In December of that same year, Venezuela backed out of a joint venture to modernize a Cienfuegos oil refinery. Taking its cue, Rosneft quietly began discussions to step in. The Russian electric company Inter Rao has also built four conventional power plants on the island since 2015.
II. Chinese Soft Power

China’s presence may not manifest as an ostentatious spy vessel, but its influence looms ever larger and bears serious consequences for U.S. interests. China is Cuba’s largest debt holder and trading partner, accounting for 22 percent ($308 million) of all Cuban exports and a full 28 percent ($1.88 billion) of total imports to the island.\(^{21}\) To put this in perspective, the value of Chinese imports alone exceeds Cuba’s total agricultural imports from around the world, which represent 80 percent of all food consumption in Cuba. China sources both industrial equipment and quotidian household goods, with electronics, appliances, and vehicles accounting for half of Cuba’s Chinese imports. Chinese Yutong buses and Geely cars are increasingly present on the streets of Havana; over 50 percent of Cuba’s automobile imports are Chinese.\(^{22}\) China’s fiscal reach, however, extends far beyond trade, and the powerhouse has already integrated itself quite successfully into Cuba’s economy.

As with Moscow, Cuba’s relationship with China has accelerated in recent years. A Chinese firm invested $500 million into a new golf resort, while a $120 million Chinese development loan will finance a new container terminal in Santiago de Cuba.\(^{23}\) In 2016 President Castro and Chinese Premier Li Keqiang signed approximately 30 bilateral agreements to enhance cooperation in energy, healthcare, agriculture, science, and industry, with a commitment from China to extend new credit.\(^{24}\) The two countries maintain a strong political relationship, in which Cuba has received assurances from China for zero-interest financing. In 2017, Cuban officials announced that Cuba had begun basing its international financial transactions on the yuan.

Like Russia, China has capitalized on Cuba’s energy crisis. Cuba’s sugar crops make bagasse, a biofuel generated from sugar cane, an attractive option for renewable technology. Chinese companies have plans to build 25 bioelectric plants in Cuba in the coming years to integrate sugar cane biomass and Marabou weed biofuel into Cuba’s energy mix.\(^{25}\) In turn, modernizing biomass energy production facilities will help Cuba attract investment for increased sugar production, with China optimally positioned as a major player in the process. Cuba’s ambitious plan to generate 700 MW of solar power will also be financed in part by Chinese contractors, who won bids for 3.9 MW and 4.4 MW solar projects.\(^{26}\)

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China has moved to invigorate Cuba’s technology sector. The Chinese tech giant Huawei signed an agreement with ETECSA, Cuba’s state-run telecommunications company. The deal with Huawei, the third-largest smartphone manufacturer in the world, allows the firm to market its products on the island and facilitate the installation of broadband internet in Havana homes. Already, Huawei is responsible for powering hundreds of Cuban Wi-Fi hotspots. After Hurricane Irma, China granted Cuba a new credit line in order to rebuild and modernize Cuban electronic production. In early 2017, Chinese corporation Haier opened its first computer assembly plant on the island. There is little reason to doubt that China’s economic momentum will continue in Cuba, given its investment trends in the rest of Latin America and the Caribbean.

Implications for the United States

In addition to the administration’s 2017 regulatory changes, actions under Secretary Tillerson have demonstrated a marked shift in the U.S. government’s attitude toward engagement with Cuba. In September of 2017, following reports of unexplained health symptoms affecting U.S. diplomats in Havana, the State Department ordered the departure of 60 percent of U.S. embassy personnel. All consular services at the embassy were suspended, which means that no visa applications for Cuban travel or immigration to the United States will be processed in Havana, and there is reduced support for American travelers on the island. U.S. personnel reductions also included the political affairs, human rights, and economics officers who would ordinarily monitor developments during Cuba’s transitional period. September’s temporary “ordered departure” status expired in early 2018, rendering the staff reductions permanent until the State Department actively reverses the policy.

I. A National Security Blind Spot

In April of 2017, 16 retired military flag officers sent a letter to former National Security Adviser H.R. McMaster urging him to continue a policy of engagement with Cuba. The officers highlighted not only the growing threat of Russia and China, who they insist will “rush into the vacuum” if the U.S. fails to engage, but the security risks of allowing existing collaboration to disintegrate.27 The U.S. and Cuba continue to hold bilateral dialogues regarding cooperation on a number of mutual security concerns, and these dialogues must continue unencumbered under the new Cuban administration. Renewed collaboration on aviation and border security paved the way for milestones in the U.S.-Cuba relationship, such as the restoration of commercial flights between multiple cities and the termination of the “wet foot, dry foot” immigration policy. In January 2017, the Obama Administration signed its final law enforcement pact with Cuba, which

affected a wide spectrum of security issues: counterterrorism, cybersecurity, immigration, narcotics interdiction, smuggling, human trafficking, and money laundering.

These areas present less obvious but critical risks if the U.S. neglects its agreements or terminates bilateral talks. The U.S. and Cuba have acknowledged, for instance, a mutual interest in preventing terrorist activity in the Western Hemisphere. In the cybersecurity space, Cuba has shared intelligence on dozens of cybercrime cases involving the U.S., which has aided in implicating suspected hackers and alerting potential victims.

The U.S. and Cuba must also continue their shared efforts to curb dangerous maritime migration. A shift in migration policy that arose through negotiations between the Obama and Castro administrations resulted in a dramatic drop in Coast Guard maritime interdictions. The number of Cubans repatriated by the U.S. Coast Guard dropped from 1,465 in FY2017 to under 50 thus far in FY2018.28 29 While there is no current migration crisis from Cuba, a robust system for joint interdiction and repatriation between the U.S. and Cuba has helped prevent loss of life of migrants who attempt the journey by sea.

Further, President Trump has made the fight against cross-border narcotics trafficking a hallmark of his policy agenda. In a region rife with illicit drug trade, Cuba stands out as a relatively small market for narcotics despite the susceptibility to trafficking posed by its long coastline. Information sharing between the Coast Guard and Cuban authorities relieves the U.S. Coast Guard of some of the security burden in the Caribbean approaches to the United States. In 2016, Cuban officials signed a counternarcotics agreement with the U.S. after a dialogue with the State Department, Drug Enforcement Agency, Coast Guard, and Immigrations and Customs Enforcement. Since the agreement, the State Department reported that the U.S. Coast Guard and Cuba were sharing tactical information, coordinating responses to suspected drug traffickers, and had opened a direct, real-time line of communication between the two governments. Cuba has also aided U.S. law enforcement agencies by providing documentation and witnesses for drug trafficking cases within the U.S. court system.30 In turn, counternarcotics collaboration has stimulated information sharing on trafficking cases between Cuba and other Caribbean nations, creating a stable, more coherent system of prevention and apprehension in the region.

Cooperation on issues of mutual interest fluctuates with the broader climate of U.S.-Cuba relations. At the height of bilateral engagement, mutual security efforts flourished. But without continued U.S. engagement in the post-Castro era, one can easily imagine these critical agreements faltering. In the absence of adequate U.S. diplomatic staff on the island, Cuban officials have fewer open and accessible communication channels to Washington. And as Moscow and Beijing continue to bolster their security collaboration with Havana, the government under Diaz-Canel could increasingly lose trust in the U.S.’s commitment to existing security agreements. If this happens, it will compromise both U.S. and Cuban security interests.

II. The Waning of American Economic Influence

The United States has a choice to make as its relationship with Cuba arrives at a crossroads. The volatility of Cuba’s energy supply, market distortions caused by dual currencies, slow growth, and widening inequality will dial up the pressure on President Diaz-Canel to improve upon Castro’s economic reforms. The new president, anchored by old-school Communist Party decision makers, will certainly try to avoid a Mikhail Gorbachev-style snowballing of liberalization. But the fact is that irrespective of any future democratic ambitions (or lack thereof), Cuba is inching toward a market economy. The rest of the world has already gotten on board, but the train will soon leave the station. China may be ramping up investment, but so are U.S. allies like the European Union. U.S. companies continue to explore Cuban market opportunities, but most are severely constrained by statutory provisions of the trade embargo. Not only does U.S. withdrawal from Cuba shut American businesses out of a natural market; it hurts Cuba’s private sector and limits the ability of Cuban cuentapropistas (entrepreneurs) to interact with and learn from industrious Americans. Exchange programs like the ones organized by Cuba Emprende have given Cuban entrepreneurs opportunities to study and collaborate with U.S. startup incubators around the country before taking their new expertise back to Cuba. This, combined with the fact that U.S. travelers patronize private businesses in Cuba at much higher rates than European and Asian tourists, has directly tied the U.S. to the economic success of Cuba’s private sector. A failure to continue a level of Obama-era engagement is a rejection of both self-employed Cubans and the U.S. commitment to encouraging entrepreneurship.

III. Losing the Diplomatic and Geopolitical Game

Without eyes and ears on the ground, the State Department is losing its foothold in Cuba. It is difficult to imagine a scenario in which the U.S. could proactively respond to a political and economic environment in flux without the resources to collect and interpret information and maintain critical relationships. Further, neglecting the U.S.-Cuba relationship could have unintended consequences geopolitically. The Bolivarian states have only grown more closely aligned with Cuba in recent years, and the rise of Russian influence could lead to Putin’s exploitation of anti-American sentiment in our backyard. Nowhere is this trend more evident than at the Summit of the Americas. The ALBA (Bolivarian Alliance) states threatened to boycott the 2015 Summit if Cuba), were not invited. The tone of the Summit was conciliatory, but it remains to be seen whether the 2018 Summit can remain similarly diplomatic. The U.S. also cannot advance its human rights agenda while holding Cuba in isolation. Violations occur in the dark, not under a spotlight. Leading international human rights groups, like Amnesty International, Oxfam, and Human Rights Watch, have repeatedly condemned the U.S. embargo on Cuba and urged the U.S. to pursue policies that allow for greater accountability.
and monitoring on the island.\textsuperscript{31} Meanwhile, the initial 2014 negotiations to restore diplomatic relations between the U.S. and Cuba resulted in a pledge from President Castro to grant international human rights monitors access to the country. No monitors have yet been granted access, but this was the first time the U.S. received any such pledge on the issue.

**Conclusion: A Way Forward**

The U.S. cannot protect its own national security by turning its back on Cuba, which stands at the edge of a major political transition and consequential economic reforms. As adversarial powers move into the region, the U.S. cannot afford to be pushed to the fringes. Russia and China have already demonstrated their interest in and ability to become further engaged with Cuba’s economy. Fortunately, there are steps the U.S. government can take to shore up U.S. interests in Cuba and seize a unique opportunity to aid and empower the Cuban people:

- **Fully staff the U.S. Embassy in Havana.**
  First, the State Department must commit to gradually re-staffing the U.S. Embassy, even in the absence of a satisfying conclusion to the health incident investigation. The State Department should reassign at least 50 percent of the departed embassy staff—roughly 20 officers—immediately. This first iteration of reassigned personnel should include sufficient consular officers to restart visa processing in Havana, if only at minimal capacity. The reestablishment of consular services is of utmost importance, as Cubans are currently being sent to U.S. embassies abroad for non-immigrant visas and to the U.S. Embassy in Georgetown, Guyana for immigrant visas—a trip few Cubans can afford. The State Department should also set a clear timeline for routine evaluation of embassy staffing. For example, the Department might choose to assign the remaining 50 percent of personnel to Embassy Havana after six months, provided there are no new reports of unexplained health symptoms. Alternatively, the State Department could outline a clear set of safety conditions that, if met, would trigger reassignment of the remaining 50 percent of personnel.

To help ensure that Foreign Service Officers can safely be reassigned to Havana, the executive branch should prioritize the investigation into the health incidents affecting U.S. diplomats and commit resources to protect the safety of U.S. personnel. The President and Attorney General should direct the FBI to cooperate more closely with Cuban and Canadian authorities to conclude the ongoing investigation into U.S. diplomats’ unexplained health symptoms. The government of Cuba has offered U.S. law enforcement considerable access to residences and commercial spaces in an effort to promote intelligence sharing. In light of the recent publication of a preliminary study in the Journal of the American Medical

Association and a new theory from University of Michigan researchers, the FBI should return to Havana in the near term.

The State Department and FBI should also keep Congress informed of their progress and continue to offer classified briefings and public testimony as they learn new information.

- **Promote U.S. economic engagement with Cuba where possible.**
  Even absent statutory repeal of the embargo, the executive branch can support the expansion of U.S. businesses into the Cuban market. This step serves as a crucial counterweight to Chinese and Russian soft power. The State Department can restart bilateral economic dialogues with the Cuban Ministry of Foreign Trade and Investment to discuss areas of mutual concern related to banking, labor, investment, trade, intellectual property, and telecommunications. Importantly, this would serve as a signal to the government of Cuba that the U.S. wishes to remain engaged in long-term economic activity.

  Ideally, the President should direct the Department of the Treasury’s Office of Foreign Assets Control (OFAC) to alter restrictions on U.S. commercial engagement with Cuba. In the fall of 2017, the President banned direct U.S. business transactions with entities on the State Department’s new “Cuba Restricted List.” The Administration should liberalize regulations on business with Cuba so that U.S. commercial engagement can continue unencumbered with the new Cuban administration.

  Additionally, the Administration should not stand in the way of congressional efforts to expand trade in certain areas. A number of legislative initiatives in Congress take an incremental approach to improving commercial relations with Cuba. For example, one bipartisan bill would amend the Trade Sanctions Reform and Export Enhancement Act (TSRA) to allow for the private financing of U.S. agricultural exports to Cuba.

- **Facilitate U.S. travel to Cuba to boost Cuba’s private sector and increase people-to-people exchange.**
  It is well documented that the presence of U.S. travelers in Cuba delivers economic gains to self-employed Cubans and stimulates the exchange of ideas, values, and customs.³² Both the State Department’s travel advisory and the Trump Administration’s tighter travel regulations are having a chilling effect on U.S. travel at a time when this exchange matters most. The President last year directed OFAC to eliminate the “individual people-to-people” category of authorized travel to Cuba. While there are other legal avenues for travel, including group “people-to-people” travel, the President should direct OFAC to restore this category of individual travel in order to simplify the process for Cuba travel and grant Americans greater freedom. Individual American travelers in particular are significant contributors to Cuban

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private sector success. They are the ones most likely to patronize privately owned bed and breakfasts and restaurants, whereas the tour groups authorized under “people-to-people” travel often stay at large state-owned hotels rather than separate the group among several private homes.

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