**The Impact of the Normalization of Cuban-U.S. Relations: A Comparative Analysis**

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**Introduction**

On December 17, 2014, the Barack Obama administration announced that the United States would begin to regain full diplomatic relations with Cuba, including steps towards the removal of the embargo imposed over fifty years ago. President Obama explained in his speech that the rationale behind wanting to lift the embargo was a lack of functionality, and by lifting the embargo that “has failed to advance our interests” there would be potentially “more opportunities for the American and Cuban people.”[[1]](#footnote-1) President Obama’s speech led to the question raised in this paper: Who will gain more from lifting the embargo, the United States or Cuba?   
 There are various ways to analyze the benefits of repealing the embargo. This paper will cover two main categories: economic impact and the influence on social institutions. Since those are themselves relatively broad subjects, this paper will focus on the economic impact of trade and the social impact of tourism between the United States and Cuba. Altogether, this paper provides a comparative analysis of which country, the United States or Cuba, would gain the most from the restoration of full diplomatic relations. The argument is that although both countries will benefit from the impending changes, overall Cuba will benefit more both economically and socially.

**Trade**

**History**

In the 1800s, Cuban trade showed upward trends with the exports of flour peaking repetitively.[[2]](#footnote-2) After the Spanish-American War of 1898, many forecasted that Cuba would become a U.S. state; however, the sugar beet farmers in the United States saw Cuba as unwanted competition, a key reason why the acquisition never occurred.[[3]](#footnote-3) In 1890, Cuba introduced 75 duty reductions on imports from the United States leading to an even larger increase in trade between the U.S. and Cuba, and by the 1930s, one third of Cuba’s import and three quarters of Cuba’s export revenue was from the United States. [[4]](#footnote-4)

In 1959, Fidel Castro and a group of Cuban revolutionaries overthrew President Fulgencio Batista and seized power of Cuba. Although Castro’s political ideology resembled that of the communists, the United States recognized his government and continued relations; however, as Castro increased trade with the Soviet Union, nationalized United States’ properties in Cuba, and increased taxes on U.S. imports, the United States responded by cutting Cuban sugar imports and banning the majority of the U.S. exports to Cuba.[[5]](#footnote-5) On February 3, 1962, President John F. Kennedy released Proclamation 3447, instituting a full economic embargo on Cuba.[[6]](#footnote-6)

**Current Day**

The policies put in place against Cuba in the 1960s, called outdated by President Obama, have a significant impact on both the United States’ and Cuban economy.[[7]](#footnote-7) The embargo consistently lowers the esteem with which other countries view the United States. Specifically, for the twenty-second consecutive year, the United Nations in 2013 passed a resolution to condemn the embargo, with all in favor except the United States and Israel.[[8]](#footnote-8) In addition to the detrimental aspects to its reputation, the U.S. also faces economic losses through the enforcement of the sanctions and lost trade opportunities. According to the Government Accountability Office, the U.S. government spends hundreds of millions of dollars and tens of thousands of labor hours enforcing the embargo, including 70% of inspections performed each year by the Treasury Department.[[9]](#footnote-9) Additionally, the U.S. Chamber of Commerce states that the embargo costs the United States $1.2 billion each year in lost sales of potential exports from Cuba, and a study by the Cuba Policy Foundation estimates the cost could be as steep as $4.84 billion in agricultural exports to Cuba.[[10]](#footnote-10)

Apart from the impact of traded goods, removing the embargo will have a significant impact on the Cuban economy through the trade of finances in the form of remittances. With the changes in the embargo already allowing an increase from $500 to $2000 per quarter in general donative remittances, the Cuban government expects an increase from the current $5.1 billion annual remittance from the U.S. alone. [[11]](#footnote-11) Additionally, Jennifer Harris predicts that the impact on the economy through the influx of foreign direct investment, both by the U.S. and nations aligned with the U.S., will aid the Cuban economy substantially. Both of these changes to the Cuban economy are at no cost to Cuba.

Although President Obama has made sufficient headway towards normalizing relations with Cuba, his influence on trade is limited. In order to lift the embargo against Cuba, Congress must pass legislation to reinstate trade. After traveling to Cuba in early 2015, Minority House Leader Nancy Pelosi advocated that Congress act quickly to reopen trade with the island.[[12]](#footnote-12) Changes to policy include allowing exports and reexports[[13]](#endnote-1) from the United States that support the Cuban people through improved living conditions by supporting independent economic activity, strengthening civil society, and improving communication. For instance, examples of permitted exports and reexports from the U.S. include building materials, equipment and tools, donated items for education, and any exports or reexports sent to human rights organizations.[[14]](#footnote-13)

**Analysis**

One major factor to be considered in the opening of trade relations between Cuba and the United States is the cost that the United States pays in order to implement the embargo. The United States also loses out on credibility with the international community, which almost universally condemns the embargo. While Cuba has already reported the positive impact of eliminating certain aspects of the trade limits, arguably it is not the one gaining the most from the possibility of lifting the embargo. Opening trade between the two countries would mean more revenue for both and thus lessening the significance of that factor alone. However, the cost that would be saved by the United States from not having to implement the embargo anymore, combined with the support that it would get from the international community, proves that the United States would get more out of lifting the embargo when it comes to trade.

**Tourism**

**History**

Prior to the 1959 revolution, tourism in Cuba was one of the leading industries supporting the economy, although the Cubans had no control over it. According to Henry Taylor and Linda McGlynn, the United States mafia controlled the entire international tourism industry in Cuba. This industry was rooted not only in the sunny beaches and warm weather, but also in gambling, prostitution, and drugs. The United States not only controlled the tourism industry, it was the biggest supporter, accounting for approximately 86% of the visitors to Cuba on the eve of the revolution.[[15]](#footnote-14)

After 1959, the industry of international tourism disappeared due to the belief by the revolutionary government that tourism was associated with the evils of capitalism, including drugs, prostitution, social inequity, and racism.[[16]](#footnote-15) This movement by the revolutionary government became known by many scholars as “Cuban Tourism Apartheid.” However, the regime discovered that without tourism, the economy would fail. Fidel Castro stated, “We have to develop tourism. It is an important source of foreign currency. We do not like tourism. It has become an economic necessity.”[[17]](#footnote-16) In attempts to solve this issue while concurrently preserving the socialist system and revolutionary government’s spirit, Cuba institutialized a dual economy in which there was a dollarized economy alongside a pesified economy.[[18]](#footnote-17) Prior to the 1959 revolution, tourist arrivals in Cuba fluctuated around 250,000 individuals a year. By 2006, this statistic had drastically increased to over two million.[[19]](#footnote-18) These statistics exclude any tourism from the United States, considering travel from the United States to Cuba is regulated to official purposes only. Therefore, if the United States government was to open tourism to Cuba, tourism would again increase drastically, especially with the dollarized economy making currency-conversion troubles obsolete.

**Current Day**

Although the Obama administration has not opened travel between the U.S. and Cuba for tourism purposes, by expanding of the list of justifications for obtaining a license to travel, there is a need to begin preparing for the large influx of American Tourists to come. Currently, without tourists from the United States, hotels in Cuba, during the high seasons, are operating at 80% capacity.[[20]](#footnote-19) This poses the problem of how the Cuban businesses and hospitality services in particular could handle the reestablishment of travel for the purposes of tourism in the United States.

Prior to the reform proposed by President Obama’s call to action, there were only a few strict reasons under which Americans could travel to the islands. Under the Obama administration, licenses to travel to the Republic of Cuba can now be issued to anyone travelling for the following purposes: family visits, official business of government or intergovernmental organizations, journalism, professional research, education, religion, public performance, support for the Cuban people, humanitarian efforts, private foundational research or education, exportation, importation, transmission of information or informational materials, and certain export transactions.[[21]](#footnote-20)

Opening travel for these certain purposes will allow for proper research to be collected before an influx of American tourists exceeds the supply of the tourism industry. In essence, by allowing smaller groups access to Cuba at a time, researchers can better predict how to develop the tourism sector to properly handle the influx of Americans soon to come. However, according to John Kavulich, senior advisor to the U.S.-Cuban Trade and Economic Council, without the consent and interest of the Cuban government, there will be no development of the tourism infrastructure. Mr. Kavulic explains the officials’ current sentiments, “They have not indicated they are excited about U.S. property developers, U.S. unions, and U.S. hotel management companies assaulting the Cuban archipelago.”[[22]](#footnote-21) A recent spike in the tourism to the island can be rationalize using the thinking of Mr. Kavulich.

Since President Obama’s address in December 2014, explaining that ties with Cuba would be renewed, bookings in Cuba increased 187% by February 2015, and around 250% by March 2015.[[23]](#footnote-22) Due to the impending changes, there is a heightened sense of urgency to visit the islands before any reform can be made. One tourist in Cuba, Gay Ben Aharon of Israel, was quoted explaining, “Cuba has a very authentic atmosphere which you see nowhere else in the world…I wanted to see it before the American world … but also the modern Western world comes here.”[[24]](#footnote-23) Ben Aharon and others anticipate that foreign direct investment from the U.S. following the reestablishment of diplomatic relations with Cuba will spoil some of the island’s charms. Many tourists in countries around the world, fascinated with the “time-capsule city,” are eager to see it before Starbucks takes over the coffee industry and McDonalds spreads throughout Havana. On the other hand, locals see a city that is need of restoration and modernization.[[25]](#footnote-24) Given the pressure from the citizens living in Havana, the need for modernization should ultimately take precedence, leading to better welfare for the citizens and increased investment opportunities for the United States and the rest of the world.

**Analysis**

While the United States government has not opened tourism to Cuba, benefits for some travelers can already be seen. However, due to the continued restrictions, the benefits affect only the relatively small number of U.S. tourists going to Cuba. As written earlier, hotel bookings in Cuba have dramatically increased from the expansion of acceptable reasons to travel from the U.S. to Cuba. If tourism were completely open, there would be an even larger number of U.S. citizens traveling to Cuba.

Although it cannot be completely determined at this point who would benefit more from the opening of tourism between the countries, if tourism between the countries were to open, we can assume many benefits to both countries would arise. First, assuming the new legislation allowed Cubans to travel to the United States, an influx of tourism to nearby areas including Floridian attractions would be expected. In addition, as stated previously, by allowing tourism from the United States to Cuba, there would be an influx of travelers to the islands. However, given the exponential size differences between the population, the Cuban economy will see a larger number of travelers than what is expected to be seen in the United States’ economy. Therefore, in this aspect, the Cubans will benefit more.

Moreover, as mentioned in the previous section, in order for the tourism industry in Cuba to sustain the influx of Americans, tourism infrastructure development is necessary. This development will involve the building of hotels to house the tourists, as well as possible investment in different businesses to rejuvenate the city. Although the United States would be influential in investing and building new structures and business in Cuba, these structures would promote more tourism to the islands,s ergo allowing an even higher level of income to the Cuban economy.

**Conclusion**

The overall conclusion is that it the restoration of diplomatic relations between the United States and Cuba will benefit both countries. The removal of the embargo would generate revenue in both countries, and the United States would benefit from a decrease in the costs of enforcing this sanction. Additionally, although there is no empirical evidence to suggest the precise magnitude of the effect, the opening of touristic travel between the two countries would certainly increase revenues to the Cuban economy and provide opportunities for foreign direct investment by U.S. companies.

It is difficult to decide which country will gain the most from the changes; however, Cuba is more in need of the coming changes, both economically and socially, than the United States. Although the data presented indicate that by removing the embargo, the United States will decrease enforcement expenses and generate large scale revenue, the authorization from the United States allowing other countries to engage in investment in Cuba (including business development, humanitarian efforts, tourism, and much more) will ultimately lead to a long-lasting increase in revenue for the people of Cuba. This, coupled with the increasing trend in tourism shown over the last decade, indicates much-needed economic activity for the people of Cuba, leading to advances in information and communication technology and ultimately growth. Although Cuba is ranked relatively high on the scale of development when compared to other countries in the Caribbean, its current economic standing warrants a massive amount of development in order to raise many out of poverty and into prosperity.

An argument against lifting the embargo is that it would only encourage communism. However, the battle between communism and democracy is no longer a major issue since the end of the Cold War, and the pressure being put on the international community to lift the embargo is currently of greater significance. Additionally, this argument fails to hold constant when analyzing other foreign policy. For example, one of the United States’ largest trade partners, China, is also a communist nation, yet there is no embargo against them.

If trade and tourism between Cuba and the United States were to reopen, the benefits both economically and socially to the people of Cuba outweigh the benefits gleaned by the United States. Although the United States will be given the opportunity to capitalize on this new opportunity, so will the rest of the world. Overall, Cuba will see the long-lasting benefits with increases in revenue and the development towards a sustainable future. Ultimately, both Cuba and the United States will benefit greatly if the U.S. lifts the embargo and continues to open tourism to Cuba, both of which are important steps toward the full opening of diplomatic relations.

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