

COMMENT: CUBA AND THE INTERNATIONAL FINANCIAL INSTITUTIONS

Lorenzo L. Pérez

Drs. Feinberg and Pujol have done an excellent job in discussing the International Financial Institutions (IFIs) and the possible role they could play in the reform process in Cuba. In so doing, they have laid out the membership requirements for joining the IFIs that Cuba will need to meet and how such membership could help the Cuban economy. Dr. Feinberg is in favor of a gradual approach for Cuba rejoining the IFIs: brief visits of IFI staff for data gathering and consultations; IFI studies of less controversial issues; joint participation of IFI and Cuban officials in seminars; studies on core strategic areas once mutual trust has been established; and then official membership and financial assistance. Dr. Pujol emphasizes that Cuba's participation in international financial institutions would send an important signal to the rest of the world that it is willing to adhere to a code of international behavior consistent with respect to international law and that it would help it attract badly needed foreign direct investment and credits. Both authors address the U.S. legislation regarding economic sanctions against Cuba. This legislation opposes Cuba's admission to the IFIs unless a number of criteria are met and, moreover, withholds future U.S. contributions to any organization of which the U.S. is a member if Cuba is admitted without first having met the conditions established by the U.S. legislation. Dr. Pujol emphasizes Cuban membership in the IFIs will need to be preceded by political understandings between Cuba and the U.S.

My comments highlight the possible consequences of Cuba's admission to the International Monetary Fund (IMF) given my professional experience in this

institution and the fact that, in practice, Cuba's membership in the IMF would be a necessary condition for its joining the World Bank (Bank) and the Inter-American Development Bank (IDB). The comments cover three areas: the basic functions of the IMF and how Cuba could benefit from the IMF's work; why Cuba has not joined the IMF and how Cuba's membership in the IMF could come about; and the implications of Cuba's joining the IFIs for the island's democratization.

THE IMF'S FUNCTIONS

The fundamental function of the IMF is surveillance of individual economies and of the world economy as a whole. This is done through periodic country visits of IMF staff to member countries to analyze recent developments and hold policy discussions with authorities which are subsequently reflected in country reports which are discussed by the Executive Board of the IMF. On the basis of the country reports and analyses of international market conditions, IMF staff also reports on the state of the world economy twice a year.

The second important function of the IMF is to provide short term external financing to countries facing balance of payments difficulties. This financing is subject to policy conditions to ascertain that as part of the country's economic program, steps are being taken to ensure that the country will return to a sustainable financial position and establish the basis for economic growth.

The IMF also provides technical assistance and training for member countries' staff; this technical assis-

tance and training have raised significantly the technical capacity of officials and policy makers all over the world. A more recent, but also important, function of the IMF has been to establish international standards for transparency in economic accounts and data collection; important work has been done in this regard in the areas of balance of payments, fiscal, and monetary data.

Undoubtedly, Cuba would benefit greatly from IMF support. Cuba would receive objective policy advice in addressing its economic challenges based not only on well-grounded economic theory, but also on experience of what has worked and not worked in its member countries. Through its technical assistance and its data standardization work, IMF support would help rationalize Cuba's economic system. IMF technical assistance will have a stronger positive impact than assistance offered Cuba in the past by foreign universities and assorted organizations in the sense that the IMF would train Cuban officials in collecting and disseminating data and formulating policies according to international standards. Cuba would be expected to follow these standards in its relations with the IMF and other countries.

The IMF could provide balance of payments financing to Cuba once the appropriate economic policies were in place. As noted by Dr. Pujol, an IMF-sponsored Cuban economic program could permit Cuba to rejoin the world economy and have more extensive market-based economic and financial relations with other countries. Specifically, it could allow the restructuring of Cuba's external debt to industrialized countries within the framework of the Paris Club, which in turn would allow Cuba access to commercial financing from these countries and reduce reliance on politically-motivated lines of credit. In this context, Dr. Feinberg's proposal to go slow in normalizing relations between Cuba and the IFIs, while having a reasonable logic given the state of affairs, is too timid given Cuba's economic problems and the potential benefits that Cuba could receive from membership in the IMF and other IFIs.

WHY IS CUBA'S MEMBERSHIP IN THE IMF NOT HAPPENING?

It is clear that the U.S. Executive Branch's flexibility has been severely restricted by the sanctions legislation that has been pushed by important Cuban-American groups, as noted by Dr. Feinberg. While Brazil has called publicly for Cuba joining the IMF in more than one occasion, Cuba's membership has not been discussed openly at the IMF by most countries, who prefer not to address the issue of Cuba's membership given the American opposition. This is in line with IMF practices of avoiding issues where a consensus is not likely to be obtained.

But another important reason why Cuba has not rejoined the IFIs is because the Cuban government has not taken the first step: applying for IMF membership. To date, the Cuban government does not seem willing to submit itself to the requirements and disciplines of membership. If Cuba were to formally apply for IMF membership, it would need to have an IMF member country serve as its representative during the application period. The Executive Director of the sponsoring country would need to lobby other Executive Directors for the acceptance of Cuba at the IMF. Brazil or China, two IMF members with close relations with Cuba, could play this role. Other member countries would most likely also lobby on behalf of Cuba.

It is clear that under the existing legislation, the U.S. would have to oppose Cuba's membership in the IMF and that a consensus could not be reached on this issue. But acceptance of an application for membership is a decision by the IMF that only requires a majority vote and the U.S. cannot really block Cuba's membership. Moreover, the U.S. does not have the dominant role in the IMF that it had in previous decades, and many countries of rising economic importance would be willing to stand up to the U.S. on this issue reflecting the voting patterns that happen at the United Nations regarding the U.S. embargo of Cuba. If Cuba were admitted to the IMF, the U.S. would find itself in the position of not being able to make any more contributions to the IMF, something that would clearly be against its interests and would

force it to seek legal changes. So really, the ball is in Cuba's court.

**CUBA'S MEMBERSHIP IN THE IFI's AND
POLITICAL REFORM**

Many people of good will oppose the membership of Cuba in the IFIs because this could consolidate the Castro regime and delay political liberalization in Cuba. Sadly, there is no guarantee that Cuba's membership in the IFIs would promote directly the cause of freedom in Cuba. In the short run, it may even strengthen Cuba's oppressive regime, as some fear.

However, if Cuba joined the IFIs, it would be forced to adopt more rational economic policies that would improve the well being of the Cuban people. Policy transparency and government accountability would need to improve, which would give more power to the Cuban people and help establish a process of political reform. One can support Cuba joining the IFIs while at the same time using other means and institutions to promote respect of human rights in Cuba and the democratization of its political process.