

Economic Analysis

U.S. and Cuban Embassy Openings Solidify Ties

Amanda Augustine

- **U.S. and Cuban embassies to reopen in capital cities in late July**
- **2016 presidential candidates and Congress split on issue between party lines**
- **Next steps in full normalization entail removal of trade and travel restrictions**

On Wednesday, July 1, President Obama formally announced that the U.S. and Cuba would reopen embassies in Havana and Washington, marking the most dramatic change in relations between the two countries in 50 years. The U.S. had closed its embassy in Havana in 1961, and the building was later converted into the U.S. Special Interests Section in 1977 under President Carter in an effort to reestablish diplomatic relations.

The tide first shifted in December, when Obama and Castro announced the restoration of diplomatic ties, and the two leaders met with each other for the first time in April during the Summit of the Americas. Another milestone was achieved in May, as Cuba was officially removed from the U.S. list of state sponsors of terrorism. In addition, a license to resume banking services was restored to the Cuban Interests Section in DC, lifting the financial blockade to the de facto diplomatic post of Cuba in the U.S.

Secretary of State Kerry is expected to travel to Cuba in July to oversee the planned reopening of the full embassy on July 20. Obama himself is expected to travel to Cuba before the end of his presidency—the first time in 60 years that an active president has done so. Several of the 2016 presidential candidates have voiced their opinion on the embassy's reopening. Opinions seem to be split between party lines, with most Republican candidates criticizing the move as a sign of legitimizing a repressive regime, while Democrats have praised it as an opportunity for collaboration and cooperation.

Lingering differences in opinion between the two nations could stifle the continuation of the normalization process. Congress does not appear likely to budge on fully lifting the embargo on trade and travel that has been in effect since the early 1960s and prevents U.S. business investment in Cuba. In addition, the U.S. has refused to comply with Cuban demand to close the naval station at Guantanamo Bay. As opinions within Congress are divided, Obama might struggle to obtain confirmation for an ambassador to Cuba and approval for funding for the embassy. Whichever way things play out, the reestablishment of the U.S. embassy in Havana will symbolically remove one of the last remnants of the Cold War—over 20 years after its end.

DISCLAIMER

This document was prepared by Banco Bilbao Vizcaya Argentaria's (BBVA) BBVA Research U.S. on behalf of itself and its affiliated companies (each BBVA Group Company) for distribution in the United States and the rest of the world and is provided for information purposes only. Within the US, BBVA operates primarily through its subsidiary Compass Bank. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in this document have been gathered or obtained from public sources, believed to be correct by the Company concerning their accuracy, completeness, and/or correctness. This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities.