

The Cuban Economy as Seen Through its Trading Partners

by

Jorge Salazar-Carrillo
Director and professor, Florida International University
Non-Resident Senior Fellow, Brookings Institution

David R. Ebro
PhD student at Florida International University

Introduction

It is well known that the communist economies consider information of crucial importance during the early stage of the dictatorship of the proletariat. In order to achieve the paradisiac final period of communal bliss, the development and control of the polity is required for what appears to be a number of decades.¹ As a result statistics on economic matters tend to be restricted in these societies, and when they are published or disseminated in other fashion (like in speeches), they tend to be thoroughly massaged. The objective is to give the impression of continued success in the building of socialism, and to impress foreign investors who might be attracted to provide hard currency investment that may be needed by the system.

In the case of Cuba these traits have been taken to extremes, especially during the decade of the nineties, after the disappearance of the Soviet Bloc in 1989. In fact, that was the year in which the country's statistical abstract (Anuario Estadístico de Cuba) was published by the government, although it has reemerged recently. The yearly reports of the Cuban central bank then the Banco Nacional de Cuba to its international creditors also disappeared for a while. Publications have resumed but they seem to be addressed to the lenders from whom Cuba is requesting a rescheduling of its massive debt and to foreign investors and traders. Finally, the 1990 census was never undertaken, although the 2000 tally was not missed.

In addition, it has been shown that Cuba has been particularly prone to tergiversate the economic information that it publishes or spreads about, to fulfill whichever purposes it might have at the moment.² And given that Cubans emphasize that it is going through a "Special Period",³ which has heightened its paranoia with respect to the fragility of its economy, it can be expected that the mendacity of the information provided by the Island is at its high point.

A cherished exercise of international economists becomes very useful under such circumstances: the continuous checking of the international trade statistics depending on the country originating the information. In order to establish true inter-country flows it is useful to parse the reports of both the exporting and importing countries to insure that the statistics match.

¹ It came to seven in the case of the Soviet Union before its demise.

² Consult Jorge Salazar-Carrillo, "Is the Cuban Economy Knowable?", Caribbean Review, Spring 1986

³ See Banco Nacional de Cuba, Economic Report, 1994, Habana, 1995, pg.3

Of course, care has to be exercised on the comparability of the flows being examined, as points of origin express their values in terms of FOB, while destinations value at CIF levels. Generally it is accepted that the reliability of the statistics is higher in those having the most advanced economic and political systems. Which leads to the placing of a higher confidence in the numbers obtained from the developed countries. This approach fits well the purpose of enlightening the black hole of Cuban foreign trade statistics, which whenever emitting some light waves of information has to be suspected of distorting self-interest in order to present the best color possible.

For the purpose at hand the recently issued publication Cuba: Handbook of Trade Statistics, (from now on the Handbook) published by the Directorate of Intelligence of the Central Intelligence Agency will be utilized. As the publication states, its purpose is to compile “statistics on Cuban trade...from the data of Havana’s trade partners. This Handbook provides a detailed substitute for the official statistics that the Cuban Government published yearly before 1990 in its Anuario Estadístico de Cuba”.⁴ Given that for practically all countries in the world there is no interest in mal or misreporting their international trade statistics, it would seem that this approach would allow us a glimpse of Cuban trade relations, on which to base an analysis that would indirectly indicate the status of this economy. Since the Handbook was discontinued at the turn of the millennium, more recent data has been taken from the International Monetary Fund’s Direction of Trade Statistics.

At the beginning of the paper the characteristics of Cuba’s international trade flows will be examined, followed by its commodity composition. Finally the total numbers for exports and imports will be addressed, and an analysis of the Cuban economy through its external sector will end the foray. Generally the period covered is that of 1989 to 2002.

It should be underlined that other sources of foreign trade statistics were considered to verify the accuracy of the Handbook, particularly the Direction of Trade Statistics, published quarterly and annually by the International Monetary Fund, being the most reputable. It was found however that, like similar sources from other world bodies (United Nations, GATT, etc.), that they lacked in their reflection of trade among Cuba and the Former Soviet Union and other CMEA (Council of Mutual Economic Assistance) countries of Central and Eastern Europe. Not only did the Handbook include this information, but it was more conservative in the numbers attributed to Cuban trade in goods, by this meaning that the numbers are higher than those reported in Direction of Trade Statistics. Finally, the country shares and the trade flows are quite similar on both sources.

Characteristics of Geographical Trade Flows

⁴ Refer to Central Intelligence Agency, Cuba: Handbook of Trade Statistics, various years, Virginia

In Table 1 you shall find the total exports of goods of Cuba to different countries of the world by major geographic areas. Only the most important nations are depicted, for the period 1989 to 1995. As can be seen Cuban exports imploded in between these two years. The latter values represent only 30 percent of the earlier. But if we consider that the US dollar (US\$) has lost 23 percent of its value to inflation⁵ during this span, in real terms 1995 exports represent only 24 percent of the 1989 figures.

Russia is no longer the principal country of destination six years after the drastic political and economic realignment of the world, which led to the breakdown of the Soviet Union into many independent states.⁶ The 1989 to 1991 Russian data are not available but between 1992⁷ and 1995 the export of Cuban goods to that country fell by close to 70 percent in nominal terms, with no other country taking up the slack.

The principal market for Cuban goods became Canada, which multiplied its imports in current terms by a multiple of six. However, the absolute gain is from a very small base (52 US \$ million in 1989) so that the absolute increase has been of only \$182 million US \$ in nominal terms, equivalent to \$148 million US \$ if discounted by price increases. The second largest taker of Cuban exports is the country of China. Yet, compared with 1989, the values show a slight decline in current terms (see Table 1).

A similar depiction can be obtained from Table 2, where the value of imports of goods are shown. The decline in total imports has been slightly less than with exports with the former falling to 35 percent of its 1989 nominal values, and 28 percent in real terms. But here it is possible to envisage that Russia has been supplanted by Spain and Mexico as the principal Cuban suppliers⁸. There has been a diversification of imports away from the old Soviet world, which appears to be more drastic when contrasted with the picture that emerged for exports. This applies even to China, another old communist country, which has become a less significant supplier as well (compare Table 2).

If we look at the trade statistics reported by other countries for Cuba on which the Handbook is based, they appear to show that economic activity in the Island, which is closely tied to exports and imports⁹, hit rock bottom in 1993-1994 (which are practically the same in real terms), and to have shown a discernible rise in 1995.

⁵ This information was supplied by the Bureau of Labor Statistics, Consumer Price Index section in Washington D.C.

⁶ This is the reason why Russia cannot be shown in the tables in 1989.

⁷ In 1992 Russia was by far the major importer of Cuban wares.

⁸ As recent as 1993 Russia was still the principal exporter to Cuba.

⁹ For evidence along these lines see Jorge Salazar-Carrillo, "Interdependence and Economic Performance in Cuba" in Irving Louis Horowitz, ed., Cuban Communism, Transaction Publisher, 1995

Table 1
Exports by Country of Destination, 1989-95 (in millions of US\$)

	1989	1990	1991	1992	1993	1994	1995
TOTAL	5392	4910	3550	2030	1275	1385	1600
Europe							
Finland	18	19	19	18	18	21	N.A.
France	61	52	61	44	39	44	57
Germany	21	23	19	21	14	25	36
Italy	45	52	48	51	33	50	53
Netherlands	26	22	40	26	25	24	42
Portugal	23	19	18	27	35	48	24
Russia	N.A.	N.A.	N.A.	632	436	301	196
Spain	91	80	91	85	65	78	96
United Kingdom	56	54	32	23	13	16	13
Near East/Asia							
China	229	306	202	183	74	121	214
Japan	133	95	142	115	51	63	89
Americas							
Brazil	32	102	28	16	10	57	N.A.
Canada	52	112	133	212	132	142	234
Mexico	21	53	13	7	4	12	6
Venezuela	26	9	18	20	3	5	2
Africa							
Algeria	81	70	53	54	49	31	N.A.
Libya	3	56	29	0	0	0	N.A.

n.a. = Not available

Source: Central Intelligence Agency, *Cuba: Handbook of Trade Statistics, 1996*, Virginia, 1996

Table 2

Imports by Country of Origin, 1989-95 (in millions of US\$)

	1989	1990	1991	1992	1993	1994	1995
Total	8124	6745	3690	2235	1990	2025	2825
Europe							
Belgium/ Luxembourg	35	45	40	22	52	33	N.A.
France	49	69	63	90	127	133	148
Germany	124	100	123	59	40	41	70
Italy	81	108	158	102	65	63	81
Netherlands	38	38	36	42	55	50	71
Russia	N.A.	N.A.	N.A.	N.A.	249	237	N.A.
Spain	216	303	285	199	191	289	395
United Kingdom	87	67	50	50	21	40	30
Near East/ Asia							
China	212	272	224	200	177	147	146
Japan	54	73	36	18	18	24	19
Americas							
Argentina	187	163	99	63	72	48	N.A.
Brazil	62	85	66	17	19	25	N.A.
Canada	132	133	114	100	107	84	200
Colombia	27	20	20	14	20	35	18
Mexico	108	103	106	117	188	269	353
Venezuela	15	464	49	79	120	90	38

n.a. = Not available

Source: Central Intelligence Agency, *ibid.*

The composition of Commerce in Goods

If attention is focused on the value of commodity exports as depicted in Table 3, it is clearly seen that sugar and its derivatives still account for well over one half of total Cuban exports, notwithstanding the crisis affecting this sector. This makes evident the weakness of the other export activities of Cuba. It is remarkable that after promising to repay Cuban loans to the European countries and Japan in the early to middle eighties on the strength of non-traditional exports, after about ten years these are still weak. So much investment in biotechnology to the detriment of other alternatives that could have brought relief to the basic necessities of the people, only to reap an average of 78 million US \$ a year in the exportation of these goods between 1991 and 1995. Yet, this is the only sector showing expansion. After many years of hearing about Canadian investments in nickel, it is found that it only accounted for \$220 million US \$ of exports in 1995 (down from 485 million US \$ in 1989). Finally, tobacco exports have remained stagnant in value terms, which implies reduction in volumes given the steep rise in cigar prices. In sum, the composition of Cuban exports is practically unchanged since 1989, with heavy concentration on sugar and a primary commodity bent, in contrast with developing economy trends.

In Table 4 the commodity composition of import values is shown. The principal item in this list is fuels, which represents 30 percent of the total value. The importation of this essential component of energy supply has shrunk to 32 percent of what it was in 1989. It is well known how much this reduction straightjackets the performance of the Cuban economy, but its substantial dependence on food imports from the outside world is not as well understood. This is highlighted by the statistics showing that this category is second in importance in the Table commented, representing over 20 percent of imports. Of the rest, machinery represents the most crucial, since it reflects future levels of production. It is shocking to realize that at 360 million US \$ in 1995, these essential import have slid dramatically, and now represent 19 percent of the level attained in 1989. (The same trends are shown by transport equipment, although this category partly represents consumption). In addition, they constitute a minuscule share of Cuban importation (less than 13 percent)¹⁰. As a proxy for overall investment in small open economies like Cuba, this bodes ill for future economic growth in the Island, which is devoid of a capital-goods-producing sector.

Tourism and Foreign Investment

A rather desolate panorama of Cuban economic activity emerges from the trade in goods reported by its trading partners. The bleakness is underlined if other traits of the external sector of the Cuban economy are brought to bear. To wit, there has been an expansion in the number of tourists that have visited the Island. Even though reliable statistics, as have been presented here, are not available, reports from Western observers in Cuba and travel agents abroad, attest to a significant rise in visitors during the 1990s.

¹⁰ In 1989 this ratio represented close to 24 percent of total imports.

Yet, this activity is necessarily accompanied by an increase in imports dedicated to feed, house, entertain and otherwise service this enclave sector. Once account is taken of the

Table 3
Commodity Exports, 1989-95 (in Millions of U.S.\$)

	1989	1990	1991	1992	1993	1994	1995
Total Exports	5392	4910	3550	2030	1275	1375	1600
Sugar, molasses, and honey	3959	3690	2670	1300	820	785	890
Fish	127	125	115	120	90	110	115
Fruit	139	150	100	50	50	80	35
Tobacco	85	95	100	95	75	80	90
Nickel	485	400	245	200	120	110	220
Medical Products	58	130	50	50	20	110	125
Other	473	320	270	235	100	110	125

Source: Central Intelligence Agency, *ibid.*

Table 4
Commodity Imports 1989-95 (in Millions of U.S.\$)

	1989	1990	1991	1992	1993	1994	1995
Total Imports	8124	6745	3690	2235	1990	2055	2825
Food	1011	840	720	450	490	430	605
Raw materials	307	240	140	40	35	25	90
Fuels	2598	1950	1240	835	750	750	835
Chemical products	530	390	270	170	150	180	285
Semi finished goods	838	700	425	195	180	220	390
Machinery	1922	1790	615	350	235	240	360
Transport equipment	609	590	170	125	80	110	100
Consumer goods	276	225	90	50	50	80	130
Other	33	20	20	20	20	20	25

Source: Central Intelligence Agency, ibid.

value of such imported goods, the fall of Cuban imports for internal consumption and production since 1989 would loom even larger.

Another claimed characteristic of the Cuban economy during the nineties is an increase in foreign direct investment. If this were believable, our depressing picture of a total collapse of the Cuban Economy would be even sorrier. Once again, no hard statistics are to be found on this matter, so no discounting of imports really directed to a foreign company enclave can be safely done¹¹. This is supported by the statistics presented here showing that very little of the Cuban imports have been under the category of machinery and transport equipment. If anything, all indications are that Soviet Bloc direct investments in the Island were much higher up to the very early nineties, and have now virtually vanished.

The latter point portends a worsening of the future performance of the Cuban economy, adding to the litany of negative factors exposed in the foreign trade numbers during the first half of the 1990s. Even though the Tables have covered both exports and imports of goods, the latter have been emphasized because they provide the best indirect measurement of production and internal consumption in Cuba. The availability of fuels and foodstuffs, jointly representing over half of total importation, in addition to essential intermediate products, provide the most reliable estimates of what is happening to the gross domestic product (GDP) of the Island.

Although exports did arrest their decline in 1994, and managed an almost 16 percent growth over the 1994 figures, they still cannot provide but on fourth of their foreign exchange earning power in 1989. With less room to continue financing trade deficits¹² of over a billion US \$ a year, like that experienced in 1995, it is difficult to envisage an upturn in imports in the near future.

Policy Implications

Imports and exports of Cuba in 1995 in real terms, stand at implosion levels when compared with those of 1989¹³. The Cuban level of GDP at constant prices bears a historical relationship particularly mimicking import trends. There is not much hope for a turnaround of the economy of Cuban given the evident low levels of investment, and the economy's bent on yesterday's traditional pattern of export specialization.

¹¹ Western sources in the Island and multinational companies abroad have not confirmed the claims of Cuba that significant amounts of foreign direct investments have trekked in.

¹² The straits faced by Cuba in attracting foreign indirect investment flows stem from its high foreign indebtedness and the fact that most of it is now on default. This is why it is restricted to very short term suppliers credit or cooperative arrangements by Cuban export buyers, at usury like interest rates.

¹³ In Fact, the importation of foreign financial services resulting from these operations are now countermanding the Island's export of tourist services. Adjusting for prices and population, the 1958 Cuban exports should have amounted to about 9 billion US \$ in 1989. (See Appendix)

The window-dressing reforms of the Cuban economy are evidently not helping. Unless some profound changes are implemented, Cuba cannot expect to turn-around its economic performance and make up for the slump that has afflicted its economy since 1989, cutting it by more than one-half¹⁴. The economy has to be increasingly privatized and economic freedoms and market processes instituted, before domestic and foreign economic agents feel secure to invest in the future. This, together with decisive trade liberalization, are the only roads that would lead to the Island's participation in the sub-contracting and partial assembly activities of the world global manufacturing factory, leading the country towards the increasing abandonment of its retrograde primary-product pattern of exports.

Recent Changes in Trade

On Tables 5 and 6 more recent data are included on Cuban exports and imports, this time using data reported by The Direction of Trade Statistics. The data shows a momentous shift from the Soviet Bloc to Western Nations. With a fifty percent increase in imports and a 35% expansion on exports for the latter countries. Such expansions mask a major contraction on total trade for Cuba, which has been shown in previous Tables. Thus, they only signify a reorientation of trade.

In fact, although total exports from the Island recovered from the very depressed levels of 1993, such recuperation started to reverse in 1997, and continued through 2002. A similar phenomenon occurred with imports, except that the decline was delayed by one year, starting in 1998.

The most salient facts that can be noted from examining the trade data of Cuba's most recent principal trading partners, are the expansion of exports to the Netherlands (basically nickel to be reexported to other nations), and to a lesser extent to Spain (during the cigar boom) and Russia (oil paid exports of sugar). Contractions which are relevant are those to China, Japan, Italy and France, in order of importance. The expansion in exports to Mexico might seem relevant, except when compared with 1989. Imports presents a quite different setting, with expansions for China, Italy, France and Japan, almost the opposite of the above. This portrays a widening trade gap, which explains why France and Italy are major commercial creditors of Cuba. Another salient change is the well known shift to Venezuela as an oil supplier, perhaps with some triangulation with Russia, and with participation from Colombia. Spain continues to expand its overall dominance, while principally Mexico, and to a lesser degree Canada, and much less the Netherlands, continue to contract.

¹⁴ See Jorge Salazar-Carrillo, "The Present Condition and the Rebuilding of the Cuban Economy: in Antonio Jorge and Jorge Salazar-Carrillo, eds., The Economics of the Caribbean: Present and Future Trends, Stockholm University, 1997.

	1989	1995	2001	2002
Finland	18	N.A.	N.A.	N.A.
France	61	57	38	43
Germany	21	36	31	29
Italy	45	53	14	15
Netherlands	26	42	279	305
Portugal	23	24	18	19
Russia	N.A.	196	435	288
Spain	91	96	119	152
United Kingdom	56	13	17	12
China	229	215	114	116
Japan	133	89	37	28
Brazil	32	N.A.	11	14
Canada	52	234	234	207
Mexico	21	6	28	24
Venezuela	26	2	N.A.	5
Algeria	81	N.A.	1	11
Libya	3	N.A.	N.A.	N.A.
Totals	918	1063	1376	1268

Table 5

Exports by Country of Destination for Principal Trading Partners

N.A.= Not Available

Source: International Monetary Fund, Direction of Trade Statistics Yearbook, 2003, Washington D.C.

Table 6
Imports by Country of Origin for Principal Trading Partners

	1989	1995	2001	2002
Belgium/Luxembourg	35	N.A.	N.A.	N.A.
France	49	148	221	198
Germany	124	70	91	73
Italy	81	81	250	237
Netherlands	38	71	66	58
Russia	N.A.	N.A.	64	34
Spain	216	395	559	447
United Kingdom	87	30	19	17
China	212	146	332	310
Japan	54	19	27	26
Argentina	187	N.A.	49	22
Brazil	62	N.A.	112	74
Canada	132	200	231	160
Colombia	27	18	24	62
Mexico	108	353	175	130
Venezuela	15	38	N.A.	305
Total	1427	1569	2220	2153

N.A.= Not Available

Source: International Monetary Fund, *Direction of Trade Statistics Yearbook*, 2003, Washington D.C.

The Future of Cuban Trade AFTER Communism

Services

Air Transportation:

An additional 5 to 7 million tourists may be expected to travel to Cuba. Most of them from the US, many of them Cuban Americans, some of which may go to visit relatives and friends. This would benefit Cubana de Aviacion that transported 28% of all international visitors to Cuba in 1998.

Maritime:

The Cuban Democracy Act (CDA) of 1992 has increased shipping costs to Cuba by 23%, and deters many vessels of foreign shipping lines from docking in Cuban ports. With resumption of US - Cuba trade, several of Cuba's ports would probably focus their operations on the export of goods from Cuba to the East coast of the US

Banking and Insurance Services:

In the absence of US sanctions, US banks and insurers would most likely concentrate on offering services to other foreign investors in Cuba, competing with banks and insurance firms from Europe and Canada. Cuba has no specific policies that prohibit foreign firms, as opposed to domestic Cuban firms, from participating in the Cuban market. However, because no privately owned banks or insurance firms are permitted in the domestic market, foreign firms are effectively excluded from most of the country, although they are able to form joint ventures with Cuban firms.

In the absence of sanctions, similar banking and insurance company joint venture opportunities may be available to US firms, although such opportunities may be limited given the small size of the Cuban economy, and the established presence of foreign competitors

The Cuban economy as a whole would also be expected to benefit from the addition of foreign competition, particularly in the insurance sector, leading to lower insurance costs throughout the country.

Construction Services:

The small size and capacity of the Cuban construction services industry make it unlikely that the US construction services industry would face competition from Cuba. Maybe some US construction firms would seek to enter into joint ventures with the new Cuban government.

Telecommunication Services:

US calls to Cuba are likely to increase to 160 million minutes, an increase of 40 million minutes annually. Cuban calls to the US are likely to increase to 3.4 million minutes, an increase of 1.3 million minutes annually.

Based on the current settlement payment of 60 cents a minute for calls originating in the US, these increases would result in additional revenues for Cuba ranging between \$15-\$30 million annually.

Travel and Tourism Services:

Despite US sanctions, Cuba has outperformed the majority of other Caribbean destinations in terms of rate of growth in visitor arrivals in recent years, because of a low starting point.

Cuba could experience a surge in visitors, increasing the total number of tourists within a decade to 5 million to 7 million annually. Some US sources estimate that Cuba's need for additional hotel rooms could increase by more than 90% within 4 years, and by more than another 100% in an additional 4 years.

Agriculture

Meat and Dairy:

The historical impact of US sanctions on Cuba's meat and dairy has been small in terms of Cuban production, costs, and employment, because after sanctions were imposed, Cuba found alternate suppliers, including Canada (beef and pork), the European Union (E.U.) (chicken and dairy), and Brazil (chicken). However, they resulted in a small increase in Cuba's import costs. The US will supply these products after the transition.

Wheat:

Prior to sanctions, Cuba imported about 200,000 metric tons of wheat annually from the US. From the 60's to the late 80's, the Soviet Bloc countries supplied wheat and wheat flour to Cuba, much of which was heavily subsidized or provided in countertrade for Cuban sugar at favorable prices. During the 80's Cuba imported as much as 1 million metric tons annually of wheat and wheat flour. Until the end of the Soviet bloc the impact of sanctions were small.

Cuba is likely to import wheat from the US. Cuban annual wheat imports were about 780,000 metric tons in recent years, and imports from the US could amount to roughly 400,000 metric tons, valued at \$34 million to \$52 million annually.

Rice:

Prior to the 60's Cuba imported around 200,000 metric tons of rice annually, mostly from the US. Cuban rice imports from the US would total between \$40 million and \$59 million, representing 60% of all Cuban rice imports. Cuban imports of US rice stand to increase in the long run. Local production should increase concomitantly, to replace the other imports.

Feedgrain:

Cuba probably would import feedgrain, particularly corn, from the US, rather than from some more distant suppliers. The US could supply more than 90% of Cuban feedgrain imports, estimated to total \$9 million to \$10 million annually. The availability of feedgrain is likely to encourage expansion of poultry and hogs in the Island, so that total Cuban consumption of feedgrain would rise even further over time.

Animal Feed:

The quantity of Cuban feed grains, vegetable meals, supplements, and premixes that could be combined in Cuban feed mills would most likely improve through greater US exports of these products. Cuba could annually import between \$39 million and \$44 million of animal feed in the absence of sanctions.

Fats and Oils:

In the short run, total Cuban fats and oils imports would remain unchanged, although the US would probably supply the majority (80 to 90 percent) of these imports. In the long run, lower-priced US fats and oils would likely increase total consumption.

Dry Beans:

Cuba is estimated to import between 20 and 40% of its total dry bean imports from the US in the near term, representing about \$13 million to \$26 million annually. Cuban imports of dry beans would be likely to increase in the long run. The Cuban dry bean industry is likely to be only minimally affected by the increased imports, because increased consumption would probably mitigate any impact.

Winter Vegetables:

Cuba was a significant overall supplier of winter vegetables, particularly tomatoes and cucumbers, to the US market prior to the sanctions. Cuban production would remain low, and exports of fresh winter vegetables to the US market probably would take several years to develop.

Tropical Fruit:

The US was a major consumer of tropical fruits exported from Cuba. With the loss of the US market, Cuban exports were redirected mainly to the Soviet Union and Europe.

Citrus Fruits:

US imports of citrus from Cuba would total \$9 million to \$23 million annually, based on 1996-98 trade data, or 20 to 50 percent of Cuba's exports. However, it is likely that several years would be needed before fresh Cuban citrus would be cleared by USDA as meeting US phytosanitary requirements. US investment in the Cuban citrus industry will result in the introduction of improved technology, management expertise, research, and availability of basic inputs. This investment would more likely be by large US juice processors than by smaller companies or growers, particularly large Brazilian juice processors with operations in Florida.

Sugar:

Cuba was the world's largest exporter of sugar, accounting for 33% of total world sugar exports in 1959. Sugar exports contributed to 25% of Cuba's national income and more than 80% of its total export revenue.

The effects of the Cuban sugar industry would depend on the type of trading arrangement agreed upon between the two countries: whether Cuba would be granted quota access to the US sugar market, and upon the quantity of access granted.

Distilled Spirits:

The large and lucrative US market for distilled spirits would be open to exports from Cuba. Cuban rum exports to the US could be between \$15 million and \$25 million, but over the longer term, exports could significantly exceed this amount.

Cigars:

Cuban cigars would benefit significantly from access to the US market. The likely impact would be an increase in investment in Cuban production of both premium hand-rolled cigars and machine-made, lower-cost cigars that could compete in the huge US market. However, Cuba must address serious production constraints, notably low yields of cigar tobacco, before output could be substantially increased.

Seafood:

Access to the US market would raise revenues to the Cuban industry by raising prices, not by enabling an increase in the volume sold, although trade may be diverted from output currently marketed in Japan and Europe. US imports from Cuba could amount to \$5 million to \$11 million annually, representing 5% to 10% of Cuba's seafood exports, but only 0.3 to 0.5 percent of total US seafood imports.

Intermediate and Manufactured Goods

Fertilizer and pesticide products:

As a net importing country of both fertilizers and pesticides, access to the US market in the absence of sanctions would provide some benefits, in particular the ability to import some products at lower cost than from other parts of the world.

Pharmaceutical Products:

Cuba could benefit if US and Cuba biotechnology companies develop joint ventures. This could eventually increase Cuban pharmaceutical and biotechnological exports to many third-party countries. Some US pharmaceutical firms might establish low-cost manufacturing operations in Cuba, similar to operations established in other Caribbean and South American countries. If production operations were established, US-Cuban trade in pharmaceuticals would increase, consisting largely of the intracompany shipments of intermediates and active ingredients. If manufacturing facilities for generic products were established, the products would probably be shipped to other countries in the Caribbean.

Textiles and Apparel Industries:

Cuban exports of textiles and apparel to the US could be \$500,000 to \$1 million annually, representing about 10 to 15 percent of Cuba's total exports to the world. Meanwhile, Cuba could import \$6 million to \$9 million of textile and apparel products from the US annually, representing 10 to 15 percent of total Cuban textile and apparel imports.

Steel:

The commission estimates that Cuban steel exports to the United States could reach \$11 million annually in the absence of sanctions, based on average 1996-98 trade data, representing as much as 25 percent of total Cuban steel exports. Imports of steel from the US are expected to be less than \$1 million per year.

Nickel and Cobalt:

According to industry sources, suppliers of Cuban-sourced nickel and cobalt would be able to sell their products in the large, stable US market in the absence of sanctions, avoiding the need to absorb price discounts for their products in certain markets. Such a development would also encourage financing of mining projects in Cuba, thus serving to eliminate the current cost premium associated with Cuban mining projects and potentially increase Cuba's production, sales and employment in this sector. Future investment in Cuba is likely to be accelerated because of the prospective lowering of operating and capital costs for Cuban mining projects that would result from access to the US market.

Machinery and Transportation Equipment:

Machinery: Cuban imports of machinery from the US would total \$120 million to \$154 million annually, representing 35 to 45 percent of total Cuban machinery imports.

Transportation Equipment: Cuban imports of transportation equipment from the US would total \$43 million to \$55 million annually, or 35 to 45 percent of total Cuban imports of these products.

Power Generation Machinery and Equipment:

Major obstacles to trade and investment would remain in the Cuban energy sector. Among these principally the need for further development of Cuba's hydrocarbon resources, and the need for establishing a regulatory framework conducive to attracting electric power generators and suppliers.

Electronics Goods:

Electronics goods exports from Cuba are minimal and are not technologically competitive with US manufactured equipment or with most US imports. US exports to Cuba are expected to be substantial.

Medical Goods:

An increase in imports from the US would probably displace European and Asian suppliers rather than Cuban producers, since foreign suppliers account for nearly 90 percent of Cuban consumption.

Cement:

Cuban cement exports to the United States would total between \$19 million and \$24 million annually, representing 75 to 95 percent of total Cuban cement exports, assuming column 1-general rates of duty. If column -2 rates apply, Cuba is still likely to export to the US market, but at slightly reduced levels. It is anticipated that opening the US market to Cuban cement would also generate opportunities for US investment in Cuba that would improve cement production efficiency. For example, the Puerto Rican cement company that operated a plant in Cuba during the 1950's, has reportedly stated that it intends to return to the Cuban market.

Plastics:

The Cuban plastics industry does not compete in world markets. Nearly all plastics production in Cuba is consumed internally.

Tires:

The US industry might expect to gain 65 to 75 percent of total imports, representing \$21 million to \$25 million.

Sporting Goods:

Cuban sporting goods have had difficulty competing in global markets with US and European brands.

Appendix

A Reconstruction of Cuban Trade Patterns

Based on Historical Records

Although the Handbook used to explore Cuban trade patterns is only concerned about recent trade, a publication of the International Monetary Fund has covered inter-country commerce for many years. The publication is the Direction of Trade and it is published in Washington, D.C.. First it was a supplement to that organization's International Financial Statistics, published originally as an annual covering several years. Later it became a stand-alone Yearbook. Lately, it also comes out as a quarterly periodical. As in the Central Intelligence Agency's publication, the statistics reflect the value of trade in nominal (not adjust for inflation) US \$. However, this source is not as complete, detailed and reliable as the Handbook for the 1990s, while being largely consistent with it, particularly if trade with the former Soviet Bloc is excluded.

In Appendix Table 1 the exports of Cuba, by country of destination are shown for the years 1958 to 1962. The most remarkable figures in the table have to do with total exports, which drop from 732 million US \$ in 1958 to 402 million in 1962. This represents a drop of 45 percent in four years, which was less steep than the drop of 76 percentage points between 1989 and 1993. The earlier drop was all accounted by the breaking of diplomatic relations with the United States, which brought about a drop of exports from Cuba of 484 million US \$. The more recent decline has to be due to the change in economic system in the USSR.

In the main text it has been established that foreign trade statistics can be considered the most reliable instrumental variable for total GDP under the circumstances of statistics in Cuba during the 1989 –1993 time period. The same could be applied to the 1958 – 1962 span, in which the statistical system of Cuba fell in total disarray. Thus, it can be concluded that the major trauma afflicting the Cuban economy during these crucial transition periods has probably constituted a substantial part of the process of immiserization suffered by the economy of the Island since the late fifties. It is interesting to note that the estimated shrinkage in the GDP of the country that would parallel the export drops were more serious in the 1990s. The explanation will be amplified below, as it is noted that the USSR picked up an important share (almost fifty percent) of the export

loss to the United States of America. Unfortunately for the Cuban economy, no nation could play the same role in the early nineties.

If the direction of exports depicted in Appendix Table 1 are considered from a geographical standpoint, it seems clear that the US market was the bread and butter of Cuban exports in 1958 – 1960. After that it practically disappeared. The other major markets, Japan and the United Kingdom, represented about ten percent of the U.S. market. As mentioned before, the USSR geared up its agreement with the Island by 1960, taking then more than seven times the exports it had absorbed from Cuba in 1958. And more than doubled it again by 1993. It should be noted that Canada and Spain, and much less Mexico and China, did not represent significant markets for Cuban exports, and that they were contracting during this time frame.

On Appendix Table 2 data are presented corresponding to Cuban imports from the rest of the world from 1958 to 1962. The contraction in imports is of 36¹⁵ percent between these years, smaller than the one it exports, but still a damaging blow to any open economy, which Cuba clearly was then¹⁶. The rate of decline of U.S. imports to the nation was more or less in line with what happened on the export side. But with respect to the USSR, the build up of imports was even faster than what happened on the other side of the ledger. The former Soviet Union had small imports into the Cuban economy in 1958 and 1959, and by 1961 was supplying more imports to the Island, than the latter imported from the USA in 1960, when political ties had not been broken still. By 1962 it was shipping 371 million US \$ in goods to Cuba.

The principal sources of goods to the economy of Cuba before the advent of Castro Communism, of course after the United States by far, were Venezuela, the United Kingdom and Western Germany. It is interesting to note that the former country, a Latin American one, was the second largest trading partner of Cuba, representing 12 percent of total US supplies to Cuba in that year, basically in terms of oil imports. These countries rapidly vanished towards zero by the end of 1962 (with Eastern Germany substituting its inferior exports for those previously supplied by Bonn). It is also noteworthy that Poland had become a significant trader with Cuba, actually its second largest source of imports by 1962. Again the major exporters to Cuba these days Spain, China and Italy were not significant ones in the early sixties, and suffered severe contractions in their Cuban imports during this period (particularly noticeable with Spanish imports). Which suggests that these countries have built a trade relationship with Cuba on the basis of opportunism, and not in terms of being natural trading partners with the Island (which in contract Venezuela could easily be).

¹⁵ The drop in imports between 1989 and 1993 was of 75 percent, almost the same as in exports. Therefore, Cuba was able to soften more its decline in imports during the earlier period.

¹⁶ It should be noted that the Cuban economy was as open in 1989 as it was thirty one years earlier. This is not only evident from comparing the estimates at both ends of the time span, but also realizing that Cuba became a provider of the same goods to the Soviet Union (and later the CMEA) that it used to supply to the United States, and imported practically the same goods from one and the other. The Island never embarked, unlike its Latin American sister nations, in a process of import-substituting industrialization.

Unfortunately the IMF statistical sources, which internationally are considered the most reliable, do not provide a breakdown of foreign trade by type of good. The next alternative source providing these data are the United Nations various Yearbook of International Trade Statistics published during the year 1958 to 1962. The problem with the latter source mainly stem from the acceptance of statistical data supplied by the member countries, without adjusting and checking them to assure consistency with the flows reported by their trade partners. It is here that the Direction of Trade Statistics stand out.

Nevertheless, in Appendix Table 3 and 4 an attempt is made to provide order of magnitude of the patterns of commodity exports and imports in the Island. The relative shares in question are less affected by the distortions in the absolute numbers that the Yearbooks probably bear. Turning first to exports, it is evident that Appendix Table 3 depicts a country that is a textbook case of a monoculture. If anything, the traditional dependence on sugar and its byproducts for Cuba's foreign exchange earnings was exaggerated somewhat by 1962, with almost 83 percent of exports attributable to these items. In contrast with other developing countries of the world, by 1989 the nation's export earnings were still so heavily concentrated on sugar products (73.4 percent) that the economy of Cuba had to be considered one of the most dependent on a single product export. So much can be said of an economy by examining its structure of commerce, that it is clear that the diversification, industrialization and branching into services characteristic of economic growth had not occurred in the Cuban economy just before the demise of the Soviet Communist Bloc.

Turning now to imports, shown on Appendix Table 4, it can be seen that the importation of machinery was about as important in 1989 as in 1958, with the former year's import share being somewhat higher (23.7 percent). The same was the case for transport equipment which in 1989 represented 7.5% of total imports. In contrast to the transition from a market oriented to a command economy between 1958 and 1962, in which the investment of imports did not suffer, the most recent reversal from the communist system to free world trade has seen a plunge in the participation of capital goods imports to levels about half those of 1989 in machinery (12.7 percent in 1995) and less than that for transports (3.5 percent in 1995). It should be noted, to wit, that the previous years of the 1990s were even lower. Thus it is evident that the disruption suffered by the economy in question in its recent transition has been more damaging than the one in the early sixties, and that several years of low investment will compromise its ability to grow for the next seven or eight year. Unless, of course, there are substantial amounts of aid and subsidized lending that would come forth.

Appendix Table 1
Exports by Country of Destination, 1958-62
(in millions of US\$)

	1958	1959	1960	1961	1962
Total	732	638	630	486	402
US & Canada	507	455	364	40	9
United States	491	445	357	35	7
United Kingdom	37	9	20	15	20
France	8	9	13	1	2
Germany (Bonn)	7	14	9	2	6
Italy	1	1	1	1	1
Netherlands	16	17	12	4	4
Spain	18	6	10	9	9
USSR	14	13	104	312	234
Germany			4	12	
Poland			10	24	19
Brazil	1	4	3		
Colombia	3	2	1		
Mexico	1	1	1	1	
Venezuela	3	9	1	1	
Neth Antilles	7	6	1	1	1
Trinidad	1	1			
Near East Asia					
Syria	3	2	5	5	4
Africa	13	14	22	7	23
Morocco	12	13	19	7	22
Japan	47	28	18	24	36
China	4	1			

Appendix Table 2
Imports by Country of Destination, 1958-62
(in millions of US\$)

	1958	1959	1960	1961	1962
Total	777	692	470	514	496
US & Canada	561	453	357	46	24
United States	491	445	236	35	7
United Kingdom	22	43	21	13	7
France	77	14	11	6	2
Germany (Bonn)	24	30	14	12	6
Italy	11	8	5	4	1
Netherlands	7	8	8	11	8
Spain	13	8	10	4	1
USSR			71	338	391
Germany			3	28	
Poland			4	23	20
Brazil	2	1	1	1	1
Colombia	1	2	1		
Mexico	6	2	1	3	1
Venezuela	66	56	28	1	3
Neth Antilles	3	9	5	4	4
Trinidad	1				
Near East Asia					
Syria					
Africa	1	2	1	3	5
Morocco	1	2		3	5
Japan	4	10	6	12	11
China					

Appendix Table 3
Commodity Exports, 1958 and 1962 in percentages

	1958	1962
Sugar/molasses and honey	80.1	82.9
Fruits and vegetables	0.0	1.2
Tobacco	6.7	4.8
Nickel and other metals	3.8	7.3
Textiles and apparel	1.2	0.8
Other	7.9	0.3

Source: United Nation, Yearbook of International Trade Statistics, several years, New York.

+ Percentages may not add to 100.00 because of rounding

Appendix Table 4
Commodity Imports, 1958 and 1962 percentages

	1958	1962
Food	14.4	23.3
Raw materials	9.6	5.7
Fuels	12.9	11.6
Chemical products	4.8	9.5
Semi-finished goods	10.5	21.9
Machinery	19.2	16.7
Transport Equipment	6.9	9.5
Commercial other goods	21.7	2.0

Source: United Nations, *ibid.*

+ Percentage may not add to 100.00 because of rounding

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