

CUBAN TRADE AFTER THE COLLAPSE OF THE SOVIET UNION:
AN ANALYSIS OF COMMERCIAL AND ECONOMIC TRENDS

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Introduction

The Cuban economy has adapted over centuries to endure colonialism, revolution, economic depression and foreign aggression, defying the odds at times with a characteristic resilience that continues to embody the state today. From the early days of Spanish colonialism to the implementation of the U.S. embargo under the Eisenhower administration nearly three centuries later, Cuba was essentially a sugar plantation whose production was beholden to the interests of a powerful sponsor state (which included Spain, the U.S., and the Soviet Union, chronologically). However, the collapse of the Soviet Union in 1991 and later the COMECON, an alliance of communist states based on economic cooperation, compelled Cuba to fundamentally transform its economy. In order to survive the twofold challenge posed by the loss of its benefactor state and the hostile policies (intended to destabilize the Castro regime) directed by the world's greatest power, the structural and strategic transformation of Cuba's economy included the diversification of its exports, which reduced the state's monocultural reliance on sugar, and the liberalization of trade, which sought new commercial partnerships with favorable terms. Over the course of the following decades, Cuba's economy would shift its emphasis towards the tourism, mineral and petroleum extraction, and service export sectors; significantly reshaping the nature of commerce (i.e., the legalization of foreign investment) and, consequently, Cuba's primary commercial allies, among whom Venezuela would emerge as the most significant by the year 2000. These commercial modifications, which included the nascent patronage of Venezuela, rapprochement with China, and the diversification of trade, were motivated by a fundamental need to access essential resources (i.e., oil from Venezuela) and to gain political legitimacy through powerful allies such as China in an increasingly multipolar world. However, to avoid oversimplifying this complex and strategic development, it must be

noted that Cuba also sought a multiplicity of other partnerships (with varying degrees of success) to satisfy other economic and diplomatic goals.

This essay will examine how the nature of Cuban commerce (commerce is defined loosely to accommodate the unique characteristics of Cuba's economy, such as the export of medical professionals and joint ownership of domestic assets with foreign investors) was transformed to fill the diplomatic and economic void left by the collapse of the Soviet Union and the communist bloc. To provide historical context, an overview of Cuba's relationship with and dependence on the Soviet Union will demonstrate the significance of the latter's collapse as a watershed moment in the history of the (former) state and the implications this had for the future of the Cuban economy in a post-Cold War world led by an unfriendly United States. The structure of Cuba's economy and the unconventional forms of commerce that evolved to utilize state resources will be discussed in detail, and an analysis of trade partners and major commodities exchanged will be included as well, with brief summaries addressing the contributions of several major partners. The essay will also consider the underlying factors that drove this evolution and structural transformation; for example, international forces that shaped Cuban relations and commercial partnerships such as the American embargo and the terms of exchange offered by different states for imports and exports (i.e., credits vs. hard currency), as well as Cuba's payment records, each influenced this dynamic. Finally, the Venezuela-Cuba alliance that has played such a significant role in recent history and the growing Sino-Cuban alliance will be analyzed before briefly discussing prospects for the future of Cuban commerce based on apparently shifting relationships and possibilities for the state.

Prior to the collapse of the Soviet Union and the COMECON in 1991, Cuba appeared to be thriving, asserting itself militarily in Africa and Latin America and prospering through an economy based on the export of sugar under the auspices of the COMECON, which insulated the state from the worst effects of Eisenhower's embargo. Although Cuba's dependence on the Soviet Union has been sufficiently demonstrated by the catastrophic consequences that followed the latter's failure, an analysis of the commercial policies that preceded this collapse reveals the extent of this reckless reliance and its unsustainable foundations: Ritter (2003) notes that the "period of worsening economic difficulties that preceded the Soviet collapse from 1985-1990 and the hidden subsidization of trade with the USSR through pricing of merchandise imports and exports [left] Cuba even more vulnerable in its eventual absence" (p. 4), which would expose the artificiality of Cuba's economy and subject it to the full force of the embargo. Cuba purchased petroleum from the U.S.S.R. at below-market prices and exported it to other countries at market prices; it also imported sugar at market prices that would be (re)exported to the Soviets for an additional profit, capturing money as the middle-man in each transaction: "Quantitative estimates place [these transactions] at 23-36% of national income in the 1980-1987 period" (Ritter, 2003, p. 4). Even so, Cuba incurred debts to the Soviets between trade deficits and credits that valued ~\$23.5B USD by 1990, and their ratio of debts to goods and services (exports) was almost double that of the rest of Latin America combined. Claes and Weeks' (2001) research, based on figures recorded by the Banco Nacional de Cuba (Cuban National Bank), suggests that, while Soviet-era Cuba maintained trade deficits with little tangible effect on the state and its people, the persistence of this trend through 1998 exacerbated Cuban debts now owed to loaners (e.g., Mexico) who were less willing to offer loans that were frequently defaulted; unlike Cuba's Cold

War patron, its new partners had no ulterior interest in the state to justify a subsidized relationship.

Cuba's narrow economic structure was another source of vulnerability that, when combined with its trade deficit and mounting debts during the Cold War, would provide a recipe for disaster once it had "lost not only its guaranteed market [for sugar] but also between 3 and 4 billion dollars a year in Soviet economic aid" (LeoGrande, 2003, pp. 544-545). While Soviet influence had benefitted Cuba's development for decades, it also left the country dangerously reliant on the former's economy and its commitment to purchase Cuban goods at preferential prices. The export structure of Cuba depended on few commodities at this time, mainly sugar, tobacco, nickel, and other agricultural goods, and its debt drove Havana to declare a moratorium on interest payments in 1986, which would reduce their options for potential credits from new parties after the Soviet collapse. According to Ritter (2010), more than 76% of "Cuban Export by Product Shares in 1990" was accounted for by Sugar, while the next greatest export, Nickel, represented less than 7% of exports, and the World Trade Organization reports 28.2% of Cuba's national GDP resulting from trade with allied countries for the same year. In other words, Cuba's economy was heavily reliant on the exchange of a limited number of commodities to allied countries, a dynamic that, lacking in diversity, could not function after the simultaneous loss of Cuba's patron state and the (continued) implementation of sanctions by the U.S. This unsustainable dependence on a few commercial allies (the COMECON) exchanging a few primary goods may have been flawed enough to substantially disrupt the Cuban economy after the collapse of the communist bloc even without the conditions that had necessitated this dynamic; however, the U.S. embargo imposed by the Eisenhower administration three decades earlier (and the source of this dynamic) would have an even greater effect on Cuba without the

COMECON's commitments to Cuban sugar (at inflated rates), making it difficult for Cuba to sell its goods even at market prices.

American Hostility

U.S. belligerence towards Cuba has been a decisive factor in the modern development of the state's economy and diplomacy. The embargo, implemented in 1960 in response to the nationalization of American assets in Cuba by Fidel Castro's fledgling government (after relations between Washington and Havana had long since declined), was and remains an economic, commercial, and financial embargo on exports to Cuba except for food and medicine. The U.S. has used its global influence to deny Cuba access to foreign markets and international institutions through the imposition of sanctions against companies and states that defy its policy, which effectively stifled Cuba's search for new commercial allies after the collapse of the U.S.S.R. The embargo not only restricts Cuban access to foreign markets but also prohibits the state from trading under the U.S. dollar, the default currency of international commerce, which requires the state to make many transactions on the international market through third parties. American influence has also been the impetus behind the denial of loans and credits sought by the Cuban government from U.S.-dominated international institutions such as the IMF: "While Cuba is a founding member of the World Trade Organization [originally GATT], it remains excluded from the IMF, the World Bank, and the Inter-American Development Bank" (Sullivan, 2014). Therefore, it is not unreasonable to attribute Cuba's tendency to form dependencies on their commercial partners (i.e., the Soviets, now Venezuela) in part to the policies espoused by the United States, whose goal from the start has overtly been to destabilize the regime by imposing economic hardship on its people. Even as Cuba suffered from the collapse of the U.S.S.R., the U.S. did not relent in its hostile treatment of the state.

The embargo was strengthened in 1992 and 1996 by the Torricelli and Helms-Burton Acts, respectively, which expanded the list of prohibitions between the two states to further restrict commerce between foreign-based subsidiaries of U.S. companies and U.S. citizens (travel and remittance restrictions) and Cuba. Sullivan (2014) notes that the Helms-Burton Act still legally prohibits entry into U.S. ports of any sea-borne vessel to load or unload freight if it has been involved in trade with Cuba within 180 days, a major deterrent for foreign states, who risk alienating themselves from the world's most affluent economy by engaging in commerce with Cuba. Located less than 100 miles from Havana, the U.S. has asserted itself as the more profitable commercial ally with which to maintain ties and consequently deprived Cuba access to shipments from and exports to foreign companies that intend to dock at U.S. ports.

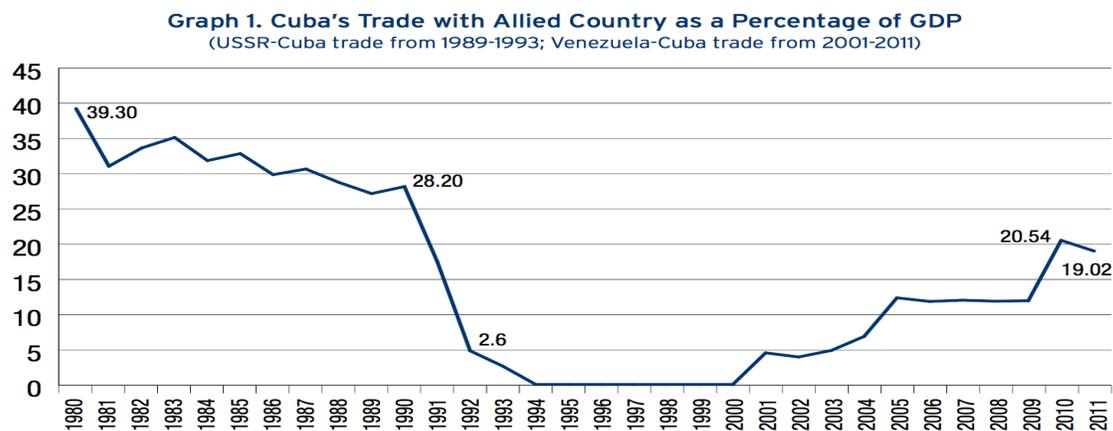
This dynamic has several effects on Cuban commerce beyond the mere restriction of consumer goods. While the value of Cuba's primary currency (though there are two, the CUC will not be mentioned) is significantly lower than that of the dollar (~24 CUP=\$1), the price of inferior, domestic products such as electronics, which are produced under these constricting conditions, is actually elevated, and the same can be said for food and most other goods that are relatively inexpensive in the United States. For those Cubans who do not receive remittances from family abroad, this reality can make obtaining basic necessities an ordeal. Another important consideration is the restriction of access to parts and pieces of machinery that is essential to important sectors of the economy such as construction and healthcare. A valuable piece of equipment such as an MRI machine, for example, could remain unused until arrangements have been made to replace a minor part, and this example mirrors the disadvantages that the Cuban economy and its professionals face on a larger scale. These disadvantages, when considered at a state level, have severely limited and isolated Cuba's efforts

to grow its economy and connect with the international community. However, the embargo has lost international support over time and is now almost unanimously condemned in the UN each year. It may be argued that Canada and the World Trade Organization, to name only two parties, have expanded aid to Cuba out of sympathy and to rebuff the U.S. for its prolonged commitment to a policy many consider harsh and senseless. Increases in tourism, Canadian investment in mining (nickel), and cigar and fish exports from Cuba demonstrate a growing willingness by the global community to ignore the embargo, which has been criticized in UN resolutions annually since 1991.

Collapse and Consequences

The immediate effects of Soviet collapse were devastating throughout Cuba; during the “special period in times of peace” (1990-1993), the Cuban economy experienced a decline in GDP of roughly 40% and the government responded by “contracting” the economy. According to Ritter (2003), Cuba implemented a policy of extreme import protectionism, and imports declined from 13M metric tons in 1989 to 5.8M in 1992. Additionally, ~93% of petroleum was supplied in 1990, and this supply as well as that of fertilizer, energy, and replacement parts dwindled, slowing industrial and agricultural production. By 2000, the volume of Cuban exports would reach only 68.6% of 1989 levels with a complementary decrease in purchasing power to 34.2% of the 1989 value. Sugar production plummeted due to insufficient investment and inadequate facilities, and the harvests of 2001 (3.5M tons) and 2002 (3.2M tons) were historically low (Ritter, 2003). Living standards fell, unemployment increased, and a general scarcity of consumer products and food became the norm. Nickel exports, however, would increase 27% by 1999, and cigars would represent 11.8% of exports as the Cuban economy attempted to diversify itself (Ritter, 2003). To put this depression into context, prior to this crisis,

trade accounted for roughly 1/3 of Cuban national output; and trade with the Soviet Union alone, according to the World Trade Organization, accounted for greater than 28% of Cuba's GDP in 1990 versus 0% by 1994 (see graph below). Like the Soviet Union, Cuba had overextended itself, dedicating too many resources to numerous goals, which included an activist foreign policy (supporting socialist revolutions in Africa and Latin America); the transition during the special period served as an abrupt wake up call for the Cuban government that would set the tone for a new era based on different economic models.



Trade in goods and services with allied country in constant 1997 prices is divided by GDP in constant 1997 prices.

Source: Based on the methodology of Vidal Alejandro, *Proyecciones Macroeconómicas de una Cuba Sin Venezuela* with updated 2011 data.

http://stat.wto.org/TariffProfiles?CU_e.htm

Escaping this financial slump, however, would not be an easy task; while the worst of these effects were felt immediately and followed by a gradual rebound, quality of life for the common Cuban has not recovered to the levels enjoyed under Soviet patronage. Havana needed a new strategy: the loss of the U.S.S.R. as a source of consumer goods and the primary destination for sugar exports (upon which the Cuban economy was dangerously dependent) created a vacuum that required the government to seek new markets and diversify its economy.

A New Strategy

Trade Liberalization

Trade liberalization became a major focus for the Cuban economy, which would be gradually restructured as Cuba found it necessary to reopen to foreign markets to access valuable resources and fight unemployment. Cuba had depended on the COMECON organization since its admission in 1972 because it ensured a consistent market for Cuban sugar and nickel at inflated prices in exchange for Cuba's strategic location as a base for Soviet initiatives in the Western hemisphere (Miami.edu). In the wake of this dynamic, Cuba sought and emphasized new markets in Western Europe, Latin America, and China, as the table below (published by the University of Miami's "Cuban Transition Project") indicates. Due to the dispersion of information among sources concerning imports and exports for Cuban trade, they will be discussed separately before profiles for major countries can be extracted from the aggregate of information they present.

CUBA'S TOP TRADING PARTNERS

CUBA'S TOP TRADING PARTNERS* (in US\$ millions)							
Country 2001 ranking	1995	1996	1997	1998	1999	2000	2001
Venezuela	237	333	433	386	451	898	956
Spain	353	458	497	608	722	744	717
China	171	155	248	336	432	444	526
Canada	220	206	265	321	340	311	363
Italy	104	140	232	253	264	297	296
Mexico	397	342	366	343	322	299	292
France	211	199	270	318	276	290	277

*Sources: *Anuario Estadístico de Cuba*, 2001, and Ministerio de Comercio Exterior de Cuba

http://ctp.iccas.miami.edu/FOCUS_Web/Issue32.htm

This chart summarizes Cuba's top trading partners (for imports) based on the value of goods purchased in millions USD using data provided by the Ministerio de Comercio Exterior de Cuba (The Cuban Ministry of Foreign Business). Among Cuba's top partners (Venezuela, Spain, China, Canada, Italy, Mexico, and France), several shifts in the value of products purchased

during this brief period are evident and they reflect the terms and context of trade between each of the states. For example, Mexico, later deterred by Cuba's habit of defaulting on loans (including US \$500M in 2001 alone to creditors), held the top spot with a value of \$397M in 1995, which would decline to \$292M by 2001. From 1996-1999 Spain would become Cuba's principal commercial partner, selling a value of \$722M in 1999, and while this value increased in 2000, Spain was eclipsed by Venezuela that same year. Venezuela is still Cuba's greatest commercial partner today (in part due to the friendship of Fidel Castro and the late Hugo Chávez) and accounted for \$956M in sales in 2001 alone. While France and Italy's values fluctuated over this period, they also contributed significantly to Cuban commerce. Canada and especially China, however, consistently grew their relationships with Cuba, reaching sales totals worth \$363M and \$526M respectively in 2001 (Cuba's Top, 2002).

According to the University of Miami's Cuban Transition Project, the EU states extended credits for agricultural and industrial purposes to Havana starting in 1995, which provided a degree of recovery from the worst of the special period, while a trade agreement in 2000 providing 1/3 of Cuba's (subsidized) oil from Caracas solidified Venezuela's role as Cuba's greatest contemporary commercial partner. Canada and Mexico continued to offer a significant volume of exports to Cuba over this period but would become more reluctant over time due to the Cuban government's inconsistent payment record (Canadian taxpayers absorbed US \$100M in losses because the Canadian Export Development Agency insures sales for exporters) (Cuba's Top, 2002). Chinese export growth has indicated a renewed interest in the Caribbean market, with large quantities of rice and technological equipment such as fiber optic cables being shipped in increasing quantities under favorable credit terms (Cuba's Top, 2002).

Trade Terms

Tariffs faced by “most favored nations” (MFN) who export goods to Cuba and duties that Cuban goods face in foreign markets also affect who has traded with Cuba; although the data for tariffs is not grouped by the country of origin for Cuban imports, the information recorded by the World Trade Organization (for 2012) sheds some light into the nature of Cuban foreign commerce.

Part A.2 Tariffs and imports by product groups									
Product groups	Final bound duties				MFN applied duties			Imports	
	AVG	Duty-free in %	Max	Binding in %	AVG	Duty-free in %	Max	Share in %	Duty-free in %
Animal products	39.6	1.1	40	100	9.3	2.2	30		
Dairy products	40.0	0	40	100	18.0	0	30		
Fruit, vegetables, plants	39.2	0.7	40	100	9.4	5.0	30		
Coffee, tea	40.0	0	40	100	20.5	0	30		
Cereals & preparations	36.7	0	40	100	11.2	5.1	30		
Oilseeds, fats & oils	36.3	0	40	100	6.8	2.7	30		
Sugars and confectionery	40.0	0	40	100	20.3	0	30		
Beverages & tobacco	39.7	0	40	100	23.4	0	30		
Cotton	16.0	60.0	40	100	1.6	60.0	5		
Other agricultural products	32.6	16.0	40	100	6.3	30.8	30		
Fish & fish products	5.1	7.1	40	11.1	4.7	50.8	30		
Minerals & metals	3.9	35.1	36	10.6	7.7	8.0	30		
Petroleum	3.0	0	3	80.0	2.4	20.0	3		
Chemicals	6.6	14.2	40	14.6	9.5	3.0	30		
Wood, paper, etc.	4.3	35.3	29	13.4	8.7	14.2	30		
Textiles	18.4	17.0	36	9.0	14.0	2.0	30		
Clothing	39.2	0	62	4.1	15.3	0	30		
Leather, footwear, etc.	8.2	0	12	6.3	11.6	2.1	30		
Non-electrical machinery	8.8	0.3	14	63.0	9.7	0.8	30		
Electrical machinery	10.8	0	15	65.6	10.4	0	30		
Transport equipment	7.8	0	15	22.5	9.1	6.7	30		
Manufactures, n.e.s.	14.5	0	28	17.7	12.4	3.6	30		

http://stat.wto.org/TariffProfiles?CU_e.htm

With the exception of Cotton, minerals and metals, and wood and paper, every product group imported to Cuba pays duties for up to 35% of these goods: food, petroleum, clothing material, and most machinery almost entirely face tariffs, and while the range within these goods varies, a few face tariffs that average as high as 40%. Even among most favored nations, tariffs for sugar, beverages and tobacco, coffee and tea, and dairy products are markedly higher than those charged for other imports (each greater than 18%), while petroleum is almost duty-free at 2.4%. It is also important to note that duties applied to most favored nations consistently accommodate higher levels of duty-free imports and charge significantly lower tariff rates (e.g.,

dairy products), with a few exceptions for tariff rates. Based on this data, exporting petroleum, mineral and metals, or wood and paper to Cuba would offer a foreign party the most appealing tariff rates, likely because there is a consistent need for these products. The products listed above with higher, protective average tariff rates and lower MFN rates (i.e., food) likely indicate commitments to their current sources (e.g., the U.S. and EU) or the absence of a large, unmet demand for them. On the other hand, low rates may also indicate the opposite, as Venezuela's massive petroleum exports are virtually untaxed and the rates for electronics, which often originate in China, face low average rates as well. This could be exchanged by the already favorable pricing of these goods and diplomatic confidence, though this analysis is speculative.

Part B**Exports to major trading partners and duties faced**

Major markets	Bilateral imports		Diversification		MFN AVG of		Pref. margin	Duty-free imports	
	in million	US\$	95% trade in no. of		traded TL			TL in %	Value in %
			HS 2-digit	HS 6-digit	Simple	Weighted	Weighted		
Agricultural products									
1. European Union	2012	302	7	10	15.8	25.9	5.1	18.6	24.0
2. Russian Federation	2012	49	4	5	21.6	23.9	0.2	5.9	2.9
3. Hong Kong, China	2012	40	1	1	0.0	0.0	0.0	100.0	100.0
4. Switzerland	2012	32	2	2	7.4	8.9	0.7	77.8	9.1
5. Belarus	2012	16	1	2	22.3	23.7	0.0	3.7	0.0
Non-agricultural products									
1. Venezuela, Bolivarian Republic of	2012	503	10	21	12.9	9.8	8.4	26.2	85.4
2. European Union	2012	335	7	9	3.2	4.2	3.8	84.3	91.0
3. China	2012	288	2	2	3.8	0.3	0.0	56.0	96.9
4. Canada	2012	251	1	1	1.7	0.0	0.0	83.1	99.1
5. Brazil	2012	106	2	3	6.9	4.0	4.0	87.5	100.0

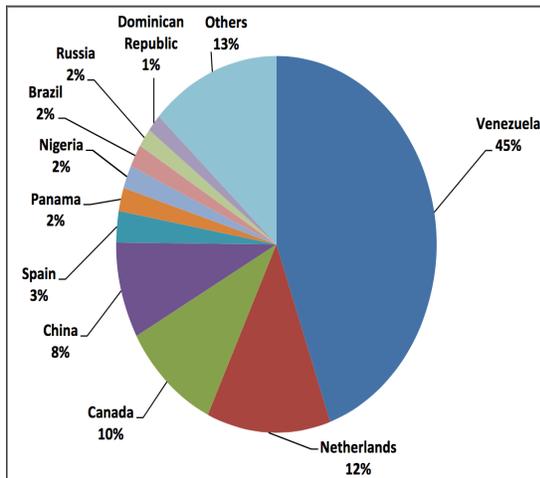
http://stat.wto.org/TariffProfiles?CU_e.htm

Information for Cuban exports is more readily available and provides some insight into who buys what from Cuba at what rates. The EU imported US \$302M of agricultural products from Cuba in 2012, which is greater than the sum of the next four partners combined; however, only 24% of these products (in value) were permitted duty-free, as opposed to 100% to China, who is seeking a greater foothold in the Latin American region. Non-agricultural products exported to major partners, on the other hand, each exceeded 85% in value for duty-free rates, and Venezuela, the EU, China, and

Canada each exceeded US \$250M in bilateral imports. It is worth noting that, with the exceptions of Russia, Belarus, and Brazil, each of these states were among Cuba's top sources of imports between 1995-2001 as well, demonstrating a degree of loyalty to Cuba's market; it is also surprising (assuming Venezuela is correctly excluded from the agricultural products list) that the EU imported more goods in millions of US dollars than Venezuela, Cuba's principal diplomatic and commercial ally, which suggests that the basis of the Cuba-Venezuela alliance is not built upon a need for Cuban manufactures.

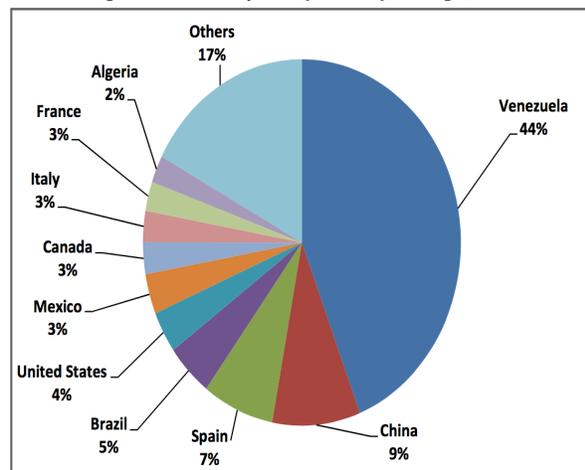
Sullivan's (2014) data, which was gathered to inform the U.S. Congress, complements the statistics gathered by the University of Miami and the World Trade Organization by breaking down total import and export percentiles by country of origin and destination; this data does not account for the value of goods or describe the their contents (as Ritter will later), but it demonstrates the volume of commerce exchanged between Cuba and its partners in relation to each other.

Figure 3. Cuban Exports by Country of Destination, 2012



Source: Created by CRS based on information from República de Cuba, Oficina Nacional de Estadística e Información, Anuario Estadístico de Cuba 2012, Sector Externo, Table 8.5, http://www.one.cu/aec2012/esp/80618_tabla_cuadro.htm.

Figure 4. Cuban Imports by Country of Origin, 2012



Source: Created by CRS based on information from República de Cuba, Oficina Nacional de Estadística e Información, Anuario Estadístico de Cuba 2012, Sector Externo, Table 8.6, http://www.one.cu/aec2012/esp/80618_tabla_cuadro.htm.

In 2012 Cuba's greatest export partners were (overwhelmingly) Venezuela, the Netherlands, Canada, and China, while its imports came primarily from Venezuela, China, Spain, Brazil, and the United States. China and Venezuela appear to be Cuba's greatest bilateral

trade partners to date, with the absence of Sino-Soviet cold-war tensions notably improving relations between Cuba and China. Cuba's relationship with the United States is also interesting: although the U.S.'s official policy has been to block all imports from Cuba, the census report indicates that, between 1992 and July 2015, the U.S. has imported goods from Cuba on 8 occasions, but these imports have never valued more than \$600,000 in one year and have averaged only \$275,000 for a total of \$2.2M in goods, which have presumably been vaccines from Cuba's impressive biotechnology sector: Randal (2000) notes that America has expressed interest in Cuban vaccines for different strains of hepatitis, meningitis, and lung cancer. In contrast, the U.S. exported \$711.5M in food and medicine to Cuba in 2008 alone on a cash only basis, solidifying itself as Cuba's primary food supplier, according to Economy Watch (Cuba Trade, 2010), and Cuba is reliant on food imports for ~80% of its food as of 2008 due to the decline in productivity of farms since 2001 (though urban farms currently show promise for a more self-sufficient future). In summary, the U.S. has shown a willingness to export food and medicine to Cuba while importing Cuban goods only in rare cases, maintaining a massive trade surplus over Cuba despite its status as Cuba's fifth greatest import partner as of 2012 (US Census). This relationship merits consideration: why would Cuba import agricultural goods from various parts of the United States on a cash-only basis when they have so many alternatives that offer credits and more appealing terms? It is possible that the Cubans believed this endeavor would turn the opinions of local representatives in their favor in an effort to lobby towards a swifter end to the embargo. Regardless of their goals, the Cubans have yet to succeed in swaying the U.S. congress, though their efforts may fit into the grander strategy they have employed of finding allies with resources and political clout they seek.

Cuba's trade deficit, however, remains a legitimate source of concern: according to Economy Watch (Cuba Trade, 2010), the Cuban trade deficit has grown as a percentage of total trade in the 2000's to 56% in 2008 and is thought to have worsened since then. The trade gap with Venezuela increased 575% from 2002 (US\$706M) to 2008 (US\$4.06B), and Venezuela accounted for a disproportionate proportion of trade (~27%); China, another top 3 partner, accounted for ~12% of Cuban trade (in 2008) to put this in to context. Economy Watch (Cuba Trade, 2010) reports that "Cuba exported goods worth [only] \$3.253 billion in 2009, according to the latest estimates" and that Venezuela accounts for roughly 30% of Cuban imports, "China (12%), Spain (10%), Canada (6.4%), the US (6.3%) and Brazil (4.6%)", which amounted to US \$10.86B in 2009. Therefore, the trade deficit from 2009 alone amounted to ~\$7.6B USD; however, the increasing liberalization of Cuban trade in the global market is nonetheless promising for the state as exposure to new markets brings with it the potential for future interstate commerce and the possibility of foreign direct investment, which was officially legalized in 1998.

Foreign Direct Investment

Along with trade liberalization, foreign direct investment has come to play a greater role in the development of the Cuban economy as joint ventures with state enterprises are increasingly allowed to grow other industries. While foreign direct investment are not directly defined as trade, like tourism it is has become one of the greatest contributors to the economy and promotes cooperation and trade of relevant goods between Cuba and foreign investors. By the year 2000, joint ventures established through foreign investment had accumulated ~\$1.9B primarily from Spain (in the tourism and tobacco sectors), Canada (the nickel and oil extraction industries), Italy (communications), France (alcohol), and Mexico (Ritter, 2010). Foreign direct

investment in Cuba offers the state funding, “management know how, technology, raw materials, and a market for goods and services produced in the island” (Pérez-López, 2004, p. 1). The most profitable sectors of Cuba’s economy (tourism, oil, nickel) have foreign investors, but information about the identities of these investors is very limited because the Cuban government hides investment flows to protect foreign investors from U.S. sanctions (and there is a lack of transparency within the Cuban government in general). The Cuban government offers numbers that are frequently inconsistent with former statements and records held by foreign parties, so it is challenging to interpret them without incorporating the bias of a party involved. According to Pérez-López (2004), Article 12 of Law #77 of September 1995 currently permits “joint ventures, international economic associations, and wholly foreign-invested companies” as long as Cuba receives at least half of ownership and profit (p. 1).

Again, official information on foreign direct investment stocks and flows is scarce and inconsistent. It is possible that Havana wishes to give the false impression of numerous investors to create competition among potential investors; government officials have been known to claim different investment stock values, which have varied by billions of dollars. Flows of foreign investment published in Cuba’s balance of payment statistics provided for the years 1993-2001 claim a value of ~\$2.2B. However, the value between “intended” and “realized” investment also varies: in November 2002 Minister Lomas stated that “stocks were ~\$5.4B, of which approximately \$2.65B [49%] had been delivered” (Pérez-López, 2004, p. 4). The U.S.-Cuba Trade and Economic Council (USTEC) analyzed foreign investment by private sector companies and government-controlled entities between 1990-1999 and found that \$1.767B of the \$6.119B announced over the period was delivered, with Italy accounting for \$614M, Canada for \$600M, and Mexico for \$450M. However, the United Nations Conference on Trade and Development

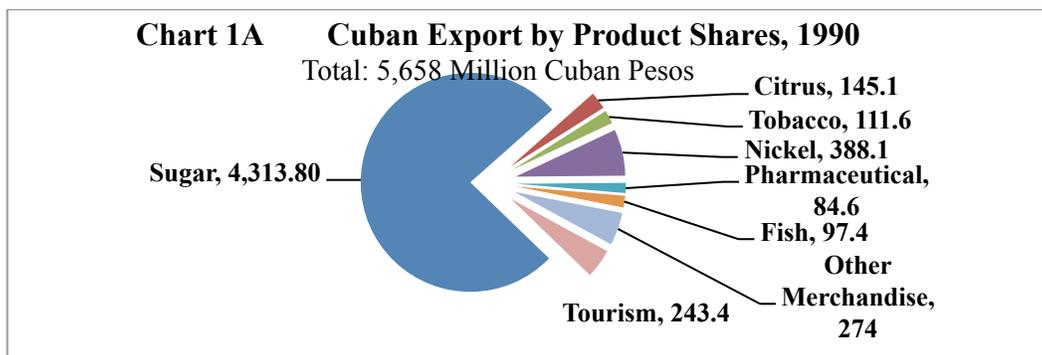
(UNCTAD) produced very different values. The majority of joint ventures were formed between 1988-1997, with Spain accounting for 62, Canada 59, Italy 34, France 16, and the UK 15 of 317 total (roughly 59% from EU states). It is also reported that 93 of these 317 joint ventures were in basic industries such as mining, 54 in tourism (hotels, resorts, etc.), 31 in light industry, 24 in the food industry, 16 in construction, and 16 in agriculture, but the lack of transparency makes this information controversial as estimates vary based on the organization conducting research. By the end of the year 2000, joint ventures reached 400 and growth would slow to reach only 402 by 2002. By the end of 2003, the number reportedly declined to 342 and stagnation was apparent (Pérez-López, Jorge, 2004, p. 5).

Domestic Transformation

Much of the effort to transform Cuban commercial models focused on seeking new markets for trade and investment after the Soviet collapse, but a more fundamental emphasis on diversifying Cuba's domestic economy was equally significant in this transition. In order to restructure its sugar-based economy, Cuba had to utilize its resources, the most significant of which was human capital: what Cuba lacks in wealth, it makes up for in its young, educated population. According to Economy Watch (Cuba Economy, 2010), Cuba is a mineral resource-rich state with the 2nd highest volume of nickel (to Russia) on Earth, the 5th largest production of Cobalt, and the potential to extract growing volumes of offshore oil. The economy has naturally shifted towards emphasizing the commercial potential of these resources. Canada (and the Netherlands) has invested in Nickel, while Venezuela has invested in Cuban oil extraction and refining possibilities even while providing subsidized oil. Growth in tourism (which will be loosely identified with Cuban commerce due to the large percentage of GDP it accounts for) since 1999 contributed to consistent growth in GDP until 2009 (when it appeared to stagnate).

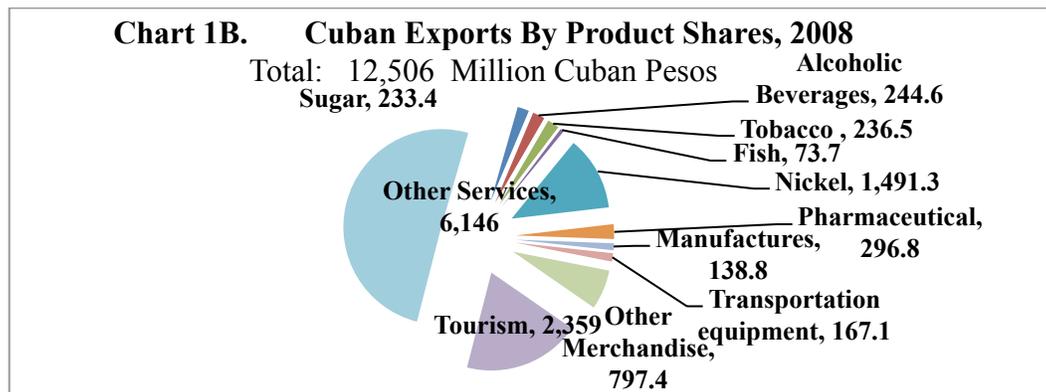
However, “nearly 75% of the country’s GDP is contributed by the service sector, which is largely composed of doctors and medical professionals. While industry contributes nearly 21% of Cuba’s GDP, agriculture contributes a mere 4%” (Cuba Economy, 2010). Cuba imports over 80% of its food (including Chinese rice), has a strong pharmaceutical and biotechnology sector, and depends primarily on tourism and remittances from relatives abroad for income. Cuba also imports machinery, chemicals, and petroleum (from Venezuela in exchange for doctors) and “exports sugar, medical products, nickel, tobacco, shellfish, citrus, and coffee” (Cuba Economy, 2010).

The transformation of Cuba’s export structure between 1990 and 2008 provides a visual contrast for how the economy was diversified when sugar exports no longer produced adequate returns. When the Soviet subsidies ended in 1990, Cuba experienced a “75-80% decline in foreign exchange receipts provided through the pricing of imports and exports, credits financing trade deficits, and developmental aid” (Ritter, 2010). Imports of consumer goods, energy sources, raw materials, foodstuffs, and replacement parts for machinery declined rapidly between 1990-1995, and the export structure in 1990 had not been updated since 1959, with sugar accounting for 77% of exports.



Source: (Ritter, 2010)

By 2008 sugar had been supplanted as the primary export (representing only 1.9%) by professionals (“other services”), and the tourism industry had grown tenfold. There were also notable increases in the export of nickel, alcohol, tobacco, and pharmaceuticals, though Cuba’s dependence on exporting medical and military professionals now represented ~49% of export product shares. The production of nickel had increased from 47,000 tons in 1989 to 76,000 in 2005 with the help of Sherrit International (a Canadian joint venture), oil extraction increased from 718 metric tons in 1989 to 2,900 in 2007, and natural gas production jumped from 34 to 1,215M cubic meters. Exports increased by 45% between 1990 and 2008, showing some promise for the state’s recovery. Commercial partners shifted towards Western Europe and Latin America, and in the 2000s China and Venezuela became Cuba’s greatest commercial allies. Chávez’s Venezuela provided cheap oil, trade and investment credits, and generous foreign exchange payments for Cuban exports of medical services, while China served as a source of credit (Ritter, 2010).



(Source: Ritter, 2010)

However, despite these improvements, (as discussed above) imports continued to exceed exports, yielding a trade deficit from 1991 that increased fairly consistently until 2008, with gains in tourism and foreign direct investment struggling to balance these losses.

	1991	1995	2000	2005	2008	2009
International Trade						
Exports: Total	3,563	2,926	4,807	8,963	12,506	
Goods	2,980	1,507	1,692	2,412	3,940	2,458
Services	584	1,419	3,115	6,550	8,506	
Imports: Total	4,702	3,565	5,587	7,823	14,806	
Goods	4,234	2,883	4,816	7,647	14,312	8.963
Services	468	683	771	175	494	
Commercial Balance	-1,138	-639	-780	1,140	-2,280	
Remittances	0.2	646	740			
Direct Foreign Investment						
Cumulative Value of DFI		622.1	1,930.9			
Joint Ventures (Number)	50	22	392			
Tourism Earnings	243.5	1,100.0	1,948.3	2,398.9	2,359.0	

Source: Perez-Lopez, 151; and ONE 2009, Tables 8,2 and 15.11

Source: (Ritter, 2010)

Although relations with many of the countries discussed above played a pivotal role in Cuba's transition towards a new commercial model, no ally did as much for the state in the last sixteen years as Venezuela: as the University of Miami, the WTO, and Sullivan (2014 and 2012) have indicated (respectively) in their visual aids above, Venezuela has been Cuba's greatest source of imports since 2000, its primary recipient of non-agricultural Cuban goods in 2012, and its top source and destination for imports and exports in the years 2010 and 2012. This relationship, which has been one of (mutual) dependence, is reminiscent of the Soviet-Cuba alliance whose eventual failure initiated the reforms that led to its own formation, and it is uncertain how much longer this dynamic will continue for several reasons. Venezuela, Brazil, and China will be discussed in detail below, not because they are the three greatest commercial partners (although China and Venezuela are among them), but because each shows promise for a growing dynamic.

Major Partners Today

The Cuba-Venezuela Alliance

The alliance between Cuba and Venezuela emerged when Hugo Chávez, a friend of Fidel Castro, was elected in 1998. Since then the states have been close economic and political allies and have developed a mutually dependent relationship of trade, investment, security, and

diplomacy. However, this relationship has become burdensome for Venezuela, who offers Cuba massive subsidies in exchange for Cuban services, and it is increasingly unpopular among the constituents of the Maduro administration, which succeeded that of the late Chávez but only defeated its last opponent (who openly opposed pro-subsidy policies) by a margin of 1.49% (Sullivan, 2014). With the end of the Castro-Chávez dynamic, it seems that popular opinion is swaying away from Cuba, largely because Venezuela has its own economic crisis to confront and cannot afford to support Cuba anymore. This could bode badly for Cuba, whose “subsidized” (depending on your perspective of this relationship) and preferential oil access may be at risk in the near future. Although Venezuela is highly dependent on Cuba for its “doctors, teachers, sports trainers, and military advisors” (Piccone and Trinkunas, 2014), Cuba is dangerously reliant on subsidized Venezuelan oil and trade. In 2012, 20.8% of Cuban GDP from bilateral trade in goods and services was attributed to trade with Venezuela, while this figure only comprised 4% of Venezuela’s GDP (see graph on page 8).

While globally high oil prices (which peaked in 2008) until 2013 allowed Venezuela to sustain this burden, the economic crisis of 2014 has made its commitment to Cuba and ALBA (“Alianza Bolivariana de Nuestra América”), an alliance that extends oil privileges to 16 other Caribbean states, unsustainable for the state as it confronts its own internal problems. According to Piccone and Trinkunas (2014), Cuban-Venezuelan trade can be summarized by Venezuelan oil for Cuban services. The terms Cuba pays are 60% within 90 days and the additional 40% is financed at a 1% interest rate over 25 years. Cuba’s consumption of crude oil shipments reached 38,000 barrels/day by 2003, but by 2012 this had grown to 104,000 barrels of crude and refined oil/day, accounting for 61% of Cuba’s total supply by 2011. While this represented only 5.1% of Venezuela’s exports in 2011, this proportion has increased due to diminished production

capacity caused by insufficient investment in and maintenance on facilities. Venezuela also exports chemicals, plastics, textiles, construction materials and medicine to Cuba, accounting for 44% of Cuba's total goods trade in 2012 compared to only 5% of Venezuela's. Just as Cuba's relationship with the Soviet Union permitted, this deal also allows Cuba to export more profitable petroleum from Venezuela after refining it in Cuban facilities (in which Venezuela invests) such as jet fuel, diesel and gasoline (Piccone and Trinkunas, 2014).

On the other hand, there are ~40,000 Cuban professionals in Venezuela, with about $\frac{3}{4}$ of that number contributing to "misiones" in the healthcare sector and the remainder contributing to sports and literacy programs, as well as military advisors. Venezuela pays ~\$5.4B/year for these services, which include the healthcare and education of thousands of Venezuelan students in Cuba since 2003. As of 2010, Venezuela paid Cuba ~\$11,317/month/professional, of which the Cuban government keeps ~\$10,892 (wages are still preferable to working in Cuba), so this represents a tremendous source of "commercial" Cuban revenue (Piccone and Trinkunas, 2014).

However, the future of this relationship, upon which so much Cuban trade depends, remains uncertain; Venezuela depends on oil exports for 95% of foreign earnings and imports $\frac{2}{3}$ of its basic consumer products with these profits. Venezuela's domestic consumption combined with that of the PetroCaribe trade framework established by ALBA now consumes about 42% of what can be produced at below-market rates. Another factor suggesting that this alliance will be scaled back is the shifting economic structure of Cuba under Raúl Castro, which has permitted some licensed private businesses and cooperatives with the goal of shrinking the state sector, diversifying international trade, and increasing the role of foreign direct investment: Morris (2014), citing the "lineamientos" (guidelines) published by the Cuban state, argues that as Raúl Castro's term comes to an end in 2018 "the aim is for the economy to have a broader

productive base and a larger private sector, while retaining universal health, education and welfare provision” (p. 43). If Venezuelan subsidies decline, Cuba may need to export their most valuable resource (professionals) to Brazil, Bolivia, Nicaragua, and other countries where such a demand exists. Regardless of the future of this dynamic, Cuba’s alliance with Venezuela has ensured a steady flow of oil and a loyal diplomatic ally for decades.

Brazil

Brazil has also played a greater role in this dynamic since the restoration of diplomacy in 1986. Diplomatic, academic, and commercial exchanges have increased, including four meetings between heads of state since 2008 (Bruha, 2014). Brazil exports large quantities of grains such as rice and corn to Cuba, vegetable oils (soybeans), mechanical machinery that process produce, and heat pumps, while Cuba exports pharmaceutical products “like extracts of glands, blood fractions, and immunological products prepared as medicines” (Bruha, 2014) to Brazil. Tobacco products and cement and plaster are also notable Cuban exports. Key to this relationship, however, is the Brazilian government’s investment in developing the Mariel Port of Cuba, which could capitalize on the opportunities presented by traffic that passes through the Panama Canal and attract foreign capital, and this renovation project has already received a \$1 billion subsidized credit from the Brazilian Government’s development bank (Bruha, 2014). Brazilian investment and growing bilateral trade have thus substantiated the state as one of Cuba’s greatest contemporary commercial partners with potential to benefit the Cuban economy for years to come.

Sino-Cuban Developments

Among all of the aforementioned partners, China perhaps shows the greatest potential for Cuban commercial development. While diplomatic relations were established after the revolution

in 1960, a new phase with Cuba began after 2000 with greater political, trade, and investment ties being established and new initiatives in the fields of defense, education, health, and culture (Lehoczki, 2012, p. 291) being pursued. China's presence in Latin America has grown in recent years and has influenced the state as they have sought better relations with Cuba's neighbors, and the cultural similarities between the two socialist survivors of the Cold War may serve as a basis for solidarity. In addition, it may be argued that the Asian-Pacific region is asserting itself as the center of world economic development, with China as the most dynamically developing economy in the world, and that Cuba has much to benefit from having China as a political ally, trade partner, source of capital, and market-reforms instructor familiar with 1-party systems (Lehoczki, 2012, p. 292). China's warming to Cuba can also be looked at as part of a wider context that would counter the U.S.'s influence in Taiwan; from this perspective the Sino-Cuban alliance can be viewed as a bargaining chip with which both of these states can encourage the U.S. to respect their political wishes and treat them as equals in diplomatic discourse, which is perhaps the greatest benefit Cuba can receive from anyone in the long term. According to Lehoczki (2012), a rapid increase in bilateral trade has been noted since 2000:

In 2005 it was US \$750 million, then reached a peak in 2007 (US \$2.44 billion), while in 2010 it was US \$1.9 billion. Today, after Venezuela, China is the second most important trading partner for Cuba. The Chinese share in Cuban foreign trade is 12.4 per cent, while Venezuela accounts for 39.5 per cent. Cuba imports vehicles (buses, trains), electrical, industrial and textile products and rice and kidney beans from China, while it exports primarily nickel, sugar, tobacco and medicine to China. (297)

Unlike Venezuela, Canada, or the EU, significant scientific and technological cooperation in the field of biotechnology is also thriving between the states to their mutual benefit. China is also among Cuba's greatest investors and providers of aid, extending assistance for natural disasters and improving the infrastructure of public service institutions like hospitals (Lehoczki, 2012). Cuba's growing commercial relationship with China is consequently beneficial in a variety of

ways, providing resources, research and development, and political legitimacy as the ally of the world's fastest growing economy.

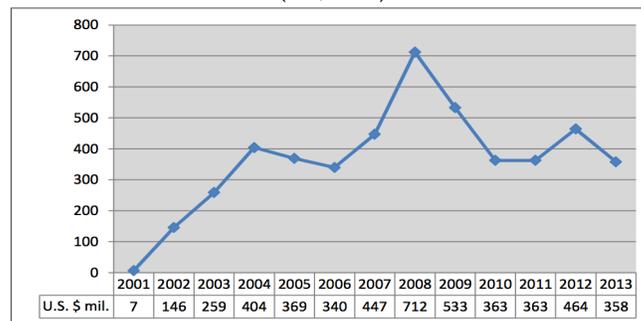
Conclusion

The nature of Cuban commerce adapted to survive the absence of the Soviet Union and the hostility of the U.S. embargo by diversifying its manufactures and trade partners, utilizing its labor force as a profitable export, allowing a greater degree of foreign influence through investment and tourism, and granting its own citizens more autonomy by decentralizing aspects formerly regulated by the federal sector. These transformations were strategically designed to gain Cuba the means to access foreign markets, and the alliances they formed had deliberate goals and varying results. Venezuela emerged as the most successful of these partnerships, supplanting the Soviets as Cuba's primary sponsor and offering oil and other products on preferential terms. China, which offers its own goods, affords Cuba greater diplomatic influence, opportunities to develop its tech industry, and a source of credits and trade. Brazilian investment shows promise for the future of Cuban commercial development as well, and its numerous other partners have filled the gaps in the exchange of various commodities. Cuba's evolving economic strategy emphasized its strengths (e.g., mineral resources, educated youth, aesthetic appeal to tourists) and shifted away from its precarious, monocultural focus on sugar, acquiring and utilizing new partnerships as these industries developed (i.e., Canada grew its nickel industry) and seeking favorable terms of exchange predominately in Western Europe, China and Latin America. However, despite this progress, Cuba has yet to recover to 1989 standards with regards to various economic and social indicators such as consumer purchasing power and quality of life.

Although the future of Cuba remains uncertain, recent events, including President Obama's historic visit in March 2016, suggest that there is reason for the state to be optimistic.

Cuba's relationship with Russia seems to have rebounded: in July 2014 Putin signed an agreement writing off 90% of Cuba's \$32B Soviet-era debt, with some \$3.5B to be paid back over 10 years to fund Russian investment projects in Cuba (Sullivan, 2014, p. 22). Additionally, since the normalization of relations with El Salvador in June 2001, all Latin American nations have maintained relations with Cuba. In 2013 thousands of Cuban doctors were exported to Brazil for ~\$225M/year, and Brazil has invested in the Mariel ports West of Havana. The U.S. has been a major source of Cuba's food since the passage of the Trade Sanctions Reform and Exports Enhancement Act of 2000 (P.L. 106-387, title IX) permitted agricultural exports. As a result, "Cuba has purchased about \$4.8B in products from the U.S. since 2001", and from 2002 to 2010 and in 2012 the U.S. was the greatest supplier of food and agricultural products (2011 was Brazil) (Sullivan, 2014, p. 38). The U.S. ships large quantities of poultry, soybean oilcake, corn and soybeans to Cuba, but only for hard currency, which may explain Cuba's recent decline in purchases. The act permits one-year export licenses to sell agricultural commodities in Cuba, but no U.S. or foreign government assistance, credits or credit guarantees are available to finance these.

Figure 5. U.S. Exports to Cuba, 2001-2013
(U.S. \$ millions)



Source: Created by CRS using information from the Global Trade Atlas, which uses data from the U.S. Department of Commerce.

Cuba's isolation, though the U.S. embargo still harms it economically, is no longer in full effect, and the potential shift in midterm and presidential elections could install a liberal majority

in favor of taking greater steps towards normalizing relations between Cuba and the United States. Regardless, Cuba has immense human capital with an educated youth capable of expanding industries such as software to compete internationally, but the lack of resources (e.g., laptops) has thus far impeded significant progress. This could change in the near future, as Ritter (2003) argues that Cuba appears to show characteristics of a state in a “pre-transition phase” (P. 23).

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