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# Cuba's External Sector: Conditions, Challenges, and Opportunities

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# CUBA'S EXTERNAL SECTOR: CONDITIONS, CHALLENGES, AND OPPORTUNITIES

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## I. INTRODUCTION

Due to its open nature, the Cuban economy has always depended considerably on the performance of its external sector, especially on activities involving foreign trade. With export activities no longer dominated by sales of primary goods, today's Cuban economy is to a large degree a service-based economy in which international tourism and exports of professional services (along with remittances from abroad) have replaced the once-thriving sugar industry as the country's primary sources of hard currency. Services currently account for about 80% of Cuba's gross domestic product (GDP), generate the vast majority of foreign exchange revenues, and receive the largest share of all investments. A notable expansion of exports of healthcare services to Venezuela in recent years actually has produced surpluses in the island's overall trade balance. Yet Cuba remains chronically short of hard currency.

In addition to the Cuban economy's serious structural shortcomings that adversely impact trade operations, Cuba's external sector suffers from a number of critical weaknesses, associated above all with the failure to diversify production and markets for export, a particular sensitivity to international price swings, and insufficient cross-sectorial

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spillovers. Furthermore, although the value of imports of goods and services as a share of GDP at market prices is today about half of its level in 1990, Cuba's dependence on purchases of oil, food products, and other key goods from abroad is still quite high. A huge merchandise trade deficit generates substantial negative effects on the current account of Cuba's balance of payments (BOP) and complicates the country's efforts to meet its financial obligations to foreign traders, lenders, and investors.

In all fairness, Cuba faces major constraints in its ability to access external financing to address BOP problems, to carry out investment in national productive capacities, and to cover emergency needs. Albeit mitigated by official support from Venezuela and a few other partners, these constraints are only partially due to Cuba's history of unmet payments and its large (yet recently reduced) external debt. The island nation remains under a far-reaching U.S. embargo and is excluded from most international lending organizations that could provide financial relief. The economic sanctions imposed by Washington also hamper the dealings of international banks with Havana's government and the business operations of foreign investors in the Cuban market. But the U.S.-Cuba rapprochement that began toward the end of 2014 under the Obama administration has led to a relaxation of embargo rules and strengthened economic ties between the two countries at a time when Cuba is in the midst of significant economic reforms and actively courting foreign investment to revive its struggling economy, whose woes are being amplified by a profound crisis in Venezuela. The rapprochement, nonetheless, was partially rolled back in mid-2017 when President Donald Trump announced tighter restrictions on U.S. travel to and business dealings with Cuba.

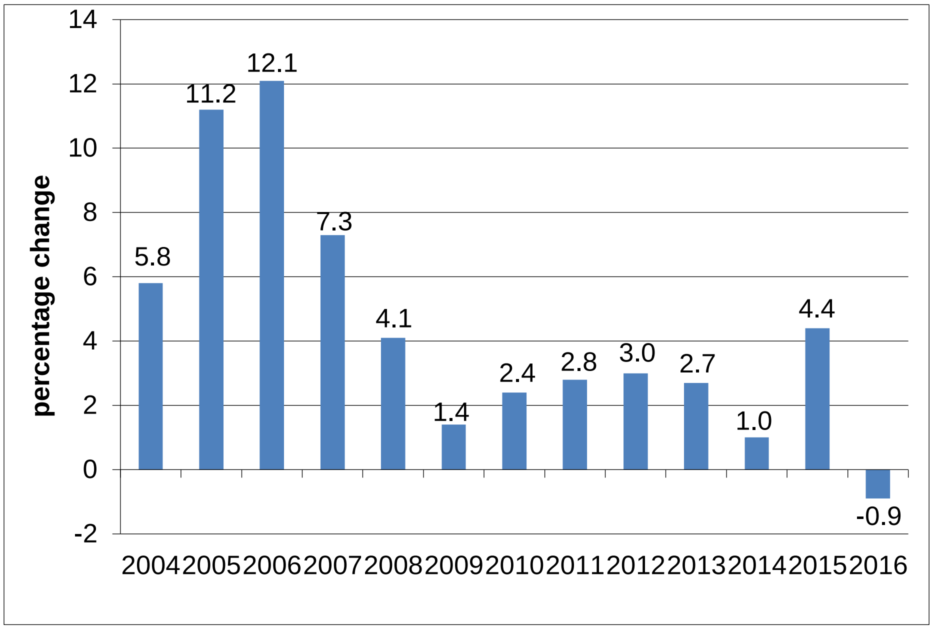
This study analyzes the current conditions (with a brief review of macroeconomic trends since 1990) in Cuba's external sector and identifies key problems that pose major challenges for the future. It examines Cuba's merchandise and service trade patterns, its largest sources of hard currency, its external debt and overall financial situation, and its latest attempts to attract overseas investors following the enactment of a new foreign investment law and the opening of a special development zone at the port of Mariel. The study also analyzes the economic effects of Obama's measures on Cuba and offers some preliminary considerations on the potential impact of Trump's more restrictive policy toward the island.

## II. TRENDS AND CONDITIONS

The Cuban economy has recovered markedly from the devastating meltdown of the early 1990s after its former benefactor, the Soviet Union, collapsed. During the deep recession that started in 1990 and reached its lowest point in 1993, Cuba's real GDP shrank by an annual average rate of approximately 10%.[1] Since then, economic growth has been positive even though the rate has fluctuated considerably from year to year, and the island's economy witnessed a remarkable expansion around the mid-2000s. As shown in Figure 1, Cuba reported a GDP growth of 11.2% in 2005, 12.1% in 2006, and 7.3% in 2007. This performance was fueled by the dynamism of internal demand, due to increased public investment, government spending, and private consumption, and above all by growing exports of goods and services. Thriving exports of medical and other professional services under a comprehensive agreement with the government of Venezuela (involving sizable supplies of Venezuelan oil to Havana) and, to a smaller degree, substantial revenues from nickel exports and international tourism were key stimulating factors.

1. OFICINA NACIONAL DE ESTADÍSTICA E INFORMACIÓN, ANUARIO ESTADÍSTICO DE CUBA 1994 (1996) [hereinafter ONEI 1996].

**Figure 1. Cuba's Real GDP Growth, 2004–2016 (at constant 1997 prices)**[2]




After 2008, however, the Cuban economy suffered a notable deceleration caused by both internal and external factors. The critical factor on the internal front was the slow rate of progress with productivity and efficiency, largely caused by the systemic constraints of Cuba's state-dominated and highly centralized economy. On the external front, the negative effects of the global financial and economic crisis that erupted with full force toward the end of 2008 came on top of damaging natural disasters and the cumulative effects of the long-standing U.S. embargo against Cuba.[3] Cuba's annual GDP growth averaged 2.5% in 2009–2013,

2. OFICINA NACIONAL DE ESTADÍSTICA E INFORMACIÓN, PANORAMA ECONÓMICO Y SOCIAL CUBA 2016 (2017) http://www.one.cu/publicaciones/08informacion/panorama2016/Panorama2016.pdf [https://perma.cc/4DU7-SN95] [hereinafter ONEI 2017]; OFICINA NACIONAL DE ESTADÍSTICA E INFORMACIÓN, ANUARIO ESTADÍSTICO DE CUBA 2015 (2016), http://www.one.cu/aec2015/00%20Anuario%20Estadistico%202015.pdf [https://perma.cc/3QEW-99H2] [hereinafter ONEI 2016]; OFICINA NACIONAL DE ESTADÍSTICA E INFORMACIÓN, ANUARIO ESTADÍSTICO DE CUBA 2014 (2015) http://www.one.cu/aec2014/00AnuarioEstadistico2014.pdf [https://perma.cc/73KY-2ZWB] [hereinafter ONEI 2015]; OFICINA NACIONAL DE ESTADÍSTICA E INFORMACIÓN, ANUARIO ESTADÍSTICO DE CUBA 2008 (2009), http://www.one.cu/aec2008.htm [https://web.archive.org/web/20090919210959/; http://www.one.cu/aec2008.htm] [hereinafter ONEI 2009].

3. For a comprehensive analysis of the impact of the global crisis of 2007–2008 on the

dropped to just 1% in 2014, and rebounded to little more than 4% in 2015 only because, as Havana's authorities admitted, the country was able to secure cash advances and timely credit and benefited from a fall in the prices of some of its imports.[4] In 2016, however, Cuba's GDP shrank 0.9% as lower export revenues, other cash restrictions, and reduced supplies of Venezuelan oil led to the first annual contraction of the island's economy in more than two decades.[5]

During the 1990s, the Cuban economy also experienced a crucial transformation from an economy centered on agriculture, and especially sugar production, to one based on services such as international tourism. It witnessed yet another new dramatic change in the post-2004 period principally as a result of Venezuela's financial largesse and its booming ties with Cuba.[6] Exports of professional services mainly offered by Cuban physicians and nurses in Venezuela quickly became (and still are) the top generator of hard currency for Cuba, even though in recent years the island has begun to provide for-profit medical services to a number of countries, among them Brazil and oil-rich nations in Africa and the Middle East.[7] As for exports of goods, whereas in 1990 they represented over 90% of Cuba's total exports, by 2015 they accounted for less than 25%.

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Cuban economy, see Carmelo Mesa-Lago & Pavel Vidal Alejandro, *The Impact of the Global Crisis on Cuba's Economy and Social Welfare*, 42 J. LATIN AM. STUD. 689 (2010).

4. Leticia Martínez Hernández, *Economía Cubana Creció un 4%*, GRANMA (Dec. 20, 2015, 7:12 PM), http://www.granma.cu/cuba/2015-12-20/economia-cubana-crecio-un-4-20-12-2015-19-12-34 [https://perma.cc/W9D8-KPFM]. Forecasts for 2016–2017 are much worse.

5. Sarah Marsh & Marc Frank, *Cuba Says Economy Shrank this Year in Tandem with Venezuela Crisis*, REUTERS (Dec. 27, 2016, 12:10 PM), http://www.reuters.com/article/us-cuba-economy-idUSKBN14G1E0 [https://perma.cc/FA67-AN95].

6. Jorge Mario Sánchez Egozcue & Juan Triana Cordoví, *Un Panorama Actual de la Economía Cubana, Las Transformaciones en Curso y sus Retos Perspectivos* (Real Instituto Elcano, Working Paper No. 31/2008, 2008).

7. Ricardo Torres Pérez, *Exportaciones y Desarrollo Económico en Cuba: Entre Reformas y el 17D*, *in* CUBA EN UN NUEVO ESCENARIO: PERSPECTIVAS DE DESARROLLO ECONÓMICO 168 (Ricardo Torres Pérez et al. eds., 2015).

**Table 1. Exports of Goods and Services by Sector in 1990, 2004, and 2015 (percentage distribution)[8]**

| 1990 | % | 2004 | % | 2015 | % |
|---|---|---|---|---|---|
| Sugar | | Tourism | 37.5 | Other services | 58.7 |
| Nickel | 6.7 | Other services | 21.0 | Tourism | 18.9 |
| Tobacco | 1.9 | Nickel | 19.0 | Nickel | 3.5 |
| Pharmaceuticals | 1.4 | Sugar | 4.8 | Sugar | 2.9 |
| Other goods | 8.6 | Tobacco | 3.8 | Pharmaceuticals | 2.7 |
| Tourism | 4.1 | Pharmaceuticals | 2.9 | Tobacco | 1.4 |
| Other services | 4.7 | Other goods | 11.0 | Other goods | 11.9 |

Table 1 highlights the aforementioned changes by presenting annual data on the sectorial composition of Cuban exports (percentage distribution in terms of earnings) between 1990 and 2015. In 1990, when the Soviet Union was about to disintegrate, Cuba's sugar industry brought in over $4 billion of exports representing 72.6% of the island's total hard currency revenues. Nickel exports and an incipient tourism industry also made a modest contribution.[9] While sugar fell on hard times during the 1990s, gross revenues from international tourism grew noticeably and by 1996 had surpassed those from sugar exports. Overseas sales of nickel also expanded during this period. By the early 2000s, nickel had become the leading foreign exchange earner among Cuban goods.[10] In 2004, right before Cuba stepped up the deployment of medical personnel and other professionals abroad, gross revenues from tourism activities represented 37.5% of Cuba's total exports of goods and services. That year, nickel exports accounted for 19% of total earnings while the share of sugar, the mainstay of the Cuban economy for most of its history, was less than 5%. The share of tobacco, another traditional export sector, did not reach 4%.[11]

But since then, almost everything has changed due to the Venezuelan factor. Mostly driven by Cuba's special deals with Venezuela in the area

8. ONEI 2016, *supra* note 2; Oficina Nacional De Estadística E Información, Anuario Estadístico De Cuba 2004 (2005), http://www.one.cu/aec2004.htm [https://web.archive.org/web/20060704131722/; http://www.one.cu:80/aec2004.htm] [hereinafter ONEI 2005]; ONEI 1996, *supra* note 1.

9. ONEI 1996, *supra* note 1.

10. Jorge F. Pérez-López, *Cuba's External Sector and the VI Party Congress*, Cuba In Transition, Aug. 2011, at 439, http://www.ascecuba.org/c/wp-content/uploads/2014/09/v21-perezlopez.pdf [https://perma.cc/NB4M-9RW3].

11. ONEI 2005, *supra* note 8.

of medical assistance, the percentage of Cuba's total exports of goods and services accounted for by services other than tourism almost tripled between 2004 and 2015, from 21.0% to 58.7%. Meanwhile, revenues from international tourism dropped to 18.9% of the total, around half its level from 2004. The relative contribution of nearly every other sector of the Cuban economy underwent a similar downward trend. In 2015, nickel exports generated 3.5% of Cuba's foreign exchange income from all trade activities and sugar exports accounted for just 2.9%. International sales of tobacco products (mainly cigars) provided only 1.4% of all hard currency earnings.[12] Although Cuba's revenues from the sale of professional services to Venezuela and the latter's oil shipments to Havana have declined since late 2014 due to Venezuela's economic crisis amid falling oil prices,[13] the economic lifeline that Venezuela has thrown to Cuba for over a decade is beyond question.

12. ONEI 2016, *supra* note 2.

13. Rigoberto Diaz, *Cuba Drills for Own Oil as Venezuelan Flow Falters*, AFP (June 8, 2017, 10:20 AM), http://www.france24.com/en/20170608-cuba-drills-own-oil-venezuelan-flow-falters [https://perma.cc/PAY7-GP5X]; Franz von Bergen, *Venezuela Cuts Oil Shipments to Cuba Forcing Castro to Consider Veering to U.S.*, FOX NEWS LATINO (July 27, 2016), http://www.foxnews.com/world/2016/07/27/venezuela-cuts-oils-shipments-to-cuba-forcing-castros-to-consider-veer-to-us.html [https://perma.cc/UDN6-NK72]; Antonio María Delgado, *Venezuela Slashes Oil Shipments to Cuba, Caribbean in Half*, MIAMI HERALD (Mar. 26, 2015, 6:10 PM), http://www.miamiherald.com/news/nation-world/world/americas/venezuela/article16381898.html [https://perma.cc/CMB6-4L5J].

**Figure 2. Exports and Imports of Goods and Services, 2004-2015[14]**


Cuba's annual trade balance in goods and services consistently ran deficits between 1990 and 2004. Cuba remained a net importer of resources from abroad during this period as rapidly expanding tourism revenues failed to offset a mounting merchandise trade deficit. It was only after 2004, when exports of professional services skyrocketed, that the overall trade balance began to post surpluses, albeit not every year (Figure 2). Exports of goods and services jumped from $5.6 billion in 2004 to $17.8 billion in 2014 (when a surplus of $4 billion was achieved) and stood at about $14.9 billion in 2015. Cuba does not publish disaggregated statistics on the service trade, with the exception of tourism activities. In 2015, non-tourism services generated approximately $8.8 billion in hard currency revenues; albeit on a declining trend, as much as $7.5 billion may have come from the sale of professional services abroad.[15]

A hefty increase of exports of professional services in the post-2004

14. ONEI 2016, *supra* note 2; ONEI 2009, *supra* note 2.

15. The values of Cuba's exports of services other than tourism practically refer to revenues from exports of various professional services and, to a lower extent, telecommunications given that official data on gross tourism earnings already include earnings from international transportation services.

period also led to an improved position in Cuba's BOP. The three principal components of a country's BOP are the current account, the capital account, and the financial account. The current account records the net flow of money arising from trade of goods and services, factor income like dividends paid to foreign investors, and other cash transfers such as remittances and donations. The capital and financial accounts gauge the net change in foreign assets, including foreign investment, loans, and reserves. In essence, the first component determines the international exposure of an economy while the other two components explain how it is financed. In the second half of the 1990s and early 2000s, tourism incomes partially mitigated the deficit in the current account of Cuba's BOP, as did remittance inflows whose estimated amount at that time ranged between $500 million and $1.1 billion per year.[16] Since then, except in 2006 and 2008, the current account has recorded surpluses or remained practically balanced. Cuba, however, does not provide information on the capital account and the scanty official statistics on the financial account have not been updated since 2001, making it difficult to measure the island's access to foreign financing.

Despite this lack of solid data, Cuba's chronic cash shortages and its repeated failures to respect its debt payments are well known. In particular, the government-backed credits Cuba receives from China and other strategic partners and a significant portion of its revenues from the export of professional services to Venezuela are funds committed to the purchase of products from these countries. The Cuban government must rely primarily on exports of nickel and a few other products, international tourism, and overseas remittances to build foreign exchange liquidity and reserves. Cuba had a difficult period in 2008-2009 during which Havana's authorities delayed payments to foreign creditors and froze hundreds of millions of dollars in the Cuban bank accounts of many foreign suppliers and partners in joint ventures,[17] until Cuba's liquidity

16. PAOLO SPADONI, FAILED SANCTIONS: WHY THE U.S. EMBARGO AGAINST CUBA COULD NEVER WORK 148 (2010) [hereinafter SPADONI, FAILED SANCTIONS]; Manuel Orozco, *On Remittances, Markets and the Law: The Cuban Experience in Present Times*, CUBA IN TRANSITION, Aug. 2009, at 406, http://www.ascecuba.org/c/wp-content/uploads/2014/09/v19-orozco.pdf [https://perma.cc/HWE7-UGQF]; Lorena Barberia, *Remittances to Cuba: An Evaluation of Cuban and U.S. Government Policy Measures*, *in* THE CUBAN ECONOMY AT THE START OF THE TWENTY-FIRST CENTURY 353, 368 (2004).

17. Marc Frank, *Global Crisis, Storms Hit Cuba Finances*, REUTERS (Dec. 17, 2008, 10:48 AM), https://www.reuters.com/article/cuba-economy-idUSN1244996520081217 [https://perma.cc/M64R-5QDX]; Gerardo Arreola, *Cuba Tiene Congeladas Desde Hace 6 Meses las Cuentas Bancarias de Empresas Extranjeras*, LA JORNADA (May 24, 2009), http://www.jornada.unam.mx/2009/05/25/index.php?section=mundo&article=033n1mun

problems began to improve thanks above all to record numbers of international arrivals and associated revenues and a spike in remittances from abroad (mainly sent by Cuban Americans).[18] Annual gross earnings from tourism activities rose from $2.1 billion in 2009 to $2.8 billion in 2015.[19] Remittances, according to unofficial sources, more than doubled during this period to more than $3 billion per year and possibly emerged as Cuba's second largest source of hard currency revenues after exports of professional services.[20] Unofficial sources also indicate that Cuba's international reserves increased markedly from $7.4 billion in 2011 to $12.1 billion at the end of 2015.[21]

In another significant development, Cuba accumulated a large external debt in hard currency that added yet another burden to the country's struggling economy. Cuba's active or performing debt jumped from $5.8 billion in 2004 to $11.6 billion in 2008 as Venezuela and China began to extend sizable credits to Havana on far better terms than those granted by their competitors.[22] This active debt was last reported at $11.9 billion in 2013, of which $9.9 billion was medium- and long-term debt owed primarily to foreign governments.[23] At that time, Cuba also owned an inactive or nonperforming debt of about $7.6 billion that it had not serviced since 1986, owed mainly to the Paris Club creditors,[24] and a huge outstanding debt with the former Soviet Union in old transferable rubles that Russia claimed but the Cuban government refused to recognize. Albeit still worrying, the island's debt burden has eased since then (and new credit lines have become available) due to debt-restructuring deals with Paris Club member countries, Russia, and other creditors that resulted in major reductions in what Cuba owed in exchange for payment plans it can meet. In 2014, Russia wrote off 90% of Cuba's $35.2 billion debt to the Soviet Union with the understanding that Havana pay the rest within ten years.[25] In late 2015, Paris Club creditors forgave $8.5 billion

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[https://perma.cc/BYD8-C7XP].

18. Frank, *supra* note 17.

19. ONEI 2016, *supra* note 2.

20. Emilio Morales, *Cuba: The Fastest Growing Remittances Market in Latin America*, THE HAVANA CONSULTING GROUP & TECH (June 23, 2016), http://www.thehavanaconsultinggroup.com/en-US/Articles/Article/20 [https://perma.cc/7MUN-V2F6].

21. ECONOMIST INTELLIGENCE UNIT, COUNTRY REPORT: CUBA (2016).

22. Emily Morris, *Cuba's New Relationship with Foreign Capital: Economic Policy-Making Since 1990*, 40 J. LATIN AM. STUD. 769, 788 (2008).

23. ONEI 2016, *supra* note 2.

24. The Paris Club is an informal group of nineteen creditor nations (Western European countries, Japan, Russia, Australia, and the United States) providing debt relief and other kinds of financial assistance to debtor countries, mostly developing nations. Unlike the IMF and the World Bank, the Paris Club does not issue multilateral loans.

25. Mark Lammey, *Russia Ratifies $35bln Debt Write-off for Cuba*, MOSCOW TIMES (July

of Cuba's $11.1 billion defaulted debt (including interests, service charges, and penalties) and restructured payments on the reminder.[26] Cuba also negotiated follow-up bilateral deals with most Paris Club members in exchange for financing for development projects and struck debt-restructuring deals with Chinese, Mexican, and Japanese commercial creditors.[27]

Improved access to external financing is very important for Cuba. Because many consider it a high credit risk, Cuba has virtually no access to medium- and long-term financing from foreign private lenders (banks and other entities), and so it must seek short-term loans at high interest rates. Cuba can obtain modest official loans from developed countries, but long-term financing in recent years has come almost exclusively from official lenders in a small group of friendly nations, in particular Venezuela, China, Brazil, and Russia.[28] Trade credit from developed countries' banks is generally tight even though this practice is widely seen as one of the least risky forms of lending. Moreover, Cuba is not a member of leading U.S.-led international financial institutions (IFIs) such as the World Bank, the International Monetary Fund, and the Inter-American Development Bank whose wealth of knowledge and financial resources would serve well the current needs of the island.

In this regard, Cuba's changing relationship with the United States has the potential to encourage private and official lending and perhaps Cuban admission in the aforementioned IFIs.[29] In December 2015, the credit rating agency Moody's confirmed Cuba's "Caa2" rating (meaning its "obligations are judged to be of poor standing and are subject to very high credit risk") but raised the country's outlook from stable to

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9, 2014, 7:03 PM), https://themoscowtimes.com/articles/russia-ratifies-35bln-debt-write-off-for-cuba-37170 [https://perma.cc/L9BZ-VXSG].

26. Marc Frank & Leigh Thomas, *Cuba's Debt Deal: Easy Terms, but Severe Penalties if Late Again*, REUTERS (Dec. 15, 2015, 11:01 AM), http://www.reuters.com/article/us-cuba-debt-exclusive-idUSKBN0TY23C20151215 [https://perma.cc/Y2J6-F7CD].

27. Marc Frank, *Cuba Nears Deal with Paris Club on Debt Forgiveness*, REUTERS (Dec. 7, 2015, 10:51 AM), http://www.reuters.com/article/us-cuba-debt-idUSKBN0TQ1XX20151207 [https://perma.cc/DG3F-TMLU].

28. Luis R. Luis, *Cuba: External Debt and Finance in the Context of Limited Reforms*, CUBA IN TRANSITION, Aug. 2013, at 189, http://www.ascecuba.org/c/wp-content/uploads/2014/09/v23-luis.pdf [https://perma.cc/Y5CF-6KE5].

29. PAVEL VIDAL & SCOTT BROWN, CUBA'S ECONOMIC REINTEGRATION: BEGIN WITH THE INTERNATIONAL FINANCIAL INSTITUTIONS: THE RIGHT STEP FOR IMPROVING THE LIVES OF CUBA'S CITIZENS 18-19 (2015), http://publications.atlanticcouncil.org/uscuba/CUBAIFI_0709_DP.pdf [https://perma.cc/X7TJ-SJ3C]; Marlén Sánchez Gutiérrez, *Cost and Benefits from a Possible Return of Cuba to the IMF and to the World Bank. Is it Worth Exploring?*, FROM THE ISLAND, Sept. 22, 2015, at 2, http://www.cubastudygroup.org/index.cfm/files/serve?File_id=4178a518-a7d5-4611-b645-9b7da19a5315 [https://perma.cc/65J5-KPZC].

positive.[30] As the key drivers of the rating action, Moody's cited manageable risks associated with Cuba's reduced dependence on Venezuela since 2014, continued cautious reform momentum, a positive economic outlook that prompted the agency to boost its forecast for Cuba's economic growth to 3.5% in 2016, and increased rapprochement with the United States.[31] However, although Cuba has yet to feel the full brunt of the Venezuelan crisis, the latter has already caused substantial negative effects on the island, exposed serious problems in Cuba's external sector, and highlighted key structural weaknesses of the Cuban economy, raising doubts about Havana's ability to effectively manage its weakened ties with Caracas.

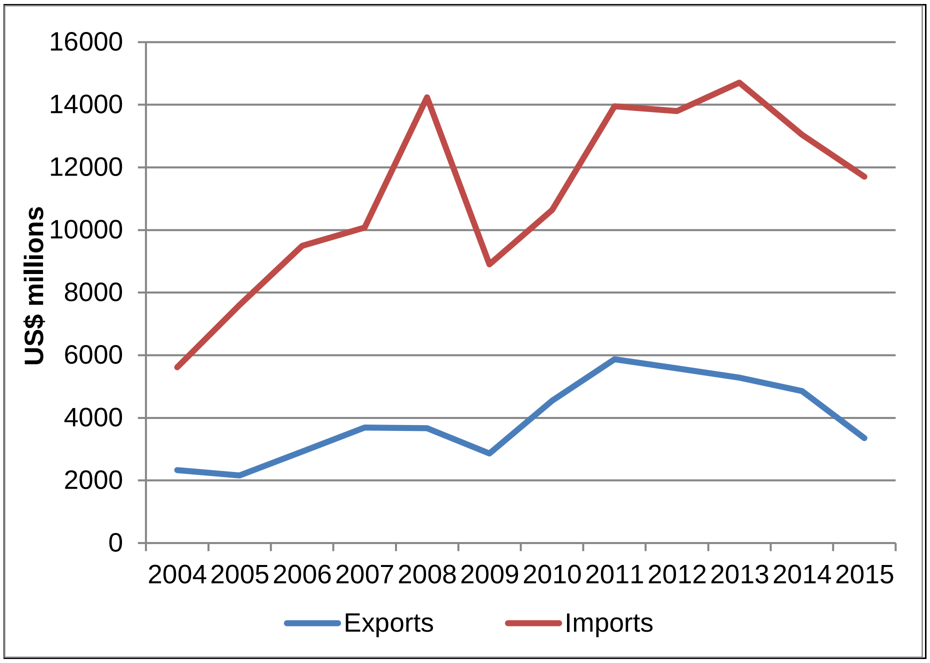
## III. PRINCIPAL CHALLENGES

Along with its precarious financial situation, Cuba faces a number of critical problems that limit the adequate functioning of the external sector and its ability to stimulate economic growth. These include a sizable merchandise trade deficit, excessive trade concentration in terms of both products and markets, vulnerability to external trade shocks (especially international price swings), overreliance on export activities with low cross-sector spillover effects, insufficient levels of foreign investment, and key systemic flaws that stifle trade competitiveness.

30. *Moody's Changes Cuba's Outlook to Positive from Stable; Caa2 Rating Affirmed*, MOODY'S INVESTOR SERVICE (Dec. 10, 2015), https://www.moodys.com/research/Moodys-changes-Cubas-outlook-to-positive-from-stable-Caa2-rating--PR_339779 [https://perma.cc/X5FQ-56AX].

31. *Id.* Moody's is the only global rating agency to assign grades to Cuba.

**Figure 3. External Trade in Goods, 2004-2015**[32]




With respect to the external trade in goods, Cuba's trade deficit has soared dramatically since the mid-2000s (Figure 3). Owing primarily to rapidly worsening terms of trade in connection with the global economic crisis, the island's merchandise balance posted a deficit of more than $10 billion in 2008, the largest ever. A combination of significant import cuts and growing export receipts drove the trade deficit down to about $6 billion in 2010, a level still three times higher than that of 1990. Cuba continues to rely on a large amount of imports (mainly fuels, foodstuffs, machinery and equipment, and manufactured goods) to supplement insufficient domestic production and alleviate the needs of its society. It will likely continue to do so in the future because the stimulation of productive forces and the recapitalization of key national industries require considerable purchases from abroad. Cuba's annual trade deficit in goods was nearly $8.4 billion in 2015, as the value of exports plunged to approximately $3.3 billion while imports, despite a sizable drop from their record level two years before, reached $11.7 billion. Preliminary estimates from official sources for 2016 also indicate that both exports and imports dropped further to $2.5 billion and $10.3 billion,

32. ONEI 2016, *supra* note 2; ONEI 2015, *supra* note 2; ONEI 2009, *supra* note 2.

respectively, which resulted in a trade deficit of around $7.8 billion.[33]

Over the past decade, cumulative revenues from exports of goods were roughly one-third of what Cuba had to pay to satisfy its import needs. With such a weak export performance, Cuba has struggled to finance its merchandise trade deficit and frequently fell behind on its payments to foreign business partners.[34] Cuban exports also are concentrated in just a few commodities. Only four products (nickel, sugar, cigars, and medicines) accounted for almost 50% of the island's total merchandise export earnings in 2015.[35] Even more strikingly, close to an additional 35% of total revenues came from oil exports, which consisted not only of various types of fuels produced at a joint venture refinery with Venezuela in Cienfuegos but also, most likely, of significant amounts of re-exported Venezuelan oil.[36] Moreover, despite significant reforms aimed at bolstering agricultural output and substituting expensive food imports, Cuba still imports nearly 70% of the food it consumes, for which it pays some $2 billion each year.[37] The country's industrial sector has severe problems as well and has yet to recover from its collapse in the early 1990s.[38] Notwithstanding some progress in certain subsectors, the physical output of the Cuban manufacturing industry in 2015 was only about 70% of its level in 1989. Domestically-produced equipment has almost entirely disappeared today, and intermediate goods in 2015 stood at little more than 40% of their volume in 1989.[39] It thus comes as no surprise that Cuba must purchase a great deal of machinery and equipment from abroad and that intermediate products account for the lion's share of the country's imports.

Additionally, crucial trade vulnerabilities should not be overlooked. The international prices of Cuba's key export and import goods tend to experience wide swings. For nickel and sugar exports, the supply's lack of capacity to react to higher prices further complicate things.[40] Almost

33. ONEI 2017, *supra* note 2.

34. RICHARD E. FEINBERG, OPEN FOR BUSINESS: BUILDING THE NEW CUBAN ECONOMY 42 (2016).

35. Calculations of the author from ONEI 2016, *supra* note 2.

36. CARMELO MESA-LAGO & JORGE PÉREZ-LÓPEZ, CUBA UNDER RAÚL CASTRO: ASSESSING THE REFORMS 82–83 (2013). Calculations of the author from ONEI 2016, *supra* note 2.

37. Marc Frank, *As U.S. Food Sales to Cuba Slow, Farmers Seek End to Embargo* REUTERS (Feb. 6, 2015, 9:30 AM), http://www.reuters.com/article/usa-cuba-food-idUSL1N0VG0PM20150206 [https://perma.cc/7LFZ-E66K].

38. Archibald R. Ritter, *Does Cuba Have a Future in Manufacturing?*, CUBA IN TRANSITION, Aug. 2014, at 345, http://www.ascecuba.org/c/wp-content/uploads/2015/01/v24-ritter.pdf [https://perma.cc/6E8Y-Y7YP].

39. ONEI 2016. *supra* note 2.

40. Jorge Mario Sánchez Egozcue, *Crecimiento Económico y Sector Externo en Cuba* (Workshop paper) (2011), *available at* http://thecubaneconomy.com/wp-content/uploads/2011/1

entirely due to price fluctuations, since production levels changed little (between 70,000 and 75,000 tons of nickel each year), the island's revenues from nickel exports increased from $600 million in 2000 to $2.1 billion in 2007 and dropped to $1.4 billion in 2011.[41] Since then, despite the growing contribution of the Pedro Soto Alba plant in Moa—run as a joint venture with the Canadian firm Sherritt International—Cuba's annual nickel output has decreased by nearly 20,000 tons due to the closing of an aging state-owned plant in Nicaro and maintenance work that affected production at another state facility in Punta Gorda. A sharp drop in nickel prices exacerbated the impact of low output on financial results, pushing export revenues down to less than half their level in 2011 and forcing the Cuban nickel industry to step up its efforts to reduce costs and achieve greater efficiency.[42] Mounting losses caused by plummeting international prices also played a major role in Cuba's decision in the early 2000s to downsize its sugar industry.[43] Nevertheless, a steady decline in sugar output in the second half of the 2000s coincided with a spectacular growth of prices. In 2011, when Cuba's sugar production stood at just 1.24 million tons (only slightly above the 105-year low of 1.16 million tons in 2010 and down from 4.06 million tons in 2000) and export revenues amounted to $360 million, prices were nearly four times higher than a decade earlier. Conversely, sugar output rose after 2011, reaching 1.9 million tons in 2015 while prices witnessed a strong downward trend. As a result, annual sugar export revenues remained practically stagnant during this period.[44]

And most important of all, the recent freefall in oil prices has seriously hurt the Cuba-Venezuela alliance. It made it very difficult for Caracas to maintain its oil-assistance program to Havana, it slashed Cuba's revenues from exports of refined oil products and re-exported Venezuelan oil, and it reduced the cash Cuba receives for the services of its professionals since the amount apparently is linked to oil prices (meaning Venezuela pays less when prices are down). Cuba indeed might

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0/Jorge-Mario-Sanchez-Crecimiento-econ%C3%B3mico-y-sector-externo-en-Cuba.docx [https://perma.cc/9DAZ-XD4K].

41. PAOLO SPADONI, CUBA'S SOCIALIST ECONOMY TODAY: NAVIGATING CHALLENGES AND CHANGE 66 (2014) [hereinafter SPADONI, CUBA'S SOCIALIST ECONOMY].

42. Sarah Marsh, *Cuba Sees Nickel Output Steady at 56,000 Tonnes; Low Prices Bite*, REUTERS (June 13, 2016, 4:16 PM), http://www.reuters.com/article/us-metals-cuba-nickel-idUSKCN0YZ2C5 [https://perma.cc/YRX6-T76N].

43. Philip Peters, *Cutting Losses: Cuba Downsizes Its Sugar Industry*, LEXINGTON INSTITUTE (2003), http://www.lexingtoninstitute.org/wp-content/uploads/Cuba/cutting-losses.pdf [https://perma.cc/RV3U-5LBP].

44. ONEI 2016, *supra* note 2. For nickel and sugar price trends, see World Bank data at http://www.worldbank.org/en/research/commodity-markets [https://perma.cc/N3G9-TVNC].

be the only oil-importing country that prefers high crude prices. In yet another sign of Cuba's vulnerability to fluctuations in commodity prices, foreign media reported toward the end of 2015 that Cuba once again was experiencing liquidity shortages and falling behind on some payments to foreign suppliers as steep declines in the prices of key exports such as refined oil products and nickel (sugar prices dropped as well) took a toll on the island's finances.[45] Cuba's liquidity situation and its overall economic conditions have actually worsened since then, in tandem with a crisis in its key trading partner Venezuela.

**Table 2. Cuba's Merchandise Trading Partners in 2015[46]**

| Destinations of exports | US$ millions | Origins of imports | US$ millions | Bilateral trade | US$ millions |
|---|---|---|---|---|---|
| Venezuela | 1,438 | Venezuela | 2,794 | Venezuela | 4,232 |
| Canada | 361 | China | 2,331 | China | 2,599 |
| China | 268 | Spain | 1,187 | Spain | 1,334 |
| Netherlands | 222 | Brazil | 642 | Canada | 727 |
| Spain | 147 | Mexico | 460 | Brazil | 691 |
| Belgium | 78 | Italy | 429 | Mexico | 475 |
| Russia | 56 | Argentina | 369 | Italy | 452 |
| Brazil | 49 | Canada | 366 | Germany | 407 |
| Germany | 47 | Germany | 360 | Argentina | 389 |
| Croatia | 45 | Vietnam | 247 | Netherlands | 359 |
| Others | 639 | Others | 2,517 | Others | 3,387 |
| Total | 3,350 | Total | 11,702 | Total | 15,052 |

When it comes to Cuba's trade activities (Table 2), excessive market concentration remains an issue of concern.[47] Since 2004 there has been a strong reorientation of foreign trade toward countries like Venezuela, China, and Brazil, countries that provide government-backed credits with generous repayment terms, and a decline in the relative contribution of European nations and Canada, countries that had been the island's strategic partners during the 1990s.[48] But nearly 30% of Cuba's bilateral

45. Marc Frank, *Cuba in Cash Crunch Due to Low Commodity Prices, Venezuela Woes*, REUTERS (Oct. 16, 2015, 2:31 PM), http://www.reuters.com/article/us-cuba-economy-idUSKCN0SA1U420151016 [https://perma.cc/PG6X-S2J6].

46. ONEI 2016, *supra* note 2.

47. Omar Everleny Pérez Villanueva, *La Economía Cubana: Evolución y Perspectivas*, CUBAN STUD., 2016, at 35 (2016).

48. SPADONI, CUBA'S SOCIALIST ECONOMY, *supra* note 41, at 23.

merchandise trade (around $4.2 billion in 2015) and the vast majority of its service trade are currently concentrated with a single partner, Venezuela, which is teetering on the edge of economic and political collapse.[49] In effect, despite a boom in U.S. visitors and remittances amid a detente with the United States, the Cuban economy registered a contraction in 2016 and its prospects for 2017–2018 look grim, as annual GDP growth is expected to remain well below 2%.[50] Cuban authorities have acknowledged that Venezuela's economic woes affected its oil supply to Cuba and announced austerity measures that include drastic cuts in electricity and fuel consumption, imports, and investment.[51] Referring to the possible risks associated with this situation, a prominent Cuban economist claimed that Cuba's GDP could plummet 10% if Havana's special relations with Caracas fall apart completely.[52]

Furthermore, although the external sector could play a critical role in promoting economic expansion and development, to a large extent over the past two and a half decades Cuba has simply replaced one engine of growth with another instead of diversifying its economic anchors and fostering new dynamic manufacturing activities. If anything, in recent years the Cuban economy has moved steadily toward professional services with fewer linkages with the production sphere than sugar and international tourism, the two previous leading sectors.[53] Except for some emerging ties to the biotechnology industry, Cuban exports of medical services (whose growth, moreover, seems to have passed its peak) are largely unlinked from the rest of the domestic economy.[54] Even nickel production has minimal ripple effects on the rest of the economy because nickel is extracted on the island but refined abroad.[55] On the contrary, services like tourism and certain industries involved in producing goods

49. Peréz Villanueva, *supra* note 47.

50. ECONOMIST INTELLIGENCE UNIT, COUNTRY REPORT: CUBA (2017).

51. Marc Frank, *Cuba Warns of Further Belt Tightening as Venezuelan Crisis Deepens*, REUTERS (Apr. 28, 2017, 11:59 AM), http://www.reuters.com/article/cuba-economy-idUSL8N1I06XW [https://perma.cc/NL7C-TJET]; Nora Gámez Torres, *Expertos Alertan Sobre Crisis Económica en Cuba*, EL NUEVO HERALD (July 28, 2016, 5:34 PM), http://www.elnuevoherald.com/noticias/mundo/america-latina/cuba-es/article92433277.html [https://perma.cc/6V7Z-R2PW]; Marc Frank, *Cuban Economy Minister Details Dire Austerity Measures*, REUTERS (July 9, 2016, 9:38 AM), http://www.reuters.com/article/us-cuba-economy-austerity-idUSKCN0ZP0I3 [https://perma.cc/9BVW-E2RY].

52. Marc Frank, *Venezuela's Economic Woes Send a Chill Over Closest Ally Cuba*, FIN. TIMES (July 26, 2016) (quoting Pavel Vidal).

53. Alberto Gabriele, *Cuba: From State Socialism to a New Form of Market Socialism?*, 53 COMP. ECON. STUD. 647, 657 (2011).

54. *Id.* at 659–60.

55. Antonio F. Romero G., *Los Desafíos de las Relaciones Económicas Externas de Cuba*, CUBAN STUD. 151 (2016).

(*e.g.*, sugar) can have considerable multiplier effects.[56] Medical internationalism provides substantial material benefits to Cuba, but it can hardly constitute a tool for stimulating long-term economic development. Sustained growth requires a more diversified export base, improvements in productive capacities, and especially the enactment of structural reforms to enhance the role of market forces in the Cuban economy.

In effect, the Cuban economy suffers, above all, from severe structural problems. Among them are a weak capacity to generate domestic savings to support investment, relative price distortions stemming from government controls that stifle market mechanisms, and a dual monetary system with multiple exchange rates (which Havana's authorities have vowed to eliminate) that creates strongly segmented spheres of economic activity, diminishes linkages between enterprises, and discourages foreign investment.[57] All of these problems conspire to defeat achieving higher efficiency and productivity and improving the quality of Cuban goods and services, thereby diminishing the country's competitiveness in the area of foreign trade.[58] Put simply, internal factors weigh even more heavily than external ones on the performance of Cuba's external sector and of its general economy.

Insufficient gross capital formation, which fell from 14.8% of GDP in 2008 to 9.4% in 2015, is also a major debilitating factor for the Cuban economy and warrants further discussion.[59] Over the past twenty-five years, the annual accumulation rates have been consistently and notably lower than during the 1970s and 1980s. Remarkably, the ratio of gross capital formation to GDP was 25.6% in 1989.[60] Cuba requires annual results similar to those of 1989 to reverse the decapitalization of key sectors and spur a lasting recovery of its economy, yet such numbers will be difficult to achieve without improved efficiency. Besides, Cuba has regularly failed to meet its planned domestic investment targets, in part due to external financial constraints but also because of inadequate

56. *Id.* at 151–52.

57. Monetary duality and multiple exchange rates generate a number of hidden subsidies and produce distortions in almost all economic measurements, to the point that it is nearly impossible to gauge the true profitability of enterprises. PAVEL VIDAL ALEJANDRO & OMAR EVERLENY PÉREZ VILLANUEVA, LA REFORMA MONETARIA EN CUBA HASTA EL 2016: ENTRE GRADUALIDAD Y "BIG BANG" 11 (2013), https://www.brookings.edu/wp-content/uploads/2016/06/monetary-reform-cuba-2016-alejandro-villanueva.pdf [https://perma.cc/EAT5-B9DW].

58. José Antonio Alonso & Pavel Vidal Alejandro, *Introducción: La Incierta Senda de las Reformas*, *in* ¿QUO VADIS, CUBA? LA INCIERTA SENDA DE LAS REFORMAS 11, 13–15 (José Antonio Alonso & Pavel Vidal eds., 2013).

59. ONEI 2016 *supra* note 2; ONEI 2009 *supra* note 2.

60. ONEI 1996, *supra* note 1.

organization, slow execution, and other operational flaws.[61] Despite its low levels, foreign investment has played a crucial role in all of the industries (oil, electricity, nickel, tourism, and telecommunications) that have experienced the highest growth since the early 1990s and enhanced the performance of Cuba's largest export sectors.[62] But the number of economic associations with overseas partners (including with Venezuela) on the island has fallen sharply in recent years and it remains to be seen whether Cuba's intensified efforts to bring badly needed foreign capital to its economy will be successful. At the end of 2015, only 214 foreign investment businesses operated in Cuba, mostly in the areas of tourism and real estate, energy and mining, and industrial activities, as seen in Table 3. They were primarily joint ventures and economic association contracts (hotel management agreements and oil exploration contracts), and only 4% were 100% foreign capital companies.

**Table 3. Foreign Investment Businesses in Cuba by Sector and Type in 2015 (year-end percentage distribution)[63]**

| Sector | | Type | |
|---|---|---|---|
| Tourism and real estate | 47% | | |
| Energy and mining | 12% | Joint ventures | 48% |
| Industry | 9% | | |
| Foods | 5% | | |
| Transportation | 5% | International economic association contracts | 48% |
| Agro-sugar industry | 4% | | |
| Construction | 4% | | |
| Other sectors | 14% | 100% foreign capital companies | 4% |
| Total | 100% | | |

Along with declarations by Havana's officials that foreign investment will now transcend its current complementary role to domestic investment efforts to soon occupy a major role in the economy,[64] Cuba

61. Omar Everleny Pérez Villanueva, *Análisis de la Evolución Reciente de la Economía Cubana*, *in* MIRADAS A LA ECONOMÍA CUBANA: ENTRE LA EFICIENCIA ECONÓMICA Y LA EQUIDAD SOCIAL 17 (Omar Everleny Pérez Villanueva et al. eds., 2013).

62. SPADONI, CUBA'S SOCIALIST ECONOMY, *supra* note 41, at 104–09.

63. Calculations of the author using MINISTERIO DEL COMERCIO EXTERIOR Y LA INVERSIÓN EXTRANJERA, CUBA: CARTERA DE OPORTUNIDADES DE INVERSIÓN EXTRANJERA 2016-2017, at 12 (2016), http://bohemia.cu/wp-content/uploads/2016/11/Cartera-de-Oportunidades-de-Inversi%C3%B3n-Extranjera-2016-2017.pdf [hereinafter MINCEX].

64. Prensa Latina, *Cuba, Empresa Estatal Debe Ser Más Activa en Atracción Capital*, DIARIO OCTUBRE (Apr. 1, 2016), https://diario-octubre.com/archivo1/2016/04/01/cuba-empresa-

enacted a more attractive foreign investment legislation in June 2014 (approved in March 2014) to replace Law 77 of 1995. The new Law 118 beefed up investment security, reduced the tax on profits in half from 30% to 15%, exempted new investors from paying it for eight years, and eliminated payroll taxes, although 100% foreign-owned investments still need special approval from the Cuban government to qualify for these fiscal benefits.[65] The latter are reserved for joint ventures with state enterprises and associations with cooperatives.[66] Moreover, overseas firms must continue to hire local workers through a Cuban employment agency and they cannot establish partnerships with Cuban independent entrepreneurs (*cuentapropistas*).[67] Constructed in partnership with Brazil's engineering group Odebrecht and with financial backing from the Brazilian government, in late 2013 Cuba also opened its first special development zone (Zona Especial de Desarrollo Mariel, ZEDM) around a new container terminal at the port of Mariel.[68] As established by Decree Law 313, foreign investors in the ZEDM receive even better tax breaks and other incentives than those under Law 118. They can have 100% ownership during contracts of up to 50 years (renewable), pay virtually no labor taxes, enjoy a ten-year exoneration from taxes on profits and then pay 12%, and are allowed to import and export goods mostly duty-free with less red tape.[69] But they still cannot directly hire and fire their Cuban employees.[70]

A country that has received no more than $5 billion in foreign direct investment (FDI) since it authorized the first joint venture with a foreign partner in the late 1980s, Cuba is now seeking $2 billion to $2.5 billion in FDI per year to achieve annual capital accumulation rates of 20–25% of GDP and annual economic growth rates of at least 5%.[71] In November

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estatal-debe-ser-mas-activa-en-atraccion-capital/ [https://perma.cc/C7YJ-FTL]; *Exploran nuevas oportunidades*, OPCIONES, Jan. 17, 2014.

65. Ley No. 118 Ley de la Inversión Extranjera [Law on Foreign Investment] 20 GAC. OF. 177, arts. 11, 36.1 (Cuba, Apr. 16, 2014) (article 11 deals with registration; article 36.1 cuts taxes to 15%).

66. *Id.* arts. 10, 15.

67. *Id.*

68. *Odebrecht Infrastructure–Latin America Finalizes Revitalization of Mariel Port in Cuba*, ODEBRECHT.COM (Jan. 27, 2014), https://www.odebrecht.com/en/odebrecht-infrastructure-latin-america-finalizes-revitalization-mariel-port-cuba [https://perma.cc/ZFZ8-MLY4].

69. Decreto-Ley No. 313 De la Zona Especial de Desarrollo Mariel [Decree on the Mariel Special Development Zone] 26 GAC. OF. arts. 20, 57, 58 (Cuba, Sep. 23, 2013).

70. *Id.* art. 31.

71. José Luis Rodríguez, *Valoraciones Externas Sobre la Inversión Extranjera en Cuba*, CUBA CONTEMPORÁNEA, Oct. 1, 2015, *available at* http://www.cubadebate.cu/opinion/2015/11/05/valoraciones-externas-sobre-la-inversion-extranjera-en-cuba/#.WX9TyYTyvRZ [https://perma.cc/PA43-6GBJ].

2016, the Cuban government unveiled a new portfolio of business opportunities for foreign investment in Cuba that listed 395 projects valued at $9.5 billion. It focused on projects related to tourism, oil exploration, energy, agriculture, and construction, and included several proposals for industrial and biotechnology/pharmaceutical projects in the ZEDM.[72] Nevertheless, from March 2014 to November 2016, Cuba approved only 83 new foreign investment businesses (15 of them in the ZEDM) worth just $1.3 billion.[73] The aforementioned annual targets of FDI inflows and GDP growth envisioned by the Cuban government may prove impossible to reach without deeper economic reforms, significant improvements in Cuba's business environment, and an ideological shift away from entrenched prejudices toward foreign investment.[74]

## IV. POTENTIAL ROLE OF THE UNITED STATES

Although relations between the United States and Cuba have become more confrontational since Donald Trump entered the White House, the Obama-era engagement with Havana demonstrated how improved relations with its powerful northern neighbor could open up new, beneficial economic opportunities for Cuba, even more so now that shock waves from Venezuela's economic malaise have finally reached the island. On December 17, 2014 (17D), Barack Obama and Raúl Castro announced in simultaneous televised speeches the beginning of a historic process of rapprochement between their countries after more than a half-century of unremitting hostility.[75] Most importantly, the U.S. President announced a series of measures aimed at fostering economic ties with Cuba and urged Congress to start working to end the long-standing embargo against the island, the main provisions of which are codified under the Torricelli law of 1992, the Helms-Burton law of 1996, and the Trade Sanctions Reform and Export Enhancement Act (TSRA) of 2000.[76]

72. MINCEX, *supra* note 63, at 18.

73. Raul Menchaca, *Cuba Keen to Draw Foreign Investment*, XINHUA (November 6, 2016, 12:17 PM), http://news.xinhuanet.com/english/2016-11/06/c_135809327.htm [https://perma.cc/7S6Y-AUSF].

74. Jorge F. Pérez-López, *Foreign Investment in Cuba's "Updating" of Its Economic Model*, CUBA IN TRANSITION, Aug. 2015, at 231–32, http://www.ascecuba.org/c/wp-content/uploads/2016/03/v25-perezlopez.pdf [https://perma.cc/65FQ-9NUX]; Omar Everleny Pérez Villanueva, *Relanzamiento de la Inversión Extranjera en Cuba: Necesidad para El Desarrollo Económico*, *in* ECONOMÍA CUBANA: TRANSFORMACIONES Y DESAFÍOS 88 (2014).

75. *See Obama and Castro Hail Historic Breakthrough for US-Cuba Relations—As it Happened*, GUARDIAN (Dec. 17, 2014, 4:19 PM), https://www.theguardian.com/us-news/live/2014/dec/17/alan-gross-cuba-prisoner-freed-obama.

76. 22 U.S.C. §§ 6001 *et seq.* (2012); 22 U.S.C. §§ 6021 *et seq.* (2012); Pub. L. No. 106-

Besides reaching an agreement with Havana for the re-establishment of full diplomatic relations, Obama issued six sets of amendments to sanctions regulations after the 17D, relaxing restrictions on travel, remittances, trade, investment, banking, and other commercial dealings with Cuba.[77] While it is too early to fully evaluate these measures, especially given President Trump's apparent goal to reverse most of Obama's policies, it is safe to argue that they had significant effects in certain areas, but their combined impact on the Cuban economy will continue to be severely limited by a codified embargo.[78] In particular, there are still major restrictions on U.S.-Cuba bilateral trade and U.S. direct investment in Cuba, a prohibition on travel to the island for tourism purposes, a number of financial restrictions, and the extraterritorial measures of sanctions.[79] Progress will also depend on Havana's willingness to approve the commercial and financial activities authorized by Washington, on any additional sanctions imposed by Trump, and on the economic reforms that Raúl Castro is implementing as part of the update of the Cuban socialist economic model.[80] Regardless of the U.S. stance on Cuba, the country still needs to complete the process of currency and exchange rate unification, reduce bureaucratic and administrative hurdles that stifle entrepreneurial activity, improve its financial and legal systems, and expand and renovate key infrastructures.[81]

387, § 7208 (Oct. 28, 2000).

77. Cuba: Revisions to License Exceptions, 81 Fed. Reg. 71,365−67 (Oct. 17, 2016); Cuban Assets Control Regulations, 81 Fed. Reg. 71,372−78 (Sept. 17, 2016); Cuba: Revisions to License Exceptions and Licensing Policy, 81 Fed. Reg. 13,972−74 (March 16, 2016); Cuban Assets Control Regulation, 81 Fed. Reg. 4583−86 (Jan. 27, 2016); Cuba Licensing Policy Revisions, 81 Fed. Reg. 4580−83 (Jan. 27, 2016); Cuban Assets Control Regulation, 80 Fed. Reg. 56,915−26 (Sept. 21, 2015); Enhancing Support for the Cuban People, 80 Fed. Reg. 56,898−904 (Sept. 21, 2015); Cuba: Implementing Rescission of State Sponsor of Terrorism Designation, 80 Fed. Reg. 43,314−20 (July 22, 2015). S*ee also* Cuban Assets Control Regulations; Terrorism List Governments Sanctions Regulations, 80 Fed. Reg. 34,053−54 (June 15, 2015); Cuba: Providing Support for the Cuban People, 80 Fed. Reg. 2286−302 (Jan. 16, 2015).

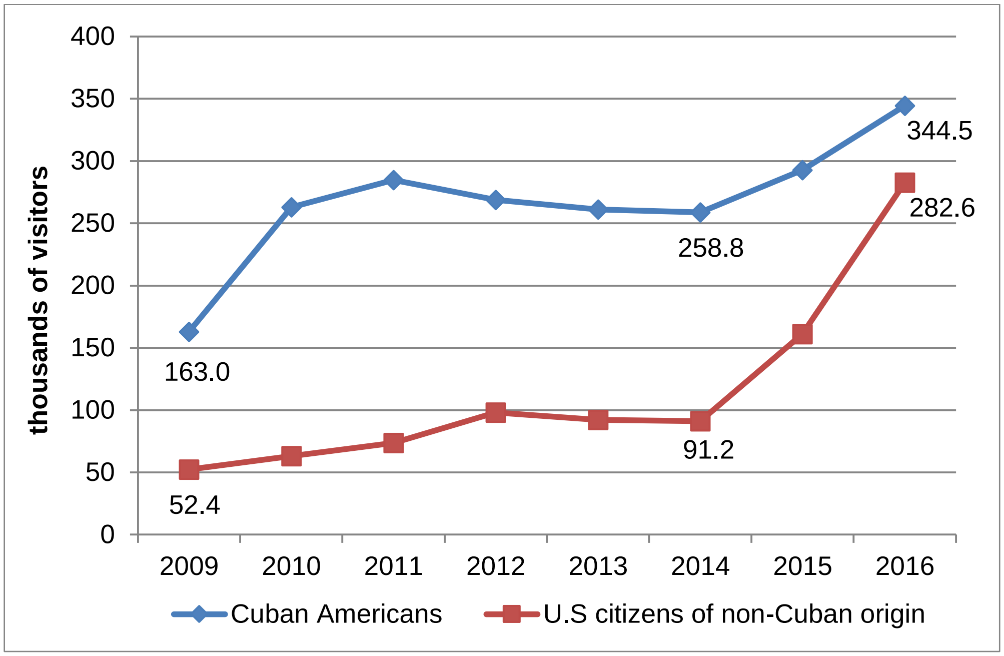
78. 22 U.S.C. § 6032 (2012).

79. *See generally* Cuban Assets Control Regulations, 31 C.F.R. §§ 515.101 *et seq.* (2017).

80. Fulton Armstrong, *U.S.-Cuba: Laying the Groundwork for Normal Relations* 1 (Am. Univ. Ctr. for Latin Am. & Latino Studies, Policy Brief No. 1, 2015), https://perma.cc/ VG2C-C37M.

81. *Id.* at 3−4.

**Figure 4. U.S. Visitors to Cuba, 2009–2016**[82]




A considerable increase of travelers to Cuba from the United States, especially U.S. citizens of non-Cuban origin, is one of the most visible direct effects of Obama's regulatory changes, as seen in Figure 4. Cuban official statistics make a distinction between Cuban Americans who travel to Cuba with a Cuban passport and American citizens entering the island with a U.S. passport.[83] This latter segment of visitors has remained well below its potential due to travel restrictions imposed by Washington's government. Annual trips to Cuba by U.S. citizens of non-Cuban origin did not reach 100,000 until the year between 2014 and 2015.[84] On the other hand, the Cuban-American segment experienced notable dynamism following Obama's decision in 2009 to eliminate all restrictions on family visits (and family remittances) to Cuba.[85] The

82. José Luis Perelló Cabrera, *El Turismo Internacional en Cuba: Escenario Reciente* (July 2017) (unpublished working paper) (on file with author) [hereinafter Perelló Cabrera, *El Turismo Internacional*]; *see also* José Luis Perelló Cabrera, *Desarrollo del Turismo en Cuba: Tendencias, Políticas, E Impactos Futuros*, CUBA IN TRANSITION, Aug. 2016, at 231, http://www.ascecuba.org/c/wp-content/uploads/2017/01/perello.pdf [https://perma.cc/9274-EAJE] [hereinafter Perelló Cabrera, *Desarrollo del Turismo*].

83. Anyone who permanently left Cuba after December 31, 1970, must have a valid Cuban passport to visit the island.

84. Perelló Cabrera, *Desarrollo del Turismo*, *supra* note 82, at 231.

85. Cuban Assets Control Regulations, 74 Fed. Reg. 46,000–07 (Sept. 8, 2009).

annual number of Cuban Americans traveling to Cuba rose from 163,019 in 2009 to 258,837 in 2014.[86]

The post-17D growth of U.S.-based travel to Cuba has been impressive. Annual trips to the island by U.S. citizens of non-Cuban descent almost tripled between 2014 (91,254) and 2016 (282,621). During the same period, Cuban-American trips grew 33.1% to reach 344,522 in 2016.[87] Actually, with the notable exception of Canada, international arrivals to Cuba from virtually all countries increased, to some extent to anticipate a looming avalanche of U.S. tourists.[88] The flow of U.S. visitors to Cuba received further stimulus from new rules in 2016 allowing Americans to travel to the island independently for non-academic educational purposes (people-to-people category) without having to go in organized groups, from the launch of non-stop daily commercial flights between the United States and Cuba,[89] and from the resumption of cruise services between the two countries. All of this made it easier for Americans to go to Cuba (arrivals of U.S. citizens of non-Cuban origin more than doubled in the first half of 2017 while Cuban-American trips grew 80%[90]), reduced travel costs, and greatly diluted the ban on tourism since U.S. officials, despite some monitoring, practically used the honor system to regulate authorized travel to the island. It also meant higher revenues for the Cuban government as well as more money in the hands of ordinary Cubans through tips and various private activities (gastronomy, taxi, and lodging, among others) geared toward tourists. But the flow of U.S. travelers unleashed by the removal of the ban on tourism would still be enormous. Some studies estimated that more than 1 million U.S. citizens would visit Cuba in the short run if travel prohibitions were entirely abolished and that between 1.5 million and 3.5 million would visit there annually once the market has fully adjusted.[91]

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86. Perelló Cabrera, *Desarrollo del Turismo*, *supra* note 82, at 231.

87. Perelló Cabrera, *El Turismo Internacional*, *supra* note 82.

88. ONEI 2017, *supra* note 2.

89. Alan Gomez, *First U.S. Commercial Flight in 5 Decades Lands in Cuba*, USA TODAY (Aug. 31, 2016, 5:52 PM), https://www.usatoday.com/story/news/world/ 2016/08/31/fir st-united-states-commercial-flight-cuba/89595932/ [https://perma.cc/9V7U-34AC]. Previously limited to charter flights, regularly scheduled passenger jet services between U.S. cities and Cuban cities other than Havana started at the end of August 2016. Commercial flights to Havana began in October 2016.

90. Perelló Cabrera, *El Turismo Internacional*, *supra* note 82.

91. *See, e.g.*, Calvin Djiofack et al., *The Impact of Easing the US Travel Restrictions against Cuba on Tourism in the OECS*, WORLD BANK MACROECONOMICS & FISCAL MGMT. MFM PRAC. NOTES, June 2015, at 1, http://documents.worldbank.org/curated/en/652211468189551 620/pdf/97687-BRI-Macroeconomics-and-Fiscal-Management-practice-note-Box391486B-PU BLIC-MFM-Practice-Note-4.pdf [https://perma.cc/EG4L-MJ6C]; Gerardo González Núñez & Roberto Orro Fernández, *El Turismo Cubano: ¿Cuántos Norteamericanos Puede Cuba Recibir?*,

The significance of Obama's policy initiatives toward Cuba goes well beyond their effects on travel and tourism activities. The Washington-Havana thaw fueled interest among U.S. firms in pursuing various kinds of business operations in the Cuban market despite a continued prohibition (except in the telecommunications sector and a few additional areas) on direct investments. International rivals from Europe, Canada, Brazil, and China have a clear head start in Cuba and they too are seeking new business deals, but U.S. investors could catch up quickly and be competitive in practically all Cuban priority sectors if the embargo were lifted. The United States has a number of advantages, in particular its highly diversified and efficient private sector that is well-suited to tackle Cuba's investment needs, the financial strength of its companies, and its geographical proximity that would keep transportation and delivery costs relatively low and thus improve the cost structure and price competitiveness of productive activities with U.S. involvement on the island.[92] Normal relations with the United States would also be the key to guarantee the future success of the Mariel project given that its prospects are hampered by the fact that exports and transshipments to the U.S. market remain off-limits because of the embargo.[93]

Representatives of U.S. firms flooded Cuba after the 17D even though the initial wave of enthusiasm has given way to a more cautious approach due to business barriers, the election of President Trump, and the Cuban government's timid embrace of new economic opportunities except for its clear interest in tourism-related projects and some telecommunications deals. American companies clearly are beginning to position themselves in the Cuban tourism market. Six U.S. air carriers (Delta, United, JetBlue, American Airlines, Southwest, Alaska Airlines) currently offer commercial flights to Cuba and five U.S. cruise companies (Carnival, Royal Caribbean, Pearl Seas, Norwegian C.L., Viking Cruises) sail to the island.[94] With special permission from the U.S. Treasury Department,

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CUBA IN TRANSITION, Aug. 2011, at 421, http://www.ascecuba.org/c/wp-content/uploads/2014/09/v21-gonzalezorro.pdf [https://perma.cc/6QFL-HYZB]; Rafael Romeu, *Vacation Over: Implications for the Caribbean of Opening U.S.-Cuba Tourism* 14 (Int'l Monetary Fund, Working Paper No. WP/08/162, 2008), http://www.imf.org/~/media/websites/ imf/imported-full-text-pdf/external/pubs/ft/wp/2008/_wp 08162.ashx [https://perma.cc/2CJJ-2GTB]; U.S. INT'L TRADE COMM'N, PUBL'N NO. 3932, U.S. AGRICULTURAL SALES TO CUBA: CERTAIN ECONOMIC EFFECTS OF U.S. RESTRICTIONS 3-14 – 3-17 (2007), https://www.usitc.gov/ publications/332/pub3932.pdf [https://perma.cc/6QFG-78PX].

92. Emilio Morales, *Los Grandes Retos del Deshielo*, CUBA IN TRANSITION, Aug. 2015, at 14–15, http://www.ascecuba.org/c/wp-content/uploads/2016/03/v25-morales.pdf [https://perma.cc/RB98-VQKF].

93. *Id.* at 12.

94. For the complete list of U.S. companies doing business in Cuba as of June 2017, see

Starwood Hotels and Resorts signed deals to refurbish and manage two state-owned hotels in Havana and opened its first facility, Hotel Quinta Avenida, in June 2016.[95] Marriott, Hyatt, Carlson, Hilton, and other major U.S. hotel chains have had meetings with Cuban authorities to run hotels in Cuba though no deals have yet been signed.[96] The online hotel reservation services Booking.com (owned by the Priceline Group), TripAdvisor, and Expedia all reached agreements with several Cuban hotels to join their booking system.[97] And the online lodging service Airbnb has allowed U.S. travelers to book stays in homes in Cuba through its website since April 2015, and was later authorized to offer its listings in Cuba, about 19,000 total, to all international travelers to the island.[98]

To truly take off, the American business incursion into the Cuban market needs the active involvement of the big U.S. financial and telecom firms to facilitate payments and fund transfers and ensure infrastructure improvements (especially Internet connectivity). New York-based IDT Corporation reached a deal with Cuba's telecom monopoly ETECSA to resume direct telephone connections between the United States and Cuba.[99] Verizon, Sprint, T-Mobile, and AT&T signed agreements with ETECSA to offer roaming services on the island, but at very high prices and with slow and limited access to Internet.[100] Multiple U.S. proposals

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U.S.-CUBA TRADE & ECON. COUNCIL, *Updated List: United States Companies with a Presence in Cuba Since 17 December 2014* (June 22, 2017) http://www.cubatrade.org/blog/2017/6/22/updated-list-united-states-companies-with-a-presence-in-cuba-since-17-december-2014 [https://perma.cc/98GX-UM6Q].

95. Sarah Marsh, *Cuba Hotel Becomes First to Operate Under U.S. Brand*, REUTERS (June 28, 2016, 6:24 PM), http://www.reuters.com/article/us-cuba-usa-tourism-idUSKCN0ZD 2VF [https://perma.cc/ZP6B-7H9D].

96. Mike Stone & Mitra Taj, *U.S. Hotel Chains Circle Cuba as Visitors Surge, Restrictions Ease*, REUTERS (Sept. 30, 2015, 1:00 AM), http://www.reuters.com/article/cuba-usa-hotels-idUSL5N11Y00K20150930 [https://perma.cc/DH4G-3P3N].

97. Mimi Dwyer, *Priceline Unit Booking.com Strikes Cuba Deal for Americans*, REUTERS (Mar. 21, 2016, 6:12 AM), http://www.reuters.com/article/us-cuba-usa-priceline-group-idUSKCN0WN0X7 [https://perma.cc/PE56-JALY]; Melanie Lieberman, *TripAdvisor Adds Booking for Trips to Cuba*, FORTUNE (Oct. 29, 2016), http://fortune.com/2016/10/29/ tripadvisor-booking-cuba-travel/ [https://perma.cc/7LWZ-YF75]; Sarah Marsh, *Expedia Begins Offering Online Booking for Hotels in Cuba*, REUTERS (May 23, 2017, 7:23 AM), http://www.reuters.com/article/us-cuba-usa-expedia-idUSKBN18J1ID [https://perma.cc/3GTG-6R2V].

98. Suzette Laboy, *What's Behind Airbnb's Overnight Success in Cuba?* CUBA TRADE MAGAZINE (May 23, 2017, 12:18 PM), http://www.cubatrademagazine.com/whats-behind-airbnbs-overnight-success-cuba/ [https://perma.cc/GG8F-TER9].

99. Daniel Trotta, *U.S. Telecoms Firm IDT Establishes Direct Connection with Cuba*, REUTERS (Mar. 11, 2015, 4:13 PM), http://www.reuters.com/article/us-cuba-usa-idt-corp-idUSKBN0M72DV20150311 [https://perma.cc/2ASF-XYMM].

100. Aishwarya Venugopal, *AT&T Signs Deal to Offer Roaming Services in Cuba*, REUTERS (Aug. 22, 2016, 12:36 PM), http://www.reuters.com/article/us-cuba-usa-at-t-idUSKCN10X1RO

to roll out an undersea fiber optic cable between Miami and Havana to boost connectivity have thus far been fruitless.[101] Google recently signed a deal to bring high-speed Internet to Cuba, though its impact will be minimal due to the limited number of Cubans who have access to the internet.[102] In the financial sector, Florida-based Stonegate Bank and Puerto Rico-based Banco Popular issued credit cards (MasterCard) for use on the island by U.S. travelers.[103] Stonegate also set up a correspondent account in Cuba and has issued a debit card.[104] However, many U.S. banks remain reluctant to establish operations in Cuba due to certain embargo rules as well as the country's inadequate legal and physical infrastructures.[105] Add to these obstacles the major stumbling blocks placed by codified sanctions on U.S. firms seeking to invest in Cuba, then the slow progress in this area seems hardly surprising.

[https://perma.cc/D5K6-QC2Q].

101. Mimi Whitefield, *Cuba Still Wary of U.S. Telecom and Internet Offers*, MIAMI HERALD (Jan. 25, 2016, 6:08 PM), http://www.miamiherald.com/news/nation-world/world/americas/cuba/article56522473.html [https://perma.cc/5A6T-8X27].

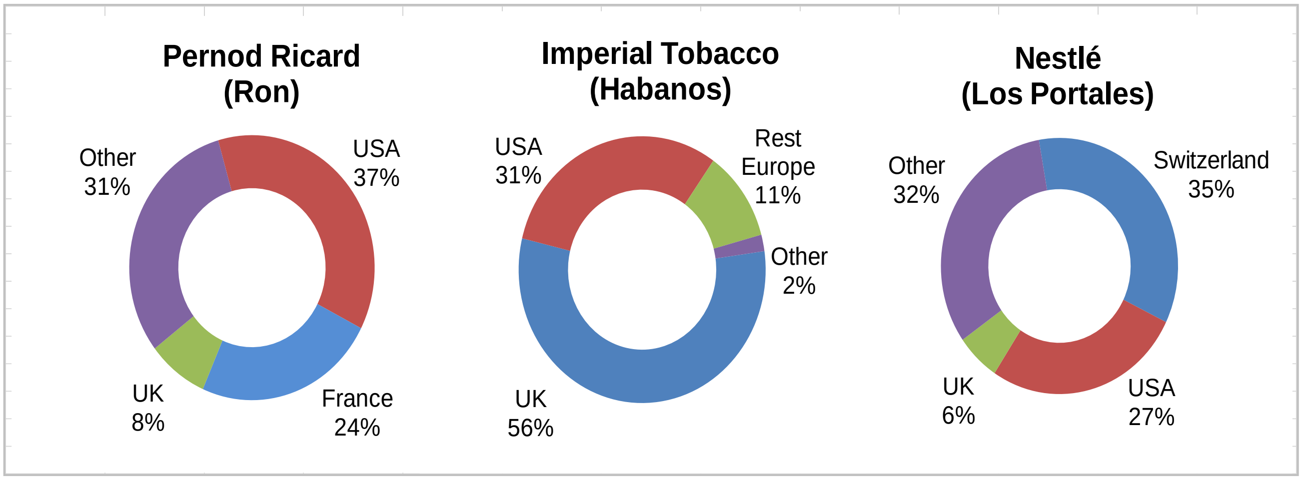
102. Alan Gomez, *Google Inks Deal with Cuba to Speed Up Internet Service*, USA TODAY (Dec. 12, 2016, 1:58 PM), https://www.usatoday.com/story/news/world/2016/12/12/google-cuba-sign-deal-speed-up-internet-service/95337148/ [https://perma.cc/GZ2Z-CTX6].

103. Mimi Whitefield, *American and Cuban Bankers Hold Historic Meeting*, MIAMI HERALD (Aug. 8, 2016, 7:00 AM), http://www.miamiherald.com/news/nation-world/world/americas/cuba/article93981267.html [https://perma.cc/X3AB-CCBZ].

104. *Id.*

105. *Id.*

**Figure 5. U.S. Investments in Selected Foreign Companies with Joint Ventures in Cuba, 2015**[106]




With respect to future U.S. business operations in Cuba, an important and largely unexplored issue revolves around the fact that under the embargo, most direct investments in Cuba are prohibited. The U.S. Department of the Treasury, however, allows individuals and firms subject to U.S. law to invest in a third-country company that has commercial activities in Cuba so long as: (1) they do not acquire a controlling interest; and (2) a majority of the revenues of the third-country company are not produced from operations within the communist island.[107] Thus, provided that the investment is indirect, a U.S. entity should have no problem in building a Cuba-related stock portfolio. Critically, in an increasingly globalized world, the nationality of multinational corporations based on the location of their headquarters may not necessarily reflect the geographical distribution of their share capital. Indeed, there is substantial U.S. capital in various foreign firms that operate in the Cuban market.[108] For instance, as seen in Figure 4, in

106. PERNOD RICARD, ANNUAL REPORT 2014/2015, at 113, https://www.pernod-ricard.com/en/media/publications-and-reports/reports/annual-report-20142015/ [https://perma.cc/HB2N-XE7G]; IMPERIAL TOBACCO GROUP PLC, ANNUAL REPORT AND ACCOUNTS 2015, at 44, http://ar15.imperial-tobacco.com/pdfs/full-annual-report-2015.pdf [https://perma.cc/J6SV-N97V]; NESTLÉ, ANNUAL REVIEW 2015, at 55, https://www.nestle.com/asset-library/documents/library/documents/annual_reports/2015-annual-review-en.pdf [https://perma. cc/V6KA-CNS9]. The name in parentheses is the name of the entity in Cuba controlled by the companies.

107. U.S.-CUBA TRADE & ECON. COUNCIL, COMMERCIAL HIGHLIGHTS 31 (2000), http://www.cubatrade.org (follow Commercial Highlights hyperlink under "Publications & Resources") [https://perma.cc/RDB8-9GZ2].

108. SPADONI, FAILED SANCTIONS, *supra* note 16, at 161–67.

2015 U.S. investors owned close to 40% of France-based Pernod Ricard, more shares of the company than any other group of institutional investors. As well, U.S. investors also owned nearly one-third of United Kingdom-based Imperial Tobacco and 27% of Switzerland-based Nestlé. These firms run profitable joint ventures with the Cuban government, respectively in the areas of rum, premium cigars, and soft drinks and mineral waters. If restrictions on U.S. direct investments in Cuba are completely eliminated, many U.S. enterprises will be able to launch new projects on the island and compete with other investors, but in some cases they might simply purchase a company and start running a business already on the ground.

Progress in the area of trade has also been slow. As indicated in Figure 6, U.S. exports of food and agricultural products to Cuba, as authorized under the TSRA of 2000, mainly frozen chicken, soybean products, and corn, plunged from their record level of $710 million in 2008 to $171 million in 2015, with a small recovery in 2016 to $232 million.[109] This trend largely resulted from Cuba's preference for purchases from government-controlled entities of Brazil, Argentina, Canada, and some European countries that offer credit and favorable payment terms. Purchases from U.S. firms instead must be completed with cash in advance payments (redefined under Obama from "cash before shipment" to "cash before transfer of title")[110] or through third-party guarantees from foreign banks.[111] Allowing the use of credit facilities would ensure a more level playing field for U.S. agricultural traders *vis-à-vis* competitors and create new export opportunities for them.[112]

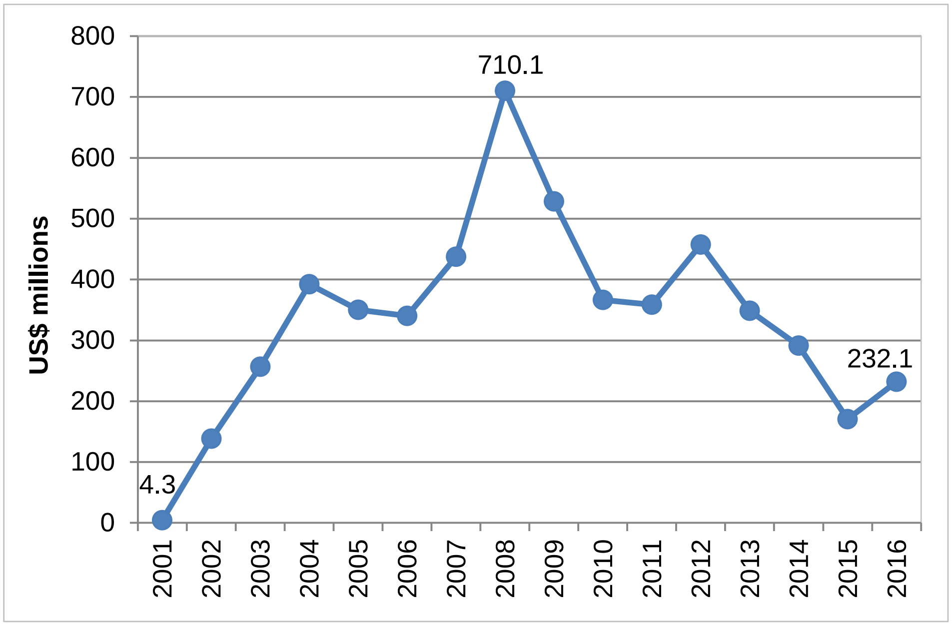
109. U.S.-CUBA TRADE & ECON. COUNCIL, ECONOMIC EYE ON CUBA (2017), http://www.cubatrade.org (follow Economic Eye on Cuba & Special Reports–2015 to present hyperlink under "Publications & Resources") [https://perma.cc/R2MH-JUFY] [hereinafter ECON. EYE ON CUBA 2017].

110. Cuban Assets Control Regulations, 80 Fed. Reg. 2, 291–93 (Jan. 16, 2015).

111. U.S. DEPT. OF AGRIC. ECON. RES. SERV., AES-87, U.S.-CUBA AGRICULTURAL TRADE: PAST, PRESENT, AND POSSIBLE FUTURE (2015), https://www.ers.usda.gov/webdocs/publications/35794/53141 [https://perma.cc/9CQP-KV7W].

112. *Id.* at 18.

**Figure 6. U.S. Exports of Food and Agricultural Products to Cuba, 2001–2016**[113]




In addition, even if Obama expanded the list of American products that can be exported to Cuba with U.S. financing,[114] very few U.S. traders have so far secured deals with Havana to sell newly authorized items. To be fair, navigating Cuban laws, policies, priorities, and the many agencies needed to win approval of business deals is quite challenging. But when it comes to U.S. commercial operations involving Cuba, major regulatory and financial hurdles and restrictions imposed by Washington remain in place. For instance, Cuba's growing tourism industry provides good opportunities for American traders, and yet U.S. exports that earn revenues for the Cuban government, such as those from the tourism sector, are generally prohibited.[115] A recent study by the U.S. International Trade Commission found that U.S. exports of agricultural and manufactured products to Cuba could increase by $1.4 billion to $1.8

113. ECON. EYE ON CUBA 2017, *supra* note 109.

114. As long as they meet "the needs of the Cuban people," eligible exports to Cuban state firms include items for agricultural production, artistic endeavor, education, food processing, public health and sanitation, disaster preparedness and response, residential construction and renovation, public transportation, and the construction of infrastructure (like facilities for treating water and supplying energy) that directly benefits the Cuban people. Cuba Licensing Policy Revisions, 81 Fed. Reg. 4580–83 (Jan. 27, 2016).

115. *Id.*

billion in the medium term (within 5 years) if the United States fully lifted its restrictions on trade with the island.[116] It also found that if the United States reduced Cuban import barriers (policies, institutional factors, and infrastructure limitations), U.S. exports of agricultural and manufactured goods could increase by an additional $442 million.[117]

Moreover, Washington's plans to foster U.S. trade with Cuba's incipient private sector face far greater challenges than those targeting business deals with the Cuban government. Along with microfinancing and training projects, Obama authorized U.S. exports of construction materials and equipment to Cuba for use by local farmers and private entrepreneurs as well as U.S. imports of certain goods and services from Cuban *cuentapropistas* and private cooperatives.[118] Exports of U.S. equipment, spare parts, and other goods to Cuban private entrepreneurs would help them increase productivity and expand operations. The possibility of selling to the U.S. market could inspire *cuentapropistas* and cooperatives on the island to start creating products and services for export. However, it will not be easy for Cuba's non-state economic actors to develop profitable export businesses since their activities are focused on the internal market and they are confronted with legal restrictions, logistical problems, and difficulties in handling payments as a result of both U.S. and Cuban rules.[119] On the Cuban side, many local professionals, whose services might be in demand in the U.S. market, are not permitted to be self-employed in their areas of expertise.[120] Moreover, neither *cuentapropistas* nor cooperatives in Cuba can import and export goods or services without a license from their government.[121] After the addition of coffee in April 2016 to the list of eligible U.S. imports from independent Cuban entrepreneurs, Nestlé's Nespresso obtained a license from the U.S. Department of Treasury to sell Cuban coffee, grown by

116. U.S. INT'L TRADE COMM'N, PUBL'N NO. 4597, OVERVIEW OF CUBAN IMPORTS OF GOODS AND SERVICES AND EFFECTS OF U.S. RESTRICTIONS 32 (2016), https://www.usitc.gov/publications/332/pub4597.pdf [https://perma.cc/85UN-ZRP8].

117. *Id.* at 20.

118. U.S. DEP'T OF STATE, *The State Department's Section 515.582 List*, Apr. 22, 2016, updated Mar. 31, 2017, https://www.state.gov/e/eb/tfs/spi/cuba/515582/237471.htm [https://perma.cc/HL4T-66RK] (last visited Aug. 1, 2017).

119. Emily Morris, *How Will U.S.-Cuban Normalization Affect Economic Policy in Cuba?* 2 (April 2015) (manuscript prepared for "Scholarly Implications of Normalization: Scholarly Perspectives on U.S.-Cuban Relations," American University), https://www.american.edu/clals/upload/2015-AU-SSRC-Morris-How-will-US-Cuban-normalization-affect-economic-policy-in-Cuba-FINAL.pdf [https://perma.cc/VCJ2-U2WX].

120. SPADONI, FAILED SANCTIONS, *supra* note 16, at 185.

121. David Adams, Arshad Mohammed, & Leslie Wroughton, *U.S. Eases Restrictions on Imports From Private Cubans*, REUTERS (Feb. 13, 2015, 8:10 PM), http://www.reuters.com/article/us-usa-cuba-imports-exclusive-idUSKBN0LH23H20150214 [https://perma.cc/A839-8ZY9].

small farmers on the island, in the United States, but the firm had to purchase the beans in Europe via Cuban state-owned export companies.[122] In early 2017, charcoal produced by private cooperatives became the first Cuban product legally exported to the United States in over five decades, but trade was completed through a Cuban state-run export firm.[123]

In any case, Obama's measures on Cuba most likely boosted the flow of remittances from the United States, which Cuban entrepreneurs increasingly used to set up small private businesses.[124] While the United States has allowed unlimited family remittances since 2009, all limits on donative (non-family) remittances and on remittances to support the development of private businesses in Cuba have now been eliminated.[125] These changes also provided impetus for the development of more efficient money transfer systems. Colorado-based Western Union, which has served Cuba since 1999, recently began to offer remittance services from the United States and other countries into Cuba via the company's mobile application and website.[126] Another U.S. company, Paypal, said it would start allowing remittances to Cuba through its service Xoom, which specializes in digital money transfers.[127] In March 2016, citing new rules that allow U.S. banks to open and maintain accounts for Cuban nationals, the U.S. online payments firm Stripe said it would launch its services in Cuba, aimed at Cuban tech startups that want to sell their products or services to U.S. customers.[128] PayPal and Stripe, though, have

122. Lisa Baertlein & Marcy Nicholson, *Cuban Coffee Returning to U.S. But Only for Nespresso Brewers*, REUTERS (June 20, 2016, 8:46 AM), http://www.reuters.com/article/us-cuba-coffee-nestle-idUSKCN0Z61E3 [https://perma.cc/MHA4-G9AR].

123. Sarah Marsh, *Charcoal Becomes First Cuban Export to United States in Half a Century*, REUTERS (Jan. 5, 2017, 11:49 PM), http://www.reuters.com/article/us-cuba-usa-export-idUSKBN14Q0DB [https://perma.cc/Y3MU-2HX8].

124. MANUEL OROZCO ET AL., TRENDS IN REMITTANCES TO LATIN AMERICA AND THE CARIBBEAN IN 2014, at 10–12 (2015), http://www.thedialogue.org/wp-content/uploads/2015/06/Trendsinremittancesin2014forLatinAmericaandtheCaribbeanFINAL.pdf [https://perma.cc/ RU8 K-2SFA].

125. MARK P. SULLIVAN, CONG. RESEARCH SERV., RL31139, CUBA: U.S. RESTRICTIONS ON TRAVEL AND REMITTANCES (Feb. 7, 2017), https://fas.org/sgp/crs/row/RL31139.pdf [https://perma.cc/SYY5-B4P6].

126. Mimi Whitefield, *Western Union: Remittances Help Accelerate Economic Change in Cuba*, MIAMI HERALD (June 10, 2015, 7:18 PM), http://www.miamiherald.com/news/nation-world/world/americas/cuba/article23700409.html [https://perma.cc/Y6GN-4QAR].

127. Leena Rao, *PayPal Brings Money Transfers to Cuba*, FORTUNE (Mar. 21, 2016), http://fortune.com/2016/03/21/paypal-cuba-xoom/ [https://perma.cc/Z476-6F7D].

128. Telis Demos, *Online Payment Upstart Stripe Launching Business in Cuba*, WALL STREET J. (Mar. 18, 2016, 4:48 PM), https://www.wsj.com/articles/online-payments-upstart-stripe-to-launch-business-in-cuba-1458324904 [https://perma.cc/7PRZ-SYMS].

yet to begin offering their services in Cuba.[129] Put simply, even if U.S. business dealings with Cuba's independent economic actors remain complicated, expanding remittances and the removal of impediments to Cubans accessing international financial services will reduce barriers to entrepreneurship on the island, contribute to investment in small businesses, and stimulate the growth of Cuba's private sector.

Finally, President Trump's new measures on Cuba, announced in June 2017, added yet another obstacle to deeper U.S.-Cuba economic ties. Arguing that Obama had negotiated a "terrible and misguided deal" with Havana,[130] Trump ordered tighter restrictions on travel to and commercial dealings with Cuba. The new rules prohibit individual people-to people trips (the most popular travel category) to the island and require them to be part of organized groups, call for stricter enforcement of the tourism ban, prohibit U.S. companies from doing business with firms owned or controlled by the Cuban military, and condition improvements in U.S.-Cuba relations on Cuba's willingness to foster political and economic freedoms.[131] Though falling significantly short of undoing Obama's policies, Trump's measures could potentially lead to a sizable drop in U.S.-based travel to Cuba. Furthermore, they might (1) hurt the Cuban private sector because organized groups tend to rely on state-run services for logistical reasons; (2) reduce business for U.S. airlines and travel firms; and (3) make it very difficult for U.S. companies to pursue new business deals in Cuba because the Cuban military controls a large share of the country's economy.[132]

## V. CONCLUSION

Today's Cuban economy is essentially a service economy with a feeble production base, serious systemic flaws, and an external sector that

129. As of August 2017, the PayPal service Xoom is available in 64 countries, though Cuba is not on the list. *About Xoom, A PayPal Service*, XOOM.COM, https://www.xoom.com/about [https://perma.cc/SUF7-R6C2] (last visited Aug. 17, 2017). Stripe Atlas lists 20 countries that it cannot support for businesses, among them Cuba. *Stripe Atlas Overview*, STRIPE.COM, https://stripe.com/docs/atlas [https://perma.cc/86RP-X5AK].

130. Steve Holland, *Trump Rolls Back Parts of What He Calls 'Terrible' Obama Cuba Policy*, REUTERS (June 16, 2017, 1:06 AM), http://www.reuters.com/article/us-usa-cuba-idUSKBN1970EC [https://perma.cc/YE32-8WXE].

131. Julie Hirschfeld Davis, *Trump Reverses Pieces of Obama-Era Engagement with Cuba*, N.Y. TIMES (June 16, 2017), https://www.nytimes.com/2017/06/16/us/politics/cuba-trump-engagement-restrictions.html [https://perma.cc/2KHS-EHLP].

132. Marc Frank, *Cuban Military's Tentacles Reach Deep into Economy*, REUTERS (June 15, 2017, 6:29 PM), http://www.reuters.com/article/us-usa-cuba-military-idUSKBN1962VK [https://perma.cc/9ZLM-X3SM].

remains incapable of stimulating and sustaining high growth rates. Cuba's external sector has experienced significant changes in the last two decades or so, above all in the area of foreign trade. Service trade has eclipsed merchandise trade. A special oil-for-doctors arrangement with Venezuela converted exports of medical and other professional services into Cuba's largest source of hard currency revenues and main engine of growth. International tourism is another vital source of foreign exchange earnings along with expanding remittances from overseas migrants. Major changes to the structure of merchandise trade have also occurred, with sugar relinquishing its traditional leading role within exports to nickel and oil products, and Venezuela emerging as Cuba's top trading partner.

There are some recent positive developments. Sizable inflows from medical service sales to Venezuela generated surpluses in Cuba's overall trade and current account balances. Largely in default for decades, the island's external debt received substantial relief from a generous debt-restructuring arrangement with Paris Club member nations, along with deals with other creditors, opening the door for future official credits and loan guarantees from developed countries that Havana hopes will compensate for the newly negotiated payment obligations. Furthermore, Cuba's international reserves appear to have risen notably. Albeit unable to bring in enough foreign resources for the Cuban economy to operate at high level of capacity and efficiency, the external sector was able to ensure positive GDP growth rates, at least until 2015. Finally, some new foreign investment businesses were formed in Cuba as the terms for overseas investors have improved.

There are nonetheless critical problems that negatively affect the performance of the Cuban external sector. Heavily dependent on imported goods, Cuba continues to run a large merchandise trade deficit that places significant strain on the country's external finances. The Cuban government's availability of foreign exchange is greatly reduced by insufficient levels of merchandise exports, little export diversification, and poor results from ongoing import substitution programs. Moreover, Cuba is exposed to volatile swings in the international prices of nickel, sugar, and oil products that strongly impact its export revenues and its import expenditures. An additional problem is that the service export sector, apart from tourism activities, has little connections with domestic production because professional services generate minimal multiplier effects on the rest of the economy. It is indeed very difficult to develop a service economy independently from the national industrial base. Cuba's low international competitiveness in the area of foreign trade is also the result of insufficient levels of domestic and foreign investment, over centralization, and other shortcomings of the socialist economic system. To further complicate things, a profound economic crisis in Venezuela has spread to its closest ally Cuba, leading to a contraction in the supply of Venezuelan oil to Havana and to lower export revenues for the island.

Against this backdrop of weakening economic linkages with Venezuela, Cuba's changing relationship with the United States becomes all the more important. The most comprehensive in decades, President Obama's liberalizing changes to sanctions rules with respect to Cuba boosted the flow of U.S. travelers (and remittances) to the island and paved the way for the resumption of U.S. commercial flights and cruise services to Cuba. They have also stimulated a great deal of interest in the Cuban market among U.S. and foreign firms and enabled several American companies to sign business deals with the Cuban government, most notably in the tourism and telecommunications sectors. Some of these trends continue despite President Trump's efforts to chip away at Obama's legacy with stricter rules on travel and business with Cuba; and if the embargo is out of the picture, closer economic ties with the United States could provide important new economic opportunities for Cuba precisely at a time when it needs them most.

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