Revised May 31, 2010

CUBA'S WONDROUS BALANCE OF PAYMENTS TURNAROUND

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Between 2001 and 2007, Cuba's net exports of goods and services swung from a deficit of $916 million to a surplus of $1,647 million, or by over $2.5 billion.[2] This is a remarkable achievement for an economy whose growth rates traditionally have been constrained by weak performance in external markets and scarcity of foreign exchange. If grounded on market reality and sustainable, these gains in goods and services exports would be a positive development for the Cuban economy in the future.

This paper examines the behavior of the external sector of the Cuban economy during the last decade. The discussion is organized around the balance of payments (BOP) methodology, an accounting system that measures the payments that flow between an individual country and the rest of the world. To the extent possible, official statistical data have been used as the basis for the examination. It should be noted, however, that Cuban foreign sector statistics are sparse and of questionable consistency and reliability. This is particularly the case with respect to data on services exports--the component of the balance of payments, as will be discussed below, that is primarily responsible for the remarkable turnaround. There are also some unanswered questions on the behavior of certain elements of the BOP which will be raised throughout the paper.

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[1] This paper was prepared for presentation at the International Conference "El Caribe en su Inserción Internacional," San José, Costa Rica, February 3-4, 2009. The author is grateful to Ernesto Hernández-Catá, Carmelo Mesa-Lago and Paolo Spadoni for comments on an earlier draft.

[2] These figures are from estimates of Cuban BOP by the Comisión Económica para América Latina y el Caribe (CEPAL), *Estudio Económico de América Latina y el Caribe 2007-2008* (August 2008), Statistical Annex. As is discussed below, Cuba has not published BOP statistics for all BOP accounts since 2001. It should be noted that the most recent report on the Cuban economy by CEPAL, *Cuba: Evolución Económica Dureante 2008 y Perspectivas para 2009* (August 2009) does not include BOP data for 2008.

The structure of the paper is as follows. The first part briefly recalls the basics of the BOP methodology and its principal components. The second part describes Cuban BOP statistics and estimates available from official and unofficial sources. The third part analyzes the elements of the current account, with emphasis on trade in goods and services and remittances. The fourth part examines the capital account. The paper concludes with some comments on the recent patterns of merchandise and services trade and what they might imply for the structure and performance of the external sector in the future.

THE BALANCE OF PAYMENTS

The balance of payments (BOP) is "a record of a country's money receipts from and payments to abroad, the difference between receipts and payments being the surplus or deficit."[3] BOP statistics depict the relationship between the amount of money a nation spends abroad and the income it receives from other nations in a given time period, typically one year.

The main accounts of the BOP are: (1) the current account, which tracks activity in exports and imports of goods and services, income earned from investments abroad, payments to foreign investors, and transactions for which there is no offsetting flow of goods or services (e.g., foreign aid, family remittances); and (2) the capital and financial accounts, which track activity in capital flows, such as loans, or foreign direct investment, portfolio investment and other investments, and official reserve assets and liabilities. BOP statements typically show a separate item for errors and omissions,

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[3] Poul Host-Madsen, *Balance of Payments: Its Meaning and Uses*, IMF Pamphlet Series No. 9 (Washington: International Monetary Fund, 1967), p. 1. See also International Monetary Fund, *Balance of Payments Textbook* (Washington: IMF, 1996) and Armando Linde, "The Balance of Payments: Concepts and Measurement," *Cuba in Transition—Volume 10* (Washington: Association for the Study of the Cuban Economy, 2000).

sometimes referred to as a balancing item or statistical discrepancy, which is intended as an offset to the overstatement or understatement of the recorded components; while in many instances errors and omissions offset each other, large and variable residual items may be indicative of systemic unrecorded or illegal activities.

BOP accounts are based on a double entry system. This means that each debit is matched by a credit and therefore the balance of payments always is, technically speaking, in balance (with changes in reserves offsetting any differences). Nevertheless, the behavior of certain sub-accounts (e.g., the merchandise trade sub-account, or the transfers sub-account), can be very informative in analyzing the soundness of economic policies being pursued by a nation.

Current Account

The current account consists of the following major sub-accounts:

- *Merchandise or goods trade*, which involves mainly merchandise exported to, or imported from, non-residents by residents and that generally undergo changes in ownership. Other types of transactions classified under this category are goods that cross a border for further processing and return to the original origin; repair work on ships, vessels, and aircraft; goods procured in ports by nonresident carriers (such as fuels, provisions); and non-monetary gold (which is treated as any commodity when it is not used as a means of payment).
- *Services trade*, which comprises mainly transportation, travel, provision of insurance fees and commissions for financial services, royalties and license fees, and government services such as expenditures of embassies and consulates.

- *Income*, or factor income, which includes compensation of employees paid to non-resident workers (e.g., border, seasonal, and other short-term workers) and investment income receipts on external financial assets and liabilities, including on foreign direct investment and portfolio investment.
- *Current transfers*, sometimes also called unrequited transfers, which comprise transfers between residents of the reporting country and the rest of the world that carry no provision for repayment. They consist of two major categories: (1) transfers between government or private parties in the form of grants or gifts, whether in cash or in kind, such as foreign aid; and (2) workers' remittances or family remittances, whether in cash or in kind, and other miscellaneous transfers such as contributions to religious, scientific, cultural, and charitable organizations, and scholarships offered by foreign governments.

Capital and Financial Accounts

The capital and financial accounts record transactions that involve the receipt or payment of transfers and acquisition or disposal of non-financial assets (capital account) and associated with changes in the foreign financial assets of an economy (financial account).

- The *capital account* involves transactions that change the stock of assets of one of the two parties. Examples might be loans and credits or loan forgiveness. Also considered as capital transactions are those associated with assets that may be useful for the production of goods and services but have not themselves been produced, such as patents, copyrights, trademarks, and franchises.

- The *financial account* comprises three categories of investment: (1) direct; (2) portfolio; and (3) other, which might include trade credits, loans, currency, and deposits.

CUBA'S BOP STATISTICS[4]

Government monetary authorities, such as ministries of finance or central banks, typically are responsible for compiling and publishing a nation's BOP statistics. In the case of Cuba, this responsibility traditionally has rested with the central bank. Cuba first published official BOP statistics in the late 1940s, based on the methodology developed by the International Monetary Fund,[5] but discontinued such publication in 1959. In the second half of the 1980s, Cuba published BOP statistics referring exclusively to the hard currency segment of the external sector. Cuba resumed publication of BOP statistics that presumably reflect the entire external sector in the mid-1990s.

Partial BOP Accounts

In August 1982, the Cuban National Bank (Banco Nacional de Cuba, BNC) issued a report, aimed at foreign audiences, in which it requested Western creditors to reschedule its hard currency debt in order to avoid a serious financial crisis.[6] According to the BNC report, as of June 30, 1982, Cuba's hard currency debt amounted to $2.9 billion. Cuba requested deferral of principal payments due in 1982-85 for a ten-year

[4] This section draws from Pérez-López, "Cuba's Balance of Payments Statistics," *Cuba in Transition—Volume 10* (Washington: Association for the Study of the Cuban Economy, 2000).
[5] National BOP statistics were first assembled and published by the League of Nations. With the establishment of the International Monetary Fund (IMF) in 1946, that organization took responsibility for developing a common methodology and for periodically publishing BOP statistics of member countries. The IMF published the first edition of its *Balance of Payments Manual* in 1948 and shortly after began to publish statistics in its *Balance of Payments Yearbook*. Cuba was one of the founding members of the IMF and participated actively in the Bretton Woods Conference that the created the IMF and the World Bank. See Joaquín P. Pujol, "Membership Requirements in the IMF: Possible Implications for Cuba," *Cuba in Transition—Volume 1* (Miami: Florida International University for the Association for the Study of the Cuban Economy, 1991), p. 96.
[6] Banco Nacional de Cuba, *Economic Report* (La Habana, August 1982).

period, with a three-year grace period, and committed to continue to meet interest payments. Cuba was successful in rescheduling portions of its hard currency debt in 1982-85,[7] but a worsening of the BOP situation in 1986 led the island to suspend debt service payments and technically default on its hard currency foreign debt.

To support the convertible debt rescheduling requests that commenced in 1982, the BNC published annual reports of economic developments in the island, and later also quarterly reports. These reports contained, for the first time since 1959, official statistics on the portion of the balance of payments transacted in convertible currencies, referring largely to transactions with Western countries. These BOP statistics are of limited value as they excluded cover Cuba's economic relations with the socialist nations and therefore referred to less than one-fifth of Cuba's overall international economic transactions during this period. Moreover, the statistics were published only at aggregate levels and did not report errors and omissions.

BOP Statistics for the 1990s and Beyond

The remarkable political and economic changes that occurred in Eastern Europe and in the former Soviet Union beginning in 1989 had a profound impact on the Cuban economy. Within a matter of about 18 months, Cuba lost the preferential trade and economic relationship with the former socialist countries it had developed for three decades. The Cuban economy experienced perhaps its deepest recession in the twentieth century, with GDP declining by more than 30% between 1989 and 1993.

The disappearance of the Soviet Union and of the former socialist bloc has meant that Cuba's foreign trade and economic relations since the early 1990s have been

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[7] Archibald R.M. Ritter, "Cuba's convertible currency debt problem," *CEPAL Review*, no. 36 (1988), pp. 117-140.

conducted exclusively in hard currencies. Thus, Cuba's hard currency BOP statistics for the 1990s and through the present presumably refer to the universe of international economic transactions.

BOP statistics for the 1990s, in highly aggregated form, were first published by the BNC in August 1995.[8] Subsequently, the BNC and its successor, the Cuban Central Bank (Banco Central de Cuba, BCC), published BOP statistics through 1998 in their annual reports at the same aggregated level.[9] More recent BCC reports are not available, but Cuba's National Statistical Office (Oficina Nacional de Estadísticas, ONE), began in the mid-1990s to include BOP statistics (from the BNC/BCC) in its publications, particularly in its annual statistical compendium, *Anuario estadístico de Cuba*. It is important to note, however, that the most recent full scope BOP statistics available (though at an aggregate level) are for 2001; more recent statistics published in the *Anuario* are only for the current account and its components. As was the case with the partial BOP account published in the 1980s, current Cuban BOP statistics do not include an item on errors and omissions in compilation, an absence that raises questions about their reliability.

Table 1 presents Cuban balance of payments statistics at aggregate levels for the decade 1998-2007. These figures have been taken from a publication of the UN Comisión Económica para América Latina y el Caribe (CEPAL) and, according to this source, are based on information provided by ONE. Two differences between ONE and CEPAL data are: (1) CEPAL includes capital and financial account data for 2002-2004 that are not published in ONE's *Anuario*; and (2) CEPAL also provides estimates of the

[8] Banco Nacional de Cuba, *Economic Report 1994* (August 1995).
[9] Banco Nacional de Cuba, *Economic Report 1995* (May 1996); Banco Central de Cuba, *Informe económico 1997* (May 1998); and Banco Central de Cuba, *Informe económico 1998* (April 1999).

current account and its components for 2007. The CEPAL statistics also avoid the very frequent revisions and changes in the Cuban official data.

[Table 1 about here]

In methodological notes accompanying the *Anuario*, ONE has stated that the BOP statistics, are "presented in accordance with a framework that approximates the methodological principles set out by the International Monetary Fund, which makes it possible to make comparisons with other countries."[10] Recent issues of the *Anuario* do not include the same reference to the methodology developed by the International Monetary Fund (IMF), but nevertheless describe the balance of payment statistics in a manner that is compatible with the IMF methodology.[11]

About Exchange Rates

Cuba operates with a multiple exchange rate system which consists of at lest the following currencies: (1) the Cuban peso (CP), the official currency, which is not freely exchanged in international markets for other currencies; (2) the convertible Cuban peso (CUC), a currency created in 1994 that is exchangeable in international markets and was originally valued at par with the U.S. dollar; and (3) the U.S. dollar (USD), whose circulation in the island was legalized in 1993; although the USD has been devalued vis-à-vis the CUC and a fee to exchange USD is charged by the government, the USD remains highly sought as a store of value for the population.

There is a great deal of uncertainty about which currency is used by the Cuban government in its external sector accounts. While the *Anuario* and other official

[10] See, e.g., Oficina Nacional de Estadísticas, *Anuario estadístico de Cuba 1997* (La Habana, 1998), p. 114.
[11] E.g., the *Anuario estadístico de Cuba 2007* (2008) defines the balance of payments as "The register of international economic transactions of an economy, that is, of the goods and services that an economy has received from the rest of the world and that has provided to the rest of the world, and of the variation of its actives and passives [financial transactions] vis-à-vis the rest of the world."

statistical publications report external sector transactions in pesos, international organizations (such as CEPAL) report the same figures in U.S. dollars. In the Methodological Notes of the most recent *Anuario*, ONE states: "With regard to exports as well as imports, the values are expressed in Cuban pesos, after conversion from the foreign currency, in accordance with current exchange rates and methodology established by the Central Bank of Cuba."[12] The conventional wisdom is that for external sector statistics, Cuba has used the exchange rate of 1 CP = 1 USD. In what follows, we will follow this convention and use interchangeably pesos and dollars in our discussions of Cuban BOP and other foreign sector statistics.

CUBA'S CURRENT ACCOUNT AND ITS COMPONENTS

Merchandise Trade

Rows 2-4 of Table 1 present data on Cuban merchandise or goods exports, imports,[13] and trade balance (value of exports minus value of imports) for the period 1998-2007. It is clear from the data that Cuba's merchandise trade was in deficit during every year of the reference period. Both merchandise exports and imports showed a generally positive trend, but the value of imports was consistently more than twice that of exports. In 2006, Cuba's merchandise trade deficit peaked at nearly \$6.3 billion, a new record. Based on preliminary data, the merchandise trade deficit in 2007 is estimated at over \$6.2 billion.

It should be noted that Cuba's merchandise trade balance has been in deficit in every year during the revolutionary period (i.e., since 1959) with the exception of 1960, when a small surplus was recorded. Cuba's merchandise trade during the 1960s, 1970s,

[12] *Anuario estadístico de Cuba 20087* (2009), www.one.cu.
[13] Because import data are from BOP statistics, the value of imports is shown with a negative sign.

and 1980s was focused on the former Soviet Union and other members of the socialist community within the framework of the Council for Mutual Economic Assistance (COMECON or CMEA), which Cuba joined in 1972. Beginning in the 1960s, Cuba entered into a series of bilateral trade agreements with COMECON members that sought to balance two-way merchandise trade; where this was not achieved, the former Soviet Union and other socialist trading partners extended credits to Cuba to finance deficits. Despite the fact that the value of Cuban exports to the socialist community expanded quite rapidly in the 1980s – recall that Cuba received a preferential price for its sugar exports to the Soviet Union that was several times higher than the world market price, giving rise to a trade subsidy estimated in the 1980s to amount to several billion dollars per annum – the merchandise trade balance was heavily in deficit, exceeding $2 billion per annum in the second half of the 1980s.[14]

With the break-up of the Socialist community in the early 1990s, and the loss of preferential trade relations with the Soviet Union (particularly price subsidies for sugar and ample oil supplies with guaranteed financing) and other socialist countries, Cuba's foreign trade suffered a heavy blow: the value of Cuba's merchandise exports fell from $5.4 billion in 1990 to $1.1 billion in 1993, or by nearly 80%; over the same period, the value of merchandise imports shrunk from $7.4 to $2.0 billion, or by 73%. Although merchandise exports and imports have recovered since the early 1990s – the trough of the economic crisis generally referred to as the "Special Period in Time of Peace" – by 2007-08 Cuban merchandise exports were still 38% lower than the pre-crisis level of $6.0

[14] For a discussion of Cuban merchandise trade during this period see, e.g., Pérez-López, "Cuba's Foreign Economic Relationships," in Georges Fauriol and Eva Loser, editors, *Cuba: The International Dimension* (New Brunswick: Transaction Publishers, 1990) and "El sector externo de la economía," in Efrén Córdova, editor, *40 años de revolución: El legado de Castro* (Miami: Ediciones Universal, 1999).

billion recorded in 1985, and it was not until 2006 that imports surpassed the $8.0 billion recorded in 1985, [15] though they rose sharply to $10.1 billion in 2007 and $14.3 billion in 2008.

Merchandise Trade by Major Product Categories: Tables 2 and 3 present leading Cuban merchandise exports and imports for the period 1998-2008. With regard to merchandise exports, the sharp decline in the contribution of sugar to exports is noteworthy; sugar exports fell from an average of nearly $500 million during 1988-2001 to a low of $150 million in 2005, and rose to about $200 million in 2006-2008. In the latter year, the most recent for which data are available, sugar accounted for about 6% of Cuban merchandise exports, a remarkable drop from the 80-85% share it held during the second half of the 1980s (when the Soviet Union paid above-market prices for Cuban sugar), clearly showing the decline of Cuba's flagship industry of the nineteenth and twentieth centuries.

[table 2 and figure 1 about here]

The trend in nickel exports is the mirror image of sugar: nickel exports overtook sugar as the top export commodity in 2000, with nickel exports nearly doubling from $573 million in 2000 to over $1 billion in 2004. In 2006, nickel exports amounted to $1.4 billion, in 2007 to nearly $2.2 billion, and to around $550 million in 2008.[16] The

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[15] Cuba's international trade relations during the Special Period are discussed, e.g., in Pérez-López, "Swimming Against the Tide: Implications for Cuba of Soviet and Eastern European Reforms in Foreign Relations," *Journal of Inter-American Studies and World Affairs* (Summer 1991); "The Cuban Economic Crisis of the 1990s and the External Sector," *Cuba in Transition—Volume 8* (Washington: Association for the Study of the Cuban Economy, 1998); "The Cuban External Sector in the 1990s," in Victor Bulmer-Thomas and James Dunkerley, editors, *The United States and Latin America: The New Agenda* (London: Institute of Latin American Studies, University of London, 1999); and "El sector externo de la economía socialista cubana," in Mauricio de Miranda Parrondo, editor, *Cuba: Restructuración Económica y Globalización* (Bogotá: Centro Editorial Javeriano, 2003).

[16] For unknown reasons, the *2007 Anuario* and *2008 Anuario* do not contain statistics on the value of nickel exports for 2006-2008. The values reported here are from "Venta de níquel creció 35% y lidera las exportaciones cubanas," La Habana, AFP (August 14, 2008), "Cuba restablece producción de níquel parada

strong performance of nickel exports was influenced by foreign investment in the industry (particularly a joint venture with Canadian company Sherritt International) and favorable international market prices in 2006 and 2007, while the drop in 2008 resulted from weak international prices and the partial shutdown of nickel production as a result of hurricanes..

Exports of tobacco leaf, fish and shellfish, and agricultural food products were stagnant or declined during the period 1998-2008. Exports of alcoholic beverages (primarily rum) and cigars were stagnant over some years, but showed an overall positive trend; foreign investment and alliances with foreign marketing organizations contributed to the positive performance of these exports. Exports of medicines, which started from relatively low levels at the start of the reference period, climbed significantly in 2006-2007, reaching $90 million in 2007, but declined to $69 million in 2008. Two other non-traditional exports, cement and iron and steel, fluctuated from year to year but maintained a positive trend. As will be discussed below, exports of medicines, cement, and iron and steel, appear to be related to gains in services exports.

In 2008, Cuba's top-five merchandise export markets – Canada, China, Venezuela, Netherlands, and Spain, in that order – took close to two-thirds of Cuba's exports. Canada and the Netherlands held these positions in large part because they are the primary outlets for Cuban mineral exports, predominantly nickel. A sizable portion of Cuba's mineral nickel exports are destined for Canada for refining at a refinery jointly owned by Sherritt and Cuba's Compañía General del Níquel and from there they are further distributed. Another significant portion of Cuba's nickel is marketed through a

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por Ike," La Habana, AFP (September 29, 2008) and "Los ingresos por la exportación de níquel cayeron drásticamente," *Cubaencuentro* (December 26, 2008)..

Dutch metals company based in Rotterdam, hence the very high value of Cuban exports to the Netherlands.

It is also noteworthy that China and Venezuela have emerged as significant markets for Cuban merchandise exports, consistent with the strengthening of Cuba's diplomatic relations with these nations. From press reports and other fragmentary information, it appears that Cuban exports to Venezuela span a wide range of manufactured products and machinery – medicines, cement, iron and steel, specialized machinery, and measuring equipment. The growth of these merchandise exports most likely is connected to Cuban technical assistance and the presence of Cuban personnel in Venezuela who procure materials and equipment to conduct there tasks from the island (to be discussed below).[17]

Table 3 shows Cuba's merchandise imports by final use categories and for key products within these categories. As is clear from Figure 2, intermediate goods dominated the Cuban import basket, accounting for about 65% of the total value of imports for the entire period. Consumer goods' share of total imports was about 20% and capital goods' about 15%. In 2006-2007, capital goods' share of imports rose to 18-19% but fell back to 13% in 2008.

Table 3 and Figure 2 about here

The top-five sources of Cuban merchandise imports in 2008 – Venezuela, China, Spain, the United States, and Canada, in that order – accounted for over 60% of total imports. Venezuela occupies the position of Cuba's top supplier of merchandise imports

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[17] Julie Feinsilver, "Fifty Years of Cuba's Medical Diplomary: From Idealism to Pragmatism," *Cuban Studies* (2010), writes, "Medical diplomacy also paves the way for Cuba's export of a range of medical products. In this context, for example, Cuban exports of medicines to ALBA countries increased twenty-two percent from 2008 to 2009. It is quite likely that other countries receiving Cuban doctors will also purchase Cuban vaccines, medicines, medical supplies and equipment."

primarily because of oil shipments. Since the mid-1990s, Venezuela has been the main source of Cuban oil imports.[18] The role of Venezuela as Cuba's privileged oil supplier was formalized in a cooperation agreement (*Acuerdo Integral de Cooperación*) signed in October 2000 by Presidents Castro and Chávez whereby Venezuela committed to supply Cuba with 53,000 barrels per day (b/d) of oil and oil products under favorable financing terms in exchange for Cuban technical support and assistance in the areas of education, public health, sports, and scientific research. In December 2004, the two sides revised the agreement and increased the guaranteed oil supply level under concessional terms to 90,000 b/d. There is evidence that Cuba has fallen behind in repaying Venezuela for oil shipments and that Venezuela has been less than energetic in demanding repayment.

Within intermediate goods imports, imports of oil and oil derivatives dominate. The increase in the value of imports of oil and oil derivatives and of its share within intermediate goods imports (from about 25% in the late 1990s to about 40% in 2005-2007) reflects to a large extent the upward trend in the price of oil in international markets rather than an increase in quantity imported.[19] Intermediate goods imports (textiles, rubber products, iron and steel, wood products, paper and cardboard, metal products, chemicals) are critical to the operation of all sectors of the Cuban economy.

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[18] On Cuba's energy relations with Venezuela see Jorge R. Piñón, "Cuba's Energy Crisis, Part I," *Focus on Cuba*, Issue 67 (August 15, 2005), and "Cuba's Energy Crisis, Part II," *Focus on Cuba*, Issue 68 (September 26, 2005).

[19] ONE does not publish statistics on the quantity of oil and oil derivatives imports. Also, value of oil and oil derivates imports is published with a one-year delay, i.e., the *2008 Anuario* contains information througb 2007. CEPAL does publish statistics on volume of oil and oil imports in one of its publications – presumably using data provided by ONE, but the information is not current. The most recent year for which such data are available is for 2005. During 2002-2003, CEPAL reports that Cuban imports of oil and oil derivatives were the same (4.4 million tons), yet the value of imports in 2003 was higher by about 15%. CEPAL, *Cuba: Evolución económica durante 2007 y perspectivas para 2008* (October 2008), Table 10.

About three quarters of Cuba's imports of consumer goods during the period 1998-2008 consisted of foodstuffs. Cuba imported not only significant volumes of cereals (such as wheat) which are not cultivated in the island because of climatic reasons, but also a range of other food products that can be produced domestically, such as rice, milk, chicken meat, beans, and so on, a reflection of the poor performance of the agricultural sector. Recall that Cuba instituted a rationing system for basic consumer goods (food, clothing and footwear, personal hygiene products) in 1961 and the system is still in place today, more than 45 years after it was enacted, as domestic production and imports have not matched local demand.

The role of the United States – a country that maintains a trade embargo on the island – among Cuba's top-five supplier of merchandise imports and key supplier of agricultural products bears special mention.[20] Over the period 2001-2007, Cuban merchandise imports from the United States rose from $4 million to $573 million, or by over 13,000%. In 2008, Cuban imports from the U.S. reached an all-time high of over $800 million, boosted by the disruptions in the Cuban economy – and the agricultural sector in particular -- associated with hurricanes. The anomalous situation of rapid trade growth in the face of an economic embargo arises from the enactment by the United States in 2000 of the Trade Sanctions Reform and Export Enhancement Act (TSRA), which modified the extant trade embargo to allow direct exports to Cuba of food provided such exports were paid for in cash. Initially, the Cuban government rejected the U.S. initiative because it wanted (1) the full removal of the embargo; and (2) to be able to purchase U.S. food products on credit. In 2001, however, Cuban authorities did an about-face and agreed to purchase U.S. agricultural commodities complying with the

[20] See http://www.fas.usda.gov/itp/cuba/cuba.asp.

payment provisions of the TSRA. According to U.S. Department of Agriculture statistics, U.S. exports of agricultural commodities to Cuba amounted to $4 million in 2001, $140 million in 2002, $254 million in 2003, $392 million in 2004, $352 million in 2005, $330 million in 2006, $438 million in 2007, and a record $707 million in 2008..

Cuba's rapidly growing merchandise imports from China – such imports nearly tripled from $549 million in 2001 to nearly $1.6 billion in 2006 and $1.5 billion in 2007 and 2008 – have been financed by a series of credits extended to Cuba to purchase Chinese goods. In December 2004, Cuba announced several Chinese grants and credits, among them: (1) a donation of $6.1 million to purchase fabric for the manufacture of school uniforms; (2) a credit of $6.1 million to purchase supplies for hospitals and policlinics and spare parts for medical equipment; and (3) a credit to finance imports of 1 million TV sets.[21] Among the principal Cuban imports from China supported by such credits are consumer products such as electro-domestic appliances (particularly rice cookers, refrigerators), electronic products (particularly television receivers), and capital goods such as transportation equipment (particularly buses for local and inter-provincial transportation).

Imports of capital goods – current consumption of machinery and equipment that supports future economic growth – were severely repressed during the 1990s as the Cuban government concentrated on food and other basic consumer goods and oil and other raw materials to keep the economy operating. The policy of reducing capital goods imports is directly responsible for the poor condition of the capital stock, frequent breakdowns of industrial processes, and overall low productivity. In 2005-2008, imports

[21] "Buenas noticias para finalizar el año," *Granma* (December 25, 2004). For an overview of Cuban-Chinese economic relations see Julio A. Díaz-Vázquez, "China-Cuba: Relaciones económicas," *Encuentro*, no. 48/49 (primavera/verano 2008).

of capital goods increased significantly, increasing by over 150% between 2004 and 2008. As can be seen from Table 3, the increase in capital goods imports was concentrated on electricity generation equipment (mainly *grupos electrógenos* to support Fidel Castro's "Energy Revolution") and passenger and cargo transportation equipment to address the very serious condition of the domestic transportation system.

Services Trade

Rows 5-7 of Table 1 present data on Cuban services exports, imports, and balance of services. It is evident from these data that throughout the period 1998-2007, Cuban services exports substantially exceeded services imports, and therefore Cuba consistently recorded positive balances (surpluses) in the services account. The services balance (Row 7) was in the range of $2-$3 billion during 1998-2004, but rose to over $6 billion in 2005 and nearly $8 billion in 2007.

The strong performance of the services account partially offset the very significant deficits in the merchandise trade account and eventually overtook them. Thus, the merchandise and services trade balance (Row 8), was in deficit during 1998-2004 (although on a declining trend) but turned positive in 2005-2007. In 2007, the merchandise and services trade balance was $1.647 billion (surplus), compared to -$916 million (deficit) in 2001, the wondrous turnaround in the merchandise and services trade balance that is referenced in the title of this paper.

[Figure 3 about here]

It is clear from the above figures and discussion that exports of services has been the key driver of the turnaround in the merchandise and services balance. Unfortunately, it is very difficult to analyze the performance of the traded services sector since Cuba does not publish disaggregated statistics on either exports or imports of services.

The World Trade Organization classifies internationally-traded or commercial services into three categories: (1) transportation services, which includes sea freight, air freight, sea passengers, air passengers, and other forms of transportation; (2) travel, akin to the concept of tourism, which includes all goods and services acquired by international travelers in the host country, including lodging, meals, local transportation, souvenirs, etc.; and (3) other commercial services, which include communications, construction, insurance, financial services, computer and information services, royalties and license fees, other business services (legal services, accounting services, consulting, research and development, advertising and market research), and personal, cultural, and recreational services (audio visual services as well as education and health services.) In what follows, we attempt to throw some light on traded services flows in each of these categories.

Transportation services: In the 1970s and 1980s, Cuba made significant investments to expand its international shipping fleet under the protective umbrella of intra-COMECON trade. In the early 1990s, in the midst of an economic crisis and facing an international trade collapse, the volume of cargos transported on Cuban bottoms decreased significantly and the international shipping fleet and the maritime transportation industry more broadly were scaled back significantly;[22] in the mid-1990s, the maritime shipping sector received some foreign investment in the form of joint ventures related to port services and warehousing. Statistics on the volume of maritime

[22] Miriam Malagón Goyri, "El Comercio Internacional de Servicios: Algunas Consideraciones sobre el Sector en la Economía Cubana," in Eduardo Cuenca García, editor, *Enfoque Sobre la Reciente Economía Cubana* (Madid: Agualarga Editores, 1999).

services exports are not available, but they probably are not large and certainly they could not account for the rapid of growth of Cuban services exports in recent years shown in Table 1.

Tourism: The tourism industry has been one of the bright spots of recent Cuban economic performance. After shunning tourism for over two decades, Cuba began to promote the industry in the mid-1980s and stepped up efforts in the 1990s, principally by encouraging joint ventures with foreign hospitality companies. Table 4 shows Cuban official statistics on gross tourism income during 1998-2008. From 1998 to 2005, gross tourism income rose steadily (save for a contraction in 2001-2002 attributable to the slowdown in the world tourism industry associated with the aftermath of the September 11 attacks) from $1.8 billion to over $2.2 billion. Tourism revenues were flat in 2005-2008, hovering around $2.3 billion.

Table 4 also compares gross tourism income and total services exports (from Table 1) for the years for which both data are available. From 1998 to 2003, gross tourism income accounted for 65-70% of the value of services exports; this share fell to about 60% in 2004 and then to 34% in 2005 and 2006 and 27% in 2007 (the calculation cannot be carried out for 2008 because data on the value of services exports is not available). It is clear from these data that tourism exports have been a significant contributor to overall services exports, and that their share was very high through 2004.

Professional services exports: Cuba's heavy investments in public health and education over the last five decades have created an environment within which Cuba can benefit from the export of professional services in the fields of health, education, sports, and science. Internationalism in the fields of public health and education, is a tool that

Cuba used in its diplomatic endeavors as early as the 1960s.[23] In the early days, Cuban internationalist experts were provided free or nearly-free of charge and their services were considered as a form of foreign aid. This seems to have changed, however, more recently, particularly with regard to the presence of Cuban experts in Venezuela.

As noted earlier, in October 2000, Cuba and Venezuela entered into a very broad cooperation agreement. Article 2 of said Agreement provided that Cuba would provide services, technologies, and products to Venezuela, with the types, amounts, and prices to be agreed annually, further specifying that "these goods and services will be paid by the Bolivarian Republic of Venezuela at a price equivalent to their world market price in exchange for oil and derivatives."[24] The terms and conditions of these exports of professional services have never been spelled out in more detail. The oil-for-services nature of the exchange is also evident from another cooperation agreement between Cuba and Venezuela signed in December 2004, which states that "goods and services originating in Cuba imported into Venezuela can be paid for with Venezuelan products, in Venezuelan domestic currency or in any other mutually acceptable currency,"[25] further suggesting barter between Cuban services exports and Venezuelan oil.

Information on the number of Cuban experts in Venezuela providing services is sketchy, but suggests that the Cuban presence is significant. The first tranche of Cuban

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[23] See, e.g., Julie M. Feinsilver, "La diplomacia médica cubana," *Foreign Affairs en Español* (October-December 2006); Feinsilver, "Cuban Medical Diplomacy: When the Left Has Got it Right," Council on Hemispheric Affairs (2006), at www.coha.org/2006/10/cuban-medical-diplomacy-when-the-left-has-got-it-right; and Mirta Ojito, "Médicos cubanos son negocio lucrativo y arma ideológica," *El Nuevo Herald* (August 17, 2009).

[24] Jorge Díaz Polanco, "Salud y hegemonía nacional," *Foreign Affairs en Español* (October-December 2006).

[25] "Agreement between the President of the Bolivarian Republic of Venezuela and the President of the Council of State of the Republic of Cuba for the implementation of the Bolivarian Alternative for the Americas, " Point 12, December 14, 2004, at http://www.cuba.cu/gobierno/discursos/2004/ing/a141204i.html.

doctors arrived in Venezuela in April 2003, followed by educators involved in a large-scale literacy campaign. By 2004, it is estimated that more than 20,000 Cuban physicians were rendering services in Venezuela pursuant to "Operación Barrio Adentro,"[26] while several other thousand educators at different levels and over 5,000 sports specialists were doing the same under other programs. In December 2008, nearly 30,000 Cuban health personnel were reportedly working in Venezuela.[27]

In 2004, Cuba and Venezuela launched Operation Miracle (Operación Milagro) to provide ophthalmologic services to the needy in Venezuela; in 2005, the two countries agreed to expand the program to Bolivia, Brazil, Guatemala, Panama, Uruguay, and other Caribbean nations, with Cuba and Venezuela covering the costs. According to the Cuban government, 300,000 Venezuelans and 100,000 persons from 28 other nations had traveled to Cuba by the end of 2006 to be treated as opposed to having Cuban doctors and medical personnel attend to them in their own countries; Venezuela reportedly paid for the operations as well as for travel and lodging of the patients while in Cuba.[28]

The large jump in the value of Cuban services exports in Table 4 beginning in 2005 coincides with the time period when Cuba has been "selling" health and other services in Venezuela. This raises the logical questions of how much income professional services exports generate for Cuba and how Cuban services exports are priced. One source has estimated that in 2006, Cuban medical services exports amounted

[26] E.g., Peter Maybarduk, "A People's Health System," *Multinational Monitor* (October 2004); Claudia Jardim, "Prevention and Solidarity," *Monthly Review* (January 2005).
[27] "Personal médico cubano en Venezuela asciende a 30,000," EFE, El Nuevo Herald (10 December 2008) and "Cerca de 30,000 cubanos trabajan en Barrio Adentro en Venezuela," *El Nacional* (Caracas) (24 December 2008). According to Venezuela's Health Minister, Cuban personnel included 13,020 physicians, 2,938 dentists, 4,178 licensed nurses, and 9,868 health technicians.
[28] "Both Cuba and Venezuela reap benefits from medical program," *The Miami Herald* (January 10, 2007).

to some \$2.4 million;[29] another source refers to estimates of overall professional services valued at around \$2.4 million in 2005, with the bulk of such exports represented by medical services exports to Venezuela.[30] There is virtually no information on how Cuban services exports are priced. However, for purposes of computing its national accounts, for the last several years Cuba has been valuing medical and social services at "market prices," an approach that is not consistent with international national income accounting methodology.[31] This methodological change adopted by Cuba in its national accounts has resulted in a much larger contribution of its services sector to the national economy and to faster growth rates than otherwise. This is a critical research area, where more detailed information from the Cuban government or from trading partners would be necessary to ascertain the methodology underlying the pricing of Cuban health, education, and other exported services to Venezuela and other countries.

Income

The factor income sub-account records compensation of employees paid to non-resident workers and investment income receipts on external financial assets and liabilities, including on foreign direct investment and portfolio investment. According to data in Table 1, row 10, the income sub-account was in deficit for the entire period 1998-

[29] Julie Feinsilver, "Médicos por petróleo," *Nueva Sociedad*, 216 (July-August 2008), p. 121, quoting an estimate attributed to a report issued by the Indian Embassy in La Habana posted on the internet. See also Feinsilver, "Cuba's Health Politics At Home And Abroad," in *Morbid Symptoms: Health Under Capitalism: Socialist Register 2010*, edited by Leo Panitch and Colin Leys (London: Merlin Press, 2009).

[30] Julie Feinsilve, "La diplomacia médica cubana," citing estimates by The Economist Intelligence Unit. These estimates are also used by José Félix Oletta, "La Misión Barrio Adentro, Objetivos Más Allá de la Salud," *Cuba in Transition—Volume 17* (Washington: Association for the Study of the Cuban Economy, 2007).

[31] See, e.g., Jorge F. Pérez-López, "Cuba 2005: The 'Alice in Wonderland' Economy," *FOCAL Point* (January-February 2006). See also Jorge F. Pérez-López and Carmelo Mesa-Lago, "Cuba's GDP Statistics Under the Special Period: Discontinuities, Obfuscation and Puzzles," *Cuba in Transition—Volume 19* (Washington: Association for the Study of the Cuban Economy, 2009).

2007; for most of the period, the income sub-account reported a deficit that hovered around $550-$660 million, but rose to 960 million in 2007.

There is virtually no information from Cuban official sources or from other sources regarding the composition of this sub-account and their behavior. It is not unreasonable to assume that the net outflows of income recorded in Table 1 represent profits and payments to foreign direct investment partners (joint venture partners).

Current Transfers[32]

Cuba has published statistics on net current transfers (Table 1, row 11) only at the most aggregated level. Net transfers were in the range of $800 million to $1 billion over the period 1998-2004, but declined to a negative $367 million in 2005, a positive $278 million in 2006, and a negative $199 million in 2007.

During the time period when net current transfers were large and positive, such transfers made a significant contribution to the current account and in several years offset (and even exceeded) deficits in merchandise and services trade. There is no explanation from Cuban sources as to why the sudden drop in net current transfers in 2005-2007, although U.S. government policies (discussed below) that affected family remittances may be partly responsible for this development.

Cuba does not publish data for the components of the current transfers account but, for the period 1995-2001 only, CEPAL has broken up Cuba's net current transfers into three components: (1) donations; (2) remittances; and (3) other transfers. These data are presented in Table 5 below. It is clear that the star performer within the current transfers was workers' or family remittances. In 1995, two years after Cuban citizens

[32] This sub-section draws from Jorge F. Pérez-López and Sergio Díaz-Briquets, "Remittances to Cuba: A Survey of Methods and Estimates," *Cuba in Transition—Volume 15* (Washington: Association for the Study of the Cuban Economy, 2005).

were first allowed by their government to hold foreign currencies legally, family remittances were estimated at nearly $540 million and they rose to $740 million in 2000 and $730 million in 2001. In all of the years 1995-2001, remittances represented from 83% to 88% of current transfers.

[Table 5 about here]

There is considerable disagreement with regard to the magnitude of cash remittances to Cuba, with several sets of estimates available based on different approaches. Based on a patchwork quilt of estimates, it can be posited conservatively that annual remittances were in the neighborhood of $400 million in the early 1990s and $500-$600 million during the second half of the 1990s. Several factors suggest that the level of remittances to Cuba rose during the early 2000s. One of the most persuasive factors is that, because of demographic and economic changes, the Cuban-American community's capacity to remit in 2000-2004 was considerably higher than in the 1990s and would support even high-end remittances estimates levels of over $1 billion per annum. Remittances levels in the neighborhood of $700 million to $900 million per annum -- or even higher -- in the early 2000s are plausible and would be consistent with the fragmentary estimates available.

Cuba does not publish statistics on the value of donations that it receives from abroad or makes to foreign countries. Statistics on net foreign development assistance from the Development Assistance Committee of the Organization for Economic Cooperation and Development suggest Cuba received an average of about $60 million per annum in 1990-99; since 2000, donations ranged from $56 million in 2000 to $127 million in 2008, confirming that donations have represent a relatively small share of current transfers.

[table 6 about here]

As mentioned above, there is no explanation as to why the sudden drop in net current transfers in 2005-2007. A factor contributing to a reduction in family remittances is a set of restrictions on travel and remittances to Cuba imposed by the U.S. Government in June 2004. The new restrictions included: (1) family visits were restricted to one trip every three years under a specific license and were restricted to immediate family members; (2) family remittances were limited to $300 per quarter only for members of the remitter's immediate family and may not be remitted to certain Government officials and member of the Communist Party; (3) remittances that authorized travelers could carry were reduced to $300 (from $3,000); and (4) the authorized per diem allowed for a family visit was reduced to $50 per day.[33] While these restrictions could result in a decline in family remittances from the United States, they cannot explain the huge drop in current transfers beginning in 2005 and particularly the fact that the transfers turned negative in 2005 and 2007. One possibility may be that Cuba began to account for foreign assistance that it provides free of charge to other countries, but there is no statistical information to buttress this conjecture.

CAPITAL AND FINANCIAL ACCOUNTS

The capital and financial accounts counterbalance the current account, recording flows of capital and financial assets that support the economy and the production of

[33] Mark P. Sullivan , *Cuba: Issues for the 110th Congress* (updated September 24, 2008), Congressional Research Service.

goods and services. Examples of flows recorded in the capital and financial accounts are loans and credits, as well as different forms of foreign investment (e.g., direct, portfolio).

As is clear from Table 1, Row 12, Cuba publishes the least possible information on the behavior of the financial account, and the information that is available is not up to date. Actually, the figures for 2002-2004 in Table 1 are estimates by CEPAL, as Cuba has not published BOP financial account information at the aggregate or detailed level beyond 2001.

The financial account balance data in Table 1 suggest that Cuba had modest access to foreign financing during the period 1998-2004; foreign financial flows rose as high as about $800 million in 2000 and 2004. Again, because information on the components of the financial account is not available, it is not possible to say very much about the behavior of external financing. In what flows, we discuss two areas that are relevant to the financial account balance: (1) foreign loans and credits; and (2) foreign investment.

Foreign Loans and Credits

Cuba does not publish statistics on flows of foreign capital in the form of loans, credits, and other financial sector transactions. As mentioned earlier, the BNC/BCC has not published an annual report on Cuba's external finances since 2001. Statistics published in the statistical yearbook (Table 7) refer only to stock of foreign debt and are not up to date (the 2008 issue of the yearbook contains hard currency foreign debt statistics for 2004-2007 only). Moreover, there is no systematic information on the composition of debt by country of origin of the debtor and the information on the term of the debt is very sparse.[34]

According to data in Table 7, Cuba's hard currency active debt in 2007 amounted to $8.9 billion, up from $7.8 billion in 2006, $5.9 billion in 2005 and $5.8 billion in 2004. When the "inactive" debt (*deuda inmobilizada*) of some $7.6 billion is also considered,[35] the overall debt rises to $16.5 billion in 2007. Unaccounted for is the hefty debt that Cuba owed the former Soviet Union, which was assumed by Russia, and whose exact magnitude is unknown.[36]

(Table 7 about here)

Calculating annual debt flows (from stock figures in Table 7) suggests that Cuba had access to significant foreign financing at least in 2006 and 2007. Thus, the net flow of external debt in 2006 was $1.9 billion and in 2007 it was $1.1 billion. Unfortunately, more detailed information on these loans is not available.

Foreign Investment

For over twenty years, spanning the period between the 1959-60 nationalizations and the passage of the February 1982 joint venture law,[37] Cuba's revolutionary government officially proscribed foreign investment in the island. While enactment of the joint venture law in 1982 had relatively little impact on investment flows, the

[34] On Cuba's financial economic relations see Lorenzo L. Pérez, "Cuba: Access to Capital Markets, External Debt Burden, and Possible Avenues for Debt Relief," *Cuba in Transition—Volume 18* (Washington: Association for the Study of the Cuban Economy, 2008).
[35] *Anuario estadístico de Cuba 2007*, note to Table 8.2, External Debt. The inactive debt is the debt that has not been the subject of renegotiation since 1986; 60% of the inactive debt is official debt with Paris Club creditors.
[36] According to estimates, in 2004 Cuba owed approximately 22.069 billion transferable rubles to Russia for debt incurred with the former Soviet Union, and to Romania, Hungary, and Poland. See *Cuba Facts*, Issue No. 8 (February 2005), published by the Cuba Transition Project, University of Miami. Cuba and these creditors allegedly disagree on the exchange rate that should be used to convert transferable rubles to dollars.
[37] "Decreto-Ley No. 50: Sobre asociaciones económicas entre entidades cubanas y extranjeras," *Gaceta Oficial* (February 15, 1982).

situation began to change in the early 1990s, when the Cuban government launched an aggressive campaign to woe foreign investors and made some breakthroughs in the tourism and nickel mining sector. In September 1995, Cuba enacted legislation (Law No. 77) that substantially revised and updated the legal framework for foreign investment.[38] Pursuant to Law No. 77, foreign investments in the island could take three forms: (1) joint ventures (*empresas mixtas*), formed between one or more Cuban entities and one or more foreign partners; (2) international economic association contracts (*contratos de asociación económica internacional*), concluded between Cuban entities and foreign partners, typically for a specified purpose, principally (a) cooperated production contracts (*contratos de producción cooperada*), which may be either for the production of goods or of services; and (b) management contracts (*contratos de administración productiva o de servicios*), whereby a domestic entity contracts with a foreign company to manage one or more production lines or an entire facility in Cuba; and (3) wholly foreign-owned companies (*empresas de capital totalmente extranjero*).

Official information on Cuban foreign investment stocks and flows are scarce and inconsistent. With regard to *stocks* of foreign investment, for example, the Chairman of the Cuban Chamber of Commerce reported in October 1991 that negotiations were ongoing regarding potential investments of $1.2 billion;[39] meanwhile, Vice President Carlos Lage stated that by the end of 1991, joint ventures had provided Cuba with $1.5 billion in foreign investment.[40] Other Cuban officials reported that foreign investment

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[38] "Ley No. 77: Ley de las inversiones extranjeras," *Gaceta Oficial* (September 6, 1995).
[39] Information attributed to Julio García Olivera, cited in Business International Corporation, *Developing Business Strategies for Cuba* (New York: Business International Corporation, 1992), p. 24.
[40] "Carlos Lage Addresses Conference 21 November," Havana Tele Rebelde, as reproduced in *FBIS-LAT-94-229S* (November 29, 1994).

had reached more than $2.1 billion by the end of 1995,[41] and $2.2 billion by the end of 1997-first half of 1998.[42] A Cuban economist reported that foreign investment in 2000 hovered around $5 billion.[43] Usually-well-informed journalist Marc Frank reported in early 2000 that foreign investment had reached $12 billion, but this data point does not square with reports from other sources.[44] Meanwhile, Minister for Foreign Investment and Economic Cooperation Marta Lomas reported in January 2002 that foreign investment amounted to $5.5 billion[45] and reached $5.93 billion by the end of 2002.[46]

The investment stocks figures above do not seem to distinguish between investment *intentions* versus *realized* investments. In support of this notion, Minister Lomas reportedly stated in November 2002 that foreign investment since 1990 amounted to $5.4 billion, of which approximately $2.65 billion (about 49 percent) had been delivered.[47] Along the same line, the U.S.-Cuba Trade and Economic Council (USCTEC), a private organization consisting of corporations interested in engaging in commercial relations with the island, compiled the amount of announced, committed, and delivered investment in Cuba by private sector companies and government-controlled entities from 1990 through March 20, 1999. According to the USCTEC, $6.119 billion in investments were announced over this period, of which $1.767 billion (29 percent) had

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[41] "Support for Economic Change," Havana Radio, reproduced in *FBIS-LAT-95-137* (July 18, 1995).
[42] "Inversiones ascenden a $2,200 millones," *El Nuevo Herald* (August 18, 1998), citing Osvaldo Martínez, Chair of the Economics Commission of the National Assembly; and "Alegan récord en inversiones extranjeras," *El Nuevo Herald* (September 11, 1998), citing Minister of Foreign Investment and Economic Cooperation Ibrahim Ferradaz.
[43] Juan Triana Cordoví, "La Economía Cubana en el Año 2000," in *La Economía Cubana en el 2000: Desempeño Macroeconómico y Transformación Empresarial* (La Habana: Centro de Estudios de la Economía Cubana, Universidad de la Habana, April 2001), p. 14.
[44] Marc Frank, "Cuba recibe un aluvión de inversiones," *Clarín digital* (22 febrero 2000).
[45] Raisa Pagés, "Foreign investment consolidating in Cuba," *Granma Internacional Digital* (January 24, 2002).
[46] Raisa Pagés, "Ascienden a 270 contratos de producciones cooperadas," *Granma Internacional Digital* (February 3, 2003).
[47] This information is cited in "Foreign Investment and Cuba," U.S.-Cuba Trade and Economic Council webpage, www.cubatrade.org.

been delivered by March 1999.[48] USCTEC also cites a report by the U.S. Department of State stating that foreign direct investment in Cuba from 1990 to early 1999 amounted to $1.7 billion.[49]

Meanwhile, the only official statistics on *flows* of foreign investment are those published as part of Cuba's balance of payments statistics. For 1993-2001 -- the only time period for which these data are available -- annual investment flows fluctuated significantly, from $563.4 million in 1994 to only $4.7 million in 1994.[50] Over the time span 1993-01, cumulative foreign investment was $2.018 billion, or an average flow of $224 million per annum (see Table 8).

[table 8 about here]

Foreign Direct Investment since 2004:[51] In her June 2007 report to the Permanent Commission on Economic Affairs of the National Assembly of People's Power, then-Minister of Foreign Investment and Economic Cooperation Lomas enunciated the government's policy, which had actually begun to be implemented in 2003, of restructuring (*reordenamiento*) of foreign investment with the objective of maximizing Cuba's sales, revenue, and exports and promoting "a more efficient control over resources."[52] Earlier she had stated that "we are not interested in doing too may (joint ventures), we are only interested in those that have an impact on the economy."[53]

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[48] "Foreign Investment and Cuba," U.S. Cuba Trade and Economic Council webpage, www.cubatrade.org.
[49] "Foreign Investment and Cuba," U.S. Cuba Trade and Economic Council webpage, www.cubatrade.org.
[50] Official balance of payments data from *Anuario estadístico de Cuba 2002* (La Habana: Oficina Nacional de Estadísticas, 2003) and earlier issues. The *Anuario estadístico de Cuba* for 2002, 2003, 2004, 2006, and and 2007 contain the same information on the balance of payments, namely information through 2001. The recent *Anuarios* are available at http://www.one.cu/aec_web/aec2006_gif1.htm.
[51] This section draws on Jorge F. Pérez-López, "The Rise and Fall of Private Foreign Investment in Cuba," *Cuban Affairs*, Volume 3, No. 1 (2008).
[52] Fidel Rendón Matienzo, "Cuba busca mayor eficiencia en las inversions extranjeras," *Granma* (26 junio 2007).
[53] "Number of foreign firms in Cuba fell in 2006," Reuters (January 29, 2007).

Thus, Cuba has closed down ventures it considered of limited value and concentrated on arrangements with large companies in strategic sectors of the economy.[54] The "strategic" foreign investment areas reportedly are tourism, oil, mining, and construction, according to foreign businessmen based in the island.[55]

Based on press accounts of Minister Lomas' appearance before the Economic Affairs Commission and other information, the following picture of recent foreign investment trends can be cobbled together:

- Foreign investment in 2006 reached an all-time high of $981 million, 22% higher than in 2005.[56] This would mean that foreign investment in 2005 was approximately $765 million.
- There were 324 joint ventures and 313 cooperated production arrangements in 2004.[57] The number of joint ventures had fallen to 258 at the end of 2005[58] and 236 at the end of 2006.[59]
- Foreign-invested enterprises generated 8% of the Gross Internal Product (*producto interno bruto*, PIB) in 2006.[60] This would mean output from these enterprises amounting to 4,095 million pesos, based on official PIB of 51,181 million pesos in 2006.[61]

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[54] Marc Frank, "Many foreign investors being booted out of Cuba," *The Miami Herald* (June 7, 2005).
[55] "Cuba analiza impulsar la inversión extranjera en sectores estratégicos," EFE (4 julio 2007), CubaNet (5 julio 2007); "Cuba to boost 'strategic' foreign investment," *CubaNews* (August 2007).
[56] "Cuba: Inversión reorganizada y con récord de ingresos," Associated Press, in *El Nuevo Herald* (26 June 2007).
[57] "Cuba: Inversión reorganizada y con récord de ingresos."
[58] "Cuba analiza impulsar la inversión extranjera en sectores estratégicos."
[59] "Aumenta Cuba ingresos por inversiones extranjeras," Notimex, (27 junio 2007), http://www.milenio.com/index.php/2007/06/2785766/.
[60] "Cuba: Inversión reorganizada y con récord de ingresos."
[61] PIB statitities from *Anuario estadístico de Cuba 2006*.

It is not clear whether the rosy investment figures reported by Minister Lomas reflect gross or net investment flows, as there is evidence of substantial disinvestment over this period.[62]

Although specific information on the value of investments is not available, it is evident that Cuban foreign investment activity since 2004 has been dominated by (1) projects with Venezuela; (2) projects with China; and (3) projects in selected oligopolistic sectors of the economy.

Venezuela: Several projects involve the oil sector, with the most significant being the arrangement between PDVSA and Cupet S.A. with respect to the refurbishing and operation of the Cienfuegos refinery. Also noteworthy is a risk contract also between PDVSA and Cupet S.A whereby PDVSA will prospect for, extract, and refine oil from Cuba's Gulf of Mexico economic zones.[63] Other joint ventures are in the fields of banking, cement production, transportation, tourism, and mining.

China: Investment agreements with China included two protocols involving nickel mining, the first regarding the operation of the moth-balled CAME-I nickel plant

[62] Journalist Marc Frank described the climate for private Western investors in Cuba in May 2005 as follows: "Western companies welcomed in Cuba as heroes a decade ago for bucking the U.S. embargo are packing and leaving as the Communist government rolls back market reforms and squeezes out intermediaries. Embittered by the change in attitude, small and medium-sized businesses complained this week that they no longer feel welcome and worried they would not recover money owed them by Cuban partners. President Fidel Castro's government, bolstered by growing economic ties to Venezuela and China, is cutting back the autonomy granted to state-run companies to do business in the 1990s and restoring central control over trade and finance."[62] Marc Frank, "Western businessmen bitter as Cuba closes doors," Reuters (31 May 2005). Investment projects with private companies that have been cancelled or failed since 2004 that have been reported in the press include: (1) the joint venture Zell Sanid S.A.; (2) Central Lechera de la Habana, a joint venture between Spain's Corporación Alimentaria Peñasanta S.A. (CAPSA) and Cuban enterprise Coralsa; and (3) Cubanco S.A., a joint venture created in 1998 between the Ministry of Transportation and Silares Terminales del Caribe NV to operate the island's cruise ship terminals supposedly because of the expiration of the concession. See Pérez-López, "The Rise and Fall of Private Foreign Investment." More recently, Cuba announced the revocation of the agreement between Cupet and Canadian company Pebercan for oil exploration. See "Revocan contrato de petrolera canadiense," *El Nuevo Herald* (24 January 2009).

[63] "Chavez Brings 'Best Possible Economic News' to Cuba," FP (28 April 2005).

at Las Camariocas (reported investment of $500 million; financed by Chinese banks)[64] and the second a pre-investment feasibility study regarding a green field nickel mine in San Felipe, Camagüey province (reported investment of $1.3 billion; financed by China). Also significant are Chinese national oil company SINOPEC's agreement with Cupet to jointly explore and produce oil in the island and the cooperated production agreement between Chinese enterprise Haier and Cuba's Grupo de la Electrónica to produce a range of information technology, communications, and household appliances in Cuba, particularly TV sets.

Other investment projects: In addition to the risk contracts for oil exploration and production with the national oil companies of Venezuela and China, Cuba entered into similar arrangements with the Vietnamese national oil company, Petrovietnam, and with the quasi-governmental ONGC Videsh Ltd. of India. Three significant joint ventures involving *private* capital that have been announced or are anticipated are: (1) an agreement between Spanish firm Las Pailas de Cemento and Cuba's Ministry of Basic Industry related to the operation of the Karl Marx cement plant in Cienfuegos.[65] Built in 1982, the very large cement plant was plagued by obsolete East German technology and consistently underperformed; (2) a new joint venture agreement between Canadian company Sherritt International and Cubaníquel involving an investment of $1 billion to expand the Moa nickel plant (operated under a joint venture agreement between the parties negotiated in 1994); and (3) the construction of a modern container facility at the

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[64] In January 2007, Minister of Foreign Investment and Economic Cooperation Lomas announced off-handedly that China was no longer pursuing the planned $500 million investment in the Las Camariocas nickel plant and Cuba intended to develop the project with Venezuela. See Esteban Israel, "Venezuela trumps China in Cuba ferronickel deal," Reuters (29 January 2007).

[65] Larry Luxner, "Infusion of private capital revives Cuba's cement industry," *Cement America* (1 July 2004).

port of Mariel by the enterprise Dubai Ports World; the amount of the foreign investment involved has been reported at either $250 million or $300 million.[66]

CONCLUDING REMARKS

Cuba's external sector has undergone significant changes in the last decade or so. The product composition and structure of Cuban foreign trade have changed significantly. Merchandise trade has been eclipsed by very fast-growing services trade. Within merchandise trade, there has been a rearrangement of key export and import commodities, with sugar relinquishing its long-standing leading role within exports to nickel. Finally, the structure of merchandise trade by partners has also changed, with a new set of trading partners – led by Venezuela and China – coming to the fore.

On services trade, Cuban statistics are essentially non-existent. Cuban statistical sources publish only net services trade, with no breakdown by category of traded service. There are official statistics on gross revenue generated by tourism that can be used as an estimate of tourism exports. There is statistical information on professional services exports, which seem to be the fastest growing segment within services exports, particularly since 2004.

The data reviewed in this paper suggest that Cuba continues to run significant merchandise trade deficits, and that the magnitude of the deficit has been rising in recent years. Available data also suggest that Cuba has run substantial services trade surpluses, which expanded strongly in 2005-2007, most likely as a result of booming exports of services to Venezuela and other nations. In recent years, the surplus in services trade not only has offset merchandise trade deficits, but in some years has resulted in positive

[66] "Dubai Ports World may build shipping terminal in Mariel, Cuba,"Havana Journal (October 21, 2007); "Bye-bye embargo?," *The Economist* (November 22, 2007); Wilfredo Cancio, "Mariel se convertirá en moderna terminal," *El Nuevo Herald* (30 noviembre 2007).

balances in the merchandise and services trade balance. There are many questions about the composition and valuation of services exports which cannot be answered until underlying data are released by Cuba or by the partner countries.

Another important element bearing on the performance of the Cuban external sector is resources remitted to Cubans in the island by relatives and friends residing abroad. The very rapid growth of remittances was enabled by policies of the Cuban government implemented in the 1990s that allowed Cuban citizens to hold and use foreign exchange (dollars) in domestic transactions. Several sources have estimated that remittances amounted to well over $500 million per annum and might have approached $1 billion per annum in the early 2000s. Remittances reportedly fell off beginning in 2004 as a result of policies of the U.S. Administration, but the precise impact of such policies on remittances patterns is difficult to estimate.

Cuba's opening to foreign investment was one the success stories of the market-oriented policies implemented by the Cuban government during the economic crisis of the 1990s. Although the volumes of investment have been quite modest – in absolute terms and relative to the investment needs of the country – they have had a salutary impact on the balance of payments, particularly since other sources of financing were not available. Foreign investment has also had other beneficial impacts on the Cuban economy. There is a very high correlation between the leading growth sectors of the economy and those that are heavily foreign-invested: tourism, oil, nickel, communications, cigars, beverages. Foreign investment has also opened foreign markets to Cuban products and services. Again, the foreign-invested sectors are among the leaders in promoting Cuban exports of goods and services and generating foreign exchange. A recent trend is a turn away from *private* investment and in favor of investments from state enterprises from friendly nations (e.g., Venezuela, China).   To the extent that capitalists are absent from the equation, the full positive impact of foreign investment is not achieved.

To conclude, developments of the external sector of the Cuban economy in the last decade, and particularly since around 2004, have been positive. A small island economy, Cuba has traditionally relied on imports of intermediate and capital goods to generate current and future national wealth. Foreign exchange is essential to finance such imports. Balance of payments (foreign exchange) restrictions have traditionally limited the growth of the Cuban economy.[67] To be sure, the recent growth in services exports has favorably impacted the current account of the balance of payments and essentially lifted the foreign exchange constraint.

Cuban economists Martín Fernández and Torres Pérez have well stated the salutary effect of services exports on the external sector of the Cuban economy, the potential for further growth of such exports, and the challenges with respect to maintaining and increasing services exports in the future:

> Income generated by services exports have contributed to the diversification of external resources of the national economy, a fact that is very positive because it reduces our [Cuba's] vulnerability to potential shocks of any nature that may take place around the world, which inevitably influence Cuba's economy in one way or another.
>
> … there is demonstrated potential for growth of a range of services exports based on advantages acquired by our nation although, until now,

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[67] See, e.g., Juan Carlos Moreno-Brid, "Crecimiento económico y escasez de divisas," in CEPAL, *La economia cubana: Reformas estructurales y desempeño en los noventa* (México: Fondo de Cultura Económica, 2000), 238-248; Guadalupe Fugarolas-Ude, Isis Mañalich Gálves, and David Matesanz López, "Empirical Evidence of the Balance of Payments Constrained Growth in Cuba: The Effect of Commercial Regimes since 1960," MPRA Paper No. 6993, Munich Personal RePEc Archive (February 2008); and Pavel Vidal Alejandro and Annia Fundora Fernández, "Relación comercio-crecimiento en Cuba: Estimación con el filtro de Kalman," *Revista de la CEPAL*, 94 (April 2008).

only a few (Health and Education principally) contribute to our external sector to a significant extent.

The growing dynamism of the tertiary [services] sector in our country is framed within a system of privileged bilateral relations with Venezuela and China, that is, in a context where there exist, to some extent, special conditions regarding supply and financing. The possibility of taking advantage of this opportunity also to penetrate other markets requires additional coordinated actions regarding services exports to meet competitive conditions present in international markets.[68]

[68] Mariana Martín Fernández and Ricardo Torres Pérez, "La Economia de Servicios," *Cuba Siglo XXI*, no. 75 (April 2007), at http://www.nodo50/cubasigloXXI/economia/martinf_310307.pd.