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The External Sector of Cuba's Economy: Performance and Challenges

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THE EXTERNAL SECTOR OF CUBA’S ECONOMY: PERFORMANCE AND CHALLENGES

Paolo Spadoni*

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I. INTRODUCTION

Despite an ongoing reform process aimed to stimulate economic growth, improve living standards, and address major problems that accumulated during more than six decades of centralized socialism, the Cuban economy is experiencing its worst crisis since the collapse of the Soviet Union in the early 1990s.¹ Traditionally an open economy with considerable dependence on external sector activities, especially on those involving foreign trade, today’s Cuban economy is by and large a service economy with a feeble production base, widespread inefficiencies, and an external sector that remains incapable of stimulating high growth rates. Services are the greatest contributors to Cuba’s gross domestic product (GDP) growth,² receive the largest share of all investments, and generate the vast majority of foreign exchange earnings. 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. But service activities, except for tourism, have little connections with domestic production and thus generate minimal multiplier effects on the rest of the

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¹ This is one of the issues discussed at the Thirty-Second Annual Conference of the Association for the Study of the Cuban Economy (ASCE) held on September 15–17, 2022, at Florida International University (FIU) College of Law in Miami, Florida, as described by Karla Rivas in the introduction to this issue. See generally Karla Rivas, *Association for the Study of the Cuban Economy (ASCE) Thirty-Second Annual Conference: Introduction*, 17 FIU L. REV. 479 (2023).

² In 2021, substantially in line with the levels of previous years, services accounted for more than eighty percent of Cuba’s GDP. OFICINA NACIONAL DE ESTADÍSTICAS E INFORMACIÓN (ONEI), ANUARIO ESTADÍSTICO DE CUBA 2021 [STATISTICAL YEARBOOK OF CUBA 2021] (2022) [hereinafter ONEI 2021].

economy. To further complicate things, Cuba is facing a severe liquidity crunch, mass shortages of basic goods, rapid inflation, and a more challenging and worsening external environment.

Besides the systemic constraints of the Cuban economy that adversely impact trade operations, Cuba's external sector suffers from key weaknesses such as the failure to diversify export commodities and markets, an acute sensitivity to international price fluctuations, scarce cross-sectorial spillovers, and a strong dependence on imported oil, food, and other critical goods as local production is unable to meet demand. Furthermore, a sizable merchandise trade deficit causes significant negative effects on the current account of Cuba's balance of payments (BOP) and complicates the Cuban government's efforts to meet its financial obligations to foreign traders, lenders, and investors. This is all the more important as economic support to Cuba from key ally Venezuela has faded dramatically and given the obstacles for Cuba to obtain external financing to address BOP problems, carry out investment in national productive capacities, and cover emergency needs. While Cuba's history of unmet payments and its large external debt are contributing factors, the island nation remains under a far-reaching U.S. embargo and is excluded from most international lending organizations that could provide financial relief. Significantly strengthened during the administration of Donald Trump, U.S. economic sanctions against Cuba also hamper the latter's dealings with international banks and the business operations of foreign investors in the Cuban market.

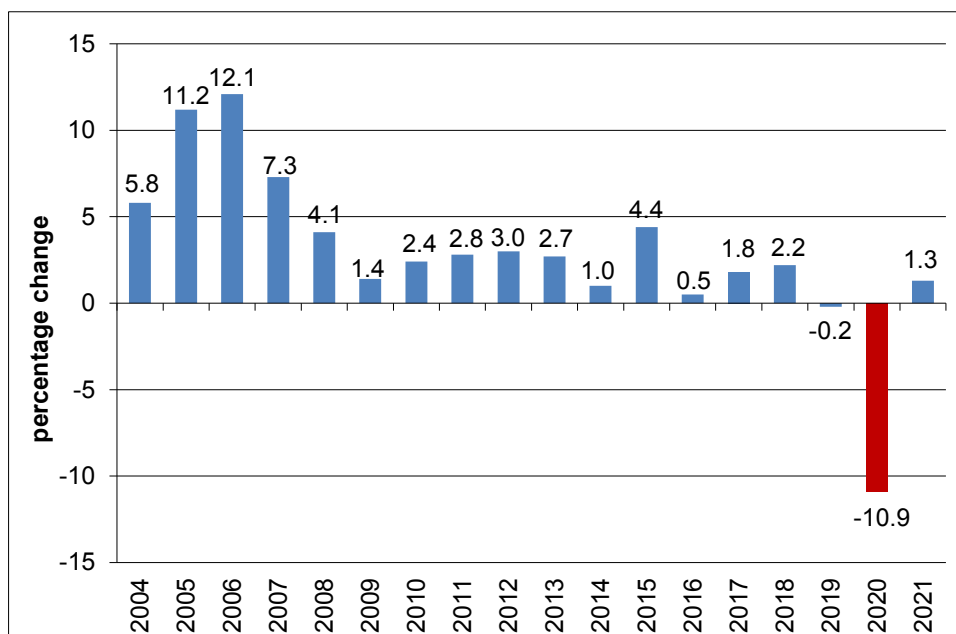
This study examines Cuba's GDP growth rates and trade activities, its agricultural and industrial outputs, its financial situation, its attempts to attract foreign investment, and the serious systemic problems of the Cuban economy. It also analyzes the damaging effects on the island's economy of external factors such as the Venezuelan economic crisis, tougher Trump-era U.S. sanctions, the coronavirus disease (COVID-19) pandemic, and the Russia-Ukraine war. Hence, this study identifies critical issues that negatively impact the performance of Cuba's external sector and represent key challenges for the country's economic development.

II. MACROECONOMIC PERFORMANCE

The Cuban economy has recovered markedly from the devastating blow caused by the demise of its former benefactor, the Soviet Union, about three decades ago. During the deep recession that started in 1990 and reached its lowest point in 1993, Cuba's GDP shrank by an annual average rate of

approximately ten percent.³ Since then, economic growth has been positive even though the rate has considerably fluctuated from year to year. The island's economy witnessed a major expansion around the mid-2000s. As highlighted 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 the internal demand due to increased public investment, government spending, private consumption, and especially by growing exports of goods and services. As for the latter, thriving exports of medical and other professional services under a comprehensive agreement with the government of Venezuela (involving large supplies of Venezuelan oil to Cuba) and, to a smaller extent, sizable earnings from nickel exports and international tourism were crucial stimulating factors.

Figure 1. Cuba's Real GDP Growth, 2004–2021 (at constant 1997 prices)⁴



³ OFICINA NACIONAL DE ESTADÍSTICAS E INFORMACIÓN (ONEI), ANUARIO ESTADÍSTICO DE CUBA 1996 [STATISTICAL YEARBOOK OF CUBA 1996] (1998).

⁴ ONEI 2021, *supra* note 2; OFICINA NACIONAL DE ESTADÍSTICAS E INFORMACIÓN (ONEI), ANUARIO ESTADÍSTICO DE CUBA 2020 [STATISTICAL YEARBOOK OF CUBA 2020] (2021) [hereinafter ONEI 2020]; OFICINA NACIONAL DE ESTADÍSTICAS E INFORMACIÓN (ONEI), ANUARIO ESTADÍSTICO DE CUBA 2014 [STATISTICAL YEARBOOK OF CUBA 2014] (2015) (on file with author); OFICINA NACIONAL DE ESTADÍSTICAS E INFORMACIÓN (ONEI), ANUARIO ESTADÍSTICO DE CUBA 2008 [STATISTICAL YEARBOOK OF CUBA 2008] (2009) (on file with author).

After 2007, however, the Cuban economy suffered a sharp deceleration that was triggered by a combination of both internal and external factors.⁵ On the internal front, a key factor was the slowness of progress with efficiency and productivity mostly determined by the shortcomings of Cuba's state-dominated economic system. 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. Following the death of Venezuelan President Hugo Chávez in early 2013, a major economic crisis in Venezuela significantly weakened the economic ties between Caracas and Havana.⁶ The U.S.-Cuba rapprochement, officially launched in late 2014 during the administration of Barack Obama, created new business opportunities and helped Havana minimize the negative impact from the Venezuelan crisis, but Trump's tightening of U.S.-based travel and other embargo restrictions with respect to Cuba and later the COVID-19 outbreak and Russia's military offensive in Ukraine exacerbated the island's economic problems. Cuba's annual GDP averaged 2.7% in 2008–2013 and just 2% in 2014–2018. It shrank 0.2% in 2019, plunged by a staggering 10.9% in 2020, and grew a meager 1.3% in 2021. Owing to roaring inflation, sluggish tourism demand, and crippling U.S. sanctions, Cuba's GDP is projected to expand only around two percent in 2022 and it is not expected to return to pre-pandemic levels until at least 2024.⁷

As mentioned before, the post-Soviet period also brought important changes to Cuba's external sector, most notably in the area of foreign trade where merchandise exports were eclipsed by service exports. During the 1990s, the Cuban economy indeed underwent a striking transformation from an economy centered on agriculture, namely sugar production, to one based on services such as international tourism. It witnessed yet a new change in the post-2004 period mainly because of Venezuela's financial largesse and its growing ties with Cuba.⁸ Exports of professional services mostly provided by Cuban doctors, nurses, and health technicians in Venezuela quickly

⁵ 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, 692–95 (2010).

⁶ For a concise yet thorough review of Cuba-Venezuela relations from the late 1990s until 2019, see generally Brian Fonseca & John Polga-Hecimovich, *Two Nations, One Revolution: The Evolution of Contemporary Cuba-Venezuela Relations*, in VENEZUELA AND CUBA: THE TIES THAT BIND 1, 2 (2020).

⁷ COMISIÓN ECONÓMICA PARA AMÉRICA LATINA Y EL CARIBE [CEPAL], BALANCE PRELIMINAR DE LAS ECONOMÍAS DE AMÉRICA LATINA Y EL CARIBE [PRELIMINARY OVERVIEW OF THE ECONOMIES OF LATIN AMERICA AND THE CARIBBEAN], LC/PUB.2022/18-P (2022); ECONOMIST INTELLIGENCE UNIT, COUNTRY REPORT: CUBA 1, 8 (2022) [HEREINAFTER EIU 2022].

⁸ Jorge Mario Sánchez Egozcue & Juan Triana Cordoví, *Un Panorama Actual de la Economía Cubana, las Transformaciones en Curso y sus Retos Perspectivos [A Current Panorama of the Cuban Economy, the Transformations Underway and its Prospect Challenges]* 26 (Real Instituto Elcano, Working Paper No. 31, 2008).

became—and still are—the top generator of hard currency for Cuba even though in recent years the island has offered for-profit medical services to several additional countries, among them Brazil, Portugal, and oil-rich nations in Africa and the Middle East.⁹ Moreover, with the highest ratio of physicians per inhabitants among the 194 countries tracked by the World Health Organization,¹⁰ Cuba responded to the global coronavirus outbreak by sending medical brigades to a number of virus-ravaged nations to treat COVID-19 patients and earn hard currency to make up for plummeting tourism revenues and help paying for much-needed imports.¹¹ Whereas in 1990 exports of services represented only ten percent of Cuba's total exports—goods and services combined—by 2018 they accounted for about eighty-five percent. Their share was still nearly eighty percent of the total in 2021 despite a considerable drop in earnings from exports of medical services due to a reduced presence of Cuban healthcare providers in Venezuela and the end of Cuban medical missions to Brazil and a few other Latin American countries where Cuba-allied leftist presidents had lost power.¹²

The economic lifeline that Venezuela has thrown to Cuba since Hugo Chavez came to power in 1999 is beyond question. In late 2000, the governments of Venezuela and Cuba signed the Integral Cooperation Agreement (*Convenio Integral de Cooperación*, CIC) under which Venezuela agreed to sell 53,000 barrels per day (bpd) of crude oil and derivatives to Cuba at preferential conditions.¹³ In exchange, Cuba agreed to send 13,000 workers to Venezuela, mostly physicians, nurses, and

⁹ Ricardo Torres, *Exportaciones y Desarrollo Económico en Cuba: Entre Reformas y el 17D* [*Exports and Economic Development in Cuba: Between Reforms and the 17D*], in CUBA EN UN NUEVO ESCENARIO: PERSPECTIVAS DE DESARROLLO ECONÓMICO [CUBA IN A NEW SCENARIO: PROSPECTS FOR ECONOMIC DEVELOPMENT] 161, 168 (Omar Everleny Pérez, Fulvio Castellacci & Claes Brundenius eds., 2015).

¹⁰ See generally *World Health Statistics 2022: Monitoring Health for the SDGs, Sustainable Development Goals*, WORLD HEALTH ORG. [WHO] 1, 107 (2022).

¹¹ By mid-2020, Cuba had sent medical personnel to fight the COVID-19 pandemic to more than two dozen countries, among them Italy, China, Jamaica, Kenya, Peru, Saudi Arabia, South Africa, and Turkey. Ezra Fieser & Matthew Bristow, *Cuba Is Exporting Doctors to Make Up for Lost Tourism Revenue*, BLOOMBERG (June 15, 2020, 8:32 PM), <https://www.bloomberg.com/news/articles/2020-06-16/coronavirus-pandemic-cuba-s-doctors-battle-virus-around-world#xj4y7vzkg>.

¹² The number of Cuban doctors and nurses abroad plunged from more than 50,000 in 2015 to around 28,000 in 2020, mainly because they had to leave countries like Bolivia, El Salvador, Ecuador, and especially Brazil (8,300 left after Bolsonaro won the presidency in October 2018). *Mercy and Money: Cuban Doctors*, THE ECONOMIST (Apr. 4, 2020), <https://link.gale.com/apps/doc/A619239653/AONE?u=miam11506&sid=bookmark-AONE&xid=370b70bb>; ONEI 2021, *supra* note 2.

¹³ Carlos A. Romero, *La Cooperación “Sur-Sur” entre Venezuela y Cuba* [*The “South-South” Cooperation Between Venezuela and Cuba*], in COOPERACIÓN SUR-SUR: UN DESAFÍO AL SISTEMA DE LA AYUDA [SOUTH-SOUTH COOPERATION: A CHALLENGE TO THE AID SYSTEM] 133, 137 (Rubén Fernández ed., Rosa Inés Ospina trans., 2010); Julie M. Feinsilver, *Cuba's Medical Diplomacy*, in A CHANGING CUBA IN A CHANGING WORLD 273, 278–79 (Mauricio A. Font ed., 2008).

paramedics along with a smaller number of sports trainers, teachers, and advisers. Essentially a barter deal at first, the CIC was amended in 2003 to include hard currency payments for professional services provided by Cuban personnel. In April 2005, the CIC was renewed and expanded. Venezuelan oil shipments to Cuba increased to over 90,000 bpd of crude oil and derivatives while Cuba agreed to send 30,000 specialists to staff medical facilities and rehabilitation centers in Venezuela.¹⁴ Cuba's annual trade balance in goods and services regularly ran deficits between 1990 and 2004. Cuba remained a net importer of resources from abroad during this period as rapidly expanding tourism earnings failed to offset a mounting merchandise trade deficit. It was only after Havana and Caracas deepened their economic ties in the mid-2000s that Cuba's overall trade balance began to post surpluses, though not every year. Exports of goods and services jumped from \$5.6 billion in 2004 to \$18.7 billion in 2012—the last year before Chavez's passing—when a sizable surplus of \$3.8 billion was achieved.¹⁵ Although Cuba began to publish disaggregated official statistics on its service trade only in 2018,¹⁶ some scholars estimated that at their peak in 2012 sales of Cuban professional services abroad generated some \$10 billion a year, of which \$7.5 billion were exports to Venezuela.¹⁷

A hefty increase in exports of professional services in the post-2004 period also led to an improved position in Cuba's balance of payments (BOP), at least with respect to the current account. 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 like remittances and donations. The capital and financial accounts gauge the net change in foreign assets, including foreign investment, loans, and reserves. Put simply, the first component establishes the international exposure of an economy while the other two components explain how this exposure is financed. In the second half of the 1990s and early 2000s, the deficit in the current account of Cuba's

¹⁴ Romero, *supra* note 13, at 137; Feinsilver, *supra* note 13, at 278–79.

¹⁵ PAOLO SPADONI, CUBA'S SOCIALIST ECONOMY TODAY: NAVIGATING CHALLENGES AND CHANGE 18 (2014).

¹⁶ In its 2018 statistical yearbook, Cuba's Office of National Statistics and Information, *Oficina Nacional de Estadísticas e Información* (ONEI), reported for the first-time key details of the country's external service trade, offering evidence that the sale of professional services overseas (overwhelmingly provided by Cuban doctors) was Cuba's single-largest source of hard currency revenues. See generally OFICINA NACIONAL DE ESTADÍSTICAS E INFORMACIÓN (ONEI), ANUARIO ESTADÍSTICO DE CUBA 2018 [STATISTICAL YEARBOOK OF CUBA 2018] (2019) [hereinafter ONEI 2018].

¹⁷ Carmelo Mesa-Lago & Pavel Vidal Alejandro, *El Impacto en la Economía Cubana de la Crisis Venezolana y de las Políticas de Donald Trump* [The Impact on the Cuban Economy of the Venezuelan Crisis and the Policies of Donald Trump] 9 (Real Instituto Elcano, Working Paper No. 9, 2019).

BOP was partially mitigated not only by tourism revenues, but also by remittance inflows whose estimated amount at that time ranged between \$500 million and little more than \$1 billion per year.¹⁸ Since then, except in 2008 and at least until 2019 when it was last reported, the current account has recorded surpluses or remained practically balanced.¹⁹ Cuba does not provide information on the capital account, and scarce official statistics on the financial account have not been updated since 2001, making it difficult to measure the country's access to foreign financing.

¹⁸ SPADONI, CUBA'S SOCIALIST ECONOMY TODAY, *supra* note 15, at 61; PAOLO SPADONI, FAILED SANCTIONS: WHY THE U.S. EMBARGO AGAINST CUBA COULD NEVER WORK 148 (2010); Lorena Barberia, *Remittances to Cuba: An Evaluation of Cuban and U.S. Government Policy Measures*, in THE CUBAN ECON. AT THE START OF THE TWENTY-FIRST CENTURY 353, 368 (Jorge I. Domínguez et al. eds., 2004); COMISIÓN ECONÓMICA PARA AMÉRICA LATINA Y EL CARIBE [CEPAL], ESTUDIO ECONÓMICO DE AMÉRICA LATINA Y EL CARIBE 2022 [ECONOMIC SURVEY OF LATIN AMERICA AND THE CARIBBEAN 2022], LC/PUB.2022/9-P/REV.1 (2022); Manuel Orozco, *Remittances to Latin America and Its Effect on Development*, INTER-AMERICAN DIALOGUE (2002), <https://publications.iadb.org/publications/english/viewer/Remittances-to-Latin-America-and-its-Effect-on-Development.pdf>.

¹⁹ For annual data on Cuba's current account, see OFICINA NACIONAL DE ESTADÍSTICA E INFORMACIÓN (ONEI) [NATIONAL OFFICE OF STATISTICS & INFORMATION], *Serie Estadísticas Sector Externo* [External Sector Statistical Series], <http://www.onei.gob.cu/publicaciones-tipo/Serie>.

Table 1. External Trade in Goods and Services, 2012–2021 (US\$ millions)²⁰

	Goods			Goods and services		
	Exports	Imports	Balance	Exports	Imports	Balance
2012	5,577	13,801	-8,224	18,659	14,888	3,771
2013	5,283	14,707	-9,424	18,593	15,602	2,991
2014	4,857	13,037	-8,180	17,812	13,865	3,947
2015	3,350	11,702	-8,352	14,941	12,605	2,336
2016	2,317	10,270	-7,953	13,690	11,226	2,464
2017	2,402	10,172	-7,770	14,093	11,309	2,784
2018	2,373	11,484	-9,111	14,530	12,569	1,961
2019	2,062	9,901	-7,839	12,632	10,971	1,661
2020	1,703	7,230	-5,527	8,769	8,067	702
2021	1,966	8,431	-6,465	7,812	9,168	-1,356

As shown in Table 1, since 2012, and especially since 2014 when Venezuela's economy went into free fall amid tumbling global oil prices, Cuban exports of goods and services have decreased significantly. They stood at some \$14.5 billion in 2018, but even that year there was a trade surplus of almost \$2 billion as import levels, in particular, Venezuelan supplies of oil and refined products to Cuba,²¹ had fallen as well. A more consequential development, which signaled a major hard currency crunch for Cuba, occurred in the 2018–2021 period when Cuban exports of goods and services dropped by nearly half to just \$7.8 billion. In 2021, Cuba's overall trade balance recorded its first deficit in over a decade valued at approximately \$1.4 billion. This is particularly worrisome if we consider that Cuba's liquidity crisis aggravated by the COVID-19 pandemic and falling tourism receipts and remittances forced Havana's authorities to cut imports of goods by an additional twenty-five percent between 2018 and 2021.

With respect to the external trade in goods, Cuba's trade deficit has soared considerably since the mid-2000s. Due above all to rapidly worsening terms of trade in connection with the global economic crisis, the island's

²⁰ ONEI 2021, *supra* note 2, at 186; ONEI 2020, *supra* note 4, at 148; OFICINA NACIONAL DE ESTADÍSTICAS E INFORMACIÓN (ONEI), ANUARIO ESTADÍSTICO DE CUBA 2019 [STATISTICAL YEARBOOK OF CUBA 2019], at 156 (2020) [hereinafter ONEI 2019]; ONEI 2018, *supra* note 16, at 154.

²¹ Ernesto Hernández-Catá, *Cuba's Swaps of Petroleum for Doctors and the Impact of Cutbacks in Venezuelan Oil Deliveries*, 29 CUBA IN TRANSITION 22, 32 (2019), https://www.ascecuba.org/c/wp-content/uploads/2020/01/v29-asce_2019_05hernandezcata.pdf.

merchandise balance posted a deficit of more than \$10 billion in 2008, the largest ever. A combination of dramatic import cuts and soaring export receipts drove the trade deficit down to approximately \$6 billion in 2010, but this level was still three times higher than that of 1990.²² Cuba keeps relying on large amounts 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 since government efforts to invigorate productive forces and recapitalize key national industries require sizable purchases from abroad. In the first half of the 2010s, despite annual export earnings—worth around \$5 billion—similar to the record levels of the second half of the 1980s when Havana focused almost entirely on trade with the Soviet Union and other socialist countries, Cuba's trade deficit in goods averaged more than \$8 billion per year. This deficit surpassed \$9 billion in 2018 but shrunk to \$5.5 billion in 2020 and \$6.5 billion in 2021 amid import cutbacks and the lowest export levels in nearly two decades.

Not surprisingly, Cuba is facing an acute balance of payments crisis. Cuba's chronic foreign exchange shortages and its recurrent failures to respect debt payments are well documented. On this issue, it is worth emphasizing that the government-backed credits Cuba receives from China²³ and other strategic partners and a large share of its earnings from the export of professional services to Venezuela are funds committed to the purchase of goods from these countries. The Cuban government must rely to a significant degree on exports of nickel and a few other products, international tourism revenues, and remittances to build foreign exchange liquidity and reserves. In effect, after 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,²⁴ Cuba's liquidity problems began to improve thanks primarily to record numbers of international visitors and associated

²² COMISIÓN ECONÓMICA PARA AMÉRICA LATINA Y EL CARIBE [CEPAL], *LA ECONOMÍA CUBANA: REFORMAS ESTRUCTURALES Y DESEMPEÑO EN LOS NOVENTA* [THE CUBAN ECONOMY: STRUCTURAL REFORMS AND PERFORMANCE IN THE NINETIES] (2000) [hereinafter CEPAL, *LA ECONOMÍA CUBANA*].

²³ A recent study on China's global development projects also reported that Cuba was the eighth largest recipient of Chinese ODA (Official Development Assistance) between 2000 and 2017. Total assistance to Cuba was valued at \$3.35 billion. AMMAR A. MALIK ET AL., *BANKING ON THE BELT AND ROAD: INSIGHTS FROM A NEW GLOBAL DATASET OF 13,427 CHINESE DEVELOPMENT PROJECTS 19* (2021).

²⁴ Marc Frank, *Global Crisis, Storms Hit Cuba Finances*, REUTERS (Dec. 17, 2008, 10:48 AM), <https://www.reuters.com/article/cuba-economy/global-crisis-storms-hit-cuba-finances-idUSN1244996520081217>; Gerardo Arreola, *Cuba Tiene Congeladas Desde Hace 6 Meses las Cuentas Bancarias de Empresas Extranjeras* [Cuba has Frozen the Bank Accounts of Foreign Companies for 6 Months], LA JORNADA (May 25, 2009), <https://www.jornada.com.mx/2009/05/25/mundo/033n1mun>.

tourism earnings and to a sharp growth of remittances from abroad, mostly sent by Cuban Americans. Unofficial sources also revealed that Cuba's international reserves rose from \$7.4 billion in 2011 to \$12 billion in 2016. Yet, reserves reportedly had fallen to \$9.7 billion by the end of 2019 and to \$7.1 billion by the end of 2021,²⁵ as Cuba felt the blow of intensified U.S. sanctions and the disruptive effects of the coronavirus pandemic and, once again, struggled to pay its debt to foreign firms and creditor countries.²⁶

It should be stressed that Cuba has accumulated a large external debt in hard currency adding yet another burden to the country's ailing economy. Cuba's active or performing debt rose from \$5.8 billion in 2004 to \$11.6 billion in 2008 as Venezuela and China began to extend extensive credits to Havana on far better terms than those granted by their competitors.²⁷ Since then, this debt has continued to increase at an alarming rate even if Cuba was able to obtain substantial debt relief in the meantime. Cuba's active debt had reached \$18.2 billion by 2016, and it was last reported at \$19.6 billion in 2019, of which about \$10.7 billion was official debt owed primarily to foreign governments and \$7.4 billion was commercial debt with foreign suppliers.²⁸

Over the past decade or so, major write-offs of Cuban debt included \$6 billion by China in 2011, around \$1.4 billion by Japanese commercial creditors in 2012, and almost \$500 million by Mexico in 2013.²⁹ Additionally, until the mid-2010s, there was an inactive or nonperforming debt of \$7.6 billion primarily owed to the Paris Club of wealthy creditor

²⁵ EIU 2022, *supra* note 7; Economist Intelligence Unit, Country Report: Cuba (2016); Comisión Económica para América Latina y el Caribe [CEPAL], Balance Preliminar de las Economías de América Latina y el Caribe 2020 [Preliminary Overview of the Economies of Latin America and the Caribbean 2020], LC/PUB.2020/17-P/Rev.1 (2021).

²⁶ Havana Agence France-Presse, *Pressured by US Sanctions, Cuba Struggles to Pay Its Debts*, RADIO FR. INTERNATIONALE (Feb. 23, 2020), <https://www.rfi.fr/en/wires/20200223-pressured-us-sanctions-cuba-struggles-pay-its-debts>; Ezra Fieser, *As Castro Reign Ends, Cuba Is Mired in a Debt Debacle Once Again*, BLOOMBERG L. (Apr. 20, 2021, 7:00 AM), <https://www.bloomberg.com/news/articles/2021-04-20/as-castro-reign-ends-cuba-is-mired-in-a-debt-debacle-once-again>.

²⁷ Emily Morris, *Cuba's New Relationship with Foreign Capital: Economic Policy-Making Since 1990*, 40 J. LATIN AM. STUD. 769, 788 (2008); ANUARIO ESTADÍSTICO DE CUBA 2006 [STATISTICAL YEARBOOK OF CUBA 2006] (2007) (on file with author); ANUARIO ESTADÍSTICO DE CUBA 2010 [STATISTICAL YEARBOOK OF CUBA 2010] (2011) (on file with author).

²⁸ ONEI 2021, *supra* note 2, at 185.

²⁹ Kenneth Rapoza, *China Has Forgiven Nearly \$10 Billion in Debt. Cuba Accounts for Over Half*, FORBES (May 29, 2019, 8:00 AM), <https://www.forbes.com/sites/kenrapoza/2019/05/29/china-has-forgiven-nearly-10-billion-in-debt-cuba-accounts-for-over-half/?sh=33a6447f615b>; Marc Frank, *Russian-Cuba Debt Deal Creates Waves Among Creditors*, REUTERS (Mar. 14, 2013, 11:05 AM), <https://www.reuters.com/article/cuba-debt-russia/russian-cuba-debt-deal-creates-waves-among-creditors-idUSL1N0C592Z20130314>; Veronica Gomez, *Mexico Says It Will Waive Most of \$487 Million Debt Owed by Cuba*, REUTERS (Nov. 1, 2013, 1:04 PM), <https://www.reuters.com/article/uk-mexico-cuba/mexico-says-it-will-waive-most-of-487-million-debt-owed-by-cuba-idUKBRE9A00RV20131101>.

nations that Cuba had not serviced since 1986,³⁰ and a massive outstanding debt with the former Soviet Union in old transferable rubles that Russia claimed but the Cuban government did not recognize. In 2014, Russia erased ninety percent of Cuba's \$35.2 billion debt to the Soviet Union with the understanding that Havana paid the rest within ten years.³¹ In late 2015, Cuba reached an agreement with fourteen of the nineteen creditor nations of the Paris Club (several Western European countries, Japan, Canada, and Australia) whereby the creditors agreed to forgive \$8.5 billion of Cuba's \$11.1 billion defaulted debt—including interests, service charges, and penalties—and restructure payments on the remainder over a period of eighteen years with easy terms but stiff penalties for late or missed payments.³² Cuba also reached follow-up bilateral accords with some Paris Club members involving additional debt forgiveness and debt conversion into development projects on the island.³³

Cuba's external financial situation improved after 2015 as debt restructuring deals with the Paris Club and other creditors resulted in sizable reductions in what the country owed in exchange for payment plans it could meet. Furthermore, foreign bank lending to Cuba³⁴ somehow restarted as the Paris Club agreement and the individual debt renegotiation accords gave a much-needed boost to Cuba's international creditworthiness.³⁵ In December

³⁰ The Paris Club is an informal group of nineteen creditor nations (including the United States) providing debt relief and other kinds of financial assistance to debtor countries, for the most part developing nations. Unlike the International Monetary Fund (IMF) and the World Bank, the Paris Club does not issue multilateral loans. Lorenzo L. Pérez, *Cuba: Access to Capital Markets, External Debt Burden, and Possible Avenues for Debt Relief*, 18 CUBA IN TRANSITION 160 (2008), <https://www.ascecuba.org/c/wp-content/uploads/2014/09/v18-perez.pdf>.

³¹ *Russia Writes Off \$32bn Cuban Debt in Show of Brotherly Love*, THE GUARDIAN (July 10, 2014, 6:19 AM), <https://www.theguardian.com/world/2014/jul/10/russia-writes-off-cuban-debt>.

³² See Mark Lammey, *Russia Ratifies \$35Bln Debt Write-Off for Cuba*, MOSCOW TIMES (July 9, 2014), <https://www.themoscowtimes.com/2014/07/09/645ussia-ratifies-35bln-debt-write-off-for-cuba-a37170>; Marc Frank & Leigh Thomas, *Cuba's Debt Deal: Easy Terms, but Severe Penalties if Late Again*, REUTERS (Dec. 15, 2015, 11:01 AM), <https://www.reuters.com/article/us-cuba-debt-exclusive/exclusive-cubas-debt-deal-easy-terms-but-severe-penalties-if-late-again-idUSKBN0TY23C20151215>.

³³ Elizabeth Pineau & Leigh Thomas, *France to Offer Cuba More Debt Relief During Castro Visit*, REUTERS (Jan. 29, 2016, 12:31 PM), <https://www.reuters.com/article/uk-cuba-france-idUKKCN0V725T>; *España y Cuba Acuerdan una Condonación Adicional de Deuda a la Isla [Spain and Cuba Agree on an Additional Cancellation of the Debt to the Island]*, EXPANSIÓN (Feb. 9, 2016), <https://www.expansion.com/agencia/efe/2016/02/09/21632589.html>; *Japan's Budding Ties with Cuba*, JAPAN TIMES (Oct. 8, 2016), <https://www.japantimes.co.jp/opinion/2016/10/08/editorials/japans-budding-ties-cuba/>.

³⁴ For data on foreign bank loans to Cuba, see generally *Locational Banking Statistics*, BANK FOR INT'L SETTLEMENTS (BIS) (Dec. 5, 2022), <https://www.bis.org/statistics/bankstats.htm>.

³⁵ Juan Carlos Palacios Cívico, *Análisis de la Restricción Externa de la Economía de Cuba en el Actual Contexto de Incertidumbre [Analysis of the External Restriction of the Cuban Economy in the Current Context of Uncertainty]*, 127 REVISTA CEPAL 175, 180 (2019); Luis R. Luis, *Cuba's Capital Account of the Balance of Payments*, 27 CUBA IN TRANSITION 45, 48 (2017), <https://www.ascecuba.org/c/wp-content/uploads/2018/01/v27-luis.pdf>.

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 positive. As for the rationale for the outlook change, Moody's cited manageable risks associated with Cuba's reduced economic dependence on Venezuela since 2014 that had prompted Havana's authorities to adopt various measures to diversify trade and financial links. Another key driver of the agency's rating action was continued cautious reform momentum in Cuba under the leadership of Raúl Castro along with increased rapprochement with the United States during the Obama Administration that supported a favorable performance of the Cuban economy and possibly a further weakening of U.S. economic sanctions against the island.³⁶

Enhanced access to external financing is very important for Cuba. Since it is considered a high credit risk, Cuba has virtually no access to medium- and long-term commercial financing other than from official lenders in friendly nations like Venezuela, China, Russia, and—until Jair Bolsonaro became the country's president in early 2019—Brazil. As for short-term financing, Cuba has some access to it but at high interest rates and with major constraints. Trade credit from foreign banks is generally tight and requires deposits from Cuban banks as collaterals.³⁷ The availability of supplier credits instead is limited by Cuba's repeated missed and late payments. As a matter of fact, Cuba reached a deal with the Paris Club but has made little progress in other debt renegotiation discussions like those with the London Club, a group of private European banks to which Cuba owes \$1.4 billion in unpaid commercial debt from the 1980s. The British firm CRF I Ltd., the largest creditor of Cuban debt in the London Club, sued Cuba for non-payment in a London court in February 2020 and, to no avail, made repeated offers to Havana's government to settle the dispute with significant debt relief involved.³⁸

³⁶ *Rating Action: Moody's Changes Cuba's Outlook to Positive from Stable; Caa2 Rating Affirmed*, MOODY'S INV. SERV. (Dec. 10, 2015), https://www.moodys.com/research/Moodys-changes-Cubas-outlook-to-positive-from-stable-Caa2-rating—PR_339779. Of the three top international credit rating agencies, such as Standard & Poor's, Fitch, and Moody's, the latter is the only one to assign grades to Cuba. *Id.*

³⁷ Luis R. Luis, *Cuba's International Economic Relations 1959–2019: Trade, Aid and Debt*, 29 CUBA IN TRANSITION 177, 184 (2019), https://www.ascecuba.org/c/wp-content/uploads/2020/01/v29-asce_2019_23luis.pdf.

³⁸ See Ezra Fieser, *Cuba Creditor Makes Fresh Effort to Settle Castro-Era Debts*, BLOOMBERG (Apr. 26, 2021), <https://www.bloomberg.com/news/articles/2021-04-26/cuba-creditor-makes-fresh-effort-to-settle-castro-era-debts>.

Cuba also is still in arrears with numerous suppliers, is officially in default on almost \$700 million it owes to Brazil's public lenders,³⁹ and it has even failed to meet its commitments to service the restructured debt with the Paris Club and new debt with Russia. In October 2021, unofficial sources revealed that Cuba had reached an agreement with Paris Club members to skip its annual debt payment due in November to the following year.⁴⁰ Cuba had only partially met its payment obligations in 2019 and defaulted in 2020. In February 2022, Russia's lower house of parliament, or Duma, ratified a deal to postpone until 2027 some debt payments Cuba owed to Russia for a series of loans worth \$2.3 billion it had received between 2006 and 2019 to fund infrastructure projects.⁴¹ Moreover, it is worth mentioning that Cuba is not a member of U.S.-led international financial institutions 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 needs of the island.⁴² In short, Cuba's financial conditions have deteriorated markedly over the past few years. Settling the debt is a crucial hurdle for Cuba if it wishes to bolster its ability to obtain credit from private and official lenders and to attract much-needed foreign investment.

III. MAIN CHALLENGES

Along with a liquidity crisis and other mounting financial woes intensified by a worsening external environment, Cuba faces several critical problems that limit the adequate functioning of the external sector and its ability to foster economic growth and development. These include a sizable merchandise trade deficit, excessive trade concentration in terms of both products and markets, vulnerability to external trade shocks (particularly to international price swings), overreliance on export activities with low cross-

³⁹ See Mariana Carneiro, *Governo Congela Seguro a Exportações após Cuba e Venezuela Darem Calotes*, FOLHA DE S.PAULO (Dec. 25, 2018), <https://www1.folha.uol.com.br/mercado/2018/12/governo-congela-seguro-a-exportacoes-apos-cuba-e-venezuela-darem-calotes.shtml>.

⁴⁰ See Marc Frank, *Cuba, Paris Club Reach Deal to Skip 2021 Debt Payment – Diplomats*, REUTERS (Oct. 20, 2021), <https://www.reuters.com/business/exclusive-cuba-paris-club-reach-deal-skip-2021-debt-payment-diplomats-2021-10-20/>.

⁴¹ Polina Devitt & Dave Sherwood, *Russia Postpones Cuba Debt Payments amid Warming Relations*, REUTERS (Feb. 22, 2022), <https://www.reuters.com/markets/europe/russia-postpones-cuba-debt-payments-amid-warming-relations-2022-02-23/>.

⁴² Pavel Vidal & Scott Brown, *Cuba's Economic Reintegration: Begin with the International Financial Institutions* (Report), ATL. COUNCIL, 3, 6–7 (July 2015), https://www.atlanticcouncil.org/wp-content/uploads/2015/07/Cuba_IFI_English.pdf; Marlén Sánchez Gutiérrez, *Cost and Benefits from a Possible Return of Cuba to the IMF and to the World Bank. Is It Worth Exploring?*, CUBA STUDY GRP., 1-3 (Sept. 22, 2015), <http://cubastudygroup.org/wp-content/uploads/2019/03/From-the-Island-32.pdf>.

sector spillover effects, inadequate levels of foreign investment, and major systemic flaws that stifle productivity, efficiency, and trade competitiveness.

Over the past three decades, cumulative revenues from exports of goods were roughly one-third of what Cuba had to pay to satisfy its import needs.⁴³ Cuba's depressed agricultural and industrial productions played a key role in sustaining high levels of imported goods and seriously hampered Havana's efforts to substitute costly imports. Indeed, one of the most urgent challenges for the government of Miguel Díaz-Canel, who replaced Raúl Castro as Cuba's president in April 2018 and as first secretary of the Cuban Communist Party in April 2021, is to remove the obstacles that inhibit agricultural productivity. The strategic relevance of agriculture, which traditionally has been the Achilles' heel of socialist countries, stems from its multiplier effects on other economic sectors and its potential to create employment, generate export earnings, stimulate GDP growth and, most importantly, produce enough domestic food to satisfy the dietary needs of the population.⁴⁴ Cuban agriculture has historically fallen way short of achieving the last of these goals, a failure that has perpetuated the country's high dependency on food imports and its vulnerability to food insecurity.

⁴³ See ONEI 2021, *supra* note 2; CEPAL, LA ECONOMÍA CUBANA, *supra* note 22.

⁴⁴ Armando Nova González, *Cuban Agriculture in the 'Special Period' and Necessary Transformations*, in CUBAN ECONOMIC AND SOCIAL DEVELOPMENT: POLICY REFORMS AND CHALLENGES IN THE 21ST CENTURY 59, 59 (Jorge I. Domínguez et al. eds., 2012).

Table 2. Non-Sugar Agricultural Production, 2007–2021 (thousand tons)⁴⁵

	Roots & Tubers	Plantains	Vegetables	Paddy rice	Corn	Beans	Citrus	Other fruits
2007	1,379	991	2,603	440	369	97	469	784
2008	1,393	758	2,439	436	326	97	392	739
2009	1,566	670	2,549	564	305	111	418	748
2010	1,515	735	2,141	454	325	80	345	762
2011	1,445	835	2,200	566	354	133	265	817
2012	1,452	885	2,112	642	360	127	204	965
2013	1,581	659	2,407	673	426	130	167	925
2014	1,671	836	2,499	585	429	136	97	884
2015	1,743	890	2,424	418	363	118	115	943
2016	1,843	1,016	2,385	514	405	137	120	945
2017	1,829	1,015	2,484	405	374	132	99	926
2018	1,801	961	2,454	461	346	162	72	861
2019	1,702	1,036	2,183	426	276	128	71	1,094
2020	1,269	860	1,698	267	257	66	43	863
2021	1,251	861	1,713	226	239	58	37	770

In early 2008, under the leadership of Raúl Castro, Cuba started a massive redistribution of unused state land in usufruct to private farmers and cooperatives. Since then, significant agricultural reforms have expanded usufruct rights and granted Cuban farmers greater freedoms to choose their crops, sell their output directly to consumers, obtain the supplies they need, and contract their labor force. Among other measures, Cuban authorities also enacted some limited price reforms, revised the system of procurement quotas—the compulsory sale of a predetermined share of a crop to the state at fixed prices—to make it less cumbersome for producers, increased state payments to farmers, began to issue microcredits to them, and decentralized distribution. But those efforts have done little to reactivate production and solve Cuba's persistent agricultural problems.⁴⁶

In 2021, Cuba's total non-sugar agricultural output was nearly thirty percent lower than its level in 2007 (Table 2). While certain staples like roots

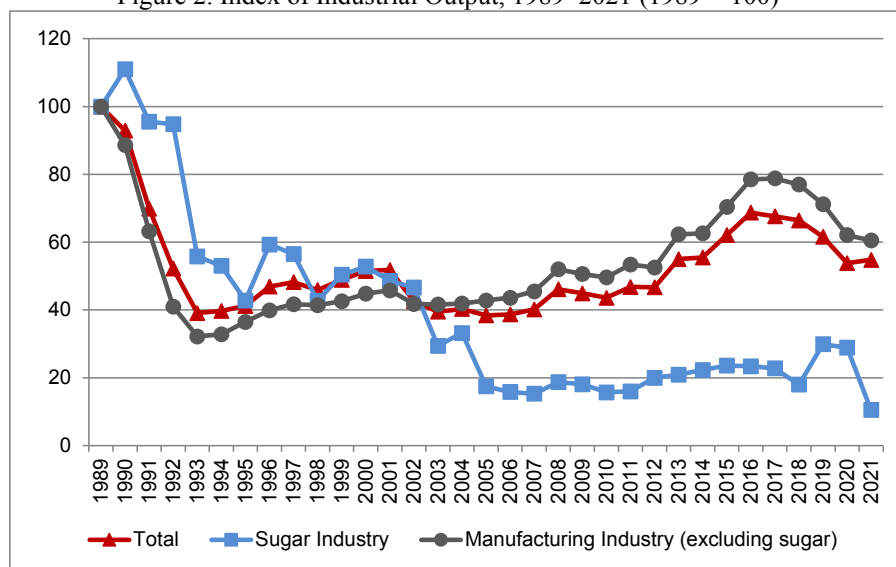
⁴⁵ ONEI 2021, *supra* note 2; ONEI 2020, *supra* note 4; ONEI 2019, *supra* note 20; OFICINA NACIONAL DE ESTADÍSTICAS E INFORMACIÓN (ONEI), ANUARIO ESTADÍSTICO DE CUBA 2013 [STATISTICAL YEARBOOK OF CUBA 2013] (2014) [hereinafter ONEI 2013] (on file with author); OFICINA NACIONAL DE ESTADÍSTICAS E INFORMACIÓN (ONEI), ANUARIO ESTADÍSTICO DE CUBA 2011 [STATISTICAL YEARBOOK OF CUBA 2011] (2012) (on file with author).

⁴⁶ Mario A. Gonzalez-Corzo & Armando Nova González, *Cuban Agriculture After a Decade of Reforms*, 23 J. BUS. & ECON. STUD. 24, 26–29 (2019).

and tubers, plantains, and some fruits performed better than others in terms of output, the annual volumes of all staple crops in 2021 were lower than in 2007. Productions of vegetables, especially tomatoes, rice, corn, and citrus products experienced the sharpest drops during this period. There was even a decline in rationed root vegetables and tubers like potatoes, sweet potatoes, and malangas that receive priority in the supply of imported seeds, fertilizers, and plant chemicals. And the overall conditions of Cuban agriculture were precarious even before Cuba's GDP nosedived in 2020. If we consider that livestock production is grossly inadequate to meet demand, it comes as no surprise that Cuba imports more than sixty percent of the food it consumes at a cost of roughly \$2 billion each year.⁴⁷ The country's agricultural sector accounts for approximately sixty percent of total calories and forty-five percent of total proteins consumed daily by the Cuban population while imports account for the rest.⁴⁸

⁴⁷ See Marc Frank, *Cubans Cast Aside Coronavirus Fears to Search for Scarcer Food*, REUTERS (Apr. 8, 2020), <https://www.reuters.com/article/us-health-coronavirus-cuba-economy-featu/cubans-cast-aside-coronavirus-fears-to-search-for-scarcer-food-idUSKCN21Q2C6>.

⁴⁸ Anicia García Álvarez & Betsy Anaya Cruz, *El Sector Agropecuario y el Desarrollo Económico: El Caso Cubano*, in *AGRICULTURA EN CUBA: ENTRE RETOS Y TRANSFORMACIONES* 97, 109 (Armando Nova González ed. 2022).

Figure 2. Index of Industrial Output, 1989–2021 (1989 = 100)⁴⁹

Cuba's industrial sector has major problems as well and has yet to fully recover from its collapse in the early 1990s (Figure 2). Excluding the dismal performance of the sugar agro-industrial complex, Cuba's total manufacturing production witnessed a decline of almost seventy percent between 1989 and 1993 as financial assistance from the Soviet Union came to an end and state investments could no longer be sustained. Notwithstanding some progress in certain subsectors, the physical output of the Cuban manufacturing industry in 2021 was only about sixty percent of its level of 1989 (fifty-five percent if the sugar industry was included). Domestically produced equipment has almost entirely disappeared today, and intermediate goods in 2021 stood at little more than one-fifth of their volume in 1989.⁵⁰ This explains why Cuba must purchase a great deal of machinery and equipment from abroad and why intermediate products account for the lion's share of the country's merchandise imports. In another worrying sign, the physical output of consumer goods, most notably processed foods, fell

⁴⁹ ONEI 2021, *supra* note 2; ONEI 2020, *supra* note 4; ONEI 2019, *supra* note 20; ONEI 2013, *supra* note 45; OFICINA NACIONAL DE ESTADÍSTICAS E INFORMACIÓN (ONEI), ANUARIO ESTADÍSTICO DE CUBA 2011 [STATISTICAL YEARBOOK OF CUBA 2011] (2012) [hereinafter ONEI 2012] (on file with author); OFICINA NACIONAL DE ESTADÍSTICAS E INFORMACIÓN (ONEI), ANUARIO ESTADÍSTICO DE CUBA 2007 [STATISTICAL YEARBOOK OF CUBA 2007] (2008) (on file with author); OFICINA NACIONAL DE ESTADÍSTICAS E INFORMACIÓN (ONEI), ANUARIO ESTADÍSTICO DE CUBA 2003 [STATISTICAL YEARBOOK OF CUBA 2003] (2004) (on file with author); OFICINA NACIONAL DE ESTADÍSTICAS E INFORMACIÓN (ONEI), ANUARIO ESTADÍSTICO DE CUBA 1996 [STATISTICAL YEARBOOK OF CUBA 1996] (1998) [hereinafter ONEI 1996] (on file with author).

⁵⁰ ONEI 2021, *supra* note 2.

sharply in the 2018–2021 period, putting further pressure on Cuba’s import sector.⁵¹

When it comes instead to merchandise export activities, insufficient diversification is a binding constraint to economic growth and development. For decades, Cuban exports have remained concentrated in just a few commodities. Only four products (nickel, sugar, cigars, and medicines) accounted for almost seventy percent of Cuba’s total merchandise export earnings in 2021. Even more strikingly, when Venezuelan oil deliveries to Havana thrived in 2012–2013, close to fifty percent of Cuba’s total export revenues⁵² came from oil exports that consisted not only of various types of fuels produced at a joint venture refinery with Venezuela in Cienfuegos, but also, most likely, of considerable amounts of re-exported Venezuelan oil.⁵³ Excessive market concentration is also an issue of concern. Since 2004, there has been a strong reorientation of foreign trade toward emerging market economies like China, Russia, Brazil (currently on a collision course with Havana),⁵⁴ and especially Venezuela that provides government-backed credits with generous repayment terms.⁵⁵ Bilateral trade with Venezuela and China, in particular, accounted for about half of Cuba’s total merchandise trade for most of the 2010s and, notwithstanding a decreasing trend, still accounted for more than one-fourth of the island’s total external trade in goods in 2021.

Crucial trade vulnerabilities should not be overlooked. The international prices of Cuba’s key export and import goods tend to experience wide swings and, to further complicate things, major Cuban export sectors like nickel and sugar lack the ability to boost production to react to higher prices.⁵⁶ Almost

⁵¹ Cuba’s production of processed foods in 2018 was 78.8% of its value in 1989. That share fell to 69.8% in 2019, 64.8% in 2020, and 52.4% in 2021. *Id.*

⁵² See generally ONEI 2018, *supra* note 16 (total export revenue calculations); ONEI 2013, *supra* note 45. After ten years of joint management with Cuba of the Cienfuegos oil refinery, Venezuela pulled out of the partnership in late 2017. *Cuba Fully Operates Oil Refinery Formerly Managed in Joint Venture with Venezuela*, XINHUANET (Dec. 16, 2017, 7:59 AM), http://www.xinhuanet.com/english/2017-12/16/c_136829694.htm.

⁵³ CARMELO MESA-LAGO & JORGE PÉREZ-LÓPEZ, *CUBA UNDER RAÚL CASTRO: ASSESSING THE REFORMS 82–83* (2013).

⁵⁴ The most emblematic sign of deteriorating relations between Cuba and Brazil was the latter’s historic vote (the first Latin American country to do so in twenty-six years) against condemning the U.S. embargo on Cuba at the United Nations General Assembly in November 2019. Michelle Nichols, *Brazil for First Time Votes Against U.N. Call for End to U.S. Embargo on Cuba*, REUTERS (Nov. 7, 2019), <https://www.reuters.com/article/us-usa-cuba-un/brazil-for-first-time-votes-against-u-n-call-for-end-to-u-s-embargo-on-cuba-idUSKBN1XH2DV>.

⁵⁵ Richard E. Feinberg, *Bienvenida–Maybe: Cuba’s Gradual Opening to World Markets*, 84 SOC. RSCH. 305, 307 (2017); Omar Everleny Pérez Villanueva, *La Economía Cubana: Evolución y Perspectivas*, 44 CUBAN STUD. 19, 35 (2016).

⁵⁶ Jorge Pérez-López, *Cuba’s Never-Ending External Sector Crisis*, 27 CUBA IN TRANSITION 30, 32 (2017), <https://www.ascecuba.org/c/wp-content/uploads/2018/01/v27-perezlopez.pdf>; see Jorge Mario

entirely the result of price fluctuations since output levels had changed little (between 70,000 and 75,000 tons of nickel plus cobalt per year), Cuba's earnings from nickel exports jumped from \$600 million in 2000 to \$2.1 billion in 2007 and dropped to \$1.4 billion in 2011.⁵⁷ Since then, despite the somewhat steady contribution (between 35,000 and 38,000 tons of nickel plus cobalt per year) of the Pedro Soto Alba plant in Moa run as a joint venture with the Canadian firm Sherritt International,⁵⁸ Cuba's annual nickel output has fallen to approximately 50,000 tons due to the closing of an aging state-owned plant in Nicaro and to reduced production at another state facility in Punta Gorda. However, a sharp plunge in nickel prices aggravated the impact of low output on financial results, pushing export revenues down to \$460 million in 2016 (about an eighty percent drop from their level in 2011) and raising the need for the Cuban nickel industry to step up efforts to lower costs and achieve greater efficiency.⁵⁹ With prices again on the rise, Cuba's nickel exports generated almost \$800 million worth of revenues in 2021. Toward the end of that year, Sherritt announced a plan to increase nickel and cobalt production at its Moa plant by fifteen to twenty percent of combined totals and expand the life of the mine at Moa beyond 2040.⁶⁰

Mounting losses triggered by falling international prices also played a key role in Cuba's decision in the early 2000s to downsize its sugar industry and convert vast amounts of land to other uses as part of a restructuring process aimed at achieving greater efficiency and promoting agricultural diversification. The original plan called for closing about half of the island's 156 sugar mills, supposedly the most inefficient units, while maintaining

Sánchez Egozcue, *Crecimiento Económico y Sector Externo en Cuba*, CENTRO DE ESTUDIOS DE LA ECONOMÍA CUBANA (CEEC) (2011), <https://thecubaneconomy.com/wp-content/uploads/2011/10/Jorge-Mario-Sanchez-Crecimiento-econ%C3%B3mico-y-sector-externo-en-Cuba.docx>.

⁵⁷ SPADONI, CUBA'S SOCIALIST ECONOMY TODAY, *supra* note 15, at 66.

⁵⁸ Annual nickel production at Sherritt's Pedro Soto Alba plant in the province of Holguín in Cuba decreased from 34,572 tons (plus 3,853 tons of cobalt) in 2011 to 31,184 tons (plus 3,526 tons of cobalt) in 2021. For additional information, see the annual reports of Sherritt International Corporation at www.sherritt.com. *2021 Financial Results*, SHERRITT (2021), https://s2.q4cdn.com/343762060/files/doc_financials/2021/ar/2021-Sherritt-Financial-Report-Final.pdf.

⁵⁹ Marc Frank, *Cuba Sees Nickel Output Topping 50,000 Tonnes*, REUTERS (Dec. 13, 2018, 10:10 AM), <https://www.reuters.com/article/metals-cuba-nickel/cuba-sees-nickel-output-topping-50000-tonnes-idINL1N1Y10TW>; Sarah Marsh, *Cuba Sees Nickel Output Steady at 56,000 Tonnes; Low Prices Bite*, REUTERS (June 13, 2016, 4:06 PM), <https://www.reuters.com/article/us-metals-cuba-nickel/cuba-sees-nickel-output-steady-at-56000-tonnes-low-prices-bite-idUSKCN0YZ2C5>. For historical nickel prices (1960–2021), see *Commodity Price Data (The Pink Sheet)*, THE WORLD BANK, <https://www.worldbank.org/en/research/commodity-markets> (last visited Feb. 9, 2023).

⁶⁰ *Sherritt Outlines Moa JV Expansion Strategy and Reports Q3 Results*, BUS. WIRE (Nov. 3, 2021, 5:13 PM), <https://www.businesswire.com/news/home/20211103006288/en/Sherritt-Outlines-Moa-JV-Expansion-Strategy-and-Reports-Q3-Results>.

existing production levels.⁶¹ However, a sustained decline in sugar production after the restructuring process meant that the Cuban sugar industry was basically unable to take advantage of the spectacular rise in prices that took place a few years later. When Cuba's sugar output hit historic low levels of about 1.2 million tons in 2010 and 2011 (down from 4.1 million tons in 2000) and annual export revenues were, respectively, \$257 million and \$361 million, prices were more than three times higher than a decade earlier. Conversely, sugar output rose noticeably during the 2010s to reach almost 1.9 million tons in 2017 but prices meanwhile witnessed a downward trend. As a result, annual sugar export earnings varied relatively little (between \$350 million and \$470 million) during this period. Amid depressed sugar prices, Cuba produced around 1.2 million tons of sugar in 2020, which brought in only \$170 million worth of export revenues. Cuba's sugar harvest fell even more to 800,000 tons in 2021 and to less than 500,000 tons in 2022, but a new wave of price hikes reignited the debate on whether Cuba's sugar industry should be saved or let die.⁶²

Regarding the potential role of the external sector in fostering economic expansion and development, it must be underscored that over the past three decades, to a great extent, Cuba has simply replaced one engine of growth with another instead of diversifying its economic anchors and promoting new dynamic manufacturing activities. In recent years, the Cuban economy has actually moved firmly toward professional services with fewer linkages with the production sphere than sugar and tourism, the two previous leading sectors. Except for some emerging ties to the biotechnology industry, Cuban exports of medical services are largely unlinked from the rest of the domestic economy.⁶³ Even nickel production has minimal ripple effects on the rest of

⁶¹ José Alvarez & Jorge F. Pérez-López, *The Restructuring of Cuba's Sugar Agroindustry: Impact on Rural Landscape and Communities*, 2 J. OF RURAL & CMTY. DEV. 44, 46–47 (2007); PHILIP PETERS, CUTTING LOSSES: CUBA DOWNSIZES ITS SUGAR INDUSTRY 4–5 (2003), <https://www.lexingtoninstitute.org/wp-content/uploads/Cuba/cutting-losses.pdf>.

⁶² Omar Everleny Pérez Villanueva, *La Industria Azucarera Cubana: ¿Hay que Salvarla?*, HORIZONTE CUBANO: COLUM. L. SCH. (Jan. 22, 2022), <https://horizontecubano.law.columbia.edu/news/la-industria-azucarera-cubana-hay-que-salvarla>; Fernando Ravnsberg, *Cuba: La Peor Zafra en 100 años*, BBC (May 10, 2010), https://www.bbc.com/mundo/america_latina/2010/05/100505_cuba_zafra_lr; Marc Frank, *Cuba Hopes to Avoid Importing Sugar, Will Reduce Future Exports*, REUTERS (June 14, 2018, 12:00 PM), <https://www.reuters.com/article/us-food-cuba-sugar/cuba-hopes-to-avoid-importing-sugar-will-reduce-future-exports-idUSKBN1JA2EC>; Marc Frank, *Cuban Sugar Harvest Worst in Over a Century, Another Hit to Ailing Economy*, REUTERS (May 25, 2022, 1:52 PM), <https://www.reuters.com/markets/commodities/cubas-sugar-harvest-worst-over-century-another-hit-ailing-economy-2022-05-25/>. For historical sugar prices (1989–2020), see *Sugar and Sweeteners Yearbook Tables*, U.S. DEP'T OF AGRIC., <https://www.ers.usda.gov/data-products/sugar-and-sweeteners-yearbook-tables>.

⁶³ Alberto Gabriele, *Cuba: From State Socialism to a New Form of Market Socialism?*, 53 COMPAR. ECON. STUD. 647, 660 (2011).

the economy since nickel is extracted on the island but refined abroad. On the contrary, services like tourism and certain industries involved in producing goods (sugar for instance) have considerable multiplier effects.⁶⁴ Medical internationalism is providing substantial material benefits to Cuba, but it is very difficult to develop a service economy independently from the national industrial base. Sustained growth requires a more diversified export base, improvements in productive capacities, and above all the implementation of structural reforms to strengthen the role of market forces in the Cuban economy.

In effect, the Cuban economy suffers from severe structural problems. Among them are a weak capacity to generate domestic savings to support investment, low efficiency levels of most state-run enterprises, relative price distortions stemming from government controls that hamper market mechanisms, heavy red tape and overcentralization, and insufficient levels of foreign direct investment.⁶⁵ These problems conspire against boosting productivity and improving the quality of Cuban goods and services, thereby diminishing Cuba's competitiveness in the area of foreign trade. The end of Cuba's dual currency system with its multiple exchange rates in early January 2021 was motivated by the need to eliminate the harmful effects that arrangement had had on the economy for decades and facilitate the ongoing transformation of the country's economic model.⁶⁶ Most notably, the dual monetary system created segmented markets, reduced linkages between enterprises, and discouraged foreign investment. It also diminished the stimulating effect of salaries, underestimated the economic contribution of exporting firms while making imports seem artificially cheap, generated a number of hidden subsidies, and produced distortions in almost all economic measurements to the point that it was virtually impossible to gauge the true

⁶⁴ Antonio F. Romero, *Los Desafíos de las Relaciones Económicas de Cuba*, 44 CUBAN STUD. 133, 151–52 (2016).

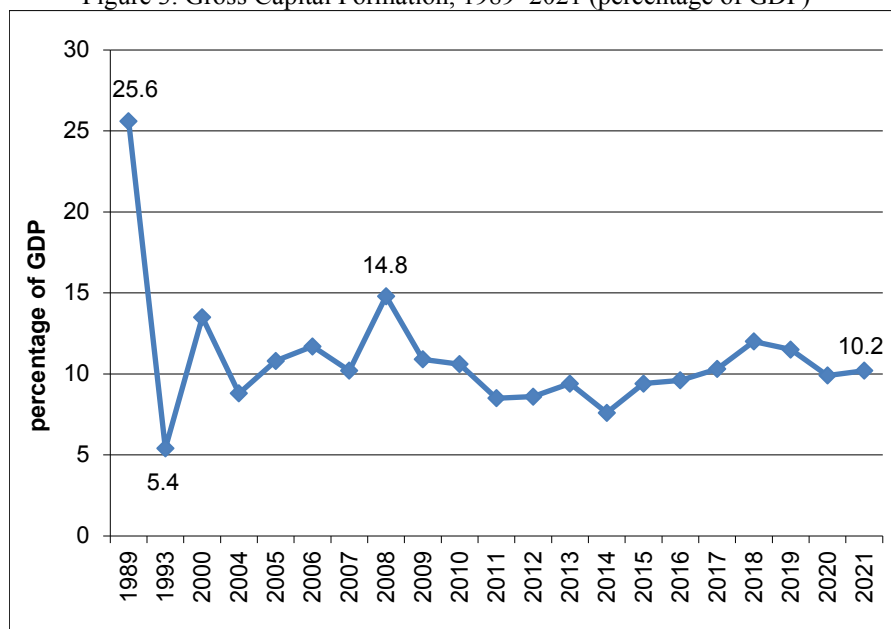
⁶⁵ Omar Everleny Pérez Villanueva, *La Inversión Extranjera Directa en Cuba: Un Aporte al Desarrollo Nacional*, ON CUBA NEWS (Nov. 8, 2021), <https://oncubanews.com/cuba/economia/la-inversion-extranjera-directa-en-cuba-un-aporte-al-desarrollo-nacional/>.

⁶⁶ Matthew Bristow & Jim Wyss, *Cuba to End Dual Currency System in 2021 Amid Crisis Reform*, BLOOMBERG (Dec. 11, 2020, 1:06 AM), <https://www.bloomberg.com/news/articles/2020-12-11/cuba-to-end-dual-currency-system-from-january-in-crisis-reform#xj4y7vzkg>; Marc Frank, *How Cuba's Monetary Reform Will Take Place and Impact the Economy*, REUTERS (Dec. 11, 2021, 12:10 PM), <https://www.reuters.com/article/cuba-economy-reform-explainer/how-cubas-monetary-reform-will-take-place-and-impact-the-economy-idUSKBN28L2AD>. Cuba's dual currency system was established in 1994 with the creation of the Cuban convertible peso (CUC) pegged to the U.S. dollar at one to one and circulating alongside the Cuban peso (CUP). This arrangement was supposed to cushion the blow of the Soviet collapse to the Cuban economy and prevent Cubans from dumping pesos in favor of dollars (the possession and circulation of the U.S. dollar had been legalized in late 1993). It also set up various CUP-CUC exchange rates: 1CUP:1CUC for state-owned firms, 24CUP:1CUC for the public, and different rates for the operations of joint ventures and other transactions.

profitability of enterprises.⁶⁷ Yet, albeit long overdue, this so-called monetary reordering was enacted at a very challenging time for Cuba, amid a tanking economy and when the supply of hard currency was extremely limited. While in the long term they should yield positive results, currency and exchange rate unification so far have aggravated many existing problems, causing an inflationary spiral, a major increase in the price of many goods, a dramatic expansion of informal markets, and acute shortages of food and medicine.⁶⁸

⁶⁷ Armando Nova González, *Cuba: Unificación Monetaria y Cambiaria. Decisión Estratégica Impostergable*, 7 ESTUDIOS DEL DESARROLLO SOCIAL: CUBA Y AMÉRICA LATINA 25, 28 (2019); Omar Everlery Pérez Villanueva, *The Current State and Future Prospects of the Cuban Economy*, CUBA STUDY GRP. (May 30, 2017), http://cubastudygroup.org/from_the_island/issue-no-33-the-current-state-and-future-prospects-of-the-cuban-economy/.

⁶⁸ Mauricio De Miranda Parrondo, *The “Monetary Reordering” and Exchange Rate Distortions*, COLUM. L. SCH.: HORIZONTE CUBANO (Feb. 16, 2022), <https://horizontecubano.law.columbia.edu/news/monetary-reordering-and-exchange-rate-distortions>; Carmelo Mesa-Lago, *La Unificación Monetaria y Cambiaria: en Cuba: Normas, Efectos, Obstáculos y Perspectivas* 11, 13 (Real Instituto Elcano, Working Paper 2/2021, 2021).

Figure 3. Gross Capital Formation, 1989–2021 (percentage of GDP)⁶⁹

Insufficient gross capital formation, which refers to domestic investment in factories, machinery, tools, equipment, and other productive capital goods, is a major debilitating factor for the Cuban economy and needs to be discussed further. Generally, the higher the gross capital formation of an economy as a share of GDP, the higher the growth rate and vice versa. Over the past thirty years, Cuba's 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, but since then it has never surpassed fifteen percent and it actually averaged only 9.9% between 2000 and 2021 (Figure 3). Annual results similar to those of 1989 are required to reverse the decapitalization of key sectors and promote higher rates of economic growth, yet they will be difficult to achieve without improved efficiency. Additionally, a large share of domestic investment is in low productivity sectors such as construction, infrastructure works, commerce, and various services, which are necessary but absorb too many scarce resources that could provide greater economic benefits if channeled

⁶⁹ ONEI 2020, *supra* note 4; ONEI 2019, *supra* note 20; ONEI 2018, *supra* note 16; ONEI 2012, *supra* note 49; OFICINA NACIONAL DE ESTADÍSTICAS E INFORMACIÓN (ONEI), ANUARIO ESTADÍSTICO DE CUBA 2006 [STATISTICAL YEARBOOK OF CUBA 2006] (2007) (on file with author); OFICINA NACIONAL DE ESTADÍSTICAS E INFORMACIÓN (ONEI), ANUARIO ESTADÍSTICO DE CUBA 2000 [STATISTICAL YEARBOOK OF CUBA 2000] (2001) (on file with author); ONEI 1996, *supra* note 49; EIU 2022, *supra* note 7; CEPAL, LA ECONOMÍA CUBANA, *supra* note 22.

into critical sectors like agriculture and the manufacturing industry.⁷⁰ Despite its low levels, foreign investment has made a decisive contribution to all of the industries (oil, electricity, nickel, tourism, and telecommunications) that have experienced the highest growth since the early 1990s and boosted the performance of Cuba's largest export sectors.⁷¹ Hoping to jumpstart its centrally planned economy starved for cash and plagued by widespread inefficiencies, Cuba has intensified efforts in the last few years to attract badly needed foreign investment.

Along with official declarations that foreign investment would no longer play a complementary role to domestic investment and occupy instead a major role in the economy,⁷² Cuba implemented a new foreign investment legislation (Law 118) in June 2014 that beefed up investment security and granted more attractive tax incentives to foreign investors.⁷³ Built in partnership with Brazil's engineering group Odebrecht and with financial backing from the Brazilian government, Cuba also opened in late 2013 its first special development zone (Zona Especial de Desarrollo Mariel (ZEDM)) around a new container terminal at the port of Mariel. As set forth by Decree Law 313, investors in the ZEDM receive even better tax breaks and other incentives than those under Law 118.⁷⁴ What remained unchanged is that foreign firms operating in and outside the ZEDM cannot directly hire Cuban workers and must rely on a government employment agency for their labor needs. Cuba is now seeking \$2 billion to \$2.5 billion in foreign direct investment (FDI) per year to achieve annual capital accumulation rates of twenty-five to thirty percent of GDP and annual economic growth rates of more than five percent.⁷⁵

There are no recent official data on the annual values of foreign direct investment in Cuba as the only available data are those included in the country's balance of payments that have not been updated since 2001. Nevertheless, a rare official document that was published in 2021 reported some crucial statistical evidence on the importance of FDI for the Cuban

⁷⁰ Omar Everleny Pérez Villanueva, *La Economía Cubana: Situación Actual y ¿Que Se Podría Hacer?*, 27 CUBA IN TRANSITION 18, 29 (2017), <https://www.ascecuba.org/c/wp-content/uploads/2018/01/v27-perezvillanueva.pdf>; Carmelo Mesa-Lago, *The Cuban Economy After Six Decades of Socialism: Changes, Continuities and the Worsening Crisis*, 29 CUBA IN TRANSITION 1, 4 (2019), https://www.ascecuba.org/c/wp-content/uploads/2020/01/v29-asce_2019_04mesolago.pdf.

⁷¹ SPADONI, CUBA'S SOCIALIST ECONOMY TODAY, *supra* note 15; Pérez Villanueva, *supra* note 65.

⁷² Sheyla Delgado Guerra di Silvestrelli & Oscar Sánchez Serra, *Inversión Extranjera, Puntal para el Desarrollo*, GRANMA (Mar. 4, 2016), <https://www.granma.cu/cuba/2016-03-04/inversion-extranjera-puntal-para-el-desarrollo-04-03-2016-00-03-01>.

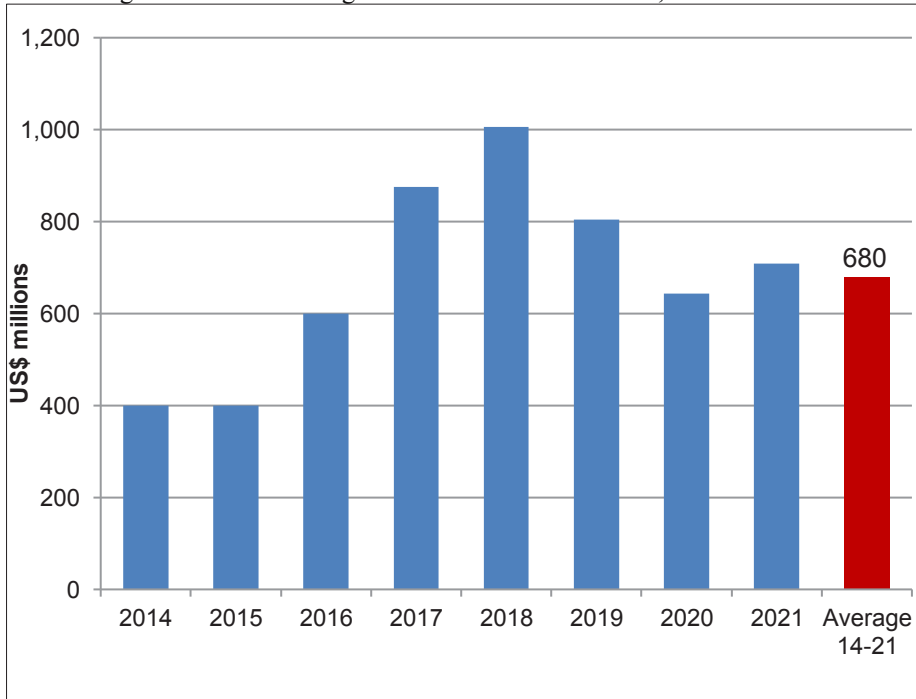
⁷³ Ley No. 118, Ley de la Inversión Extranjera, Abril 16, 2014, GACETA OFICIAL (Cuba), https://www.gacetaoficial.gob.cu/sites/default/files/ley_de_inversion_extranjera.pdf.

⁷⁴ Decreto-Ley No. 313, De la Zona Especial de Desarrollo Mariel, Septiembre 23, 2023, GACETA OFICIAL (Cuba) <https://faolex.fao.org/docs/pdf/cub185119.pdf>.

⁷⁵ Pérez Villanueva, *supra* note 65.

economy. Although FDI represented just 5.4% of gross capital formation in 2020, export revenues generated by enterprises with foreign participation (mainly joint ventures) accounted for twenty percent of Cuba's total exports of goods and services in 2020 and for virtually 100% of Cuba's total exports of goods.⁷⁶ Thus, it seems reasonable to expect that the island's authorities would want to make Cuba a more appealing investment destination as they seek higher amounts of foreign capital than in the past. Every year in early November, the Cuban government presents a new portfolio of direct investment projects for foreign investors worth several billion dollars and reveals the amount of FDI the country reportedly has attracted from the previous year. Cuba's Minister of Foreign Trade and Foreign Investment, Rodrigo Malmierca, said that the island attracted FDI worth \$2 billion in 2017, \$1.5 billion in 2018, \$1.7 billion in 2019, and \$1.9 billion in 2020. However, these figures simply refer to the total value of the deals agreed, many of which either could materialize over quite a few years or may never come to fruition. In other words, a sizeable portion of the amount of FDI committed in the aforementioned deals has yet to be delivered to Cuba.

⁷⁶ See OFICINA NACIONAL DE ESTADÍSTICAS E INFORMACIÓN (ONEI), *INVERSIÓN EXTRANJERA EN CUBA: ENERO–DICIEMBRE 2020* [FOREIGN INVESTMENT IN CUBA: JANUARY–DECEMBER 2020] 6 (2021).

Figure 4. Annual Foreign Direct Investment in Cuba, 2014–2021⁷⁷

While some scholars have reported even lower estimates,⁷⁸ the Economist Intelligence Unit (EIU) calculated that annual FDI flows into Cuba (capital supposedly delivered to the country) increased from around \$400 million in 2014–2015 to over \$800 million in 2017–2019 and were between \$600 million and \$700 million in 2020–2021. From 2014 to 2021, as displayed in Figure 4, Cuba received approximately \$5.4 billion in FDI, or an average of \$680 million per year, well below the \$2.5 billion officially required for sustainable economic development. As Malmierca acknowledged in December 2021 during a speech about the situation of foreign investment in Cuba before the National Assembly, “despite the

⁷⁷ EIU 2022, *supra* note 7, at 3; ECONOMIST INTELLIGENCE UNIT (EIU), COUNTRY FORECAST: CUBA 68 (2021); ECONOMIST INTELLIGENCE UNIT (EIU), COUNTRY FORECAST: CUBA 67 (2020); ECONOMIST INTELLIGENCE UNIT (EIU), COUNTRY FORECAST: CUBA 60 (2019).

⁷⁸ Carmelo Mesa-Lago claimed that only \$500 million worth of FDI were delivered to Cuba between 2014 and 2018. See Carmelo Mesa-Lago, *El Enfriamiento de la Economía Cubana (Parte II)* [*The Cooling Off of the Cuban Economy (Part II)*], COLUM. L. SCHOOL: HORIZONTE CUBANO (Mar. 28, 2019), <https://horizontecubano.law.columbia.edu/content/el-enfriamiento-de-la-economia-cubana-parte-ii>. Luis Luis wrote that net FDI in Cuba averaged some \$100 million per year in 2018–2020. Luis R. Luis, *Handling the Dollar Crunch in Cuba*, ASS’N FOR THE STUDY OF THE CUBAN ECON. (ASCE) BLOG (Aug. 1, 2022), <https://www.ascecuba.org/17391-2/>.

actions carried out, the desired results have not been achieved.”⁷⁹ The annual targets of FDI inflows and GDP growth envisioned by Havana's authorities may prove impossible to reach without deeper economic reforms, significant improvements in Cuba's business environment, and without moving beyond entrenched ideological prejudices toward foreign investment.⁸⁰ In recent years, the Cuban government has announced important changes in foreign investment rules. Overseas investors in Cuba can now own a majority stake in all businesses except in extractive projects and public service projects, can form partnerships with cooperatives and small private firms, and can even invest in wholesale and retail trade operations. Yet these measures are riddled with caveats and excessive bureaucracy, and it remains to be seen whether they will be fully implemented.⁸¹ The EIU expects Cuba's business environment to improve a little in the 2022–2026 period but still ranks it among the worst in the world as rigid state controls will continue to stifle market opportunities.⁸²

In general, when it comes to fostering economic growth and translating it into development and improved living standards, Cuba without a doubt needs major structural reforms aimed to boost domestic production and efficiency, substitute costly imports, and stimulate and diversify exports. First of all, Cuba must reform its heavily centralized agricultural model by dismantling the vast and highly inefficient state network responsible for providing supplies to farmers, purchasing most farm output, setting prices, and distributing products.⁸³ Moreover, greater efforts should be made to boost economic sectors and activities with significant linkages with the production sphere. A true deregulation of state enterprises is also necessary. The strict regulatory framework under central planning curtails the ability of Cuban state firms to compete, innovate, assume risks, and express their full

⁷⁹ Oscar Figueredo Reinaldo et al., *Inversión Extranjera: “Pese a las Acciones Desarrolladas, No Se Han Logrado los Resultados Deseados”* [Foreign Investment: “Despite the Actions Carried Out, the Desired Results Have Not Been Achieved”], CUBADEBATE (Dec. 20, 2021), <http://www.cubadebate.cu/noticias/2021/12/20/inversion-extranjera-pese-a-las-acciones-desarrolladas-no-se-han-logrado-los-resultados-deseados/print/>.

⁸⁰ Luis, *supra* note 78; Jorge Pérez-López, *Foreign Investment in Cuba's “Updating” of Its Economic Model*, 25 CUBA IN TRANSITION 215, 231–32 (2015), <https://www.ascecuba.org/c/wp-content/uploads/2016/03/v25-perezlopez.pdf>.

⁸¹ Nora Gámez Torres, *Cuba Permitirá Inversión Extranjera en Comercio Mayorista y Minorista para Aliviar Crisis* [Cuba Will Allow Foreign Investment in Wholesale and Retail Trade to Alleviate the Crisis], EL NUEVO HERALD [THE NEW HERALD] (Aug. 17, 2022, 7:51 AM), <https://www.elnuevoherald.com/noticias/america-latina/cuba-es/article264574671.html>.

⁸² EIU 2022, *supra* note 7.

⁸³ Armando Nova González, *Nuevo Modelo de Gestión Económico-Productiva y Sus Implicaciones* [New 661odelo f Economic and Production Management, and its Implications], in AGRICULTURA EN CUBA: ENTRE RETOS Y TRANSFORMACIONES [AGRICULTURE IN CUBA: BETWEEN CHALLENGES AND TRANSFORMATIONS] 564, 565–66 (Armando Nova González ed., 2022).

production potential.⁸⁴ Additional critical measures should include the expansion of the private sector (and of non-agricultural cooperatives) with greater freedoms for private enterprises to independently carry out export and import activities and access wholesale markets, a real change of mentality in creating the conditions to attract foreign investment, and a greater use of market mechanisms and incentives to govern the economy.

IV. EXTERNAL FACTORS

Besides systemic problems, critical external factors have negatively affected the performance of Cuba's external sector and that of its overall economy. Regarding Cuba's international trade and its dependence on external economic assistance, the potential loss of Venezuela as a strategic partner is an issue of concern. This kind of problem is not new. Cuba's overreliance on a single economic partner, despite different mechanisms and degrees of dependency, continued from the pre-revolutionary to the revolutionary era (from close ties to the United States to dependency on the Soviet Union) and eventually resurfaced in the post-Cold War era when Fidel Castro and Hugo Chávez forged a close alliance based on mutual interests and a common enemy, the United States. Albeit with much lower levels of trade than in the previous decade,⁸⁵ Cuba successfully rebuilt its international economic relations in the 1990s by strengthening commercial ties at first with some Western European nations, Canada, and Mexico whose companies were the most active foreign investors on the island. These countries remain today among Cuba's main trading partners. Beginning in 2000, though, the intensification of economic ties with Venezuela took center stage. At its peak in 2012, trade with Venezuela accounted for nearly forty-five percent of Cuba's total bilateral merchandise trade and for most of its service trade.⁸⁶

It is worth underscoring that even at its highest level in the early 2010s, Cuba's economic dependence on Venezuela was nowhere near the level of dependence on the Soviet Union during the 1970s and the 1980s. Unlike the complex aid relationship with the Soviet Union centered on non-repayable loans, highly subsidized trade, and technical and military assistance, Cuba's ties with Venezuela mainly consist of state-to-state trade arrangements

⁸⁴ Ileana Díaz Fernández, *Autonomía de las Empresas Estatales: Transformaciones Actuales* [*Autonomy of State Enterprises: Current Transformations*], in CUBA EN UN NUEVO ESCENARIO: PERSPECTIVAS DE DESARROLLO ECONÓMICO [CUBA IN A NEW SCENE: PERSPECTIVES ON ECONOMIC DEVELOPMENT] 144, 154–55 (Ricardo Torres Pérez, Omar Everleny Pérez Villanueva, Fulvio Castellacci & Claes Brundenius eds., 2015).

⁸⁵ It was only in the second half of the 2000s that the annual values of Cuba's merchandise bilateral trade returned to the levels of the 1980s. See generally ONEI 2018, *supra* note 16.

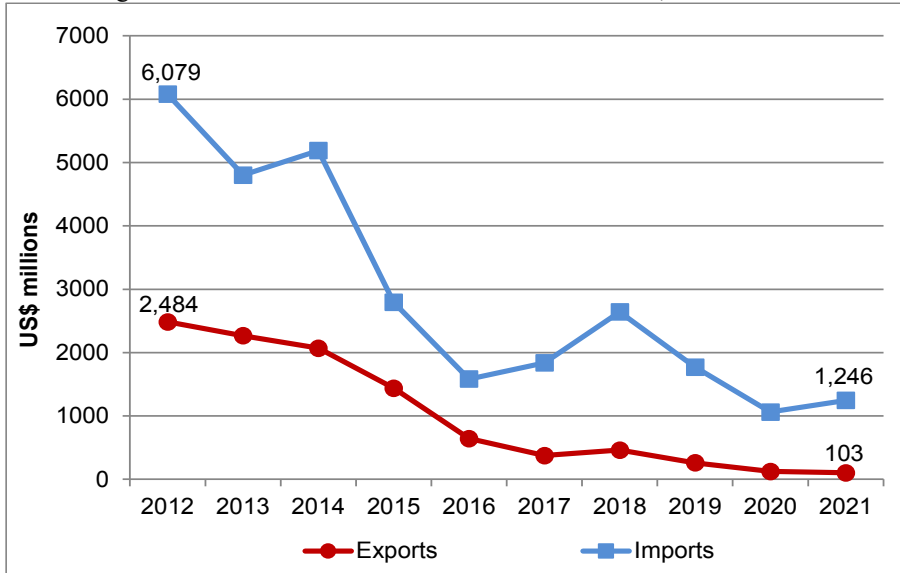
⁸⁶ ONEI 2012, *supra* note 49, at 28.

involving both products and services. Havana's relationship with Caracas is basically focused on Venezuelan oil shipments to the island and exports of Cuban professional services to Venezuela, besides lesser elements such as direct investments by Venezuelan state companies in Cuba, as well as military and security cooperation.⁸⁷ This does not mean, however, that the Cuban economy has suffered little from the spiraling economic and political crisis in Venezuela and that it would not be dealt a major blow if Cuba-Venezuela relations fell apart completely. Two prominent Cuban economists revealed that Venezuela's drastically reduced financial relationship with Cuba during the 2012–2017 period meant a twenty-four percent drop in purchases of Cuban professional services, a sixty-two percent decrease in oil shipments covering half of Cuban needs, and \$8 billion worth of committed direct investments not disbursed. They also calculated that the value of the bilateral trade of goods and services between Cuba and Venezuela as a share of Cuba's GDP at constant prices (adjusted for an import deflator)⁸⁸ fell from 20.8% in 2012 to 12.4% in 2017.⁸⁹ Venezuela's financial relationship with Cuba has continued to deteriorate since then.

⁸⁷ Luis, *supra* note 37.

⁸⁸ Deflators are used for calculating the real value of imports (and exports) adjusted for the effects of price changes.

⁸⁹ Mesa-Lago & Alejandro, *supra* note 17, at 18.

Figure 5. Cuba's Merchandise Trade with Venezuela, 2012–2021⁹⁰

Official data in Figure 5 shed further light on Cuba's trade with Venezuela during the 2012–2021 period. Cuba's merchandise bilateral trade with Venezuela was about \$1.3 billion in 2021, less than one-sixth its level in 2012 (\$8.6 billion). By 2021, Cuban exports to Venezuela had fallen a staggering ninety-six percent to just \$103 million while imports had plunged eighty percent to around \$1.2 billion. As for imports, Venezuelan supplies of crude oil and refined products (fuel oil, diesel, gasoline, and cooking gas, among others) to Cuba plunged from 97,800 bpd in 2013 to 47,100 bpd in 2019. Venezuelan oil shipments to the island rebounded to 57,200 bpd in 2020,⁹¹ but supplies, especially of refined products, have remained unreliable not only because of Venezuela's own output issues, but also because of sanctions imposed by the Trump administration on Venezuela's petroleum industry and on tankers shipping Venezuelan crude to Cuba. Made worse by soaring global fuel prices, this situation has caused a major energy crisis in Cuba with grueling blackouts and long gas lines, and forced the Cuban government to enact austerity measures and step up its oil purchases from

⁹⁰ ONEI 2021, *supra* note 2, at 192; ONEI 2019 *supra* note 20, at 207; OFICINA NACIONAL DE ESTADÍSTICAS E INFORMACIÓN (ONEI), ANUARIO ESTADÍSTICO DE CUBA 2017 [STATISTICAL YEARBOOK OF CUBA 2017] 17 (2018).

⁹¹ Jorge R. Piñón, Presentation at the 32nd Annual Meeting of the Association for the Study of the Cuban Economy (ASCE) at Florida International University College of Law, *Cuba's Energy Sector: Challenges and Opportunities* (Sept. 16, 2022).

alternative suppliers, in particular from Russia.⁹² Cuba's revenues from the services of its professional workers in Venezuela also decreased further in 2018–2021 and no new Venezuelan investment projects in Cuba were announced during this period. Even the most publicized joint venture that brought online in 2007 the previously defunct Soviet-era oil refinery in Cienfuegos dissolved a decade later when Venezuela pulled out of the partnership.⁹³ Put simply, Cuba is slowing losing a lifeline as Venezuela teeters on the brink of collapse and it is unlikely that this trend will be reversed.

To further complicate the situation for Cuba, the start of the Trump presidency in January 2017 put an end to two years of warming relations between Washington and Havana under the Obama administration and led to the resumption of the traditional U.S. policy of confrontation with the island. On December 17, 2014 (17D), Barack Obama and then Cuban president Raúl Castro announced in simultaneous televised speeches the beginning of a historic process toward the normalization of U.S.-Cuba relations after more than a half-century of unremitting hostility. Most notably, the U.S. president announced a series of measures aimed at fostering economic ties with Cuba and urged Congress to start working to lift the long-standing embargo against Cuba whose main provisions 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. Between January 2015 and October 2016, Obama issued several amendments to the Cuba sanctions regulations, easing restrictions on travel, remittances, trade, investment, banking, and other commercial dealings with Cuba. He also removed Cuba from the U.S. government's list of countries that sponsor terrorism.⁹⁴ Progress after the 17D was substantial. Besides important achievements like the re-establishment of full diplomatic relations between the United States and Cuba and the reopening of embassies in each other's capital in July 2015, Obama's measures boosted U.S.-based travel and remittances to Cuba, producing

⁹² Marianna Parraga, *Cuba Struggle to Buy Fuel as Import From Venezuela Dwindle – Data*, REUTERS (Apr. 5, 2022, 3:35 PM), [https://www.reuters.com/business/energy/cuba-struggles-buy-fuel-imports-venezuela-dwindle-data-2022-04-05/#:~:text=More%20than%20three%2Dquarters%20of,run%20oil%20company%20PDVSA%20showed;Arathy%20Somasekhar,Cargo%20of%20Russia's%20flagship%20Urals%20Crude%20Heads%20to%20Cuba,REUTERS%20\(Sept.%2015,%202022,%202:44%20PM\),%20https://www.reuters.com/markets/commodities/cargo-russias-flagship-urals-crude-heads-cuba-2022-09-15/#:~:text=HOUSTON%2C%20Sept%202015%20\(Reuters\),which%20has%20an%20energy%20crisis.](https://www.reuters.com/business/energy/cuba-struggles-buy-fuel-imports-venezuela-dwindle-data-2022-04-05/#:~:text=More%20than%20three%2Dquarters%20of,run%20oil%20company%20PDVSA%20showed;Arathy%20Somasekhar,Cargo%20of%20Russia's%20flagship%20Urals%20Crude%20Heads%20to%20Cuba,REUTERS%20(Sept.%2015,%202022,%202:44%20PM),%20https://www.reuters.com/markets/commodities/cargo-russias-flagship-urals-crude-heads-cuba-2022-09-15/#:~:text=HOUSTON%2C%20Sept%202015%20(Reuters),which%20has%20an%20energy%20crisis.)

⁹³ Arathy Somasekhar, *Cargo of Russia's Flagship Urals Crude Heads to Cuba*, REUTERS (Sept. 15, 2022, 2:44 PM), [https://www.reuters.com/markets/commodities/cargo-russias-flagship-urals-crude-heads-cuba-2022-09-15/#:~:text=HOUSTON%2C%20Sept%202015%20\(Reuters\),which%20has%20an%20energy%20crisis.](https://www.reuters.com/markets/commodities/cargo-russias-flagship-urals-crude-heads-cuba-2022-09-15/#:~:text=HOUSTON%2C%20Sept%202015%20(Reuters),which%20has%20an%20energy%20crisis.)

⁹⁴ Sarah Marsh & Marianna Parraga, *Cuba Takes Over Venezuela Stake in Refinery Joint Venture*, REUTERS (Dec. 14, 2017, 4:57 PM), <https://www.reuters.com/article/cuba-venezuela/cuba-takes-over-venezuela-stake-in-refinery-joint-venture-idUSL8N1OE79H.>

⁹⁴ Felicia Schwartz, *Cuba Officially Removed from U.S. State Sponsor of Terrorism List*, WALL ST. J. (May 29, 2015, 5:46 PM), <https://www.wsj.com/articles/cuba-officially-removed-from-u-s-state-sponsor-of-terrorism-list-1432913160.>

tangible economic benefits for the island and creating business opportunities for U.S. companies even if relatively few commercial deals were completed.⁹⁵

The post-17D growth of U.S.-based travel to Cuba was impressive. Annual trips to the island by U.S. citizens of non-Cuban descent tripled between 2014 and 2016 from 91,254 to 284,552. During the same period, Cuban-American trips grew nearly thirty percent to reach 329,430 in 2016.⁹⁶ Actually, with the notable exception of the largest source market, Canada, international arrivals to Cuba from virtually all countries increased, to some extent to anticipate a looming avalanche of U.S. tourists. The flow of U.S. visitors to Cuba received further stimulus in 2016 from revised rules allowing Americans to travel to the island on their own under the popular people-to-people category for non-academic educational activities, from the launch of non-stop daily commercial flights between the United States and Cuba, and from the resumption of cruise services between the two countries.⁹⁷

The U.S. demand for travel to Cuba, in fact, continued to rise in 2017 as it was only in November of that year that the Trump administration tightened rules on travel to the island. Implementing policy changes he had announced earlier in June to roll back parts of what he called Obama's "terrible and misguided deal" with Havana, Trump banned individual people-to-people trips to Cuba and reintroduced the requirement for Americans traveling under this category to be part of licensed groups. He also prohibited U.S. firms and citizens from doing business with companies owned or controlled by the Cuban military (the so-called Cuba Restricted List has been updated and expanded several times since then) whose tentacles reach deep into the Cuban economy.⁹⁸ In addition to the loss of significant business opportunities for U.S. entities, this meant that American visitors to Cuba were now barred from patronizing numerous military-owned hotels (400-plus establishments),

⁹⁵ Paolo Spadoni, *U.S.-Cuba Business Relations Under the Obama Administration and Prospects Under the Trump Administration*, 27 CUBA IN TRANSITION 235, 243–47 (2017), <https://www.ascecuba.org/c/wp-content/uploads/2018/01/v27-spadoni.pdf>.

⁹⁶ 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. Anyone who left Cuba after December 31, 1970, is considered a Cuban citizen by Cuban authorities and required to travel to the island with a valid Cuban passport. SPADONI, CUBA'S SOCIALIST ECONOMY TODAY, *supra* note 15, at 56; José Luis Perelló Cabrera, Presentation at the Seminario de Periodismo Económico: Sector Externo: Turismo [Economic Journalism Seminar: External Sector: Tourism] (Jan. 2018).

⁹⁷ The resumption of cruise trips to Cuba from the United States officially began in May 2016 when the Carnival cruise ship *Adonia* became the first U.S. cruise vessel to dock in Cuba in almost four decades. Marc Frank, *Emotional Return as First U.S. Cruise in Decades Reaches Cuba*, REUTERS (May 2, 2016, 11:20 AM), <https://www.reuters.com/article/us-cuba-usa/emotional-return-as-first-u-s-cruise-in-decades-reaches-cuba-idUSKCN0XT175>.

⁹⁸ Julie Hirschfeld Davies, *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>.

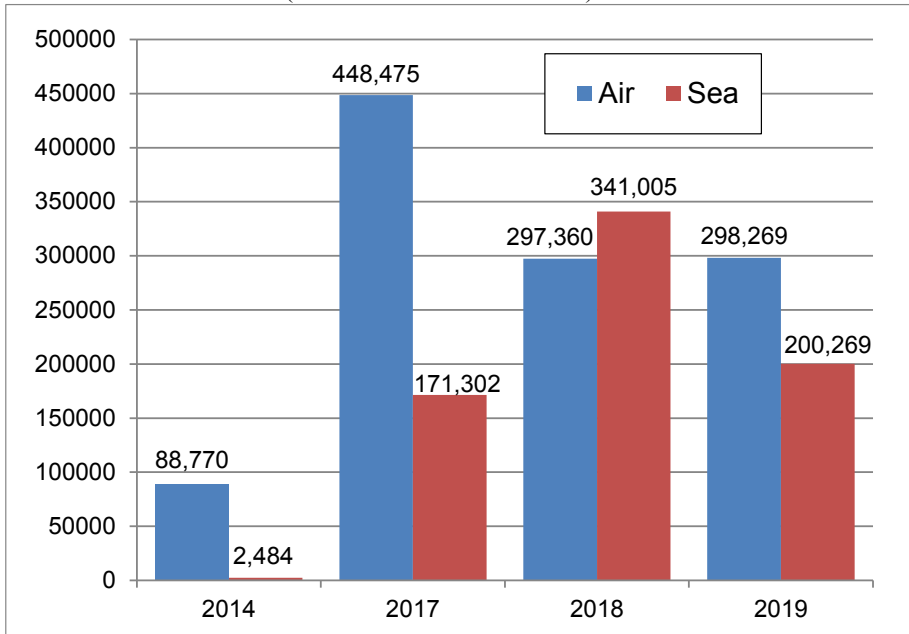
restaurants, stores, and other enterprises. Furthermore, the regulatory changes came at a complicated time for prospective travelers to Cuba as the State Department had warned U.S. citizens in late September not to travel to the island because of mysterious acoustic attacks against the personnel of the U.S. embassy in Havana.⁹⁹ Together with 432,644 trips by Cuban Americans, trips to Cuba by U.S. citizens of non-Cuban origin more than doubled in 2017 to 619,777 to bring the total number of arrivals from the United States to over one million.¹⁰⁰ In 2018, both groups of travelers increased their visits to Cuba as the island welcomed a record-breaking 4,711,910 international visitors.¹⁰¹ However, forcing people-to-people trips to be taken with an authorized group did stifle U.S.-based travel to Cuba by making those trips more expensive and less appealing to independent travelers who prefer to design their own itineraries.

⁹⁹ Arshad Mohammed & Sarah Marsh, *U.S. Cuts Staff in Cuba Over Mysterious Injuries, Warns Travelers*, REUTERS (Sept. 29, 2017, 10:15 AM), <https://www.reuters.com/article/us-usa-cuba/u-s-cuts-staff-in-cuba-over-mysterious-injuries-warns-travelers-idUSKCN1C4212>.

¹⁰⁰ Cabrera, *supra* note 96.

¹⁰¹ ONEI 2018, *supra* note 16, at 8.

Figure 6. U.S. Visitors to Cuba by Mode of Transportation, 2014–2019
(excludes Cuban Americans)¹⁰²



As displayed in Figure 6, which excludes Cuban Americans, the slight increase of arrivals to Cuba from the United States in 2018 was due entirely to a spectacular growth of cruise visitors whose Cuba-bound voyages had to focus on cultural and educational exchange programs to avoid the ban on tourism. The number of U.S. overnight visitors traveling to Cuba by air fell more than thirty percent from 448,475 in 2017 to 297,360 in 2018. Arrivals of U.S. cruise passengers, on the other hand, grew from 171,302 to 341,005. Remarkably, nearly two in every five international cruise travelers to Cuba in 2018 was American. Except for the addition in November of more than a dozen hotels and a few other properties to the list of Cuban entities that Americans are prohibited from patronizing because they are owned by the Cuban military, no new U.S. restrictions on travel and business with Cuba were enacted in 2018. In August, the State Department also softened its travel warning for Cuba from Level 3 (“reconsider travel”) to Level 2 (“exercise increased caution”).¹⁰³ As 2018 came to a close, major Florida-based cruise lines like Carnival, Royal Caribbean, and Norwegian were expanding their Cuba offerings and even U.S. agencies that brought groups of U.S. citizens

¹⁰² Data of Cuban Ministry of Tourism (MINTUR) obtained by the author in February 2020.

¹⁰³ Courtney McBride, *U.S. Eases Security Warning for Travel to Cuba*, WALL ST. J. (Aug. 23, 2018, 8:22 PM), <https://www.wsj.com/articles/u-s-eases-security-warning-for-travel-to-cuba-1535064150>.

to Cuba saw their bookings bouncing back as a downgraded travel advisory had perked up Americans' interest in visiting the island. In the first four months of 2019, compared with the same period in 2018, arrivals of U.S. cruise travelers to Cuba more than tripled and arrivals of U.S. overnight visitors rose by nearly twenty-five percent.¹⁰⁴

But traveling to Cuba from the United States would soon become more difficult. In June 2019, making good on his promise to reverse Obama's Cuba policy, Trump ended the general license authorizing people-to-people educational activities in Cuba and banned U.S.-based cruises to the island effective immediately. Moreover, he suspended commercial flights between the United States and Cuban destinations other than Havana in October and did the same for all U.S. charter flights three months later.¹⁰⁵ Whereas Cuban-American visits to Cuba in 2019 rose about six percent to 552,895, trips by U.S. citizens of non-Cuban origin tanked over twenty percent to 498,538 (roughly the same arrivals by air as in 2018 and a forty-one percent drop in cruise arrivals). This translated into a 9.3% fall in all U.S. arrivals to Cuba in 2019 that mirrored exactly the percentage decrease in total international arrivals to the country that year to 4,275,558.¹⁰⁶ The decline in U.S. and total visitors continued in the first two months of 2020. To intensify economic pressure on Cuba, the Trump administration also restricted Cuba's access to the U.S. financial system by denying authorization for so-called U-turn transactions¹⁰⁷ and capped Cuban-American family remittances to \$1,000 per quarter. Annual overseas remittances to Cuba, according to unofficial estimates, had grown tremendously since 2014 to a record \$3.7 billion in 2019.¹⁰⁸ Trump even allowed Title III of the Helms-Burton law to go into effect for the first time since its enactment in 1996. Title III enables

¹⁰⁴ Cuban Ministry of Tourism (MINTUR) data obtained by the author in June 2019.

¹⁰⁵ Karen DeYoung, *Trump Administration Announces New Measures Against Cuba*, WASH. POST (Apr. 17, 2019, 2:16 PM), https://www.washingtonpost.com/world/national-security/trump-administration-announces-new-measures-against-cuba/2019/04/17/cfc2bc96-6132-11e9-9ff2-abc984dc9eec_story.html; Karen DeYoung, *U.S. Stops Flight to All Cuban Cities Except Havana*, WASH. POST (Oct. 25, 2019, 8:08 PM), https://www.washingtonpost.com/national-security/us-stops-flights-to-all-cuban-cities-except-havana/2019/10/25/982e156c-f77a-11e9-ad8b-85e2aa00b5ce_story.html; *US Bans Charter Flights To Cuban Cities Besides Havana*, ASSOC. PRESS (Jan. 10, 2020), <https://apnews.com/article/travel-latin-america-us-news-cuba-caribbean-6f247587ef987825597da5dbd3228e85>.

¹⁰⁶ ONEI 2019, *supra* note 20, at 8.

¹⁰⁷ U-turn transactions refer to the transfer of funds from a foreign bank that are cleared by a U.S. financial institution and then transferred out to another foreign bank.

¹⁰⁸ Besides cash remittances, Morales (2019) estimated that Cubans received \$2,975 million worth of in-kind remittances (made up primarily of clothing, medicines, and electronics products) in 2018. Emilio Morales, *Remittances, an Investment Route for Cubans?*, HAVANA CONSULTING GRP. (Sept. 27, 2019), <http://www.thehavanaconsultinggroup.com/en/Articles/Article/69>; *see also* Emilio Morales, *COVID-19 Hits the Remittance Market Hard in Latin America*, HAVANA CONSULTING GRP. (Mar. 31, 2020), <http://www.thehavanaconsultinggroup.com/en/Articles/Article/80>.

Americans, and Cubans who later became U.S. citizens, to sue in U.S. courts foreign companies that “traffic” in properties in Cuba confiscated from them by the Castro government after the revolution. The activation of this provision in May 2019 unleashed numerous lawsuits (many dismissed but a few cases have had some success) against foreign and U.S. firms and made it riskier to do business in Cuba.¹⁰⁹

It was against the backdrop of reduced Venezuelan aid and oil supplies along with the economic squeeze from harsher U.S. sanctions that the COVID-19 pandemic hit Cuba in early 2020 to complete a triple punch of disastrous consequences. In other words, the Cuban economy was in trouble even before the COVID outbreak, but the latter sparked a completely new level of uncertainty by halting tourism, slowing down remittances, increasing shipping costs of imported goods, and exacerbating food shortages. Cuba closed its airports and stopped admitting foreign visitors on March 24, 2020.¹¹⁰ It reopened its main tourist hubs in mid-October 2020 (commercial flights to Havana resumed a month later) but was forced to dramatically cut inbound flights from key source markets and introduce strict coronavirus travel restrictions in January 2021 as visitors fueled a record number of virus cases. Meanwhile, in June 2020, the Trump administration had ordered Marriott International (the owner of Starwood Hotels) to end its hotel operations in Cuba, removing another Obama-era symbol of engagement with the island.¹¹¹ It was only in November 2021 that Cuba reopened its borders and eased COVID-related entry requirements after vaccinating most of its population with home-grown vaccines. All COVID restrictions for foreign travelers were lifted in April 2022.¹¹²

¹⁰⁹ Comisión Económica para América Latina y el Caribe [Economic Commission for Latin America and the Caribbean] (CEPAL), *Estudio Económico de América Latina y el Caribe 2020* (2020). For specific information on lawsuits filed under Title III of the Helms-Burton law, see Information on Title III, U.S.-CUBA TRADE AND ECONOMIC COUNCIL, INC., www.cubatrade.org (go to website; then click header that says “Libertad Act & Related Lawsuits”).

¹¹⁰ Daniel Lozano, *Cuba Cierra Sus Puertas a los Turistas e Impone ‘Centros de Aislamiento’ para los Cubanos Recién Llegados*, EL MUNDO (Mar. 24, 2020), <https://www.elmundo.es/internacional/2020/03/24/5e7963edfc6c836c638b4669.html>.

¹¹¹ Sarah Marsh, *Trump Administration Orders Marriott to Cease Cuba Hotel Business*, REUTERS (June 5, 2020, 11:44 AM), <https://www.reuters.com/article/us-cuba-usa-hotel-exclusive/trump-administration-orders-marriott-to-cease-cuba-hotel-business-idUSKBN23C298>. Starwood Hotels and Resorts opened its first hotel in Cuba, Four Points by Sheraton (formerly Hotel Quinta Avenida), in June 2016. Marriott International bought Starwood in September 2016.

¹¹² Nora Gámez Torres, *Cuba Drops All COVID Restrictions for Foreign Travelers in a Bid to Boost Tourism*, MIA. HERALD (April 6, 2022, 6:40 PM), <https://www.chronline.com/stories/cuba-drops-all-covid-restrictions-for-foreign-travelers-in-a-bid-to-boost-tourism,287574>.

Table 3. International Visitors to Cuba, 2014–2022¹¹³

Year	Visitors
2014	3,013,584
2015	3,540,175
2016	4,009,169
2017	4,653,559
2018	4,711,910
2019	4,275,558
2020	1,085,920
2021	356,470
2022	1,614,087

Cuba's tourism sector has taken a beating from the coronavirus pandemic and has yet to recover. As shown in Table 3, international visitors to Cuba plummeted by seventy-five percent in 2020 to 1,085,920 and fell by an additional sixty-seven percent in 2021 to just 356,470, which means that in 2021 Cuba attracted less than ten percent of the approximately \$4.3 million visitors it received in 2019. It is worth noting that the Russian market helped the Cuban tourism industry minimize the negative effects of the pandemic. Flocking to Varadero's beaches to flee the northern winter, Russian tourists grew to forty percent of total arrivals in Cuba in 2021 and remained a key source market of travelers to the island in the first two months of 2022 until the outbreak of the Russia-Ukraine war put a halt to Russian visitors to Cuba.¹¹⁴ In all fairness, to a certain degree, the decline of international travel to Cuba in 2021 was more severe than in the Caribbean as a whole because of Havana's decision to keep its borders largely shuttered for most of the year. Nevertheless, even with the elimination of COVID restrictions for travelers, Cuba received only 1,614,087 visitors from abroad (mainly Canadians and Cuban Americans) in 2022, well shy of the country's official goal of 2.5 million visitors.¹¹⁵ Just to put things in perspective, a competing

¹¹³ OFICINA NACIONAL DE ESTADÍSTICAS E INFORMACIÓN (ONEI), TURISMO. ARRIBO DE VIAJEROS Y VISITANTES INTERNACIONALES DICIEMBRE 2022 [TOURISM. ARRIVAL OF TRAVELERS AND INTERNATIONAL VISITORS DECEMBER 2022] (2023), <http://www.onei.gob.cu/node/18036>; ONEI 2021, *supra* note 2, at 7; ONEI 2020, *supra* note 4, at 7; ONEI 2018, *supra* note 16, at 8.

¹¹⁴ Marc Frank, *Russians Vanish from Cuba Beaches, Casting Doubt on Tourism Recovery*, REUTERS (Mar. 11, 2022, 6:14 AM), <https://www.reuters.com/world/russians-vanish-cuba-beaches-casting-doubt-tourism-recovery-2022-03-11/>.

¹¹⁵ Data of Cuban Ministry of Tourism (MINTUR) obtained by the author in October 2022.

Caribbean destination like the Dominican Republic attracted 7,163,394 international travelers in 2022, the highest number ever.¹¹⁶

The coronavirus pandemic also disrupted informal remittance transfers (financial and in-kind) to Cuba at a time when formal U.S. remittance channels to the island were being closed because of Trump's new sanctions. In normal times, nearly half of cash remittances make it to Cuba via informal channels while the rest is sent through money transfer firms. The suspension of air travel in 2020–2021 shuttered the ability of Cuban Americans to hand-carry goods and cash to their relatives in Cuba and stifled the underground business of entrepreneurs (“mules”), who regularly travel to Cuba from the United States to deliver remittances for a fee. As for official channels, the largest U.S.-to-Cuba remittance service provider, Western Union, was essentially forced to stop sending money to the island in November 2020 after the State Department added Western Union's partner in Cuba, the military-owned remittance company Fincimex, to the Cuba Restricted List. Furthermore, the Trump administration effectively blocked additional money transfer networks by blacklisting Fincimex's unit American International Services in October 2020 and Banco Financiero Internacional in January 2021.¹¹⁷ And on January 12, 2021, before leaving office, Trump put Cuba back on the U.S. list of state sponsors of terrorism, which exposes designated countries to restrictions on U.S. foreign assistance and other types of sanctions.

In June 2022, the new administration of Joe Biden eased some Trump-era sanctions against Cuba, lifting a ban on scheduled and charter flights to Cuban locations beyond Havana, reinstating group people-to-people educational travel, and removing the \$1,000 limit per quarter on family remittances. It also reintroduced a general license for travel to Cuba to organize and attend professional meetings and conferences, reauthorized donative (nonfamily) remittances, and said it would step up efforts to boost support for Cuban independent entrepreneurs. Yet no changes were made to the Cuba Restricted List.¹¹⁸ It remains to be seen whether Biden's measures will trigger a substantial increase in U.S.-based travel and remittances to

¹¹⁶ Tourism statistics for the Dominican Republic can be found at the “Central Bank of Dominican Republic” website. CENT. BANK OF DOMINICAN REPUBLIC, <https://www.bancentral.gov.do/a/d/2537-sector-turismo> (last visited Jan. 29, 2023).

¹¹⁷ Matthew D. Aho, *Remittances to Cuba: A U.S. Policy Explainer*, CUBA STUDY GRP. (Aug. 23, 2021), http://cubastudygroup.org/blog_posts/policy-explainer-remittances-to-cuba/. The Cuba Restricted List was last updated in January 2021. Bureau of Economic & Business Affairs, *List of Restricted Entities and Subentities Associated with Cuba Effective January 8, 2021*, U.S. DEP'T OF STATE, <https://www.state.gov/cuba-restricted-list/list-of-restricted-entities-and-subentities-associated-with-cuba-effective-january-8-2021/> (last visited Feb. 1, 2022).

¹¹⁸ MARK P. SULLIVAN, CONG. RSCH. SERV., IN11937, BIDEN ADMINISTRATION'S CUBA POLICY CHANGES 4 (2022).

Cuba. What certainly will not help international travel to the island was the United States' decision in September 2022 to tighten its entry requirements for foreigners who have previously traveled to Cuba. The new rules establish that if a traveler has visited a country (like Cuba) designated as a state sponsor of terrorism in or after January 12, 2021, that traveler is no longer eligible to participate in the Visa Waiver Program (VWP) and must apply for a visa to enter the United States, which makes the process more cumbersome and more expensive.¹¹⁹ Citizens of European countries like France, Germany, Italy, Spain, and the United Kingdom that are among the largest source markets of tourists to Cuba are eligible to travel to the United States under the VWP.

Table 4. Cuba's Main Sources of Hard Currency, 2018–2021 (US\$ millions)¹²⁰

	2018	2019	2020	2021
Exports of medical services	6,398	5,382	3,998	4,350
Remittances	3,692	3,717	2,348	1,084
Tourism	2,782	2,645	1,152	417
Exports of goods	2,373	2,062	1,703	1,966
Telecommunications services	723	723	807	159
Total	15,968	14,529	10,008	7,976

To demonstrate the gravity of Cuba's current financial situation, Table 4 shows the combined impact of the Venezuelan crisis, of Trump's sanctions, and of the COVID-19 pandemic on Cuba's main sources of hard currency between 2018 and 2021. Cuba's total hard currency revenues in 2021 (about \$8 billion) were half their level in 2018. All major sources of foreign exchange decreased notably during this period, especially after 2019, with

¹¹⁹ Initially, it was reported that foreign travelers who had visited Cuba over the past eleven years were ineligible to participate in the VWP and receive the Electronic System for Travel Authorization (ESTA) approval prior to travel. Simon Calder, *Travellers Who Have Visited Cuba in Last 11 Years Will Need Visa to Enter US*, INDEP. (Sept. 24, 2022), <https://www.independent.co.uk/travel/news-and-advice/cuba-tourism-visa-us-trump-b2173792.html>. In early 2023, it was announced instead that the ESTA ban applies only for visits from January 2021. Simon Calder, *US U-Turns on Esta Ban for Cuba Tourists*, INDEP. (February 1, 2023), <https://www.independent.co.uk/travel/news-and-advice/cuba-esta-ban-tourists-visa-b2273349.html>.

¹²⁰ ONEI 2021, *supra* note 2, at 46; ONEI 2020, *supra* note 4, at 47; ONEI, *Series Estadísticas Sector Externo*, *supra* note 19; Emilio Morales, *COVID-19 Hits the Remittance Market Hard in Latin America*, HAVANA CONSULTING GRP. (Mar. 31, 2020), <http://www.thehavanaconsultinggroup.com/en/Articles/Article/80>; Emilio Morales, *Remittances, an Investment Route for Cubans?*, HAVANA CONSULTING GRP. (Sept. 27, 2019), <http://www.thehavanaconsultinggroup.com/en/Articles/Article/69>; Data of The Havana Consulting Group obtained by the author in May 2022 (estimate of the author).

remittances and tourism receipts experiencing the steepest declines. After a \$2.4 billion plunge in 2018–2020, exports of medical services increased slightly in 2021 as the pandemic gave Cuba an opportunity to send its doctors overseas for cash, but these revenues were largely unable to compensate for the general shortfall in foreign exchange earnings. Cuban official sources also reported that revenues from the provision of telecommunications services plummeted from \$807 million in 2020 to \$149 million in 2021.¹²¹ Although it is unclear why this sudden drop occurred, it seems reasonable to assume that telecommunications revenues have fallen in recent years as voice and video calling via WhatsApp and other popular free Internet-based applications have replaced expensive international calls via cell phones and landline phones.

In an attempt to revive its ailing economy amid COVID-19 and stiffer U.S. embargo restrictions, Cuba has enacted piecemeal liberalizing reforms. They include the legalization of self-employment in about 2,000 private sector activities (with 124 professions in strategic sectors like health, telecommunications, energy, the press, and defense still reserved for the state), the passage of new laws allowing the creation of micro, small, and medium-sized private enterprises, the promotion of non-agricultural cooperatives, the opening of convertible currency (MLC) stores that accept only (electronic) payments in dollars, and new rules for foreign investment. The Cuban government also began to phase out subsidies to state firms operating at a loss, increased wages, pensions, and social assistance benefits, and tackled the inflationary spiral in the wake of currency and exchange rate unification by implementing extensive price controls and by starting to buy dollars and other convertible currencies from the population at almost five times the official rate to undercut a thriving black market and capture the funds.¹²² So far though, these initiatives have done little to alleviate Cuba's economic crisis. The overall economy remains dire, public displays of discontent over deteriorating living conditions, soaring prices, power outages, and shortages of basic goods are on the rise, and record numbers of Cubans are leaving the island to seek better life in the United States.¹²³

¹²¹ See generally ONEI 2021, *supra* note 2.

¹²² Luis R. Luis, *Handling the Dollar Crunch in Cuba*, ASS'N FOR THE STUDY OF THE CUBAN ECON. (ASCE) BLOG (Aug. 1, 2022), <https://www.ascecuba.org/17391-2/>; *Cuba Comprará Dólares a un Cambio Cinco Veces Mayor que la Tasa Oficial* [Cuba Will Buy Dollars at an Exchange Rate Five Times Higher than the Official Rate], EFE (Aug. 3, 2022), https://www.swissinfo.ch/spa/cuba-econom%C3%ADa_cuba-comprar%C3%A1-d%C3%B3lares-a-un-cambio-cinco-veces-mayor-que-la-tasa-oficial/47802164#:~:text=%2D%20EI%20Gobierno%20de%20Cuba%20comprar%C3%A1,mayor%20que%20la%20tasa%20oficial.

¹²³ Pavel Vidal Alejandro, *Diez Puntos para un Programa de Estabilización de la Economía Cubana* [Ten Points for a Stabilization Program for the Cuban Economy], HORIZONTE CUBANO [CUBAN HORIZON]: COLUM. L. SCH. (Oct. 24, 2022), <https://horizontecubano.law.columbia.edu/news/diez->

V. CONCLUSION

With export activities no longer concentrated on sales of primary goods, today's Cuban economy is essentially a low-productivity and seriously underperforming service economy with a precarious external sector situation. Exports of professional services, especially medical services provided by thousands of Cuban workers in healthcare missions in Venezuela and around the world, have become Cuba's largest hard currency earner and main engine of growth. International tourism is another vital source of foreign exchange earnings along with remittances sent from abroad, primarily from the United States. There are nonetheless significant challenges. Merchandise and service exports have experienced a downward trend since the early 2010s. Heavily dependent on imported goods amid sluggish domestic agricultural and industrial productions, Cuba keeps running a huge merchandise trade deficit that puts considerable strain on the country's external finances. The Cuban external sector also suffers from little export (and market) diversification, crucial exposure to volatile swings in the international prices of key products like sugar, nickel, and oil, insufficient levels of domestic and foreign investment, and overconcentration on activities with low multiplier effects. A sizable external debt in hard currency, chronic liquidity problems, and major structural flaws of Cuba's state-dominated and overly centralized economy are additional critical challenges.

To make things worse, inadequate policies and unfavorable external events over the past three years, namely the profound economic crisis in Venezuela, Trump's hardline approach, and the coronavirus pandemic, have stifled Cuba's economic growth, fueled inflation, and led to a critical shortage of foreign exchange necessary to import essential goods. Runaway inflation has drastically cut the purchasing power of people's salaries and pensions, aggravating food security problems and inequalities. It has also erased the potential benefits of the monetary reform that the Cuban government launched in early 2021. Cuba's attempts to raise much-needed foreign currency by opening new convertible currency (MLC) stores and by setting exchange rates for the U.S. dollar that chase the black-market rates are ill-conceived moves that will fall short of their goal. The reforms that Havana's authorities have enacted since 2020 like the removal of a ban on small and medium-sized private businesses, the promotion of non-agricultural cooperatives, the expansion of self-employment, the end of the dual currency system, and the opening of wholesale and retail trade to foreign

puntos-para-un-programa-de-estabilizacion-de-la-economia-cubana; Mauricio Vincent, *Cuba Vive el Mayor Exodo Migratorio de su Historia* [*Cuba Lives the Largest Migratory Exodus in its History*], EL PAÍS (Sept. 12, 2022), <https://elpais.com/internacional/2022-09-12/cuba-vive-el-mayor-exodo-migratorio-de-su-historia.html>.

investment are positive steps. Yet they too will fail to revive the Cuban economy unless they are accompanied by greater systemic reforms. In short, it is Cuba's economic model that needs to change. While certain aspects of socialism are commendable and should be preserved, Cuba must allow the private sector to play a larger role in the economy alongside a more efficient state sector and favor market mechanisms over central planning. For far too long, Cuba's socialist economic model has proven incapable of unleashing productive forces and improving efficiency, stimulating growth, and fostering development.