

COMMENTS ON U.S. INTERNATIONAL TRADE COMMISSION'S “OVERVIEW OF CUBAN IMPORTS OF GOODS AND SERVICES AND EFFECTS OF U.S. RESTRICTIONS”

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The U.S. International Trade Commission's (USITC) report, “Overview of Cuban Imports of Goods and Services and Effects of U.S. Restrictions,”¹ published in 2016 at the request of the U.S. Senate Committee on Finance, is an impressively comprehensive study of the impact of lifting U.S. and Cuba restrictions on U.S. exports to Cuba. It comes after a similar study conducted by the USITC fifteen years ago.²

The 2016 report estimates that the lifting of all U.S. and Cuban trade restrictions would increase U.S. exports by \$2.2 billion/year for the first five years. Its sectorial studies alone should make it a bookshelf reference for anyone studying the Cuban economy. Unfortunately, it fails to put its estimates into perspective of the overall U.S. economy. This reviewer finds that lifting of all restrictions would produce a gross revenue of \$6.88 per person. After considering the resources that would be taken for alternative uses and the effects of trade diversion, it is likely that the real benefit would be much less.

The USITC report is a serious research effort, using “qualitative and quantitative measures to analyze the effects of U.S. restrictions on trade with and travel to

Cuba and to estimate the potential for increased U.S. exports of goods and services in Cuba in the event that statutory, regulatory, and other trade and travel restrictions are lifted.”³ In addition, it evaluates the impact of lifting many of Cuba's own non-tariff measures and other factors that limit U.S. exports.

With 437 pages, the USITC report is impressively comprehensive. It should be on the bookshelf of every scholar who studies Cuba and every businessman who is thinking of doing business there. It is the go-to book if one is looking for a summary of U.S. trade restrictions on Cuba (Chapter 3), and possible Cuban barriers to U.S. exports to Cuba if U.S. restrictions are lifted (Chapter 4). The latter chapter covers everything from the 2014 investment law, the legal system, intellectual property, customs duties and procedures, to infrastructure difficulties. Chapters 5–7 explore agricultural and manufactured products as well as the service sector. Relevant available statistics and citations of related material in other publications and by experts enrich these chapters. The research staff used Cuban, U.S., and third country statistics in the analysis. USITC staff interviewed numerous businessmen who have invested or traded in Cuba and even some Cuban officials. For those who want

1. “Overview of Cuban Imports of Goods and Services and Effects of U.S. Restrictions.” Washington, DC: U.S. International Trade Commission, March 2016. Available at <https://www.usitc.gov/publications/332/pub4597.pdf>.

2. “The Economic Impact of U.S. Sanctions with Respect to Cuba.” Washington, DC: U.S. International Trade Commission, February 2001. Available at <https://www.usitc.gov/publications/332/pub3398.pdf>.

3. “Overview of Cuban Imports of Goods and Services and Effects of U.S. Restrictions,” p. 5.

more details on the methodology of USITC's calculations they can refer to chapter 8. I found their conclusions very credible.

The report found that the lifting of U.S. restrictions would increase U.S. exports to Cuba from \$400 million to \$1.8 billion/year in the medium term.⁴ If Cuba were to remove its barriers to trade the total could reach \$2.2 billion. With all barriers lowered, U.S. agricultural exports could rise from \$313 million to \$800 million. Manufactured exports could rise from \$225 million to \$1.69 billion.

Most of the growth in U.S. exports would come at the expense of other countries currently exporting to Cuba or from the Cuban domestic economy. The U.S. share of Cuban agricultural imports (with U.S. restrictions lifted) would rise from 16 percent to 34 percent. In manufactured goods, the corresponding increase would be from 2 percent to 12 percent.

These estimates might seem low to those expecting an economic windfall from opening trade with Cuba. The report attributes the results to Cuba's low level of income, its shortage of foreign exchange earnings, the demand for low cost goods (e.g., rice from Vietnam), and cheap credit offered by other countries seeking to export manufactures (e.g., China) to Cuba.

My main concern with the report is the same I expressed when I served as discussant for the earlier USITC report at the 2001 ASCE Annual Meeting:⁵ it is a mercantilist study that only estimates exports. As such, it does not estimate the actual—value added—increase to U.S. income, which is likely to be much smaller. Thus, it is likely to be misused for discussions of U.S. policy, especially by those anxious to eliminate the embargo.

To those interested in policy, it is necessary to put these numbers in perspective. The estimated \$2.2 billion yearly increase in U.S. exports to Cuba when

put in per capita terms for 320 million Americans (\$2.2 billion/320 million inhabitants) it works out to \$6.88 per person.

In sectorial terms, it is useful to look at the impact on potential wheat exports to Cuba. Members of Congress from the Midwest are often the most vocal in their support for lifting the embargo and allowing Cuba to finance their imports with credit. The USITC report estimates U.S. exports of wheat to Cuba could reach \$188 million once all restrictions are removed. In 2016, 51 million U.S. acres were planted in wheat. That would suggest that if U.S. wheat farmers received all the proceeds from the exports to Cuba, they would earn an extra \$3.69 per acre. Farmers of course would only receive a small part of that amount as much of the revenue would go to intermediaries and the international grain brokers.

These results, of course, are only gross numbers. They are likely a serious overestimate of the actual benefits. They fail to consider the resources that could have been used to produce something else or products and services that could have been sold elsewhere. Land, fertilizer, energy, manufacturing equipment, and labor all have alternative uses. The trade diversion of services can easily be visualized in tourism. Yes, some tour companies and airlines will make money taking Americans to Cuba, but most likely at the cost of providing such services to those who might have visited the Dominican Republic or Florida. The report even mentions that some of the exports of agricultural goods would go to feed American tourists in Cuba. Americans of course need to eat wherever they are.

In my critique of the 2001 USITC report I suggested there were many pros and cons for lifting the sanctions, but increased trade was not one of them. Fifteen years later that observation still holds.

4. Defined as five years.

5. Gary Maybarduk, "Comments and Observations on the U.S. International Trade Commission Report", *Cuba in Transition—Volume 11*. Washington: Association for the Study of the Cuban Economy, 2011. Available at <http://www.ascecuba.org/c/wp-content/uploads/2014/09/v11-maybarduk.pdf>.