

CUBA'S NEVER-ENDING EXTERNAL SECTOR CRISIS

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A small island with limited natural resources, Cuba depends heavily on goods, services, technology and capital from abroad for its economy to grow and improve the standard of living of its citizens. The adverse impact that severe changes in external economic relations can have on the Cuban economy and on the well being of citizens is still fresh in the minds of Cubans who lived through an austerity period called the “special period in time of peace,” an economic crisis of great proportion that occurred in the early 1990s, when economic relations with the Soviet Union and the socialist community came to an end, disrupting flows of goods, services, technology and capital with those countries.

The economic and social guidelines approved by the VI Congress of the Cuban Communist Party in April 2011¹ sought to restructure the economy and develop and diversify international economic relations. The guidelines dealing with the external sector proclaimed the importance of ensuring that the country's trade, fiscal, credit, labor, and tariff policies were strictly applied in order to promote exports and strengthen import substitution, and enunciated the imperative for the nation to meet international commercial commitments, a recognition of Cuba's abominable record with respect to payment of its international debt. The approved guidelines addressed specific components of the external sector, such as foreign trade (goods and services, including tourism),

foreign debt and credit flows, foreign investment, and foreign cooperation and international economic integration.² Pursuant to the guidelines, Cuban authorities have made efforts to increase exports (including tourism) and rationalize imports, diversify trading partners, renegotiate the foreign debt and increase access to credit markets, and attract foreign investment.

The first part of the paper reviews the performance of the Cuban external sector since the VI Party Congress, with a view to assessing whether recent policies implemented by the Cuban government have decreased the vulnerability of the Cuban economy to external shocks. The second part discusses recent external sector crisis and examines potential developments that might have an adverse effect on the external sector and the Cuban economy at large.

EXTERNAL SECTOR PERFORMANCE

Despite the importance of the external sector to economic growth, official statistics on external sector developments are among Cuba's weakest. For many key variables, statistics are not published at all, and if they are, they are only published at very aggregate levels and following methodologies that are not well specified. These limitations of foreign sector data will be discussed below. Published external sector data are also not current. Although we are writing in late September 2017, the latest external sector data that

1. *Lineamientos de la Política Económica y Social del Partido y la Revolución* (as approved on April 28, 2011), <http://www.cubadebate.cu/wp-content/uploads/2011/05/folleto-lineamientos-vi-cong.pdf>.

2. For an overview of these measures see Jorge F. Pérez-López, “Cuba's External Sector and the VI Party Congress,” *Cuba in Transition—Volume 21* (Washington: Association for the Study of the Cuban Economy, 2011).

Cuba has made public is for 2015.³ The practice followed by Cuba's statistical office in the last few years has been to publish the statistical yearbooks by sections, with a one- to two-year lag. Typically, among the last sections of the yearbook that are released are those dealing with the external sector and national accounts. Thus it is not likely that external sector data for 2016 will be available until the fourth quarter of 2017 or early 2018.

An issue that affects all Cuban economic statistics, but is particularly important with respect to external sector accounts, is multiple currencies. Cuba has two domestic currencies, the Cuban peso (CUP) and the Convertible peso (CUC). External sector statistics require the conversion of multiple foreign currencies into a single currency. For purposes of external sector accounting, the Banco Central de Cuba combines all foreign transaction into a single currency, the Cuban peso, which is valued at par with the U.S. dollar. In other words, the external sector statistics reported in Cuban pesos by Cuban statistical sources are at the same time reported in U.S. dollars because of the parity exchange rate. Thus, in what follows, we will present Cuban statistics in Cuban pesos which also represent stocks and flows in U.S. dollars.

The balance of payments (BOP) is the generally accepted methodology to monitor international monetary transactions of a nation over a certain period of time. The balance of payments (BOP) is "a record of a country's money receipts from and payments to abroad, the difference between receipts and payments being the surplus or deficit."⁴ BOP statistics depict the relationship between the amount of money a nation spends abroad and the income it receives from

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

In the mid-1990s, Cuba for the first time published fairly complete BOP statistics, although only at an aggregate level, but stopped this practice in 2001.⁵ Since then, Cuba has only published statistics on the current account of the BOP; published statistics on some of the current account sub-accounts are puzzling (e.g., data on transfers suggests net outgoing transfers and do not reflect substantial levels of remittances into the country), as they do not seem to correspond with other information. Moreover, the most recent BOP current account data published is for 2013. As there are no published data on the financial account of the BOP, this means that there are no statistics on foreign investment and other financial flows. Data on foreign debt is only available through 2013, hence they do not throw light on the efforts at debt renegotiation carried out in recent years. In what follows, we will attempt to bring together available data on the components of the BOP.

Current Account

Table 1 reproduces the most recent (and only) BOP data available in current Cuban statistical yearbooks.

3. Oficina Nacional de Estadística e Información, *Anuario estadístico de Cuba 2015* (2016 Edition) (La Habana: ONEI, 2016). Hernández-Catá has commented on the "extraordinary delay" in publication of foreign sector statistics and the adverse impact of such delays on short- and mid-term analysis. See Ernesto Hernández-Catá, "Cuba's Foreign Sector: Data for 2015 are (finally) Available." ASCE Blog, May 12, 2017. <http://www.ascecuba.org/category/asce-cuba-blog-post/>.

4. Poul Host-Madsen, *Balance of Payments: Its Meaning and Uses*, IMF Pamphlet Series No. 9 (Washington: International Monetary Fund, 1967), p. 1. See also International Monetary Fund, *Balance of Payments Manual*, Sixth Edition (Washington: IMF, 2010) and Armando Linde, "The Balance of Payments: Concepts and Measurement," *Cuba in Transition—Volume 10* (Washington: Association for the Study of the Cuban Economy, 2000).

5. For earlier discussions of Cuba's BOP statistics, see e.g., Jorge Pérez-López, "Cuba's Wondrous Balance of Payments Turnaround," May 2010, at http://stonecenter.tulane.edu/uploads/Perez-Lopez_updated-1318949179.pdf and Pérez-López, "Cuba's External Sector and the VI Party Congress," *Cuba in Transition—Volume 21* (Washington: Association for the Study of the Cuban Economy, 2011).

As noted above, the reported data relates only to one of two main components of a country's BOP, namely the current account or the record of a country's earnings (if in surplus) or spending (if in deficit) vis-a-vis other countries. The last row of Table 1 shows that, over the period 2010–2013, Cuba's current account showed a surplus, meaning that earnings from abroad exceeded spending. Below we will try to look behind these aggregate data to analyze their performance and also to update some of the sub-accounts to the extent that data are available.

Table 1. Cuban Balance of Payments (million pesos)

| | 2010 | 2011 | 2012 | 2013 |
|--|-------|-------|-------|-------|
| Balance of merchandise and services trade | | | | |
| Balance of merchandise trade | 3119 | 2240 | 3771 | 2991 |
| General merchandise trade | -5935 | -7850 | -7970 | -9207 |
| Merchandise purchased in ports and airports | -6095 | -8082 | -8224 | -9424 |
| Balance of services trade | 160 | 232 | 254 | 217 |
| Factor income | 9054 | 10090 | 11741 | 12198 |
| Current transfers (net) | -1432 | -1064 | -995 | -922 |
| Current account | -196 | 261 | -394 | -220 |
| | 1491 | 1437 | 2382 | 1850 |

Source: *Anuario Estadístico de Cuba 2015*, Table 8.1. Merchandise and Services Trade

Merchandise and Services Trade

Cuban statistical yearbooks have abundant information (although often not up to date) on merchandise (or goods) trade and hardly any on services trade, with the exception of tourism. As over time the importance of merchandise trade has declined within Cuban trade relative to services trade, the relevance and usefulness of the official data for analytical and planning purposes has declined.

Merchandise Trade: Table 2 presents the value of Cuban merchandise exports and imports, respectively, for the period 2010–2015 for large categories of products of the Standard Industrial Trade Classification (SITC), and the overall merchandise trade balance. Merchandise exports peaked in 2011 at about 5.9 billion pesos and declined by 43% to 3.3 billion pesos in 2015. Meanwhile, merchandise imports increased steadily over the period 2010–2013, al-

though they were sluggish in 2014 and 2015. Data in Table 2 also show the massive merchandise trade deficits that Cuba recorded in the period 2010–2015, which rose from about 6 billion pesos in 2010 to over 9 billion pesos in 2013, falling back to over 8 billion pesos in 2014 and 2015.

Cuba's most significant merchandise exports were raw materials (predominantly nickel), food (including sugar), and chemicals and related products (including medicines and pharmaceutical products). Fluctuations in the world market price for nickel significantly affected the performance of merchandise exports. Underlying the fall in raw materials exports from nearly 1.5 billion pesos in 2011 to about 600 million pesos in 2015 (a decrease of almost 60%) was a sharp fall in the world market price for nickel, which was commanding \$22,901 USD per metric ton in 2011 v. \$11,683 USD in 2015.⁶

The heavy dependence of the Cuban economy on imported fuels is evident, with that import category accounting for over 40% of the total value of imports in some years. It should be noted, however, that analysis of oil import data is complicated because some of the imported oil might not be for domestic consumption and instead may be for processing—at a refinery jointly owned by Cuba and Venezuelan—and re-exported as refined product.

A predominantly agricultural country, Cuba devoted between 1.5 and 2 billion pesos—about one-sixth of the value of total imports—to acquire food products abroad. To be sure, some of the imported food items cannot be produced domestically in commercial quantities because of climatic reasons, but Cuban analysts of the agricultural sector have concluded in several studies that a significant share of imported food products could be produced domestically. Also reflected in the import data are increases in food imports to meet the demand of the tourism sector, a demand that could also be partially met by domestic production.

Services Trade: As mentioned earlier, official information on Cuban services trade is very limited. Table

6. World market prices are taken from World Bank, Commodity Prices "Pink Sheet," various issues.

Table 2. Cuban Merchandise Exports and Imports by Sections of the Standard Industrial Trade Classification (million pesos)

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---------|---------|---------|---------|---------|---------|
| Total Exports | 4549.5 | 5870.1 | 5577.3 | 5283.1 | 4857.5 | 3349.6 |
| Food and live animals | 355.9 | 482.6 | 570.3 | 549.4 | 507.9 | 522.9 |
| Beverages and tobacco | 284.7 | 315.7 | 317.0 | 398.5 | 321.9 | 285.9 |
| Raw materials, non-edible, except fuels | 1206.9 | 1479.8 | 1082.3 | 795.7 | 827.7 | 596.2 |
| Oils, greases and waxes of animal or vegetable origin | 0.1 | 0.4 | 0.7 | 0.2 | 0.1 | 0.0 |
| Chemicals and related products | 538.4 | 582.7 | 620.1 | 681.0 | 678.7 | 578.5 |
| Manufactured products classified chiefly by material | 123.3 | 145.2 | 144.6 | 111.9 | 93.9 | 50.2 |
| Machinery and transportation equipment | 111.4 | 136.1 | 104.6 | 101.0 | 83.9 | 46.3 |
| Miscellaneous manufactured products | 45.5 | 46.1 | 40.1 | 32.5 | 16.7 | 19.9 |
| Total Imports | 10644.3 | 13952.4 | 13800.9 | 14706.6 | 13036.8 | 11702.4 |
| Food and live animals | 1467.1 | 1863.2 | 1644.9 | 1848.1 | 1917.7 | 1800.9 |
| Beverages and tobacco | 42.8 | 37.1 | 27.9 | 50.4 | 54.8 | 89.7 |
| Raw materials, non-edible, except fuels | 148.8 | 196.9 | 239.4 | 237.9 | 210.4 | 182.4 |
| Fuels, lubricants, minerals and related products | 4529.7 | 6369.9 | 6475.0 | 6343.0 | 5617.1 | — |
| Oils, greases and waxes of animal or vegetable origin | 124.3 | 146.5 | 164.7 | 120.0 | 147.5 | 148.5 |
| Chemicals and related products | 966.2 | 1254.4 | 1225.4 | 1300.0 | 1233.8 | 1303.8 |
| Manufactured products classified chiefly by material | 1100.4 | 1396.5 | 1415.3 | 1503.0 | 1134.3 | 1500.0 |
| Machinery and transportation equipment | 1668.5 | 1954.2 | 1939.9 | 2524.9 | 1978.1 | 2741.8 |
| Miscellaneous manufactured products | 595.4 | 732.1 | 666.5 | 775.9 | 741.3 | 873.5 |
| Trade Balance | -6114.8 | -8082.3 | -8223.6 | -9423.5 | -8161.3 | -8352.8 |

Source: *Anuario Estadístico de Cuba 2015*, Tables 8.9 and 8.10.

Table 3. Cuban Exports and Imports of Services and Income from International Tourism (million pesos)

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|-----------------------------------|------|-------|-------|-------|-------|-------|
| Services exports | 9765 | 11149 | 12760 | 13027 | 12663 | 11369 |
| Services imports | 711 | 1060 | 1019 | 829 | 764 | 846 |
| Balance of services | 9054 | 10089 | 11741 | 12198 | 11899 | 10523 |
| Income from international tourism | 2025 | 2283 | 2353 | 2325 | 2367 | 2601 |
| % of services exports | 20.7 | 20.5 | 18.4 | 17.8 | 18.7 | 22.9 |

Source: *Anuario Estadístico de Cuba 2015*, Table 5.17 (exports and imports of services) and Table 15.12 (income from international tourism).

3 reproduces the most recent statistics on value of services exports and imports for the period 2010–2015 taken from the national accounts section (interestingly, not from the external sector section) of the statistical yearbook. It is evident from the statistics that over this period, Cuba ran a very large positive balance of trade in services, which exceeded 10 billion pesos in every year except 2010, and was above 12 billion pesos in 2013. The rapid growth of services exports that began in the first half of the 2000s resulted in a swing in Cuba's net exports of goods

and services from a deficit of 916 million pesos to a surplus of 1,647 million pesos between 2001 and 2007, or by over 2.5 billion pesos.⁷ The large and positive balance of services in the 2000s more than offset the negative balance of merchandise and contributed to a positive current account balance.

There are no statistics on the composition of either services exports or imports, with the exception of tourism income (which is considered a services export). The bottom two rows of Table 3 present Cuban official statistics on income generated by interna-

7. Jorge F. Pérez-López, "Cuba's Wondrous Balance of Payments Turnaround," in *Cuba Today and the Road Ahead* (Center for Inter-American Policy and Research, Tulane University, 2009). http://stonecenter.tulane.edu/uploads/Perez-Lopez_updated-1318949179.pdf

tional tourism and the share of such income within the value of all services exports. Thus, tourism's share of Cuba's total services exports exceeded 20% in 2010–2011, fell to about 18% in 2013, and reached almost 23% in 2015, as overall value of services exports declined and tourism income increased sharply. Influencing the nearly 10% increase in income from tourism in 2015 was the substantial increase in the number of visitors to the island in 2015 associated with the rapprochement between the United States and Cuba that began in December 2014 that eased travel restrictions on U.S. travelers to the island. Visitors from the U.S. to the island rose from 91 thousand in 2014 to 161 thousand in 2015, or by 77%.

Notwithstanding the positive performance of the tourism sector, the large jump in the value of Cuban services exports in the 2000s is largely attributable to exports of professional services. While Cuba, under the principle of “socialist solidarity,” had sent medical personnel, builders, teachers and sports coaches abroad as early as the 1960s, for most of the time this assistance was offered free of charge to developing countries in need.

This began to change in the late 1990s, with some countries in the Middle East paying for services rendered by Cuban medical professionals, and took a giant leap in 2000 when Presidents Hugo Chávez and Fidel Castro signed an “integral bilateral cooperation” agreement that, *inter alia*, created a program to send Cuban professionals to Venezuela—physicians, dentists, nurses, medical specialists, teachers, sports coaches and trainers—typically to work in locations where Venezuelan professionals were reluctant to locate. Although precise statistics are not available, Cuban government sources reported that in late 2014–early 2015, there were some 37,000 Cuban health professionals working abroad in 77 countries, with the vast majority of such professionals laboring in Venezuela.⁸ Cuban personnel working abroad are

employees of the Cuban government and while their salaries are paid by the host country to the Cuban government in convertible currency, the Cuban government confiscates the pay in hard currency and makes a small fraction of the amount available in hard currency to the individual providing the service.

Concerns about the concentration of professionals in Venezuela, and the potential impact on the revenue stream generated by services exports should there be political changes in Venezuela that affect the relationship, Cuba has been trying to develop new markets for its professionals. One such market for Cuban medical professionals has been Brazil, which has sought to attract foreign professions under its *Más Médicos* Program to support its national health program. In mid-2015, out of the 18,240 physicians employed by the *Más Médicos* Program, 11,487 (63%) were Cuban.

Combining merchandise trade and services, Cuban official statistics show that the balance of merchandise and services trade was positive every year in the period 2010–2013, with a local peak of nearly \$3.8 billion pesos in 2012.

Current Transfers

Current transfers are movements of funds for which there is no *quid pro quo*; they include foreign aid, donations, gifts, grants, contributions, etc. Also considered transfers are movements of cash and/or goods and services sent to their families by workers laboring abroad or by friends. Since the mid-1990s, when the Cuban government first allowed citizens to hold and use foreign currencies, family remittances is believed to be the principal component of transfers flowing to the island.

As is the case with other BOP sub-accounts, Cuba does not published statistics on the components of current transfers. Several analysts and organizations have made estimates of remittances to the island,

8. “How Cuba’s Health Care Sector Aims to Gain a Greater Foothold,” Knowledge@Wharton, February 12, 2015, <http://knowledge.wharton.upenn.edu/article/how-cubas-health-care-sector-aims-to-gain-a-greater-foothold/>. However, according to statistics of the Ministry of Public Health, at the end of 2015, Cuban professionals were involved in public health collaboration activities in 63 countries across five continents. República de Cuba, Ministerio de Salud Pública, *Anuario Estadístico de Salud 2015* (La Habana, 2016). See also Alberto Gabriele, *Cuba: the surge of export-oriented services*, Munich Personal RePEc Archive, MPRA Paper No. 26360 (1 November 2010), <http://mpra.ub.uni-muenchen.de/26360/>.

some focusing on cash remittances alone and others estimating both cash flows and in-kind remittances.⁹ According to the United Nations Commission for Latin America and the Caribbean (CEPAL), family remittances to Cuba were about \$1.6-\$1.7 million in 2009, \$2 million in 2010 and \$2.4 billion in 2011.¹⁰ Spurred by the lifting of U.S. restrictions on sending remittances to the island, the volume of Cuban remittances skyrocketed to nearly \$3.4 billion in 2015.¹¹

There is no explanation for the behavior of the official data on current transfers (Table 1), which swung from a deficit of 196 million pesos in 2010 to a surplus of 261 million in 2011 to deficits of \$394 million and \$220 million in 2012 and 2013, respectively. It is hard to fathom the nature and amount of outgoing transfers that would offset the very large remittances that Cuba has been receiving annually from its Diaspora.

Capital and Financial Accounts

The capital and financial accounts of the BOP counterbalance the current account, recording flows of capital and financial assets that support the economy and the production of goods and services. As mentioned above, Cuba has not published *any* statistics on these accounts of the BOP—at any level of aggregation—since 2001. In what follows, we gather available information on debt and foreign direct investment to provide a partial picture of the situation.

Foreign Debt

Cuba does not publish statistics on flows of foreign capital—loans, credits, and other financial sector transactions. Foreign debt statistics published in the statistical yearbook refer only to stock of foreign debt broken down by type of debt (official, bank, supplier credit) and term (short-term and medium/long term). Moreover, the statistics are not up to date (the

2015 issue of the yearbook contains hard currency foreign debt statistics for 2010–2013 only). In 2013, the most recent year for which data are available, what Cuba referred to as its “active external debt” was about \$11.9 billion pesos, of which about 17% was short-term (maturity of one year or less) and 83% medium and long-term.

In addition to the active debt, Cuba had accumulated over the years a significant stock of debt, official and commercial, that was mostly in default. In the last few years, Cuba has been successful in negotiating with its creditors to substantially reduce the debt overhang. Cuba achieved significant concessions from China (47.2%), Mexico (70%), and Russia (90%), and from Japanese commercial banks (80%) which largely eliminated the non-performing debt. In mid 2015, Cuba and Paris Club members agreed on \$15 billion as the amount that Cuba owed to this group of nations, which includes Russia. (This limit was highly favorable to Cuba and incorporated a substantial concession on the part of Russia; it is worth recalling that Cuba's debt to the former Soviet Union alone in the mid-1990s was estimated at about \$35 billion. There was a dispute between Cuba and Russia, who assumed the debts of the former Soviet Union, as to what was the appropriate exchange rate between the ruble and the dollar to be applied to the Cuban debt.) In December 2015, Cuba reached an important accord with 14 of the 20 creditor countries of the Paris Club regarding some \$11.1 billion of outstanding official debt, whereby the creditors agreed to forgive past due interest and penalties; Cuba recognized the original principal and agreed on an 18-year repayment schedule for principal after conversion of a sizable part into local development funds. The agreement is to be implemented on a

9. For a review of estimates through the early 2000s, see Jorge F. Pérez-López and Sergio Díaz-Briquets, “Remittances to Cuba: A Survey of Methods and Estimates,” *Cuba in Transition—Volume 15* (Washington: Association for the Study of the Cuban Economy, 2005).

10. CEPAL, *Cuba: Estudio económico de América Latina y el Caribe, 2010–2011*, and issues for 2009 and 2012.

11. Emilio Morales, “Cuba: The Fastest Growing Remittances Market in Latin America,” The Havana Consulting Group, June 2016, <http://www.thehavanaconsultinggroup.com/en-us/Articles/Article/20>

creditor-by-creditor basis through national development assistance agencies.¹²

The combination of individual debt renegotiation pacts and the Paris Club agreement provided a boost to Cuba's international creditworthiness and ability to turn to international markets for financing. The flip side of the debt renegotiation is that for the next 18 years, Cuba will have to make payments on principal and interest to creditors estimated by an analyst to be in the range of \$400 million per annum, compared to the zero payments that Cuba had been making prior to the time of the renegotiated deal.¹³ Another consideration of the renegotiation agreement to consider is that the conversion of some of the debt into local development funds means that in some instances investment utilizing these funds will not result in fresh new capital coming into the country (see below), although these actions would nevertheless have positive impacts on domestic employment, technology transfer, access to foreign management know-how, and so on.

Foreign Investment

During Raúl Castro's tenure at the helm of the Cuban state, the government has taken several steps to attract foreign investment. In one of his early pronouncements on policies to revitalize the Cuban economy, delivered on July 27, 2007, then-interim President Raúl Castro spoke about the need to reconsider the role of investment in the Cuban economy. He stated:

...we are currently studying the possibility of securing more foreign investment of the kind that can provide us with capital, technology or markets, to avail ourselves of its contribution to the country's development, careful not to repeat the mistakes of the past, the result of naivety or our ignorance about those partnerships, of using the positive experiences we've had to work with serious entrepreneurs, upon well-defined legal bases which preserve the role of the State and the predominance of socialist property.

The foreign investment chapter of the *Lineamientos de la Política Económica y Social del Partido y la Revolución*, adopted by the VI Congress of the Cuban Communist Party (PCC) in 2011, called for an active policy of attracting foreign investment, diversifying the country of origin of foreign investors, prioritizing investments that promote import substitution and high technology projects, and promoting investment that creates jobs and strengthens linkages—through the purchase of goods and services—with domestic enterprises. The guidelines also called for streamlining the investment approval process and for more discipline with respect to investment commitments made by foreign investors, such as time lines for an approved project to commence operations and a process to terminate projects that fail to meet such time limits.

As has been discussed by several analysts, since the 1990s Cuba has been experiencing a serious investment gap that has contributed to slow economic growth. Flows of foreign investment are seen as the way to close this gap. Minister of Foreign Trade and Foreign Investment Rodrigo Malmierca stated in early 2014 that Cuba needs to attract annually between \$2 and \$2.5 billion in foreign investment in order for the economy to grow at the 7% per annum rate planners have set as a target for the next few years. Likewise, then Vice President of the Council of Ministers Marino Murillo told the National Assembly in March 2014, that Cuba required about \$2.5 billion per annum in foreign investment in order to “stimulate development that would result in prosperity and sustainability of Cuba's socialist socio-economic model.” The two principal vehicles that Cuba has been using to attract foreign investment are the Mariel Special Development Zone (ZED Mariel), established in 2013, and a new foreign investment law adopted in 2014.

In November 2014, Cuba's Ministry of Foreign Trade and Foreign Investment published a glossy document titled *Cartera de Oportunidades de In-*

12. Luis R. Luis, “Cuba Restructures Its Visible External Debt,” ASCE Blog, January 10, 2016, <http://www.ascecuba.org/cuba-restructures-visible-external-debt/>

13. Ibid.

versión Extranjera, containing detailed explanations of Cuba's legal framework for foreign investment and a "wish list" of investment projects for which the Cuban government sought foreign participation.¹⁴ In all, 246 investment projects were listed, for a total investment of \$8.7 billion, distributed across economic sectors; about 10% of the investment opportunities (25 out of 246) were specific to the ZED Mariel, with 90% located in the rest of the island and therefore subject to the provisions of the foreign investment law. Since then, two other investment portfolios have been published, one for 2015 and the most recent for 2016–2017. The investment portfolio for 2016–2017 identifies 395 investment projects, 24 within the ZED Mariel (6%) and the remaining 371 (94%) elsewhere in the nation outside of the ZED Mariel (see Table 4).

Table 4. Investment Opportunities Identified by the Cuban Government

| Sector | Location | | Total |
|-------------------------|------------|-----------------|-------|
| | ZED Mariel | Rest of Country | |
| Processed foods | 1 | 75 | 76 |
| Sugar industry | | 13 | 13 |
| Wholesale commerce | 1 | 6 | 7 |
| Biotechnology/medicines | 13 | 2 | 15 |
| Construction | 1 | 9 | 10 |
| Renewable energy | | 23 | 23 |
| Industry | 8 | 8 | 16 |
| Mining | | 13 | 13 |
| Oil | | 87 | 87 |
| Transportation | | 10 | 10 |
| Tourism | | 114 | 114 |
| Health | | 3 | 3 |
| Audiovisual | | 3 | 3 |
| Water resources | | 3 | 3 |
| Total | 24 | 371 | 395 |

Source: Ministerio del Comercio Exterior y la Inversión Extranjera, *Cuba: Cartera de Oportunidades de Inversión Extranjera, 2016–2017*.

Cuban officials have reported that as of mid-March 2017, about three and one-half years after the zone was established, foreign investment in ZED Mariel had reached \$966 million; when fully operational, the new enterprises were anticipated to create 4,073 jobs.¹⁵ In terms of number of investments, as of the mid-May 2017, 25 enterprises from 11 countries (Cuba included) had been formally established at ZED Mariel.

Although there are no official regularly-published statistics on overall foreign investment, there are some point estimates for investment flows for a given year or time period or estimates of cumulative investment over certain time periods reported by government officials or analysts. Former Minister of the Economy and Planning José Luis Rodríguez stated that foreign investment *commitments*—which is similar to what is referred to as investment intentions or announcements—amounted to \$5.2 billion between 1995 and 2002, as the creation of a multitude of foreign-invested enterprises was announced; however, as of 2010, Rodríguez stated, committed foreign investment was \$4.2 billion.¹⁶ Meanwhile, economist Pérez Villanueva has estimated that cumulative committed foreign investment through 2012 amounted to \$5 billion.¹⁷ Minister of Foreign Trade and Foreign reported in early November 2016, slightly over two and one-half years since the new foreign investment law had been enacted (Law No. 118, adopted in late March 2014), that Cuba had approved 83 projects with foreign investment, for a total inflow of foreign investment of \$1.3 billion, which Minister Malmierca stated, was below the "expectations and needs" of the country, estimated to be at least \$2 million per

14. Ministerio del Comercio Exterior y la Inversión Extranjera, *Cuba: Cartera de Oportunidades de Inversión Extranjera* (2014).

15. "Nuevos proyectos en ZED Mariel," *Opciones*, March 15, 2017, <http://www.opciones.cu/cuba/2017-03-15/nuevos-proyectos-en-zed-mariel/>

16. José Luis Rodríguez, "Cuba: una revaloración indispensable de la inversión extranjera directa (I)," *Cuba Contemporánea* (February 3, 2014), <http://www.cubacontemporanea.com/noticias/cuba-una-revaloracion-indispensable-de-la-inversion-extranjera-directa-i>

17. Omar Everleny Pérez Villanueva, "La inversión extranjera directa en Cuba: necesidad de su relanzamiento," Centro de Estudios de la Economía Cubana (2014).

annum.¹⁸ Minister Malmierca restated the goal of attracting \$2 billion per annum at a meeting in Washington with representatives of the U.S. Chamber of Commerce in February 2016, inviting foreign business to consider investing in 300 projects in 12 sectors of the economy that require some \$8 billion in foreign investment over several years.¹⁹

To sum up, in addition to seeking to reduce its foreign debt—and open up opportunities to tap international financial markets—Cuba has been trying to diversify its commercial relationships and develop new economic allies. In the last decade, Brazil emerged as an important commercial partner, source of investments, and provider of technology. An example of Brazilian presence in Cuba is the Mariel mega container port, built by Brazilian multinational construction company Odebrecht with financing from a Brazilian export credit agency. After Venezuela, Brazil is the largest employer of Cuban medical personnel. Also noteworthy are Cuba’s developing alliances in Asia. China is currently Cuba’s second largest trading partner (after Venezuela) and the largest importer of Cuban sugar, taking about 400,000 tons of Cuban sugar per annum. Chinese companies are second (after Brazil) in the furnishing of equipment for the Mariel port and they are engaged in infrastructure construction throughout the island. Singaporean company PSA International is the Mariel port’s operator.

While China and Brazil have become important partners of late, Spain and Canada have had a substantial presence in Cuba for a longer period and continue to be important players in Cuba’s external sector. Spanish hospitality companies dominate the international tourism sector, managing a significant share of the hotels devoted to international tourism. Hospitality company Meliá announced that effective

in 2018, it would assume management of eight additional hotels owned by Cuban hotel companies.²⁰ Spanish medium-size investors are also quite active in the island, accounting for a large share of a form of foreign investment called “international economic associations,” which are medium-size enterprises that produce goods that substitute for imports, as well as in the ZED Mariel. Canada is the largest source of tourists to the island and of investment in nickel mining and oil exploration and extraction.

A NEW EXTERNAL SECTOR CRISIS?

Speaking to the July 2017 session of the National Assembly, Minister of the Economy and Planning Ricardo Cabrisas reported on the performance of the economy in the first half of 2017.²¹ Minister Cabrisas reported that the country’s GDP grew by 1.1% in the first half of the year, a very slow growth rate but an improvement from the -0.9% growth rate registered in 2016. Tourism, construction, transport and communication, and non-sugar agriculture contributed positively to economic growth. A key factor that adversely affected growth in the first half of 2017 was the performance of the external sector. Cabrisas stated that exports were below planned levels by \$417 million, while oil imports were higher than planned by \$99 million. For 2017 as a whole, Cabrisas stated that imports were expected to be higher than planned by \$1.5 billion as a result of difficulties in using credits, debts associated with unpaid letters of credit, and difficulties and delays in procurement contracts. He elaborated that repayment arrears had resulted in the drying up of supplier credits, as providers were demanding repayment before granting new credits. He also reported that Cuba had paid \$2.3 billion in loan repayments, prioritizing repayment of debt renegotiated recently, official credits, and credits from suppliers of food, hygiene products, packaging materials,

18. “Cuba aprobó 83 negocios con inversión extranjera,” ACN (November 1, 2016), <http://www.acn.cu/economia/22478-cuba-aprobo-83-negocios-con-inversion-extranjera-desde-2014-fotos-y-video>

19. Luis Alonso Lugo, “Ministro de Comercio cubano visita Cámara de Comercio de EEUU en busca de inversiones,” *El Nuevo Herald* (February 16, 2016).

20. “Meliá administrará ocho nuevos hoteles en el centro de Cuba,” *Cubadebate* (May 4, 2016).

21. Ricardo Cabrisas Ruiz, “Comportamiento del plan de la economía 2017, Primer Semestre,” *Granma* (July 15, 2017). See also Marc Frank, “Cuba’s financial crisis worsens—economy minister,” Reuters (18 July 2017).

products for the sugar industry, sectors that generate exports, and exports to certain key institutions such as MINFAR, MININT, TRD Caribe, CIMEX, MINED, and MINSAP, among others.

Cuba's precarious external sector situation makes it very vulnerable to external shocks. Shocks emanating from three countries are potentially worrisome for Cuba: (1) Venezuela; (2) Brazil; and (3) United States. And, of course, in early September, Hurricane Irma ravaged Cuba's northern coast, affecting agriculture, infrastructure, and key international tourism facilities.

Venezuela

A very heavy reliance on Venezuelan oil and oil products imports makes the Cuban economy highly vulnerable to developments in that country. Oil production shortfalls experienced by Venezuela's state-owned oil company *Petróleos de Venezuela S.A.* (PDVSA) in 2016 resulted in reductions of shipments to Cuba and raised concerns about their effect on the Cuban economy. Speaking to the National Assembly in early July 2016, President Raúl Castro stated: "In the first half of the year [2016], the gross internal product grew by 1%, half of the rate we had planned. This low growth rate was a function of sharp international financial restrictions, caused by the drop in income from exports, coupled with the limitations faced by some of our principal trading partners stemming from the fall in [international] oil prices. Added to this is a contraction in the volume of imports of oil previously agreed with Venezuela, despite the firm intention of President Nicolás Maduro and his government to meet supply commitments. Logically, this has put the Cuban economy in a tense situation."²²

The Cuba-Venezuela oil trade relationship is framed in the Integral Cooperation Agreement between Cuba and Venezuela signed in October 2000 between Presidents Fidel Castro and Hugo Chávez.

Pursuant to the agreement, Venezuela initially agreed to provide Cuba with 53,000 b/d of crude, with the contractual volume of exports later raised to 98,000 b/d, at preferential prices (fixed since 2005 at \$23 per barrel), with Venezuela covering freight and insurance costs. In return, Cuba provided Cuba with goods and services, especially Cuban physicians and other professionals (health services technicians, teachers, coaches, consultants in different fields) who provide services in Venezuela. Another strand of the Cuba-Venezuela oil trade relationship is the joint venture *Cuvenpetrol*, created by the two countries in 2007 to operate the "Camilo Cienfuegos" oil refinery in Cienfuegos. The *Cuvenpetrol* refinery was intended to supply refined products for consumption in Cuba and for export. In 2014, the joint venture partners announced that refining capacity would be expanded to 80,000 b/d. Some of the crude oil exports from Venezuela are intended for refining at the Cienfuegos refinery and consumed in Cuba as refined products or exported to the Caribbean.

During the same July 2016 session of the National Assembly at which President Raúl Castro spoke about shortfalls in Venezuelan oil imports, Minister of the Economy Marino Murillo elaborated on the twin problems facing the Cuban economy, namely a liquidity crisis and a reduction of oil imports.²³ As an oil importer, it would be logical to think that a decline in the international price of oil would be welcome news for Cuba, but in fact this is not the case. The decline in international oil prices (the average price of oil in the international market averaged \$104-\$105 per barrel in 2012-2013, while it is \$44.10 per barrel in July 2016) has sharply affected Venezuela's export revenues; to deal with revenue shortages, Venezuela in turn has cut back on employing Cuban professionals, thereby affecting Cuba's income from services exports. To deal with the twin economic problems, Cuba announced effective in the

22. "El pueblo revolucionario cubano nuevamente se crecerá," Discurso del General de Ejército Raúl Castro Ruz en el VII Período Ordinario de Sesiones de la Octava Legislatura de la Asamblea Nacional del Poder Popular, *Granma* (8 de julio de 2016), <http://www.granma.cu/cuba/2016-07-08/el-pueblo-revolucionario-cubano-nuevamente-se-crecera>.

23. Marino Murillo, "Vienen ajustes en la economía, sin afectar servicios fundamentales a la población," *Cubadebate* (8 de julio de 2016).

second semester of 2016 a set of belt-tightening measures, among them: (1) restrictions on hard currency imports and payments to foreign creditors; (2) a reduction of 28% in energy consumption, seeking not to affect household consumption; and (3) 17% decrease in investments compared to 2015.

The severity of the measures prompted President Raúl Castro to reassure the population that the economic crisis was manageable and a new “special period” was not in the cards. He said: “As expected, in an effort to sow discouragement and uncertainty among the population, we begin to see speculation and predictions of the immediate collapse of our economy and the return of the sharp phase of the special period that we faced at the start of the decade of the 1990s of the last century, and that we were able to overcome relying on the resistance capacity of the Cuban people and their unlimited trust in Fidel and the Party. We do not deny that there could adverse effects on the economy, even more serious than those that we are facing right now, but we are prepared and in better circumstances than then to overcome them.” Oil industry analyst Jorge Piñón refers to the oil relations between Cuba and Venezuela as the “Achilles heel of Cuba’s energy sector.”²⁴

The reductions in imports of Venezuelan oil and oil products experienced in 2016 have continued in 2017. Venezuelan oil shipments to Cuba fell by about 13% in the first half of 2017, according to PDVSA statistics, with most of the reduction in crude oil deliveries.²⁵ The additional \$99 million in imports of oil and oil products in the first half of 2017 reported by Minister Cabrisas are most likely imports of oil products from Russia purchased to make up for the shortfall of Venezuelan supplies, an interesting return of large-scale Russian oil exports to Cuba after relations between the two countries soured in the 1990s.²⁶

One of Cuba’s main worries at the time of this writing (mid 2017) is the economic and political stability of Venezuela’s government, and the continuing ability of that country to provide an oil lifeline to the island.

Brazil

Particularly during the period when the Workers’ Party (PT) held the Presidency—Lula da Silva, elected in 2002 and 2006, and Dilma Rousseff, elected in 2010 and 2014, but impeached in 2016—political and economic relations between Cuba and Brazil were quite strong. Brazil consistently ran a trade surplus in commodity trade with Cuba, exporting a range of agricultural products, among them rice and corn, vegetable oil, agricultural harvesting machinery, and cooling equipment. Cuban exports to Brazil were principally pharmaceutical products and a relatively small volume of tobacco products. As noted above, in 2015, the most recent year for which official trade data are available, Brazil ranked fourth as a source of Cuban imports and eighth as destination for Cuban exports.

Brazilian businessmen have been active in investing in Cuba. In 1995, Brazilian cigarette producer Sousa Cruz entered into a joint venture with Cuban enterprise Tabacuba to form the company Brascuba Cigarrillos S.A., which produces a range of cigarette brands—Popular, H. Upmann, Monterrey, Vega, Hollywood, H. Upmann Selecto, Lucky Strike and Cohiba—for the domestic market and for export. Brascuba Cigarrillos has established a joint venture in the Mariel ZED, while two Brazilian firms have established wholly-owned companies in the areas of engineering, design and construction and logistical services in the ZED Mariel. Cuban sugar industry enterprise AZCUBA and the Brazilian conglomerate Odebrecht entered into an agreement in 2012 whereby the Brazilian company would manage the sugar mill “5 de septiembre,” located in Cienfuegos province.

24. Americas Society/Council of the Americas, “The Achilles Heel of Cuba’s Energy Sector,” podcast, August 10, 2016, <https://soundcloud.com/ascoa/the-achilles-heel-of-cubas-energy-sector>.

25. Marianna Parraga and Marc Frank, “Venezuela oil exports to ally Cuba drop 13 percent,” Reuters (July 13, 2017).

26. Marc Frank, “Russia resumes oil shipments to Cuba, helps fill Venezuelan breach,” Reuters (May 3, 2017).

The crown jewel of the Cuba-Brazil economic relationship is the Mariel Shipping Port. Built by Brazilian multinational construction company Odebrecht Group, and financed by subsidized credits amounting to almost \$700 million from the Brazilian government's development bank BNDES, the project is intended to build a state-of-the-art container ship facility at Mariel and to shift port operations from Havana Bay to Mariel.²⁷ The long-term intention is to convert Havana Bay and its surrounding area into a mega tourism project, with facilities to receive ferries and offering multiple amenities for tourists. The company selected to design and construct the project was Brazilian multinational construction company Odebrecht, among the top construction companies in Latin America. A ribbon cutting ceremony celebrating the opening of the port was held in January 2014, with Brazil's President Rousseff and Cuba's President Castro in attendance.

In June 2015, Marcelo Odebrecht, CEO of Odebrecht Group, was arrested by Brazilian authorities as part of a major anti-corruption investigation—called Operacao Lava Jato (Operation Car Wash)—into bribes paid to politicians in order to get contracts with Brazilian oil company Petrobras, and similar bribery activities in other countries (e.g., Argentina, Colombia, Dominican Republic, Ecuador, Peru and Venezuela.) Alleged to have received illegal campaign contributions from Odebrecht were then-President Rousseff, then vice-president Temer, and former President Lula. Odebrecht's illegal activities have prompted major reviews by the Government of Brazil of Odebrecht projects. Thus, BNDES, the development bank that financed the Mariel Port, has stopped payments to Odebrecht for activities to com-

plete the project, subject to its investigation. This means that further work on the project is frozen until further notice.²⁸ Unless BNDES lifts the payment suspension, it is not clear how the completion of the project will be financed, as Odebrecht seeks payment for additional work to be done.

The impeachment and removal of President Rousseff in mid-2016 and the conviction of former President Luna on charges of corruption and money laundering, which would make him ineligible to run for the Presidency in the 2018 elections, means that Cuba's "friends" in Brazil are sidelined from power and therefore Brazil is not in a position to offer significant emergency help to Cuba should the island require it to meet external sector crisis.

United States

The announcement by President Barack Obama and by President Raúl Castro on December 17, 2014 (D17), of the intention of the United States and Cuba to reestablish diplomatic and commercial relations began a process of rapprochement that raised expectations in both countries about normalization of commercial relations.

The U.S.-Cuba Trade and Economic Council has documented the visits to the island in 2015–2016 of more than 200 U.S. federal government officials (including President Obama and 8 members of his Cabinet), 14 State Governors, 17 U.S. Senators (some traveling to Cuba more than once) and more than 50 members of the U.S. House of Representatives.²⁹ According to this same source, Cuba hosted visits by more than 3,000 U.S. company representatives seeking to do business in Cuba.³⁰ Reportedly, more than 110 representatives of the Cuban government visited the U.S. after D17, in some instances to attend meet-

27. As an aside, Marcelo Odebrecht has reportedly testified before Brazilian authorities to the effect that he was first approached about the Mariel project in 2007 by Venezuelan President Hugo Chávez, who deemed it to be a very important project for Cuba's development. Odebrecht further testified that he suggested to Chávez that he contact Brazilian President Lula in order to get the government of Brazil to finance the construction. President Lula agreed with the suggestion by Chávez and supposedly pressured BNDES to finance the project. See Daniel Pereira, et al, "Porto de Mariel foi pedido de Chávez a Lula, diz Emílio Odebrecht," *Veja* (April 12, 2017); see also "Emilio Odebrecht: 'El Puerto de Mariel fue un pedido de Chávez a Lula,'" *Diario de Cuba* (17 de abril de 2017).

28. Yeline Ramos González, "Mariel in Pause," *On Cuba Magazine* (September 15, 2016), <http://oncubamagazine.com/economy-business/mariel-in-pause/>

29. U.S.-Cuba Trade and Economic Council, "U.S. Government/Governor/Congressional Visits to the Republic of Cuba."

30. U.S.-Cuba Trade and Economic Council, "What Have Cuba and the U.S. Done/Not Done Since December 2014."

ings with the Obama Administration or to attend conferences or meetings with the private sector and academia, among them Minister of Foreign Affairs Bruno Rodríguez (several visits) and Minister of Foreign Trade and Foreign Investment Rodrigo Malmierca. Dozens of conferences, seminars and gatherings were held in 2015–2016 in the U.S. to inform/promote commercial relations between the two countries.

The balance of policy/regulatory changes made by the two countries on behalf of improved economic relations is lop-sided, with the U.S. taking the vast majority of the actions. Since the start of the “thaw,” the U.S. Department of the Treasury issued five tranches of regulatory changes that facilitated travel (including cruise ships), remittances, communications, and commerce with Cuba. The U.S. Department of Transportation and the U.S. Department of State reinstated scheduled airline travel to Cuba by U.S. carriers and subsequently the U.S. Department of Transportation authorized 10 U.S. airlines to provide direct air service from the United States to 8 Cuban cities. Numerous other regulatory actions and policy initiatives were taken by entities of the U.S. Government to facilitate commercial relations with Cuba—within the parameters of areas that are out of bounds for executive action because of the Congressionally-mandated U.S. trade embargo. On the part of Cuba, the number of measures intended to promote trade and commercial relations with the U.S. was, by comparison, quite modest: (1) authorizing the use of selected Cuban ports by U.S. cruise ships; (2) authorizing direct flights from the U.S. to 8 Cuban cities; (3) authorizing the use of certain U.S.-issued credit and debit cards in the island; and (4) announced, but not yet implemented, the elimination of the 10% surcharge on the exchange of U.S. dollars for CUC.

The momentum for the eventual normalization of commercial relations between the U.S. and Cuba stopped with the election of Donald Trump to the

U.S. Presidency on November 8, 2016 for a four-year term commencing on January 20, 2017. During the Presidential campaign, candidate Trump criticized President Obama’s opening to Cuba and promised his supporters that he would reverse Obama’s policies. As *The Miami Herald* reported,³¹ the White House two-year celebration (December 17, 2016) of President Obama’s initiative on Cuba was muted. Instead of an upbeat Presidential statement at a large celebratory ceremony, the White House’s website published a testimonial from a Cuban *cuentalpropista* describing how her life changed as a result of the President’s actions and the Deputy National Security Advisor convened a fairly low key meeting in Washington that brought together Cuban-Americans, Cuban government officials and businessmen. Uncertainty over the future of Obama’s initiative under a Trump presidency cast a pall on the event.

His long-awaited policy on relations with Cuba was finally unveiled by President Trump on June 16, 2017, in a speech delivered to a crowd of his supporters in Miami. President Trump said, “I am canceling the last administration’s completely one-sided deal with Cuba,” to an enthusiastic crowd,³² although in reality the measures he announced merely tinkered around the edges of the current policy. For the time being, the principal policy changes announced by President Trump were (1) Americans traveling to Cuba under the category of educational and non-educational “people to people” exchanges would have to do so as part of a group with a set itinerary; and (2) Americans will be prohibited from “transacting” with entities tied to the Cuban military, particularly to the conglomerate Grupo de Administración Empresarial S.A., or GAESA, which controls hotels, marinas, domestic air transportation, domestic restaurants, and so on.

Nearly six weeks after the President’s policy announcement, there is a great deal of uncertainty about how the new policies will be implemented. A fact sheet issued by the White House stated that Ex-

31. Patricia Mazzei and Nora Gámez Torres, “Muted White House celebration marks Obama Cuba anniversary,” *The Miami Herald* (December 17, 2016).

32. Patricia Mazzei, “In Miami, Trump toughens Obama Cuba policy ‘like I promised,’” *The Miami Herald* (June 16, 2017).

ecutive Departments (Treasury, Commerce, Homeland Security, State, Transportation) had been directed to issue regulations to implement the new policy within 30 days, also stating that “the policy changes will not take effect until those Departments have finalized their new regulations, a process that may take several months.”³³ Adding to the uncertainty of U.S. policies, in mid-July 2017, the Trump Administration waived for 6 months the application of Title III of the Helms-Burton Act, which creates a private cause of action and authorizes U.S. nationals with claims to property in Cuba confiscated by the Cuban government to file suit in U.S. Courts against persons that may be “trafficking” in that property, the same decision taken by previous Presidents every six months over the 21 years the Act has been in force. Supporters of President Trump expected him not to waive the provision and allow filing of property claims in U.S. Courts despite international legal battles that are anticipated from such extra-territorial application of U.S. law.

The high degree of enthusiasm on the part of the U.S. business community about the Cuban market generated by Obama's policies was probably unreasonably high all along, as Obama's policies generated an extremely modest level of commercial engagement. The one area where there was measurable impact was tourism, with the number of U.S. tourists growing by 80% between the first half of 2016 compared to a like period in 2015. The policy changes announced by President Trump could affect travelers from the U.S. and reduce tourism revenue. Recall that Minister of the Economy and Planning Cabrisas recognized tourism as one of the sectors that had contributed positively to the performance of the external sector in the first half of 2017.

Hurricane Irma

On September 8, 2017, after wreaking havoc in Barbuda, the Virgin Islands and several other islands in the Caribbean, powerful Hurricane Irma made land in Cayo Romano (Camagüey province) and proceed-

ed on a north-western path alongside Cuba's northern coast, affecting the provinces of Ciego de Avila, Villa Clara, Matanzas and La Habana. Important tourism areas on the path of Hurricane Irma included Cayo Coco, Cayo Guillermo, Santa Lucía, Caibarién, Varadero, and La Habana. Particularly hard hit were tourism facilities in Cayo Coco (photographs show the collapse of the terminal building at the Jardines del Rey Airport, in Cayo Coco; reportedly also severely affected were causeways from the mainland to the keys), Santa Lucía and Varadero, with the city of Havana suffering flood and wind damage.

While a detailed assessment of the extent of the damage to tourism facilities and prospects for repair are not available, on September 11, President Raúl Castro issued a statement promising that the rebuilding of the tourism infrastructure would proceed “very fast” and it will be completed by the time of Cuba's tourism high season.³⁴ The largest influx of “sun and sand” tourists starts around late November-early December and runs through about April.

CONCLUDING OBSERVATIONS

A small island with limited natural resources, Cuba's economic development has traditionally been constrained by its balance of payments. For the last five plus decades, Cuba's policy choices have isolated the island from the world economic community, from international credit markets, and from international financial institutions. These policy choices have deepened Cuba's vulnerability to external sector crisis.

Cuba's remains very vulnerable to external sector disturbances. In the early 1990s, Cuba underwent an economic/external sector crisis of epic dimensions called the Special Period in Time of Peace. Over the next two decades, Cuba attempted to right its economy from the mishaps of the 1990s, but its success in doing so was constrained by the ideological constructs and opposition to markets of its elderly lead-

33. White House, “Fact Sheet on Cuba Policy,” June 16, 2017, <https://www.whitehouse.gov/blog/2017/06/16/fact-sheet-cuba-policy>

34. “Raúl Castro sees Cuba's tourism infrastructure restored fast,” *Havana Live* (September 12, 2017). <http://havana-live.com/news/raul-castro-sees-cubas-tourism-infrastructure-restored-fast/>

ership. Cuba was hard hit by a serious external sector crisis associated with the world financial crisis of 2008–2009 that forced Cuba to freeze accounts of foreign investors and foreign businessmen operating in the island and default on supplier credits and other forms of international credit. Political and economic disruptions in key economic partner Venezuela are again propelling Cuba into a new external sector crisis that has the potential for being quite se-

vere and that might require, at last, for the leadership to adopt a new path that reduces the role of the government in economic decision making and allows for free enterprise and private sector initiatives to prevail. The disruption brought about by Hurricane Irma only reinforces the imperative for Cuba to adopt policies that would support broad-based economic development.³⁵

35. Marc Frank, “Irma lays waste to Cuba’s dreams of prosperity,” Reuters (September 14, 2017).