The History and Potential of Trade between Cuba and the US

Cassandra Copeland
Curtis Jolly
Henry Thompson


This survey reviews the history of trade and investment between Cuba and the US. Aside from the embargo years, US trade and investment have been critical for Cuba. Cuba would have become a US state following the Spanish American War but US sugar beet farmers did not want the competition from Cuban sugar. Strong economic ties will re-emerge with a lifted embargo, providing a substantial boost to the regional economy including the US Southeast and the Caribbean.

Copeland, Division of Economics and Business Administration, Oglethorpe University, Atlanta, GA 30319, 404-364-8464, ccopeland@oglethorpe.edu

Jolly, Department of Agricultural Economics & Rural Sociology, Auburn University, AL 36849, 334-844-4800, jollycm@auburn.edu

Thompson, Economics, 202 Comer Hall, Auburn University, AL 36849, 334-844-2910, thomph1@auburn.edu
The History and Potential of Trade between Cuba and the US

This review of the economic ties between Cuba and the US provides a foundation to project the economic effects of a lifted embargo. The US trade played the dominant role in the economic history of Cuba before Castro’s nationalization of assets and the trade embargo imposed by the US. Cuba would have become a US state following the Spanish-American war except for the protectionism of US sugar beet farmers.

The first section reviews Cuban economic history before the embargo, and the second following the embargo. The third section assesses current economic indicators and the potential for trade and investment.

1. Cuban-US economic history from the 1800s to 1959

Geography dominates Cuban economic history with location favoring US trade, tourism, and investment. Whittlesey (1922) notes Cuba’s historical importance with large natural harbors at the entrance to the Gulf of Mexico. In the early 1800s Cuban was a colony of Spain as the US expanded south into Florida with attention turning to the Caribbean. Cuba remained a Spanish colony through the 1800s in spite of numerous rebellions. There were expressed concerns that Cuba might fall under another European power and that the British might interfere with the slave trade. The US maintained good trade relations with Cuba throughout this period.

Flour was the cornerstone of trade with US exports to Cuba peaking in 1807, 1810, and the 1860s as documented by Salvucci and Salvucci (2000). These peaks surround a tumultuous period of economic and political unrest. Reactionary US tariffs in 1835 lowered Cuban imports relative to US exports by 30%. During the 1840s Cuba suffered a drought followed by a severe hurricane. Rising Spanish tariffs curtailed US trade and investment. The Financial Panic of 1857 and the Civil War
during the 1860s greatly diminished trade and investment. High unemployment among Cuban plantation workers was the result.

Trade and political relations improved during the late 1800s. By the 1880s the US consumed most of Cuba’s exported sugar, tobacco, cacao, coffee, tropical fruits, and nuts; US exports in return were cereals, meats, manufactured goods, condensed milk, vegetable oils, cheese, and fuel as documented by Wakefield (1937). Cuba also exported iron ore. The US imported all of Cuba’s copper production, about a quarter of US copper imports. The US and Spain operated an effective reciprocal trade agreement regarding Cuba.

Cuba’s declining terms of trade between 1826 and 1887 in Figure 1 are calculated by Salvucci and Salvucci (2000). The weights average export prices for sugar, molasses, tobacco, coffee, and copper relative to imports from the US, Spain, and Great Britain. The terms of trade were less favorable for Cuba during the late 1800s relative to earlier decades.

* Figure 1 *

Cuba had trade surpluses between 1821 and 1898 with deficits in 1828, 1829, and 1845 due to severe weather and tariffs. Between 1834 and 1867 sugar production expanded with infrastructure improvements. By the 1860s Cuba was the chief sugar producer in the world with over 1500 sugar plantations according to Hitchman (1970). With the declining terms of trade, production became erratic as shown in Figure 2. By 1893 about half of Cuba’s cultivated land was in sugar cane. In 1895 an insurrection broke out in eastern Cuba resulting in the decreased sugar production.

* Figure 2 *

Trade flourished during the 1890s with Cuba introducing 75 duty reductions on imports from the US. In 1899 Cuban export revenue from the US was $125 million, and US export revenue from
Cuba $134 million (both in $2000). All dollar figures are inflated by the 2000 consumer price index. In 1901 those figures were $182 million and $103 million.

In 1898 following the Spanish-American War, the US effectively acquired Cuba. The Treaty of Paris assumed the US would occupy Cuba. The US occupation reduced tariffs by 52%, reduced taxes, established a land market liberalizing the land tenure system, expanded railways and communications, and protected Cuban assets from international buyers. The sugar industry became more efficient but Cuba also became more dependent on it.

Sugar beet farmers in the Western US began to compete with Cuban cane sugar. In 1898 Congress passed the Teller Amendment prohibiting US annexation of Cuba as means to protect US sugar beet farmers. The Platt Amendment in 1901 sanctioned US troops to keep order. Debate continued over annexing Cuba. In 1903 Cuban independence was established by Reciprocity Treaty as documented by Deere (1998).

During the early 1900s there was a decline in foreign investment and production other than sugar and citrus. Tobacco was also on the decline because the Foraker Act of 1899 that prevented US investment in Cuban plantations. High US tariffs made cigars a luxury good.

Limited land ownership hampered development in Cuba as examined by Hitchman (1970). By 1903 there were 37 US settlements with the highest level of US immigration from 1905 to 1910. By 1913 there were 64 US settlements. Almost $2 billion of foreign capital was in Cuba by 1914 with half of it from the US.

The Underwood-Simmons Tariff Act of 1913 lowered US import duties on citrus. Within a year Cuba accounted for 84% of US grapefruit imports, peaking in 1922. Deere (1998) points out that 1917 marked a turning point for trade with a freeze in Florida that sent citrus prices soaring, a hurricane in Cuba, a US quarantine due to the fruit fly, a major armed uprising in Cuba, and then the
outbreak of World War I. Cuban sugar production was stimulated by WWI as European beet sugar was eliminated from the world market and shipping in the East Indies was disrupted. Between 1918 and 1936 Cuban sugar and molasses accounted for most export revenue from the US.

The history of the Cuban sugar industry is characterized by cycles. Wakefield (1937) reports the collapse in the price of sugar from a record $2.02 per pound in May 1920 to $0.30 that December and $0.18 a year later. There were 96 Cuban sugar refineries in 1920 with the 62 US refineries producing over half of the output. Three quarters of the output was shipped to the US as reported by Whittlesley (1922). With expanding US ownership, Cuban sugar was exempted from tariffs.

In 1924 the fruit fly was again found in Cuba leading to periodic quarantines. The Tarafa Sugar Law of 1927 was enacted to adjust overproduction problems and provide for a Sugar Export Corporation in charge of disposing surplus.

The Fordney-McCumber Tariff Act of 1922 raised the average US tariff from 9% to 14%. By the late 1920s isolationism and protectionism re-surfaced. US tariffs and sanitary regulations hurt Cuba. The Great Depression led to an almost complete exodus of US immigrants. The Smoot-Hawley Tariff Act of 1930 stopped the sugar trade.

Taussig (1930) notes the Smoot-Hawley sugar tariff created losses exceeding those due to tariffs on iron, steel, textiles, and wool. The political process raised the duty from $0.18 per pound in 1922 to $0.25 in the House bill, reduced back to $0.18 by the Senate, and finally enacted at $0.21. There was an effort to work out an adjustable tariff on a sliding scale to maintain the price in the US, an idea favored by the White House but ultimately dropped. Smoot-Hawley tariff rates were 14% for sugar and averaged 69% for all agricultural products.
Cuban tobacco export revenue rose from $77 million in 1889 to $422 million in 1920 but then collapsed to $163 million in 1932 as documented by Wakefield (1937). The tariff on grapefruit that had doubled in 1922 to $0.08 per pound increased with Smoot-Hawley to $0.12.

Cuban grapefruit exports to the US peaked at 23,000 tons in 1922 but a downward trend followed with US protection. Exports of grapefruit and vegetables were a minor share of the Cuban export revenue to the US, ranging from 0.3% in 1918 to 2.6% in 1936. The Treaty of Relations of 1934 established a Reciprocal Trade Agreement. Cuba generally reported trade surpluses during this period as shown in Figure 3.

* Figure 3 *

Military juntas vied for power in Cuba during the 1930s leading to US military intervention to protect investment in agriculture. In the 1930s the US accounted for about one third of Cuban import spending and three quarters of Cuban export revenue as documented by Messina, Brown, Ross, and Alvarez (2007). The decade of 1940s was a period of political stability. During the 1950s Batista became an unpopular dictator supported by the US leading to the rise of Castro in 1959. The Library of Congress (2006) summarizes this transitional period. Castro’s platform of “revolutionary law” included a mandatory labor share of 30% of profits as well as nationalization of telephone and electric utilities as documented by Johnson (1965).

US direct investment in Cuba did not immediately slow, with $355 million recorded in 1959. The book value of US capital in Cuba was over three times that for all the rest of Latin America. US investments included most of the utilities, half the railways, and almost half of the sugar refineries. The US also held significant portions of cattle, tobacco, timber, banking, oil, and mining assets. According to the USDA (2008) the US operated 75% of the arable land in Cuba at the time of the embargo.
Claiming US monopolies were a threat, Castro seized plantations with the Agrarian Reform Law in 1959. The US considered reducing the sugar trade subsidy that paid two cents per pound above the world price, a premium worth over $500 million per year. When US assets in Cuba were nationalized, Eisenhower eliminated the sugar trade subsidy. Castro established trade agreements with the Soviet Union and China for the barter of sugar in exchange for crude oil. The US ended diplomatic relations and imposed the embargo by the early 1960s.

2. Trade relations under the embargo

Cuba faced international hurdles with Castro who hailed nationalization of US assets as the “final independence of Cuba.” The Castro government acquired over $4 billion of assets but the main source of foreign investment was removed as stressed by Johnson (1965). The US cut supplies of arms and economic assistance.

Soviet support offset the embargo and accounted for up to a quarter of Cuban income. Castro’s campaign alarmed many Cubans who fled to Miami. Cuba faced higher transport costs with its fleet of shallow water ships forced to operate in the open sea. Increased freight charges resulted due to empty backhauls. The Cuban sugar industry became dependent on Soviet aid and subsidies. In 1986 the Soviet government paid $0.54 per pound for sugar when the world price was $0.06 according to Kost (1998).

US policy toward Cuba began to relax somewhat during the 1970s. In 1975 the State Department believed security issues had improved enough to relax sanctions of the Organization of American States. President Carter moved to relax maritime boundaries, release Cuban political prisoners, and establish diplomatic relations. Crises involving Cuban soldiers in Africa, however, interrupted negotiations according to LeoGrande (1998). Revived security concerns led President Reagan to impose new sanctions and revive the travel ban.
Castro became politically prominent during the Cold War as income per capita in Cuba stagnated, remaining near its level of the 1950s as shown in Figure 4. The collapse due to lost Soviet subsidies in the early 1990s is apparent. Cuba has about 10% of the per capita income of developed countries and is at the bottom of the hemisphere. By comparison, per capita incomes are about $40,000 in the US and $8,000 in Mexico.

* Figure 4 *

All sectors of the Cuban economy grew slowly during the 1970s and 1980s before faltering during the 1990s as shown in Figure 5. Agricultural output was higher than manufacturing but has lagged since the mid 1980s. More recently, trade and manufacturing have been growing faster than agriculture and construction.

* Figure 5 *

The collapse of communism ended Soviet oil subsidies in 1991 leading to substantial economic loss in Cuba. Agricultural production fell by over half. The fishing industry temporarily collapsed. Severe shortages developed as output fell by half, exports by more than half, and imports by a third.

The US tightened the embargo in 1992 with the Cuban Democracy Act placing penalties on third party ships stopping in Cuba. The Act tightened restrictions on travel and cash remittances. Cuba introduced the Special Period program that opened new trade routes and allowed self employment in a number of businesses including restaurants in homes. In 1993 the Cuban government was printing money to cover deficits and continuing to control prices according to Lisio (1996). The severe shortages led to black markets. Implicitly acknowledging the crisis, Castro reduced price controls and allowed Cubans to hold foreign currency in bank accounts. Security concerns in the US from the 1980s had disappeared due to the lost Soviet subsidies.
Real output has grown continuously if slowly over recent decades as shown in Figure 6 although the smooth increase in the official figures appears artificial. The bump in the early 1990s was due to lost Soviet subsidies. Hernández-Catá (2000) questions the quick recovery in the official data.

* Figure 6 *

Figure 7 shows the output collapse of the early 1990s. The uneven performance since then has been due to inefficient production and lack of investment. Meanwhile, other more open Caribbean countries have grown consistently.

*Figure 7 *

Most of the enacted market oriented policies affected agricultural markets and food distribution. In 1993 the Cuban government was breaking up large state farms in favor of smaller cooperatives. Messina (2001) describes this transition to a market agricultural economy focused on feeding the population. Private production and resource decisions have been limited but farmers may establish plots for their own consumption. By 1994 agricultural production had declined 54% and food consumption 36% from 1989 levels according. Kost (1998) also reports daily per capita calorie intake decreased from 3,000 to 2,000.

The Helms-Burton Act of 1996 closed remaining avenues for trade by solidifying the embargo into law. With no access to US markets, few incentives remained for US investment. Cuba attempted to find foreign investment to modernize tourism, mining, communications, manufacturing, construction, and agriculture. Cuban farmers produced for secondary markets in the late 1990s. Labor restrictions remained in place.

A significant change occurred with the Trade Sanctions Reform and Export Enhancement Act of 2000 permitting the US to export humanitarian items. Political pressure from US agribusiness
contributed to this relaxation of the embargo. Cuba quickly became one of the top 30 US agricultural export markets. Alabama exports increased to over $126 million in 2004. Cuba accounted for a quarter of Alabama agricultural export revenue in 2006 due to the product mix and the location of the port in Mobile.

Figure 8 shows the steady growth of trade from the 1930s and very fast growth from the middle of the 1970s. Soviet support during the 1980s is apparent with import spending consistently higher than export revenue. Trade collapsed due to the lost Soviet subsidies, but has rebounded since the mid 1990s.

* Figure 8 *

Cuba’s trading partners have changed from the Soviet era to a mix of countries in Latin America, Europe, and Asia. Figure 9 shows the recent history of US agricultural exports led by cereals and meats.

* Figure 9 *

Some private business has developed in Cuba since the 1990s focused in agriculture with some foreign investment mainly from the EU. Cuba has limited but normal relations with the world outside the US. Sugar has remained the top export but cigars and fish are more competitive, and have replaced citrus as pointed out by Messina, Bonnett, and Taylor (2007). Cuba rejects globalization and maintains tight investment controls favoring state enterprises that do not want competition. Alvarez (2007) finds state agriculture is relatively inefficient. Snow (2007) reports Cuba spends about $1.6 billion annually on food imports, a third of that from the US. Cuba imports about 82% of the $1 billion worth of rice, potatoes, beans, and meat rationed at artificially low prices.

Figure 10 compares Cuban export revenue by product in 1985 and 1999. Sugar remains the primary export although it has become less dominant due in part to low yield and labor intensive
production. Production costs averaged 90% above world market prices in the late 1980s and up to 70% in the late 1990s as reported by Kost (1998). The sugar industry is short of inputs including fertilizers, herbicides, pesticides, oil, parts, and equipment, all of which could be imported from the US. Pertolia (2007) estimates gains of over $500 million with increased imports of Cuban sugar assuming the US eliminates its tariff.

* Figure 10 *

Citrus now accounts for almost 10% of Cuban export revenue. Kost (2002) points out that the Florida citrus industry stands to gain through investment, rootstock, technology, and entrepreneurial talent in Cuba. The Cuban citrus industry is undergoing adjustment with abandoned marginal production areas, new plantings, new varieties, closer tree spacing, and new processing operations according to González, Spreen, and Jáuregui (2007). Cuba is the world’s third largest grapefruit producer following the US and Israel. Exports to the EU are the largest. White grapefruits are exported to Japan. Cuba can export grapefruit before Florida making the US a natural market. The Caribbean is a potential market for Cuban oranges and limes.

3. Trade potential between Cuba and the US

Cuba has substantial potential to export to the US. Cuba is the largest island in the Caribbean, about as large in land area as Alabama. Two-thirds of the land in Cuba can be cultivated. Cuba’s population of 11 million is about twice that of Alabama or about equal to Georgia or the combination of Mississippi, Louisiana, and Arkansas. Cuba is potentially a major component of the regional economy.

Cuba’s major agriculture exports are sugar, citrus, fish, cigars, and coffee. These crops complement US wheat, rice, meat, poultry, cotton, soybeans, and feed grains. Cuba also has mineral deposits of nickel (world’s second largest reserves), cobalt, iron, copper, chromite, manganese, zinc,
and tungsten, as well as unexplored petroleum potential. Cuba has no potential to export manufactures but that would develop with foreign investment.

Figure 11 reports US agricultural exports to Cuba in 2006, led by wheat, soybeans, chicken, corn, and rice. Given this demonstrated demand, it is safe to say lifting the embargo will increase demand for US agricultural products. Cuba can compete in only a few international agricultural markets but could supply a niche organic market in the US as suggested by Kost (1998) who projects annual agricultural exports to Cuba of $1 billion of US feed grains with a lifted embargo.

* Figure 11 *

US investment could revive Cuban livestock. Per capita caloric consumption has gradually recovered from the 1990s but the Cuban diet has changed. Consumption of animal products is less than half its previous level due to lost livestock production. Castro has publicly addressed Cuban shortages in meat, milk, and other animal products.

Cuban seafood products include spiny lobster, pink shrimp, and reef fish such as snapper and grouper. Most of the spiny lobsters are exported to Japan but the US offers a closer market. Almost half of Cuban spiny lobster is harvested during Florida’s off-season according to Messina, Spreen, Moseley, and Adams (1996).

Relaxed travel and financial restrictions would increase trade. Florida has advanced in trade negotiations and operations but the product trade mix may favor other states. Positive effects on manufacturing are possible for major US exports including transport equipment and chemicals.

There will be limited import competition in manufacturing until investment in Cuba improves infrastructure, machinery, and equipment to take advantage of cheaper labor. The Castro regime has emphasized social services including education, the 95% literacy rate suggesting potential for
quick growth. Any competition would be in labor intensive products. The US has already adjusted to such imports from Mexico in NAFTA and from Asia in the WTO.

Trade with Cuba provides the opportunity for increased demand for US business services including engineering, construction, shipping, transport, banking, finance, insurance, and consulting. Tourism is expected to become a major industry, with Cuba already claiming interest in promoting multi-destination Caribbean tourism.

Increased political pressure to liberalize trade can be expected as more US firms and workers become aware of the potential gains. Most Cubans in Miami now favor diplomatic relations with Cuba as well as limited trade according to the Institute for Public Opinion Research (2007).

The US International Trade Commission conservatively estimates the embargo costs the US $1.2 billion annually in lost export revenue, not a huge amount but focused on particular industries and regions. The embargo costs the Southeastern US in particular.

There remains little rationale for the embargo as it failed to reach any political objective and strengthened Castro. The Helms-Burton Act is also inconsistent with US policy that maintained relations with former communist adversaries. The Act pushes the limits of international agreements and procedures of the WTO as pointed out by Lisio (1996). Figure 12 shows the US was Cuba’s major trading partner before the embargo, a historical pattern poised to return with a lifted embargo.

* Figure 12 *

4. Conclusion

Cuba is poised to integrate into the regional economy including the US Southeast and the Caribbean. Except for protectionism, Cuba would have been a US state and the economic history of the region would have taken a different track. The embargo of the last half century is an economic tragedy that has suppressed development in the region encompassing the US Southeast. The
present look at history suggests trade and investment between the US and Cuba will return to substantial levels with a lifted embargo.
References


Messina, William (2001) *Structural Change in Cuban Agriculture in the 1990s*, University of Florida, Institute of Food and Agricultural Sciences (UF/IFAS) edis.ifas.ufl.edu.


Figure 1. Cuban terms of trade, 1826-1887

Source: Salvucci and Salvucci (2000)

Figure 2. Cuban Sugar Production, 000 tons, 1853-1903

Source: Hitchman (1970)
Figure 3. Cuban Balance of Trade 1914-1936, *Foreign Commerce Yearbook*

Source: Wakefield (1937)

Figure 4. Cuban Real Income per Capita ($2000)

Source: Lexus-Nexus
Figure 5. Cuban Economy by Sector ($2000)

Source: UN

Figure 6. Real Output in Cuba, $2000

Source: UN
Figure 7. The 1990s Collapse of Real Output Growth

Source: IMF

Figure 8. Cuban Exports & Imports, $2000

Source: International Historical Statistics
Figure 9. US Agricultural Exports to Cuba

Source: TradeStat Express

Figure 10. Cuban Export Revenue ($1999) Sugar 1985 = $68 bil

Source: IMF
Figure 11. US Agricultural Exports to Cuba

Source: US-Cuba Trade & Economic Council, 2006

Figure 12. Pre-Embargo Cuban Trade Partners, 1957

Source: International Historical Statistics