“CUBA: EXTERNAL SECTOR AND INTERNATIONAL ECONOMIC RE-INSERTION”

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CONTENT:

1. Recent developments and the “up-dating of the economic model”.

2. The external sector and its role for the Cuban economic reproduction.

3. External sector problems in recent years.

4. Rearticulating the Cuban economic external relations.

I.- Recent economic trends and the updating of the model:

Cuban economic dynamic in recent years, has been influenced by:

1. Negative impacts from the international economic crisis,
2. Natural and climate change' associated elements (hurricanes and droughts),
3. Gradual implementation of new economic policy measures, structural and institutional changes as part of the up-dating process.

Obstacles for Cuban economic recovery and development in the longer term run:

a) The demographic profile

b) Very low levels of investment

c) US government economic sanctions

d) External economic relations profile with high degrees of vulnerability.

Chart No. 1. Cuba: Main economic indicators. 2008-2013. (Growth rates - %)

	2008	2009	2010	2011	2012	2013
GDP (constant prices 1997)	4,1	1,4	2,4	2,8	3,0	2,7
GDP/hab. (prices of 1997)	4,2	1,4	2,4	2,8	3,7	2,4
Inflation rate	-0,1	-0,1	1,6	1,4	2,1	4,6
Gross Capital Formation	21,9	-19,0	-0,7	7,1	8,6	12,2
Fiscal Deficit (a)	-6,9	-4,9	-3,6	-1,7	-3,6	-1,2
Unemployment rate (b)	1,6	1,7	2,5	3,2	3,5	3,3

II.- Cuba's external sector and the economic dynamic

- External sector: key variable explaining many of the Cuban economic problems.

a) According to ONEI (2012): external openness rate grew from 38,0 % related to GDP, to 46 % between 2007 – 2012.
b) Growth rates in Cuba's GDP have required higher imports growth rates (1 % GDP growth rate implies 2 % on imports growth).
c) Very weak substitution links between imports and domestic production.
d) Reduced capacity to transform domestic production into exports.

<u>Chart 2.</u> Cuba: External trade (goods and services). 2008-2013. (Millions current US $)

	2008	2009	2010	2011	2012	2013*
Exports of goods	3,940.0	3,020.4	4,754.0	6,340.4	5 900.5	5,587.7
Imports of goods	14,312.3	8,937.8	10,689.3	14,022.9	13,943.6	14,778.0
Balance of goods	-10,372.3	-5,917.4	-5,935.3	-7,682.5	-8043.1	-9,190.3
Exports of services	8,566.4	7,818.5	9,455.5	10,816.7	12,757.9	13,250.0
Imports of services	493.8	655.6	711.3	776.1	944.4	1,104.9
Balance of services	8,072.6	7,163.0	8,744.2	10,040.6	11,813.5	12,145.1
Global Trade Balance (goods and services)	-2,299.7	1,245.6	2,808.9	2,358.1	3,770.4	2,954.8

- High level of export’s concentration in “material terms” (but some small changes have occurred).
- High level of imports concentration (more than 60 % of total goods imports were intermediate goods between 2007 - 2012).
- Geographical diversification of external trade, but recent “concentration trend”.
- Since 2009, total trade balance has been positive, due mainly to the surplus in services account (“professional services” much more important than international tourism).
- Since 2009 surplus in current account balance: positive implication for Cuban external debt position.

Chart No.3. Cuba: Main export markets (goods). (Millions US $ and %)

Exports to:	2008	2009	2010	2011	2012
1. Venezuela	413.8	527.8	1,716.7	2,273.1	2,483.9
2. Holanda	288.6	238.0	353.2	655.0	697.6
3. Canadá	756.7	431.5	604.0	718.6	551.0
4. China	677.1	516.3	680.6	778.2	459.0
5. España	194.8	153.9	160.7	164.8	149.8
6. Nigeria	173.5	62.8	20.4	100.9	111.7
7. Brasil	41.7	63.1	57.8	82.1	108.0
8. Federación Rusa	56.0	87.7	57.5	55.8	89.6
9. Rep. Dominicana	46.0	20.8	23.2	29.4	84.1
10. Alemania	27.0	29.4	28.2	39.9	42.8
11. Italia	63.6	28.8	38.1	51.4	33.1
12. Bélgica	10.8	8.2	30.0	36.5	40.1
% of total exports	**75.0**	**75.7**	**82.8**	**84.9**	**86.9**

Chart No.4. Cuba: Main import markets. (Millions US $ and %)

Imports from:	2008	2009	2010	2011	2012
1. Venezuela	4,473.2	2,607.6	4,301.9	5,902.0	6,078.9
2. China	1,480.8	1,171.2	1,223.2	1,281.7	1,236.8
3. España	1,232.5	752.4	785.4	1,019.7	1.006.3
4. Brasil	600.1	507.9	444.4	643.8	648.2
5. EE.UU.	962.8	597.9	406.1	433.8	508.6
6. México	369.1	322.8	360.0	449.7	486.7
7. Canadá	655.8	309.9	331.4	478.8	387.2
8. Italia	488.4	324.5	292.1	387.8	380.5
9. Francia	226.7	140.4	189.6	343.9	359.7
10. Argelia	243.7	169.1	213.2	308.7	330.9
11. Alemania	377.6	279.5	269.4	286.3	311.5
12. Rusia	268.7	195.4	227.2	224.3	251.7
% of Total imports:	**79,9**	**82,8**	**84,9**	**84,3**	**86,8**

- **Foreign investment in Cuba**

FACTORS explaining the approval of a new policy and a new Foreign Investment Law (March/2014):

a) The new Cuban economic scenario,

b) The up-dating of the economic and social model process, and

c) The errors applying the former policy to attract FDI.

- The New Law has some important differences with Law No. 77/1995. (Fiscal benefices and warranties for investors).
- But there are many other factors determining the attractiveness of a country for FDI.
- Other important elements regarding the Cuba external sector: a) The EU-Cuba economic relations, and b) Cuban external debt payments/re-negotiation.

III.- Cuban economy' external problems

- In 2012: 32,2 % of total exports were commodities and natural resources-based products, only 16,3 % were chemical products, machinery, equipment and other manufactures.
- Very low levels of imports substitution.
- Very low interactions between export sector and the rest of the productive structure.
- Very low multiplier effect of the services exports.
- Limitations of tourism sector to generate higher economic growth rates.
- Nickel production also has a reduced multiplier effect (refinery process in foreign countries).

Other problems:

1.- Very high degree of centralization.
2.- Limited access to international finance and lack of domestic financial mechanisms to promote X and M substitution.
3.- Distortion of relative prices (overvaluation of Cuban peso and dual monetary system).
4.- Deteriorated physical infrastructure (ports, airports, warehouses, etc).
5.- Lack of a modern specialized services network to support export sectors.

IV.- Elements to re-articulate the external sector

- Structural transformation. Advancing institutional reforms.
- De-centralization of foreign trade system.
- Improving norms/policies to increase inward FDI.
- Promotion of backward-forward linkages among national enterprises (including SMEs).
- International cooperation for "trade facilitation".

Additionally: i) currency unification and a modified exchange rate regime, and ii) promote financial mechanisms to increase X and import-substitution (including SMEs).