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Potential US-Cuba Trade

United States International Trade Commission

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Notes to Accompany Written Testimony

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Trade in Goods: What could trade look like for US?

- Trade in Cuba is stunted largely from its domestic policy distortions;
- Estimating US exports is difficult due to unreliable data, e.g. long-term income measures;
- Comparing with Dominican Republic is illustrative;
 - Table 1 shows the difference in exports by country-commodity pairs to Cuba & DR;
 - US could export substantially more to a free-trade, economically stable Cuba;
 - Many of Cuba’s distant trading partners would be uncompetitive;

Table 1. Imports by Cuba and DR from to the Rest of the World

Exporter	Total	Fuel/Oil	Machinery	Electrical	Plastics	Vehicles
<i>Cuba: Imports (\$US, millions), as reported by exporter</i>						
China	1,375		221	185	36	89
Spain	1,061		261	138	61	50
Brazil	528		49	15	7	4
Mexico	373		25	12	54	1
USA	358		3	0	0	0
<i>Dominican Republic: Imports (\$US, millions), as reported by D.R.</i>						
China	1,873	6	446	271	83	98
Spain	398	55	21	32	33	3
Brazil	441	15	21	27	8	16
Mexico	1,122	471	100	43	55	41
USA	6,817	1,384	511	447	683	255
Memo: Venezuela	1,264	1,254	0	0	1	0
<i>Cuba - DR difference in exports (- indicates DR imports more)</i>						
China	-498	-6	-226	-86	-47	-9
Spain	663	-55	240	106	28	47
Brazil	87	-15	28	-12	0	-12
Mexico	-749	-471	-75	-31	-2	-40
USA	-6,459	-1,384	-508	-447	-683	-255

Source: DevTech Systems estimates based on official data.

- Drivers of trade include distance, external costs (e.g. trade agreements), internal costs;

Cuba's trade costs are largely internal

- Note the trade with various trading partners, it is lower for Cuba;
- Cuba faces three inescapable issues as regards trade:
 - Inefficiency of its system, insufficiency of its reforms (e.g. Exchange rate)
 - The Venezuela Problem;
 - Ageing of the Cuban population;

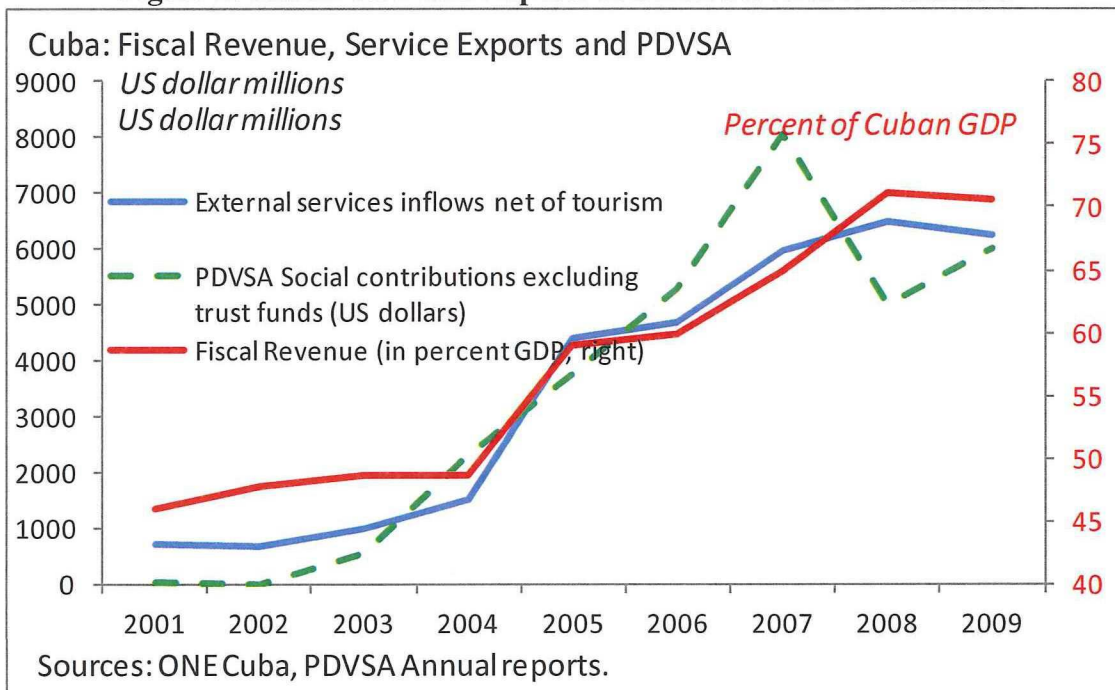
1. Inefficiency of its system, insufficiency of its reforms (e.g. Exchange rate)

- A modest pace of reform risks not going far enough due to incumbents, but avoids the risk of a rapid and deep reform losing control with unforeseeable consequences.
- The incumbent risk is materializing, with limited policy changes in comparison to the international experience.
 - China began a reform process in 1978 and within five years legalized long-term leases for farmers and agricultural cooperatives (later extended to thirty years).
 - Vietnam began reforms in 1986 and within five years it passed a Foreign Direct Investment law, created a treasury and a two-tier banking system, eliminated its fiscal deficit and subsidies to banks and money printing, and largely liberalized control of output and prices (including a liberalized exchange rate). Exclusive land-user rights in agriculture were also fully instituted.

2. The Venezuela Problem;

- Since 1999 Venezuela has emerged as Cuba's most important partner, providing concessional energy, and financing various projects (infrastructure, refineries, Figure 1);
- Venezuela pays Cuba for social programs, increasing Cuba's fiscal dependence on non-tourism service exports, perhaps 30 percent of total fiscal revenues.

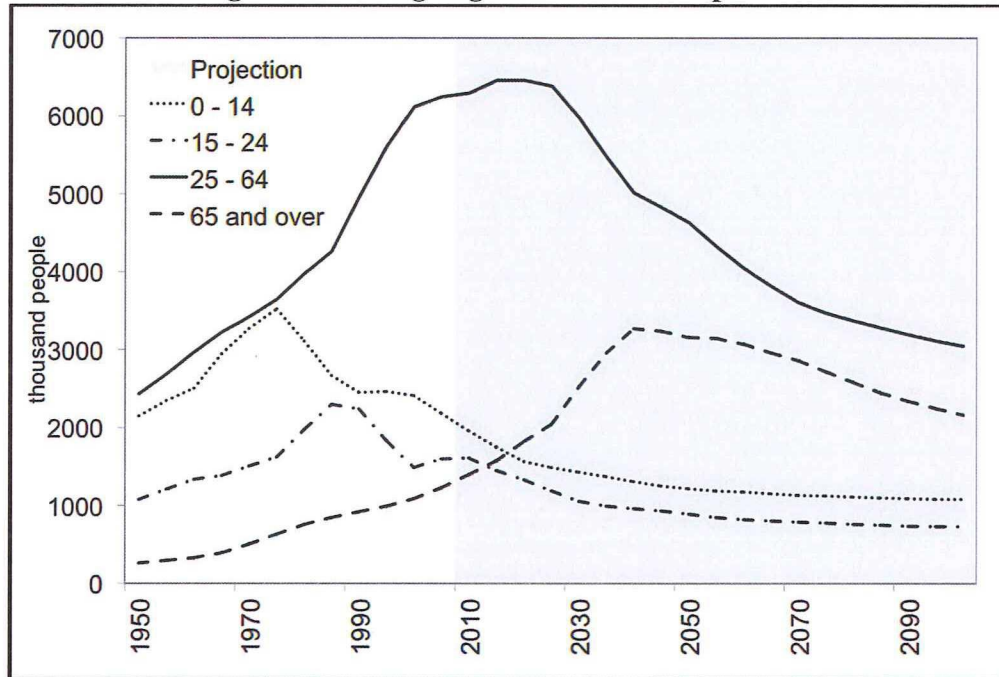
Figure 1. Cuban GDP and Exports of Social Services to Venezuela



3. The Ageing of the Cuban Population;

- Cuba is one of the oldest countries in the hemisphere (see Figure 2, Cuba Population);
- Population pressures will bankrupt the social safety net, greatly increase poverty;
- The short-term adjustment costs of reforms become more difficult to sustain;

Figure 2. The Ageing of the Cuban Population



Source: Di Bella, Romeu & Wolfe, 2014, <http://bit.ly/1FZeJB2>

Tourism:

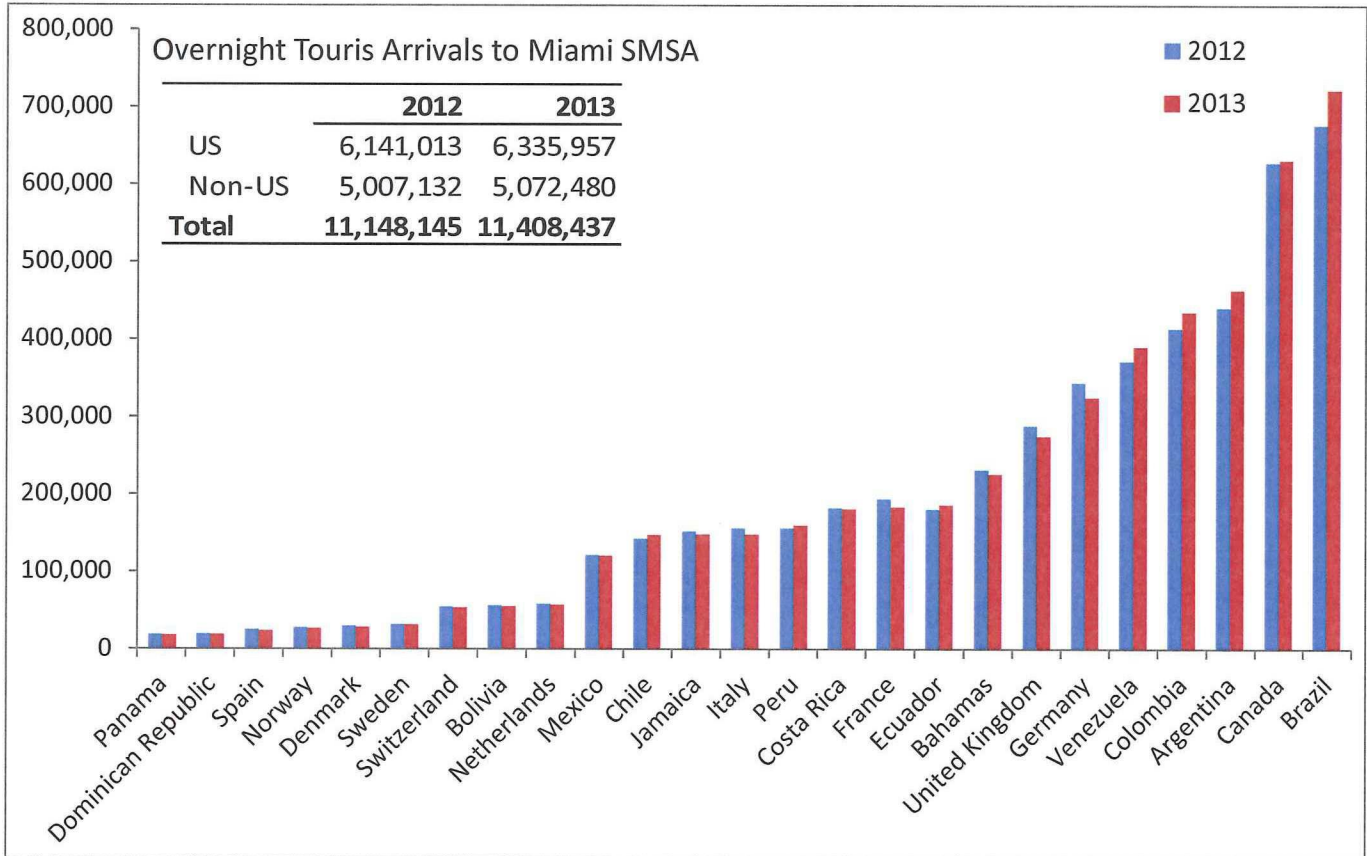
- US will likely send 3.5-5 million Americans to Cuba as tourists, on impact;
- These tourists will displace the current visitors to Cuba;
- This will spur US imports from Cuba for food, materials;
- The existing tourists in Cuba will redistribute around the Caribbean;
- There is some risk to Miami and the US Caribbean, but the US is a strong competitor for non-US arrivals (see Figure 3, Arrivals to Miami).

Table 2. The Impact on the Caribbean of Opening U.S. Tourism to Cuba
Number of visitors in thousands, and percent change

	Status Quo			Projection under Free Trade			
	USA	Non-US	Total	Total US	Total Non-US	Total Free Trade	Change in percent
Cuba	42	2,131	2,173	3,011	566	3,577	64.6
Venezuela	90	677	767	74	791	865	12.8
Colombia	315	879	1,194	259	1,040	1,299	8.8
Dominican Republic	1,092	3,567	4,659	896	4,121	5,018	7.7
Costa Rica	807	1,145	1,952	663	1,341	2,004	2.7
Cancun	2,584	1,803	4,386	2,121	2,112	4,233	-3.5
Jamaica	1,151	602	1,753	945	700	1,645	-6.2
Barbados	132	57	189	108	66	174	-7.8
Trinidad And Tobago	187	53	240	153	64	217	-9.6
Saint Vincent And The Grer	24	7	31	20	8	28	-10.2
Grenada	21	6	28	18	7	25	-10.3
Montserrat	2	0	2	2	0	2	-11.0
Saint Lucia	109	26	135	89	31	120	-11.2
Saba	4	1	5	4	1	5	-12.9
Bermuda	189	27	217	156	33	189	-13.0
Dominica	20	3	24	17	4	21	-13.0
Curaçao	44	7	51	36	8	44	-13.0
Antigua And Barbuda	84	13	97	69	15	84	-13.4
Saint Maarten	258	34	292	212	40	252	-13.9
Saint Kitts And Nevis	63	7	70	52	8	60	-14.0
Belize	148	18	165	121	20	142	-14.3
Bahamas	1,177	115	1,292	966	134	1,100	-14.8
Cayman Islands	240	19	259	197	23	220	-15.1
Aruba	538	32	570	442	39	480	-15.8
Anguilla	40	2	42	33	3	36	-15.9
United States Virgin Islands	673	9	682	552	11	564	-17.4
Puerto Rico	1,185	16	1,201	973	19	992	-17.4
Cuban Diaspora			214			214	
Total	11,218	11,258	22,690	12,188	11,207	23,609	4.0

Source: "Vacation Over: Implications for the Caribbean of Opening U.S.-Cuba Tourism" Romeu, (DevTech Systems, Inc), 2014, <http://bit.ly/1dkOJF>

Figure 3. Overnight Tourist Arrivals to Miami



Source: DevTech Systems, Inc., based on Authorities' data.