Update on the Americas

OCTOBER 2010

The External Sector of the Cuban Economy[1]

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Introduction

Any analysis of Cuban economic growth has to emphasize the adverse context the economy has had to develop in over recent years. These include major droughts, the outbreak of violent hurricanes, the crisis affecting electrical power, and the United States blockade.

These days, the Cuban economy is also experiencing structural problems in the form of scarcity of foreign currency, relative price distortions as a result of the over-valued official exchange rate and the absence of convertibility, monetary and exchange duality, and the segmented markets.

This document examines the current state of Cuba's foreign trade, the development of international tourism, and Cuba's foreign investments and external finances. In other words, it examines the external sector of the Cuban economy. This of course helps us comprehend the country's current state and allows us to draw conclusions about the recent degree of well being on the part of Cubans in an effort to understand the challenges that will face the country in the future.

I. Foreign Direct Investment in Cuba: Current State of Affairs.

The legislation that refers to Foreign Direct Investment (FDI) in Cuba remains in force, embodied in Law No. 77 of 1995 and the Executive Committee of the Council of Ministers' agreement 5290.

The Directors of the Ministry of Foreign Investment and Collaboration have set forth the prevailing reasons for attracting foreign sources of business. With only minor adjustments, these continue to express the same needs as when first presented, as follows:

1. Complement the domestic efforts implemented to achieve higher levels of economic and technological growth in what the country has determined to be priority sectors and regions;
2. Seek new export markets, competitive technologies and financing (essentially long-term);
3. Promote projects that support the National Program of Import-Substitution, foster domestic production, develop manufacturing activities and promote exports;
4. Adjust to the changing conditions of the economic framework and the actual needs of the country at any given point in its development.

Cuba continues to offer the same initial guarantees as favorable terms of investment although this process has been, without exception, riddled with difficulties and setbacks, according to many of the partners who have signed contracts. However, the opinions vary depending on the size of the partnership, the industry in which it is conducted, and the country involved.

Advantages like terms of investment include the following:

1. Repatriation of tax-free dividends.
2. 30% tax on profits and 25% payroll tax.
3. Incentives are valued on the basis of each transaction, amount and activity.

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Cuba maintains strong bilateral relationships. It has subscribed to a total of 62 Agreements on Reciprocal Promotion and Protection of Investments involving 71 countries, and 11 Double Taxation Agreements.

The advantages offered by Cuba in the early 1990s have not changed, although some new ones have been introduced. These may be further expanded if the US trade embargo of Cuba is eased and business is allowed to resume between the countries. The practice has confirmed the fact that many foreign companies withdrew from Cuba after merging with US companies.

The year 2009 ended with 307 foreign businesses in Cuba, 75% of which were in the form of mixed enterprises, even though conditions are not the same as when compared to the early years in the push for these forms of companies, a breakdown of which is shown in Figure 1.

The number of joint ventures has clearly decreased (see Figure 2), but this does not translate into a decline in this type of business arrangement. It should be viewed instead as domestic reorganization. There was an upward trend in the number of joint ventures with FDI in Cuba up to 2002. However, starting in 2003, there has been a systematic decline in their total number due to the influence of several factors, particularly the failure to comply with the agreed upon corporate purpose, financial losses on the part of some of the entities, failure to honor the agreed upon export figures with other markets, among other things, and a turn toward a potential foreign partner like Venezuela.

The outcome of the same Cuban government reorganization begun in 2003 with respect to businesses with foreign capital has been, since 2005, an increasing trend toward approvals of new joint ventures with FDI, as shown in Figure 3. This may indicate that current winds blow in the direction of an increase in these types of businesses.

It should be emphasized that 16 of the joint ventures approved in 2007 were with Venezuela as were those approved in 2008 and 2009.

These businesses are generally conducted with Cuba's principal foreign partners, which include Spain, Canada, Venezuela and Italy, although there are others who take part to a lesser extent (see Figure 4).

The configuration of foreign companies by sector remains unchanged since it is part of the largest percentage linked to the manufacturing sector, particularly basic industry (with emphasis on mining and oil). Next comes tourism, followed by agreements in other areas like light industry, construction, transportation, foods, and telecommunications. Noteworthy is the fact that there are few businesses in the higher value-added or high technology areas; there are 9 businesses in the scientific pole. Note that one of Cuba's most important assets is human resources. In recent decades, developing countries have increased their share of world trade through strong high- or medium-high-technology businesses (see Figure 5).

Cuba is a country that has had imposed upon it an attempt to impede the flow of FDI, which affects the so-called country risk, so the amount of foreign investment has much greater significance for Cuba than what emerges from a simple qualitative comparison on the investment flows to other countries in the region, even though these types of analyses are worthwhile.

Since 2004, there has been a steady decline in the number of cooperative production agreements, which had reached 441 at the end of 2003. By the end of

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Figure 1: Total foreign direct investment businesses in Cuba at the end of 2009

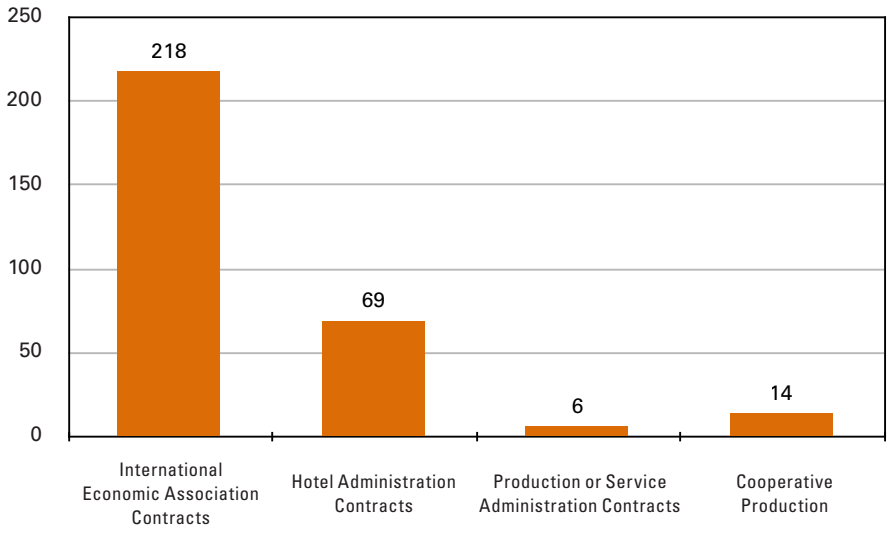
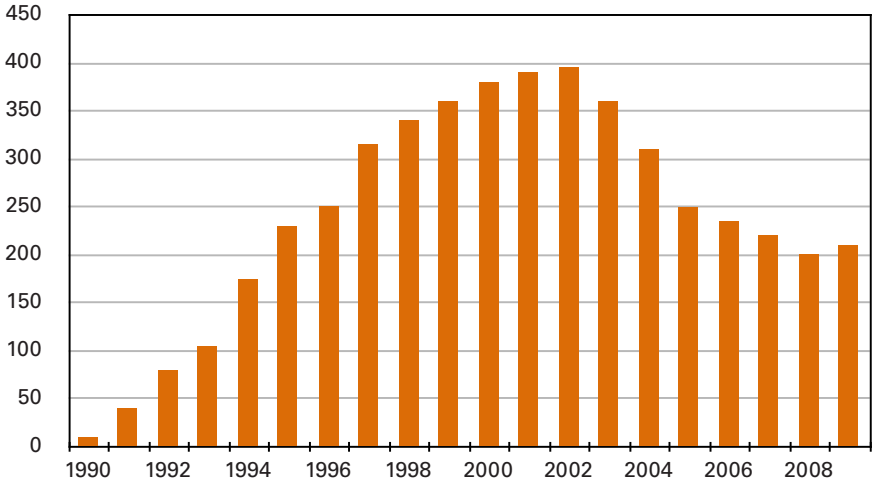


Figure 2: Number of Joint Ventures with FDI in Cuba, 1990–2009



Source: MINVEC annual reports, various years, Havana.

Figure 3: Number of Authorized Joint Ventures with FDI

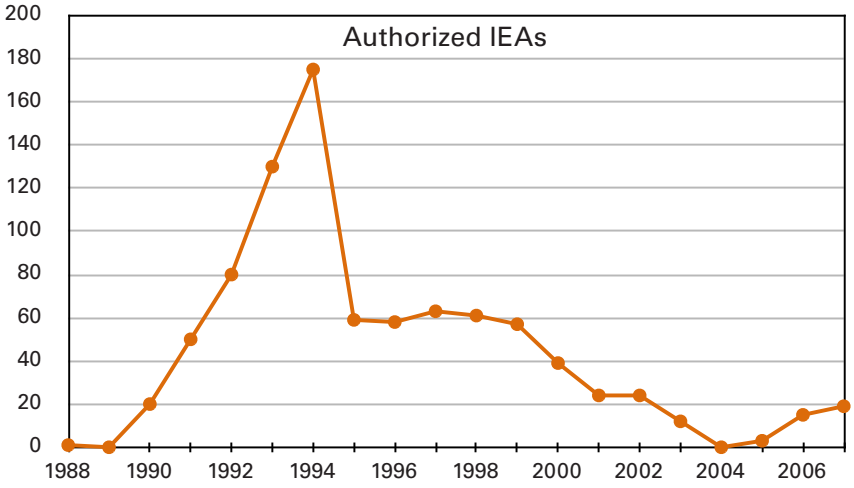
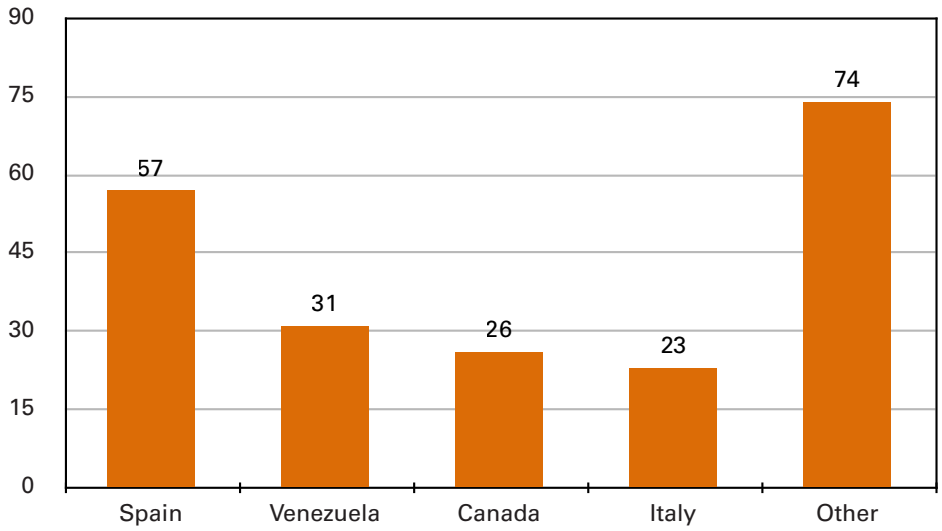
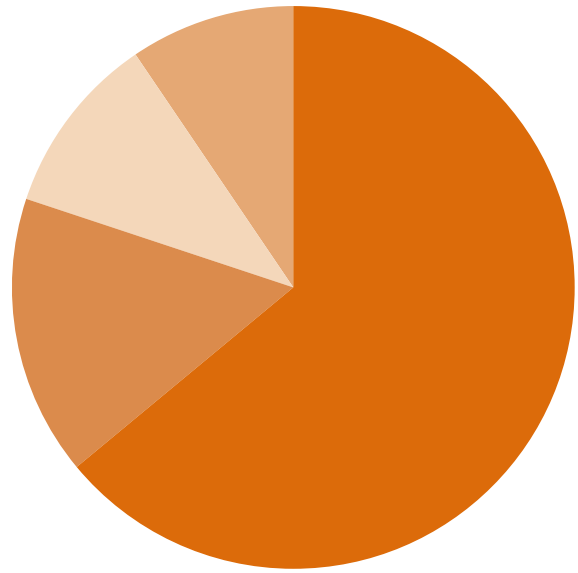


Figure 4: Number of joint ventures by country, 2008



Source: MINVEC annual reports, various years, Havana.

Figure 5: Number of joint ventures by sector, 2008



- **Others, 135**
- **Tourism, 34**
- **Oil and Petrochemicals, 22**
- **Food, 20**

2007, there were only 17 agreements. In 2009, the number had dropped to 14, with the decline caused by: the failure to obtain the expected financial and economic outcomes, subjective motives on the part of operators; he change in existing policy to attract these companies, and the role they play in Cuba's future economic development, among other things.

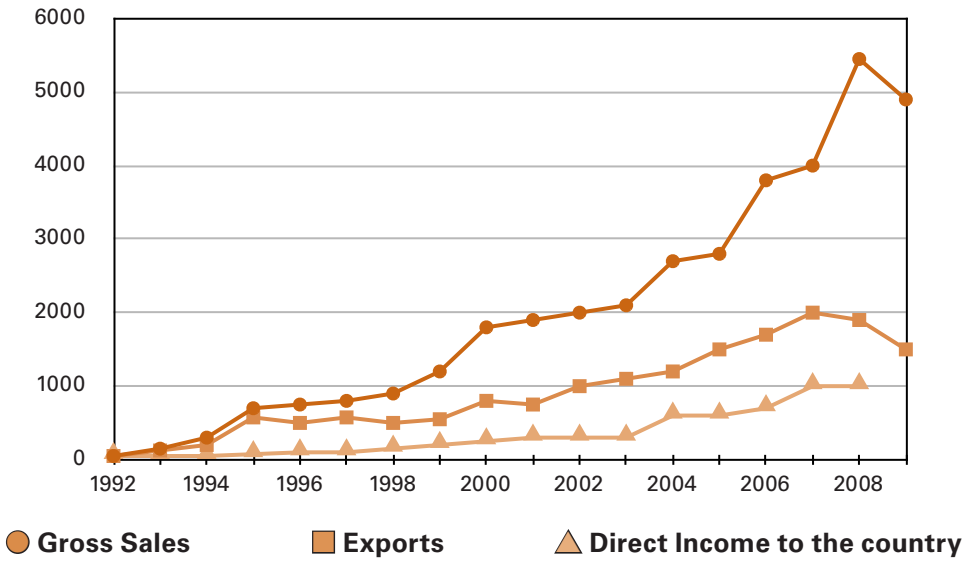
This type of agreement works in several areas, namely the Ministry of Transportation (MITRANS), the Ministry of Basic Industry (MINBAS), the Ministry of Food Industry (MINAL), and the Sideromechanical Industry (SIME), among others.

In other words, by the end of 2009, there were 14 cooperative production businesses, 6 production administration or services agreements, and 69 hotel management agreements in place.

It is important to recognize that 18 years since the arrival of new foreign capital to Cuba, and despite the reduction in the number of businesses in operation, these types of businesses have reached a level of maturity with positive outcomes. For example, International Economic Agreements (IEA) have seen steady increases in indicators of total sales of goods and services, which reached nearly 5,300 million in 2008 (see Figure 6). Exports grew to 1,916.1 million while direct inflows to the country totaled 1,069 million. In 2009, these indicators diminished as a result of the drop in nickel sales and exports due to years of declining product prices. The strict enforcement of a policy of government selectivity in foreign investment is evident in the fact that fewer IEAs are considered each year and that basic economic indicators continue to grow, which may indicate the following:

1. That the companies that dissolved were not of significant magnitude to have affected general economic performance;
2. That those still in existence are constantly improving their efficiency and productivity in addition to exhibiting encouraging economic performance;

Figure 6: Performance of Ideas (in millions of dollars)



Source: Statistics from the Ministry of Foreign Investment and Collaboration, various years, Havana.

3. That there has been a greater amount of monitoring or control of these companies, among other things;
4. And that the increase in international prices for basic products allows for improved sales and exports.

These types of businesses are highly concentrated. No more than 7 established businesses represent over 80% of sales, and therefore, of exports. These businesses are involved in nickel, tobacco, citrus fruits, beverages, tourism, and communications among others.

A comparison of the average annual growth rate of these basic indicators of IEAs finds that they exceed the country's macroeconomic indicators like GDP, among other things. This indicates that their performance is quite satisfactory and therein lies the real importance of these businesses

In other words, in nearly all of those productive areas where Cuba has the best economic or export performance, foreign capital is present in some way. This should serve as a compass for promoting this type of business even more, including in areas that are more noticeable to the population or in consumer areas.

A comparison of Cuba's total merchandise exports with exports from joint ventures reveals a high and growing share as seen in Figure 7, and this has reached over 50% in recent years.

As first earlier, Cuba has not renounced this variable as part of its economic policy, which, more than anything, shows its desire to continue to develop it. That is why it maintains a list of priorities, that is, priority projects to attract foreign capital and these are currently found in the following areas[3]:

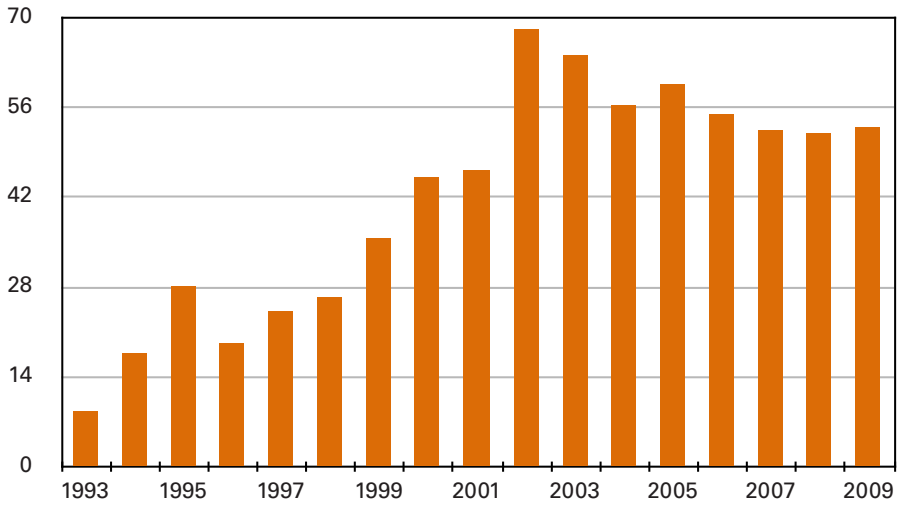
1. Tourism (projects associated with the construction of new housing capacity in the country's central and eastern regions, the creation of hotel-related infrastructure, and particularly the development of new golf courses, marinas and water parks)

Table 1: Average annual growth rate of principal FDI indicators from 2001–2008 in %

Indicator	Average Annual Growth Rates
Sales	21.1%
Exports	16.9%
Net Profit	22.5%
Dividends	32.4%*

*2001–2007
Source: Statistics from MINVEC. Annual Reports and Research Studies. Havana.

Figure 7: IEA exports in relation to national merchandise exports in %



Source: Author's calculations based on statistics from Ministry of Foreign Investment and Collaboration, various years, Havana.

2. Mining and Petroleum (projects associated with oil drilling, particularly in the Exclusive Economic Zone in the Gulf of Mexico, to exploit and develop the Serpentines (saprolite mineral) as well as black and red nickel tailings, projects associated with geologically renowned works and the prospecting of mineral deposits, especially gold, copper and zinc)
3. Infrastructure (projects to build infrastructure for the drilling of oil, nickel and other mineral deposits, hotel and hotel-related infrastructure projects and projects to develop construction sites for road building)
4. Agriculture (development of logistics for procurement, benefits, post-harvest treatment and distribution, and the expansion of non-traditional sectors like ecological tourism and agro-tourism)
5. Bottling industry (fosters the development of projects that promote the production of bottles, including aluminum bottles, cardboard boxes, glass bottles, polyethylene bottles and polypropylene bottles.)

Foreign Investment in the Development of Cuban Tourism

In the case of tourism, note that in 2009 there were 5,500 hotel rooms owned by mixed enterprises operating in 14 hotels, and 65 management contracts with 14 hotel groups. In other words, the management contracts control 51% of the existing hotel rooms.

In addition to the 14 hotels owned by mixed enterprises that operate in the industry, overflow demand from the rapid development of tourism contributed to the promotion and later establishment of approximately 70 mixed enterprises in other economic sectors. Most of these businesses whose operations support tourism activities were basically created in the construction, food, beer and beverages, mineral and natural water, textiles and perfumes, air and ground transport, agriculture, telephony and air conditioning industries.

There are currently 21 new projects with 16 foreign companies for 15 golf courses among other plans that include hotel management, marinas and hotel-related activities.[4]

Tourism activities and those most closely linked to this sector contribute 7% of the country's GDP. This Cuban indicator compares to 15% in the Dominican Republic. At times, this indicator can reach 50% among Caribbean islands.

The large international hotel chains mostly from Spain have implemented a development model that takes advantage of low land prices, less expensive labor costs, and lower property taxes in the Caribbean countries. The model responds to the extended scheme of the manufacturing assembly plants; giving rise to what may be called "services assembly plants."[5]

The Caribbean geo-tourism space has competitors for:

- the same products and types
- the same international hotel chains
- the same international tour operators
- the same international airlines

Table 2: Hotel rooms under domestic & foreign management in Cuba, 1990–2009

	Total	With foreign management contracts		
Year	Rooms	Hotels	Rooms	%
1990	12866	3	1330	10
1995	24233	29	8424	35
1999	32260	46	14221	44
2001	37225	53	17420	47
2003	40963	52	18707	45
2004	41050	54	19124	48
2005	42600	50	18779	48
2006	43500	52	19326	44
2007	46500	57	22705	52
2008	48000	62	24167	50
2009	49000	65	25375	51

The excess hotel capacity in the Caribbean may lead to a price war, diminishing the quality and economic benefits that tourism may bring. International tour operators dominate the market, offering low-priced tour packages that are generally "all inclusive."

Considerations

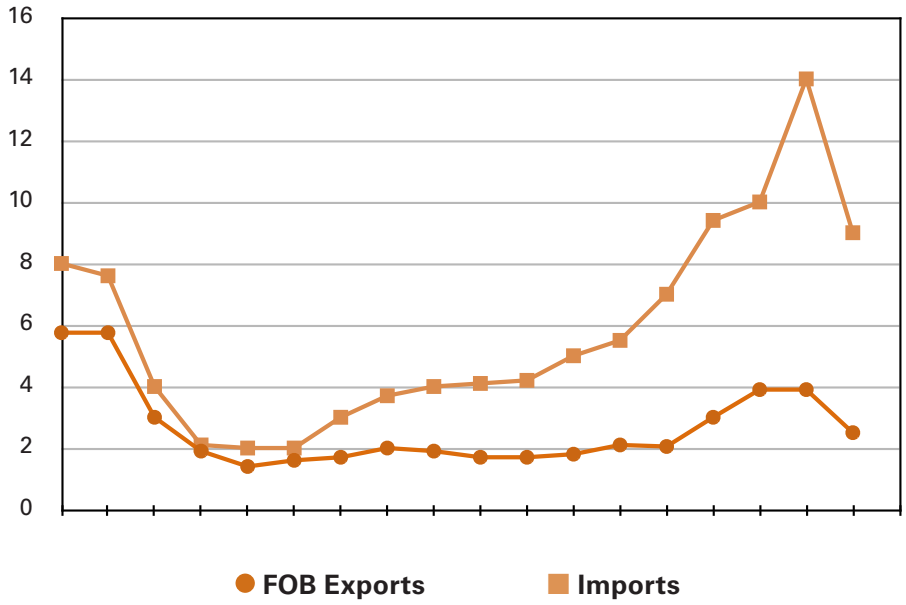
1. Over the next few years, the trend towards reducing the total number of mixed enterprises and foreign investment may change based on a policy that seeks greater concentration of investments and investors. Foreign capital inflows will be directed towards the economic objectives the Cuban government deems to be priorities.
2. The basic indicators of the IEAs, specifically sales, exports and earnings to the country, will continue to increase as a result of better export price increases.
3. It should be noted that the domestic areas that have shown the most economic growth in recent years are associated with particular types of foreign capital, namely beverages, tobacco, nickel, oil, soap making and perfumes, and tourism, among others.
4. Fuel exploration and production businesses, especially those in the Exclusive Economic Zone of the Gulf of Mexico, will continue to receive preferential treatment.
5. Hotel management contracts should be kept in place in order to continue developing this important industry.
6. The policy established to give priority to selected business partners and stimulate businesses with internationally recognized companies that bring technologies and capital to the development of consumer goods, which have lagged the most in the process of domestic economic revival, will not be discontinued since imports of these goods resolve current rather than long-term problems, and their advantages lie particularly in generating employment and training in a business culture.

II. Foreign Trade

Cuban foreign trade has constituted one area of the economy that has undergone complex and significant changes after 1990. This is due as much to the economy's gradual re-adaptation to a new international environmental as it is to going from centralization to decentralization beginning in 1994, and to changes from decentralization to centralization beginning in 2004.

The institutional, organizational and operational aspects of foreign trade have experienced key advances or setbacks. However, the changes related to structural problems have progressed very little, especially those related to the trade deficit, the problems related to

Figure 8: Cuban Merchandise Trade (in millions)



Source: Cuban Statistical Yearbook, various years, Havana.

increased competitiveness of exports, as well as the restrictions in place to succeed in modifying the merchandise exporter profile.

The merchandise trade imbalance typifies the performance of Cuban foreign trade in recent decades, although the actual effects are different beginning in 1991. This is because of the difficulty in obtaining western credit to deal with the effects of slow growing exports resulting from the drop in sugar production, and fast growing imports, especially food and capital goods or transport equipment.

The negative dynamic of the foreign trade balance constitutes one of the problems that should be the subject of more government attention since it is this growth of the trade gap that is causing constraints on the country's current balance of payments.

In 2008, most of the merchandise trade was conducted with Venezuela, China, Spain, Canada and the US (for food purchases by Cuba), and some European countries. Compared to the early 1990s, this signifies a structural change in the composition by region and country.

II.1 Exports

In the case of Cuban exports, revenues have been meager if we analyze the country's potential. Although the export value of some items has increased, it was due to the increase in international prices like those for nickel, and not to an increase in its production.

Sugar exports initially suffered a substantial impact from the drop in prices that occurred in the 1990s. However, after that time, adverse circumstances led to successive drops in sugar production.

It is clear from the Figure 10 how an increase in the share of mining products like nickel has grown to the detriment of sugar exports because there has been an increase under the heading 'Others' where biotechnology products like vaccines with very significant values have appeared.

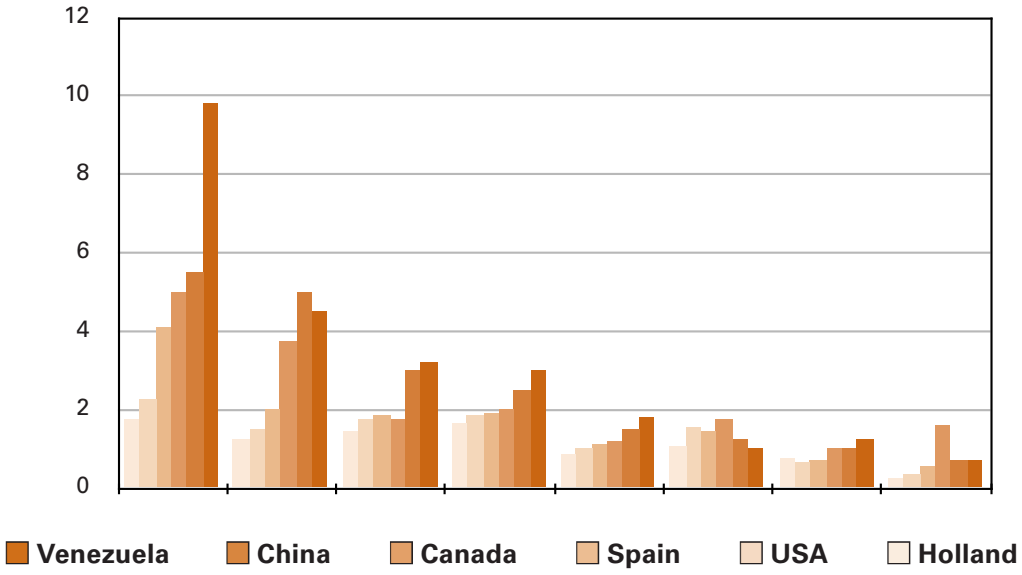
Reductions in sugar production have not only had an important effect on export revenues, but have also meant a loss of a significant portion of the financing flows the country had access to because of their weight in the guarantees (collaterals), which is now compensated by other areas of the economy.

There was an impressive jump in nickel exports starting in 1995, and the resulting revenues combined with substantial growth in production and favorable circumstances for international prices for the mineral allowed this industry to achieve levels higher than the crisis. The organizational and productive changes implemented in the industry since 1991 had a decisive weight on the outcome described above, especially the change related to agreements made with the Canadian company Sherrit Inc. in 1994, which enabled establishment of a joint venture company that facilitated Cuba's access to the international cobalt market.

Nickel exports have increased in recent years due to significant improvements in their price.

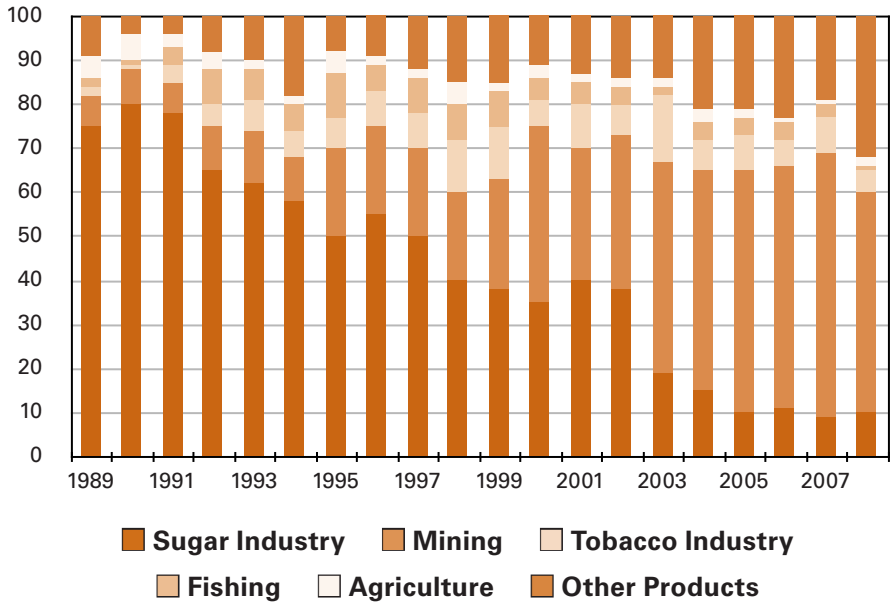
External sales of high value-added non-traditional products like biotechnology and pharmaceutical goods,

Figure 9: Trade with Principal Countries (in millions of pesos)



Source: ONE: Cuban Statistical Yearbook, 2008, Havana.

Figure 10: Composition of Exports by Product Group



Source: ONE: Cuban Statistical Yearbook, various years, Havana.

medical equipment and advanced diagnostic means have also increased. Progress has been reported in gaining new markets for these products and there are now some 200 disease registries approved in 52 countries.

Tobacco exports have performed favorably since important agreements were signed with the SEITA Company of France and TABACALERA S.A. of Spain. Among other things, these agreements address the supply of fertilizers and other inputs for growing tobacco, the re-use of certain brands for sale of the *habano*, as well as the corresponding definitions of the terms of trade and payment of funds received. The Empresa Habanos is now part of the English corporation Imperial Tobacco, which purchased the Spanish firm ALTADIS and now has a global marketing network that is capable of placing all of the country's available production.

Several factors have affected the performance of seafood exports. These range from weather problems, a delay in planned investments, a reduction in the levels of gross catch, lack of inputs including fuel, and technological problems with vessels designed for lobster fishing.

Although there was a slight increase in earnings generated by sales of rolled steel, cables, cement and other construction materials industry products, the level of earnings does not signify a structural change in Cuban exports.

Analysis of the behavior of the various export headings proves that the industries that have historically constituted the basis of Cuban specialization will continue to occupy a position of relative importance in the country's export structure, even if in the short-term the so-called non-traditional export items will not be in a position to generate the same level of earnings as the traditional items. In addition to this is the fact that these areas still have a strong group of products that should be more rigorously exploited. However, in order for this to occur, the variation of the value chain presented by these areas needs to be more in favor of higher value-added products.

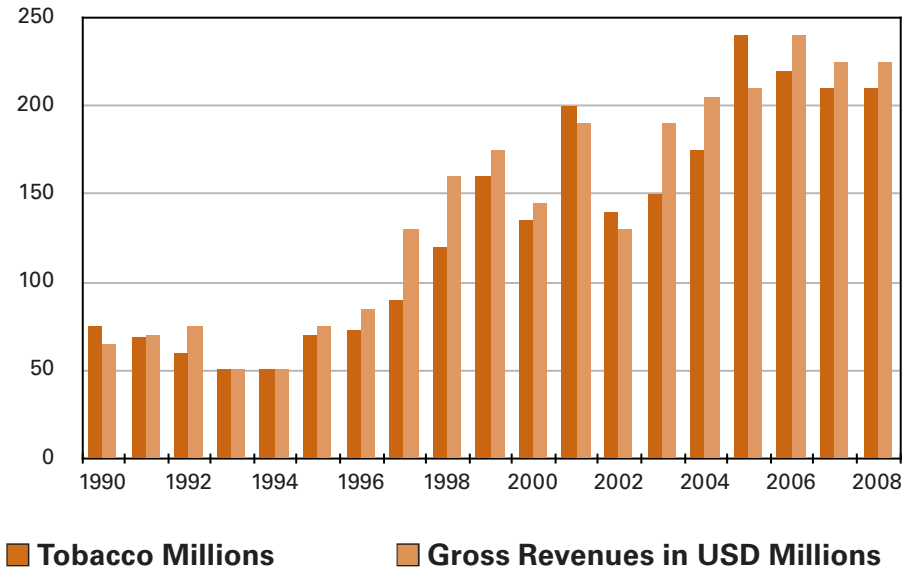
Cuban economic performance in recent years shows that it is very difficult for exports to recover in the short and medium-terms. However, taking maximum advantage of the potential of the traditional export sector together with other existing reserves in other areas of the economy may prove to be decisive in the future opening of the Cuban economy and in the self-sustainability of this process.

II.2 Imports

Imports across the board experienced reductions after 1989, although these were mainly concentrated in the amounts of fuel, raw materials and capital goods purchased. Starting in 2004, purchases increased, with the exception of 2009, when there was a drastic drop of nearly 40% in imports due to the external financial conditions faced by the country. All signs indicate an upward trend for capital goods growth (see Figure 12).

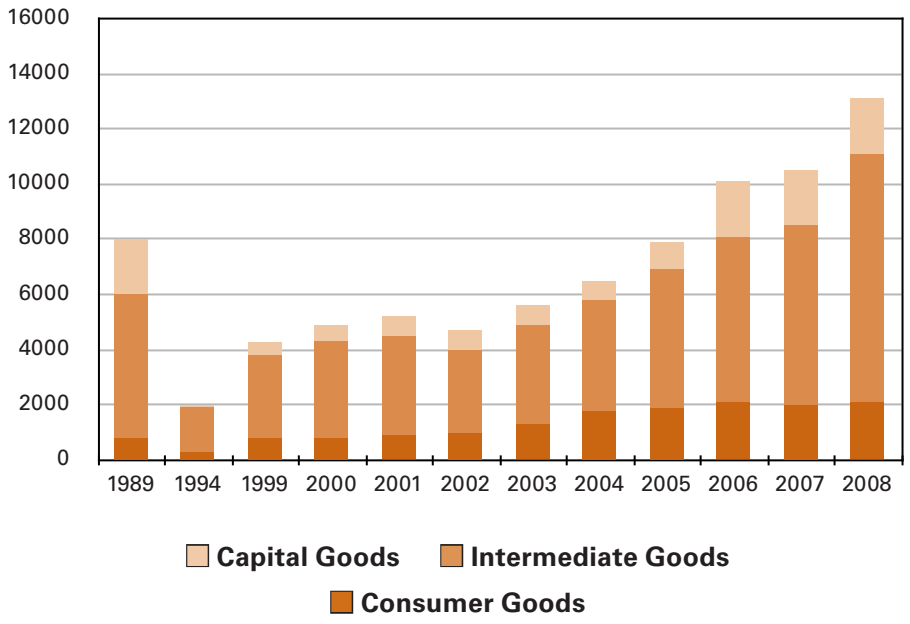
Reasons of a structural nature together with economic policy priorities have determined that foods,

Figure 11: Production and Marketing of Tobacco



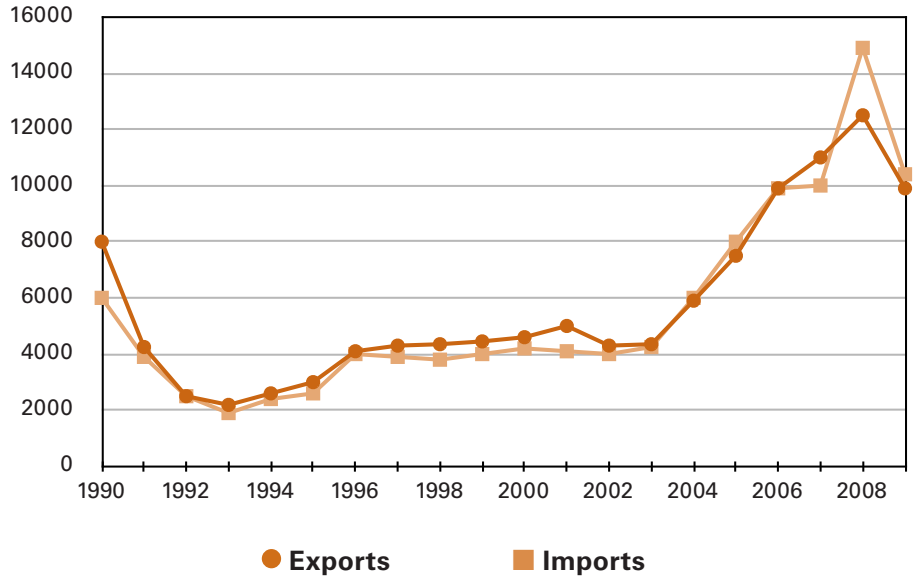
Source: ONE: Cuban Statistical Yearbook, various years, Havana.

Figure 12: Composition of Cuban Imports



Source: ONE: Cuban Statistical Yearbook, 1989, 2001, 2007, Havana.

Figure 13: Foreign Trade of Goods and Services (in millions of pesos)



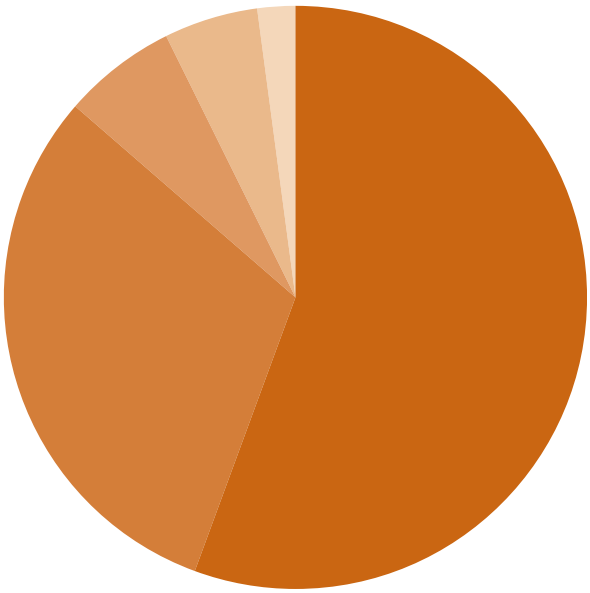
Source: Cuban Statistical Yearbook, various years, Havana.

medicines, fuel and a wide variety of intermediate goods have maintained a share of over 60% of total imports and there is no possibility for changing this composition in the short-term. Another subject of marked importance is that the purchase of these items has required the country to utilize approximately 80% of its foreign exchange earnings.

In general, an underlying solution to the import situation facing the country requires achieving a higher level of integration between manufacturing and agriculture, gradually introducing variations in the power consumption standard, achieving greater control and efficiency in resource utilization as well as taking maximum advantage of the existing economic potential.

Historically, Cuba has had a structural dependence on the economic growth of its import sector, although it is difficult to change the current import structure, given that over half of Cuban imports are food or fuel items, elements that are very sensitive to the country and whose delivery to the population is still at minimum levels.

Figure 14: Exports of Services in 2007 in %



- **Medical Services, 55.5%**
- **Tourism, 30.7%**
- **Business Services, 6.3%**
- **Telecommunications, 5.2%**
- **Information Technology Services, 2.1%**
- **Cultural Services, 0.2%**

This recovery of import capacity, which grows at a significant rate in the import structure, favors some capital goods, but not the ones required for the change that is needed in the industry (with the exception of electric generators and other imports of this nature, and imports of medical devices and transport equipment) because it is concentrated on the import of foods and intermediate goods (much of which could be produced in the country).

In general, the merchandise trade deficit that was quite high, at around 10,700 million pesos in 2008, could have been reduced by an increase in the domestic production of some of the imported items, but this would require that worker incentives become one of the themes the Cuban government should deem the highest priority, along with the accompanying structural changes and the elimination of excess centralization.

There is no doubt that exports are recovering, but their value in 2009 was still 31% less than in 1989. On the other hand, imports grow quickly and in 2008, they had exceeded 1989 levels by 24%.

One characteristic of the economy in recent years is the weight that services exert on the country's trade. This causes the deficits in the merchandise balance to be mitigated by the inclusion of the services.

Since 2004, the services sector has been the primary revenue generator. It has undergone important qualitative changes as knowledge intensive services have displaced the tourism sector as maximum revenue generator.

Figure 14 confirms the information presented above given that 55.5% of services exports correspond to medical services. It is the export of these services that contributed to the 2009 surplus in the balance of goods and services.

III. Tourism

In 1990, Cuba was ranked 23rd among preferred tourist destinations in the Americas and by 2000, it managed to move into 8th place where it has remained in 2009 although it is the 3rd most popular destination in the Caribbean, surpassed only by the Dominican Republic and Puerto Rico. Tourist arrivals have grown steadily throughout the years, with the exception of 2002 and again in 2006 and 2007, as shown in Figure 20.

The 2006 and 2007 decrease was turned around since 2009 ended with nearly 2.42 million visitors. Also significant was the recovery in the number of tourists staying in hotels, which provided an increase in the occupancy rates over the entire year. Also in play was elimination of the prohibition concerning tourism

Figure 15: Visitors to Cuba (in thousands)

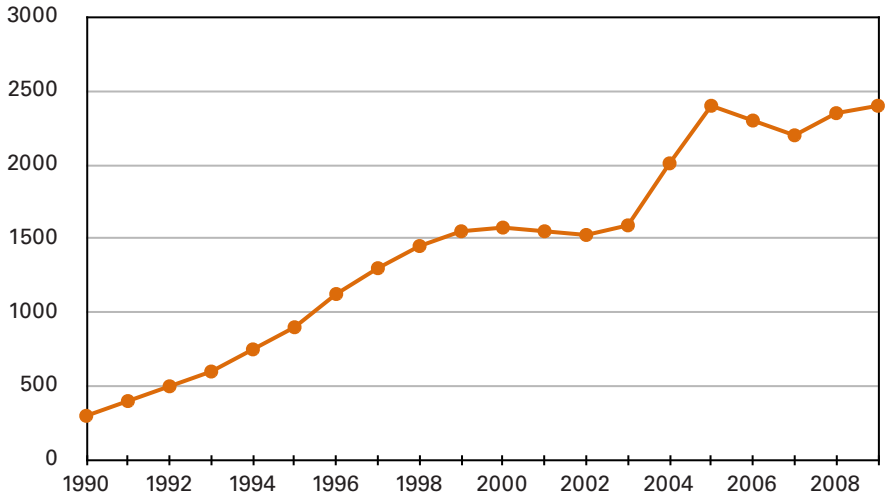
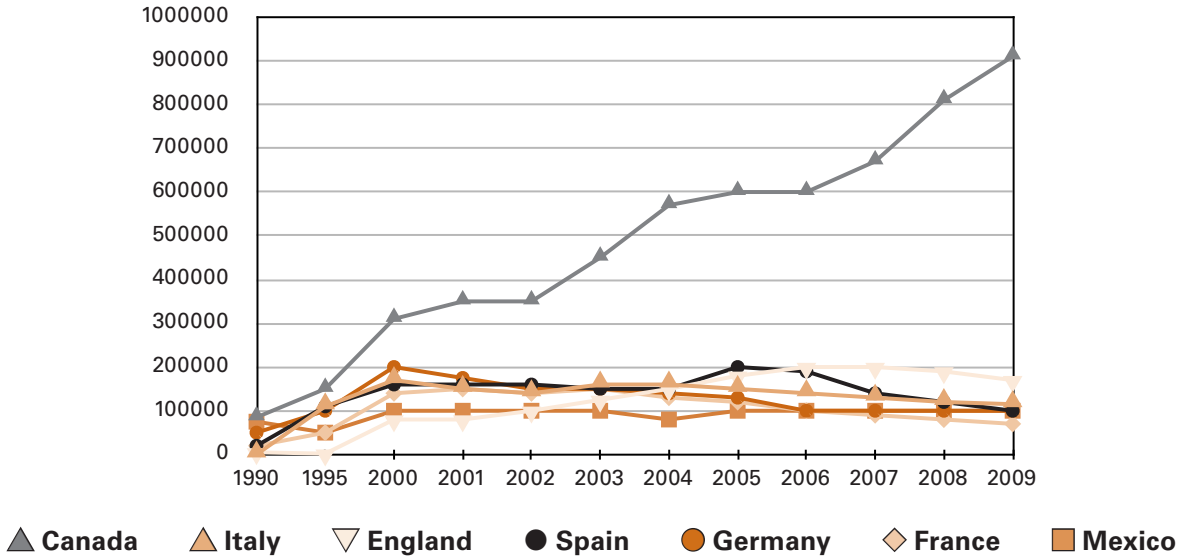


Figure 16: Main Sources of Tourism to Cuba (number of visitors)



Source: Cuban Statistical Yearbook, various years, Havana

lodging for Cubans, which increased both direct and indirect figures for lodging. In other words, Cubans who live abroad are able to make reservations in Cuba, especially in its beach areas, for family members and friends during vacation time.

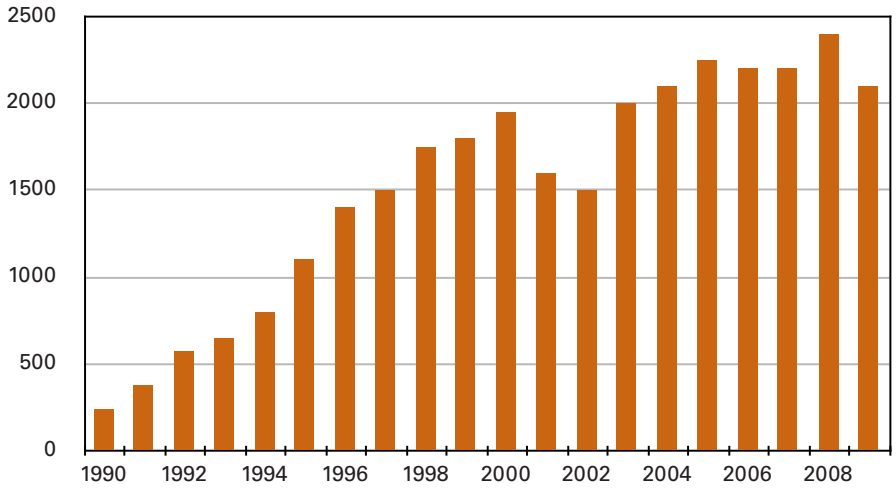
Tourist arrivals have generally depended on seven principal markets that contribute over 60% to international tourism: Canada, Italy, the United Kingdom, Spain, Germany, France and Mexico. These markets are also the main sources of visitors to other Caribbean destinations, which results in stiff competition on the part of international tour operators.

When examining the recent trends, there appears to be a higher concentration of visitors to Cuba from Canada, since its tourists make up more than 38% of the total arrivals to the country. This is followed by England with 7% of total arrivals and Spain with 5%. In 2009, half of the visitors came from: Canada, the United Kingdom, Spain, and Cubans living abroad. Noteworthy is the fact that the only country that shows an upward trend as the source of tourist arrivals is Canada.

According to recent performance, tourism in Cuba tends to be increasingly seasonal as a result of the influence of markets that have a larger share, namely, Canada.

Over the last 19 years (1990–2009), tourism revenues from exports of services (including international passenger transport) resulted in contributions of over US$2.8 billion to Cuba, as shown in Figure 17.

Figure 17: Gross Tourism Revenues



Source: Cuban Statistical Yearbook, various years, Havana.

Figure 18: Exports of Goods and Services 1990–2008 (millions)

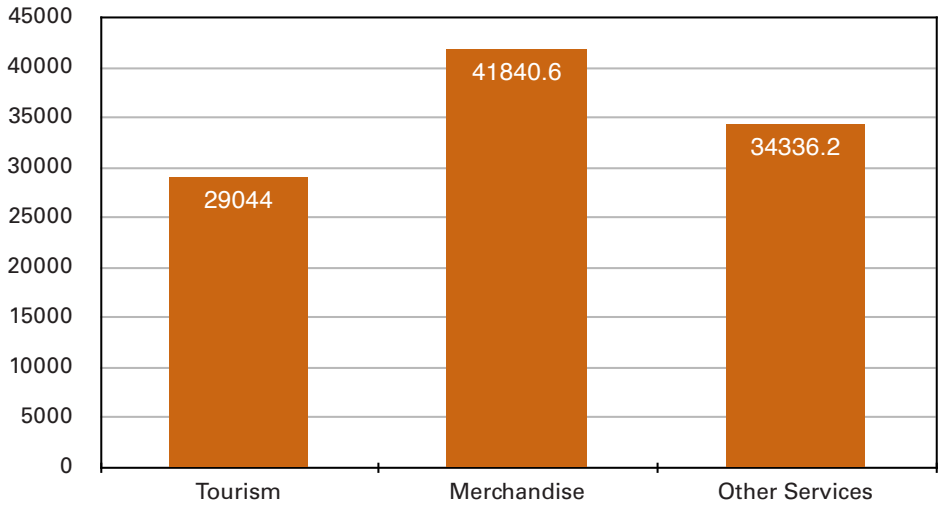
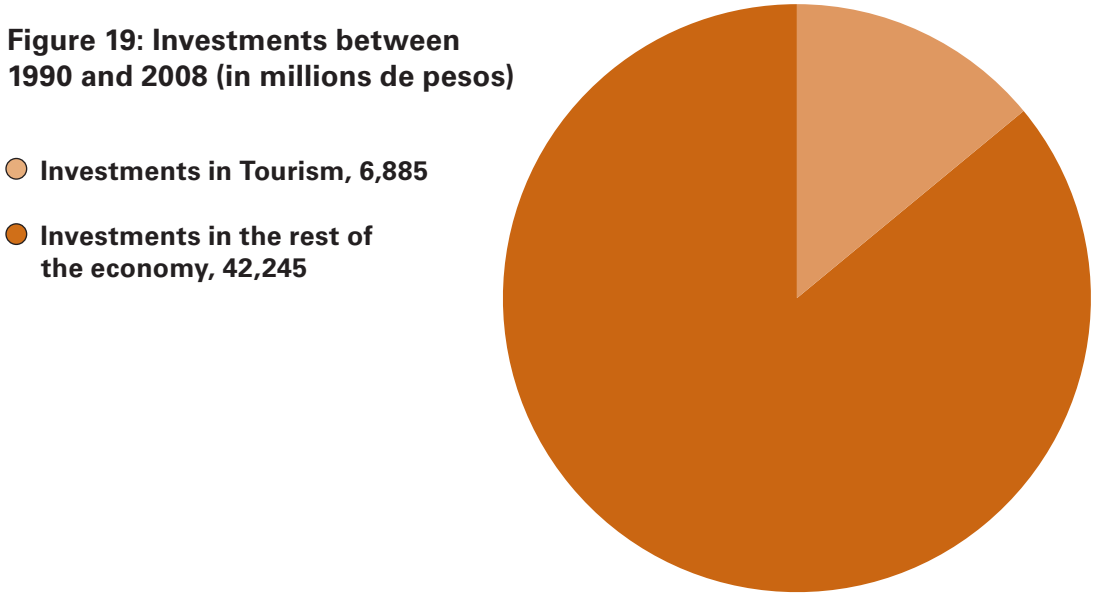


Figure 19: Investments between 1990 and 2008 (in millions de pesos)



During these years, one out of every three revenue dollars from exports of goods and services had been generated by tourism activities. In 1990, revenues associated with tourism grew to US$2.43 billion, which contributed 4% of revenues from exports of goods and services.[6] In 2008, revenues associated with tourism grew to US$22.36 billion, which were 18% of the exports of goods and services.

Between 2000 and 2008, total revenues from international tourism matched total revenues from the export of goods produced in the country.

Figure 18 illustrates the weight that international tourism revenues exerted on total exports of goods and services for the period 1990 to 2008. This demonstrates the correctness of the policy that was implemented in this industry, despite the mistakes and the less-than-entirely-favorable perceptions regarding progress made in this industry.

Beginning in 2004, revenues from public health services, education and other allowances began to be reflected in exports, which had quickly increased revenues for exports of 'other services,' even though they were still considered below levels contributed by international tourism.

From 1990 to 2008, 49,000 million pesos were invested in the economy and this was one-seventh of the amount intended for developing the tourism industry, the general infrastructure related to it, the airport infrastructure and branches of the economy that support those services. In other words, there was substantial support by the Cuban government in achieving this outcome.

Between 1990 and 2009, the tourism development program received a sum estimated at over 6,885 million pesos. These investments enabled an annual increase in the number of rooms in international tourism and today Cuba has nearly 50,000 of these rooms, up from 12,000 in 1990.

Of the total quantity invested during those years, over 2,160 million pesos were needed to establish infrastructure and airports and to introduce new technologies in the tourism and communications branches that supply these areas.

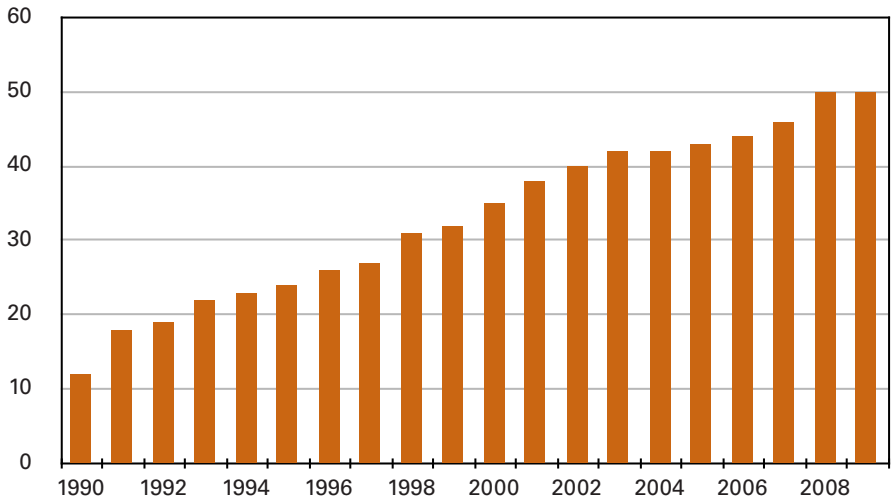
Investments in tourist entities themselves grew to 4,600 million pesos, half of which was in convertible currency (2,300 million). Considering that over the course of these 17 years, tourism entities had seen revenues grow to 4,400 million in convertible currency, we can infer that these investments had an average recovery period of 8 years. In the last 4 or 5 years, that recovery period has deteriorated to 12– 15 years.

The relationship between the number of investments made in principal tourism activities and the number of investments made in tourism infrastructure is thought to be correct. Other countries have neglected this, and have had to pay a high price for their tourism development.[7]

Tourism has had an impact on various regions in Cuba, but prior to 1959, it focused on Havana and Varadero. Up to 1990, hotels and facilities were built in many areas as a way to promote domestic tourism.

Even in 1990, only three airports received international flights: José Martí in Havana, Agramonte in Camagüey, and Antonio Maceo in Santiago de

Figure 20: International Tourism Rooms (in thousands)



Source: Cuban Statistical Yearbook, various years, Havana.

Cuba. There are now 10 international airports that can receive these flights. If in 1990, the José Martí Airport received 90% of international passengers, the new airports and tourism decentralization reduced that share to 53%.

The construction of modern hotel facilities, causeways and airports has decentralized tourism activities, thus benefiting new regions for entry into the country, employment, and the use of modern electrical, hydraulic and communications infrastructure. In turn, the construction of highways and the expansion of electrical, communications and water services favored many communities near the tourist areas.

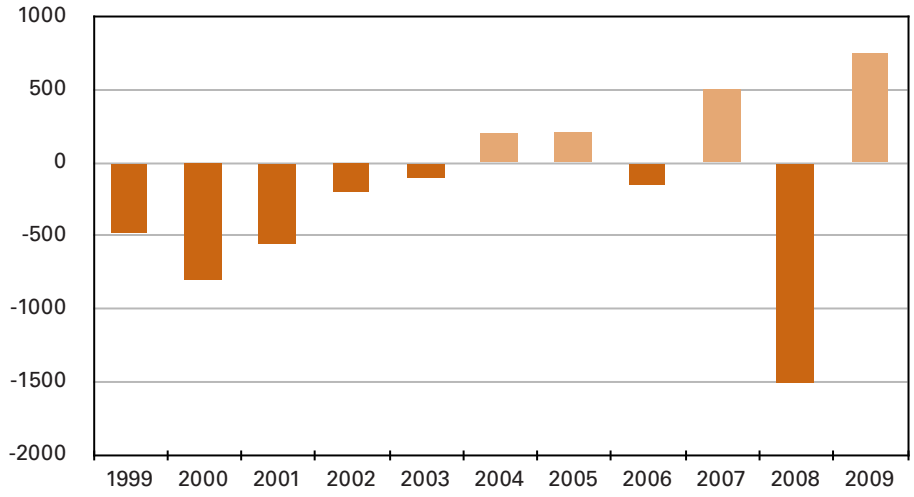
The direct regional impacts of tourism are focused mainly in:

- The Cárdenas — Santa Marta — Ciudad de Matanzas sub-region as a result of significant development in Varadero, the country's main tourist area. Three quarters of the 22,000 tourism industry workers in Varadero live in this area.
- The Morón — Ciro Redondo — Ciego de Ávila — Ceballos axis receives the impact of tourism development in Cayo Coco and Cayo Guillermo. This axis has 70% of the province's population and 90% of the its production. Practically all tourism workers in Los Cayos live in this axis.
- The municipalities of Rafael Freyre, Holguín and Banes in Holguín, with its northern beaches, have been the major recipients of the beneficial impact of tourism.
- The Caibarién — Remedios — Santa Clara axis in the future will be where most of the impact of tourism development is felt in the keys north of Las Villas. Since hotels there opened just recently, their impact on the municipal urban infrastructure is as yet unknown.

IV. External Finance

With regard to external financing over the past 4 years, Cuba has acquired some financial resources to sustain its process of economic growth, despite keeping up the economic war imposed by the United States on all fronts. First of all, relationships with Venezuela and China have grown substantially since the signing of important and extensive agreements for the purchase of equipment, raw materials and fuel, as well as for the development of various sectors of the Cuban economy. Secondly, Cuba has undertaken bilateral debt restructuring agreements with some of its creditors, which has allowed it to renegotiate a portion of its official and commercial bank debt that had been immobilized. This has allowed it access to new official credit. Circumstances in place at the end of 2008 and through 2009 have caused Cuba to suspend payments to some countries, which has reduced Central Bank of Cuba credibility in the eyes of creditors and foreign capital markets. The historically deficit nature of Cuba's current balance of payments reverted to a surplus beginning in 2004, although it still exhibited highs and lows, for example: in 2005, figures reached over US$140 million; in 2006, it was negative; in 2007, it was positive with a figure of nearly US$500 million. In 2008, there was a substantial deficit in the current balance of payments as a

Figure 21: Current Account of the Balance of Payments (USD millions)



result of the deficit in the 2008 Trade Balance, despite positive earnings, driven by the increase in exports of professional services, particularly medical services, not to minimize remittances, which all estimates calculate at between 900 and 1000 million a year. The scenario "improved" again in 2009 as a result of the policy of drastically reducing imports.

IV.2 External Debt

By the end of 2007, Cuba's external debt was about US$16,891.6 million. It was the Paris Club, in particular, to whom Cuba owed US$7,983.4 million, which may be considered immobilized debt, since overtures from Cuba in 1986, modified in 2001, unfortunately were not accepted because of the terms. New agreements are therefore required, but do not seem to be achievable in the medium and long-terms. Another significant portion of external debt, some US$8,908 million, is considered to be active debt and an effort is being made to honor it. It represents 14.4% of the GDP at current 2007 prices, but the amount is so high that it seems unlikely to be honored with the required speed, considering too, the payment moratoria Cuba has proposed with respect to various countries, and the new attempts at debt renegotiation.

The subject of external finances is an essential point that serves as a source of anxiety concerning Cuba's economic state of affairs. It is not a new source of anxiety because it dates back to the 1980s when international economic trends and pressures from the blockade drastically reduced the availability of credit in freely convertible currency.

In mid-1982, the Cuban government sought to renegotiate its outstanding debt with creditors. At that time, the debt stood at US$2,913.8 million. This request resulted in a reasonable agreement, which, however, failed to free the country from financial strain. On the contrary, the strain grew more pronounced because of the continuous downward spiral of the sugar markets. Debt reschedulings were implemented in 1984 and 1985. In 1986, other factors came into play, worsening the country's economic conditions, and thus nearly eliminating any possibility of meeting debt servicing requirements, although under the terms of the new agreements with creditors in previous years, the Cuban government was forced to request additional debt renegotiation. Even though agreements were reached with governments of the creditor countries, the banks refused to grant the new financing derived from these agreements. Under these conditions, it was impossible to continue making the corresponding payments, which were officially suspended in the second half of 1986. Since then, the Cuban economy has lost its access to medium and long-term international credit in freely convertible currency.

The movement in dollar quotations in international markets is one factor that acts indistinctly on the Cuban debt level because as a result of the blockade, larger portions of Cuban debt are in foreign currencies other than the US dollar. Cuba's debt increases when US dollar depreciates or when other currencies appreciate.

Cuban debt with former socialist countries of Europe, namely, the former Soviet Union, is not included because they involved a very complicated course of negotiation. Note also that the actors, institutions and currency (transferable rubles) no longer exist, and a significant number of the countries with whom this debt was contracted no longer exist in the

Table 3: Cuba's Total External Debt in Freely Convertible Currency in 2007

	Total	Short Term	Medium or Long Term
Total	**8908.2**	**1981.9**	**6926.3**
Official	**4539.6**	**645.2**	**3894.4**
Bank	**1862.1**	**756.2**	**1105.9**
Commercial	**2506.5**	**580.5**	**1926.0**

Source: Report by the Central Bank of Cuba, 2008, Havana.

way they did before the fall of the socialist countries. Furthermore, the terms on which the economic agreements that established them were signed have changed significantly.

In large part, external finances are a synthesis of the current state of the domestic economy, its perspectives and limits, especially an economy as open as Cuba's. An analysis of the economy allows us to determine the difference between the resources created and the resources actually available. Prospects for Cuba's current external finances have unfavorable aspects that take the form of the reduction in the country's rate of economic growth and the current account deficit, among others.

With the external financial conditions that currently face Cuba, there are not enough stimuli for companies to obtain foreign currency. There is a high level of centralization, although with some exceptions. What is clear is that if the rules or the business environment do not change, these external imbalances will remain in place.

Analysis of external finances constitutes a fundamental opportunity for studying Cuba's current economic status and its perspectives for the future. Its review necessarily leads to more far-reaching considerations, which will in turn give rise to ideas that contribute to the process of economic change and resistance to international pressures in which the Cuban government has advanced. But it is also necessary for Cuba to continue to get to the bottom of things and improve, as recently suggested by Cuban authorities, even though these same authorities have argued that there is no need to rush; that much thought is needed. Even though there is a certain rationale in this line of thought, it is also true that in economics, time is money and more debt if the external imbalances we have analyzed throughout this document are not quickly corrected.

Notes

1. This paper represents an updated version of a report presented at the event, "Visiones académicas Europeo-Cubanas sobre Economía, Desarrollo y Cooperación." FRIDE-CIDOB, Madrid, 2008.
2. Center for the Study of the Cuban Economy is part of the University of Havana.
3. Work Papers. MINVEC and the Presentation entitled " Oportunidades de Negocios en Cuba." April 2008.
4. Deputy Minister of Tourism, José Ramón Rodríguez, at the XII Pan American Championship of Cocktails, Havana, 2008.
5. José Luís Perelló. "Efecto de las Migraciones sobre los flujos turísticos para Cuba y el Caribe." Abstract of the Doctoral Degree thesis in Economics, presented in Havana, 2008.
6. José Luís Perelló. "Efecto de las Migraciones sobre los flujos turísticos para Cuba y el Caribe." Abstract of the Doctoral Degree thesis in Economics presented in Havana, 2008.
7. Miguel Alejandro Figueras Pérez. "Impactos del Turismo en la Economía y Sociedad Cubana." Havana, October 2007. MINTUR.

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