The History and Potential of Trade between Cuba and the US

Cassandra C. Copeland¹, Curtis M. Jolly², Henry Thompson³

(1. Division of Economics and Business Administration, Oglethorpe University, Atlanta, GA 30319, USA; 2. Department of Agricultural Economics and Rural Sociology, Auburn University, Auburn, AL 36849, USA; 3. Department of Economics, Auburn University, Auburn, AL 36849, USA)

Abstract: 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. Short of protection for US sugar beet farmers, Cuba would have become a state of the US following the Spanish American War. Lifting the embargo promises re-emergence of the strong economic ties and a substantial boost to the regional economy including the Caribbean and the US Southeast.

Key words: Cuba; trade; history; embargo

JEL Codes: N46, N70, F1, F5, Q17

This review of the historical trade and investment between Cuba and the US provides a foundation to project the economic effects of a lifted embargo. The US trade played the predominant role in the economic history of Cuba before Castro and the embargo. As a stark illustration, Cuba would have become a US state following the Spanish-American war except for the protection of US sugar beet farmers.

The first section reviews Cuban economic history before the embargo, and the second since 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 to Florida and turned attention to the Caribbean. Cuba remained a Spanish colony through the 1800s. The US maintained good relations in spite of numerous rebellions. There was expressed concern that Cuba might fall under another European power and that the British might interfere with the slave trade.

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

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

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

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 as pointed out by Hitchman (1970). With falling 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 decreasing sugar production.
Trade flourished during the 1890s. Cuba introduced a 75 duty reductions on imports from the US. In 1899 Cuban export revenue from the US was $125 million (in $2000). All dollar figures are inflated by the consumer price index in 2000. US export revenue from Cuba was $134 million. In 1901 those figures rose to $182 million and $103 million.

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


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 prevented US investment in Cuban plantations and high US tariffs made cigars a luxury good.

Limited land ownership hampered development in Cuba. By 1903 there were 37 US settlements, with the highest level of US immigration occurring from 1905 to 1910. By 1913 there were 64 US settlements. Hitchman (1970) estimates $1.8 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 and by 1914 Cuba accounted for 84% of US grapefruit imports, peaking in 1922. Deere (1998) points out that 1917 marked a turning point in 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 World War I. Cuban sugar production was stimulated by WWI as European beet sugar was virtually eliminated from the world market and East Indies shipping was disrupted. Between 1918 and 1936 Cuban sugar and molasses accounted for most Cuban export revenue to 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. The 62 US refineries produced over half the output. Three quarters of output was shipped to the US as reported by Whittlesley (1922). With expanding US ownership, Cuban sugar was exempted from protection and Cuban sugar production increased.

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.

By the late 1920s isolationism surfaced and US tariffs and sanitary regulations hurt Cuba. The Fordney-McCumber Tariff Act of 1922 raised the average US tariff from 9% to 14%. 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, but that was 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 but 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 as shown in Figure 3.

![Figure 3 Cuban Balance of Trade 1914-1936, Foreign Commerce Yearbook](source: Wakefield (1937))

Military juntas vied for power in Cuba during the 1930s leading to US military intervention to protect agricultural investment. 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). There was some political stability during the 1940s. During the 1950s Batista became an unpopular dictator supported by the US leading to the rise of Castro in 1959 as summarized by the Library of Congress (2006). 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 pointed out by Johnson (1965).

US direct investment in Cuba did not immediately slow with $355 million 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 sugar refining. The US also held a significant portion of cattle, tobacco, timber, banking, oil, and mining assets. According to the USDA (2008) the US operated 75% of the arable land according.

Castro claimed US monopolies were a threat and seized plantations with the Agrarian Reform Law. Castro established trade relations with the Soviet Union and China for the barter of sugar for crude oil. The US considered cutting the sugar trade agreement that paid two cents a pound above the world price, a premium worth over $500 million per year. When US assets were nationalized, the Eisenhower administration eliminated the sugar trade agreement. 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 until the crises in Africa interrupted negotiations according to LeoGrande (1998). Revived security concerns led President Reagan to impose new sanctions including a revived travel ban.

Castro became politically prominent during the Cold War as income per capita in Cuba stagnated. Figure 4 shows per capita income remains near its level of the 1950s. 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 in the hemisphere. By comparison, incomes per capita are about $40,000 in the US and $8,000 in Mexico.

![Figure 4  Cuban Real Income per Capita ($2000)](source: Lexus-Nexus)

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 behind since the mid 1980s. More recently, trade and manufacturing have been growing faster than agriculture and construction.

The collapse of communism ended Soviet oil subsidies in 1991 and led to substantial economic losses. Agricultural production fell by over half and 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 that placed penalties on third party ships stopping in Cuba, and tightened travel restrictions 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 induced shortages led to black markets. Implicitly recognizing the crisis, Castro reduced price controls and allowed Cubans to hold foreign currency in bank accounts. Security concerns from the 1980s had disappeared with the lost Soviet subsidies.

Real output has grown continuously if slowly over recent decades as shown by the official figures in Figure 6 although the smooth increase appears artificial. The bump in the early 1990s was due to lost Soviet subsidies and Hernández-Catá (2000) questions the quick recovery.
Figure 7 shows the output collapse of the early 1990s. The uneven performance since then has been due to inefficient production and the lack of investment. Meanwhile other more open Caribbean countries have grown consistently while developing countries around the world have had growth rates over 10%.

![Graph showing the 1990s Collapse of Real Output Growth](source: IMF)

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 cooperatives. Messina (2001) describes this transition to a market agricultural economy concerned primarily with feeding the population. Private production and resource decisions were limited but farmers were allowed to establish plots where they could grow food for their own consumption. By 1994 agricultural production had declined 54% and food consumption 36% from 1989 levels according to Kost (1998) who also reports daily per capita caloric intake decreased from 3,000 to 2,000 calories.

Cuba attempted to find foreign investment to modernize tourism, mining, communications, manufacturing, construction, and agriculture but the Helms-Burton Act of 1996 solidified the embargo into law. With virtually no access to US markets, few incentives remained for US investment and the Cuban government further reduced incentives. Farmers produced for secondary markets. 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 the relaxed 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 location of the port in Mobile and the product mix available.

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.
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.

Some private business has developed in Cuba since the 1990s focused in agriculture and there is limited 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, consistent with Alvarez (2007) who 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.
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Figure 10 compares Cuban export revenue by product in 1985 and 1999. Sugar remains the primary export although it has become less dominant in part to low yield and labor intensive production techniques. 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 Cuban Export Revenue ($1999) Sugar 1985 = $68 bil](chart)

Citrus now accounts for almost 10% of Cuban export revenue. Kost (2002) points out that the Florida citrus industry stands to gain through supplying investment, rootstock, technology, and entrepreneurial talent to 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 with white grapefruit exported to Japan. Cuba can export grapefruit before Florida making the US a natural market. The Caribbean is a potential market for fresh and processed 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 and 2/3 of the land can be cultivated. Cuba’s population of 11 million is about twice that of Alabama and about equal to Georgia or the combination of Mississippi, Louisiana, and Arkansas.

Cuba’s major agriculture exports are sugar, citrus, fish, cigars, and coffee, and 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 petroleum potential. Cuba has no potential to export manufactures but that would develop quickly 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 that lifting the embargo is likely to 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). Kost projects annual agricultural exports to Cuba of $1
billion of US feed grains with a lifted embargo.

![Figure 11: US Agricultural Exports to Cuba](source: US-Cuba Trade & Economic Council, 2006)

US investment could revive the Cuban livestock sector. Per capita caloric consumption has actually recovered from the 1990s but the Cuban diet has changed. Consumption of animal products is less than half its previous level due to the 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 exports to Japan but the US would offer 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 alone could 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 very limited import competition in manufacturing until investment in Cuba improves infrastructure, machinery, and equipment to take advantage of cheap labor. The Castro regime has emphasized social services including education and the 95% literacy rate suggests potential for quick growth. Any competition would be in labor intensive products and the US has already adjusted to imports from Mexico in NAFTA and from Asia in the WTO.

Trade with Cuba provides the opportunity for increased US demand for business services including engineering, construction, shipping, transport, banking, finance, insurance, and consulting. Tourism is expected to become a major industry as Cuba has already claimed an interest in promoting multi-destination tourism within the Caribbean. More recently Cuba has placed greater emphasis on tourism that would seem to hold great promise.

Increased political pressure to liberalize trade can be expected as more US firms and workers become aware of 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 focused on particular industries and regions. The Southeastern US in particular suffers. There is little rationale for the Cuban embargo as it failed to reach any political objective and strengthened
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Castro. The Helms-Burton Act is also inconsistent with US policy that has supported talks with former communist adversaries. The Act pushes the limits of international agreements and procedures of the WTO as pointed out by Lisio (1996). As Figure 12 shows, the US was Cuba’s major trading partner before the embargo. This historical pattern is poised to return with a repealed embargo.

![Figure 12 Pre-Embargo Cuban Trade Partners, 1957](chart.png)

Source: International historical statistics

4. Conclusion

Cuba is poised to integrate into the regional economy. US trade and investment dominate the economic history of Cuba. Except for trade protection, 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 be substantial when the embargo is lifted.

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