UNCTAD's contribution to the Report of the UN Secretary-General: Necessity of ending the economic, commercial and financial embargo imposed by the United States of America against Cuba (A/73/85, 29 August 2018)

[Original: English]
[1 June 2018]

The Nairobi Maafikiano (TD/519/Add.2 and Corr.1), adopted at the 14th session of the United Nations Conference on Trade and Development (UNCTAD) in July 2016, states that

> States are strongly urged to refrain from promulgating and applying any unilateral economic, financial or trade measures not in accordance with international law and the Charter of the United Nations that impede the full achievement of economic and social development, particularly in developing countries, and that affect commercial interests. These actions hinder market access, investments and freedom of transit and the well-being of the populations of affected countries. Meaningful trade liberalization will also require addressing non-tariff measures including, inter alia, unilateral measures, where they may act as unnecessary trade barriers.

Cuba has been under the United States economic embargo since 1962. On 16 June 2017, the President of the United States signed the National Security Presidential Memorandum on Strengthening the Policy of the United States Toward Cuba. The directive established a new policy, which, inter alia, sought to tighten the embargo against Cuba. The United States President also repealed the Presidential Policy Directive entitled "United States-Cuba Normalization", issued by the former President on 14 October 2016, which recognized the embargo as an outdated policy that should be lifted. The embargo against Cuba thus remains in force and operational as at 2018.

Bilateral trade between Cuba and the United States

Estimates by UNCTAD suggest that, currently, bilateral trade between Cuba and the United States is relatively small, particularly given the size of their respective economies, as well as the economic complementarities and geographical proximity of the two nations.[1] In 2016, the United States market remained virtually closed to Cuban products as most imports from Cuba and other Cuban-origin goods are prohibited, with some limited exceptions.[2] Cuban exports to the United States were insignificant, valued at just $1 million, or 0.04 per cent of Cuba's total exports to the world.

By contrast, there exists far greater and sizable trade in the opposite direction. In 2016, Cuba imported products from the United States that were worth $427 million, or 4 per cent of its total imports from the world. These products mainly consisted of basic food items, such as "meat and meat preparations", and "cereals and cereal preparations", including edible meat (e.g., poultry), wheat and maize. This reflects the fact that United States

[1] The source for all data referred to in the text is UNCTADstat, unless otherwise specified.
[2] Import of Cuban-origin information and information materials (e.g. publications, films) is exempt from prohibition. United States Department of State, United States Relations with Cuba: Fact Sheet, 8 November 2017.

commercial agricultural exports have been authorized since 2001, albeit subject to numerous restrictions and licensing requirements. The United States has indeed become one of Cuba's primary suppliers of food and agricultural products. Commercial exports of medicines and medical products have also been authorized since the early 1990s.[3]

Overall economic and trade trends

Trade plays an essential role in the Cuban economy. As a small island short on natural resources, endogenous capital and a small domestic market, the country needs access to international markets to build up a vibrant productive base and generate foreign exchange earnings; and access to a larger quantity and variety of goods and services, as well as foreign capital, technology and investment, to fulfil the domestic needs of its population and industries, fuel its economy and sustain its economic growth.

In 2016, exports of goods and services accounted for 23 per cent of the gross domestic product (GDP) of Cuba and imports accounted for 19 per cent, which represented a significant increase from 2000 when exports and imports made up 14 per cent and 17 per cent of GDP, respectively. During this period, the country's per capita income rose from $2,741 to $7,815. In 2017, the country was ranked 68th in the United Nations Development Programme human development index and qualified as a country with high human development. Nevertheless, the relative importance of trade in GDP, a proxy of countries' degree of trade integration, is less pronounced in Cuba than in other Caribbean economies. For an average Caribbean economy, trade-to-GDP ratio reached 30 per cent for exports and 33 per cent for imports in 2016. Hence, Cuba is yet to exploit the full potential of trade to leverage growth and development.

The overall economic conditions facing Cuba today, however, do not seem to be amenable to dynamic trade growth in the immediate future. After expanding by 4.4 per cent in 2015, the Cuban economy contracted by nearly 1 per cent (0.9 per cent) in 2016.[4] The downturn may be attributable to reduced export earnings, reduced bilateral support and oil supply from the Bolivarian Republic of Venezuela in the wake of its economic hardships and resulting austerity measures. It is estimated that the economy grew by 0.5 per cent in 2017, and would grow at the same pace in 2018. However, significant damage caused by Hurricane Irma in September 2017 to tourism, agriculture and infrastructure could further weaken growth prospects.

The Cuban economy suffered from weak growth in the recent past. Between 2011–2016, the Cuban economy registered an average annual growth rate of 2.2 per cent, lower than the 5 per cent deemed necessary for the country to attain a sustainable growth path.[5] The low rate resulted from chronic stagnation in domestic production and competitiveness affecting productive sectors, including agriculture, energy and industry. As a small island economy with a GDP of $90 billion (2016), Cuba has a small agriculture sector that accounts for 4 per cent of GDP (but employs 13 per cent of workforce) and an industrial sector that makes up 23 per cent of GDP. In

[3] Mark P. Sullivan, "Cuba: issues and actions in the 115th Congress", Congressional Research Service, 22 November 2017.

[4] United Nations, *World Economic Situation and Prospects 2018*.

[5] Richard E, Feinberg, "Cuba's economy after Raúl Castro: A tale of three worlds", The Brookings Institution, February 2018.

contrast, the services sector has become dominant in the economy, contributing 73 per cent to GDP and emerging as the main export industry.

Partly reflecting the domestic production structure, the country's trade is characterized by a persistent deficit in merchandise trade ($7.7 billion in 2016)[6] and a persistent surplus in services trade ($9.2 billion in 2016). Over the past few years, there has been a decline in the trade surplus, giving rise to balance-of-payments challenges. The surplus has fallen from $3.8 billion in 2012 to $1.5 billion in 2016.

It is particularly notable that Cuban merchandise exports have steadily and substantially declined since 2011, partly reflecting weakening domestic productive capacities and competitiveness. In 2017, the value of Cuban merchandise exports rose to $2.6 billion, bouncing back by 8 per cent from the previous year when output contracted. However, this was below 2006 levels, and less than half the historic high of $6.4 billion attained in 2011. Consequently, the share of Cuba in the world merchandise exports more than halved from 0.035 per cent in 2011 to 0.015 per cent in 2017.

Cuba's export basket includes basic food, beverages and tobacco, ores and metals, chemical products and other machinery and transport equipment. In 2016, sugar (22 per cent), tobacco (17 per cent), medical and pharmaceutical products (13 per cent) and metalliferous ores (10 per cent) figured prominently among the major exports products. Despite their diminished role in the economy over the past two decades, traditional cash crops — sugar and tobacco — remained the main foreign exchange earners. In addition, a biotechnology and pharmaceutical sector that supplies the domestic health-care system has become a significant export industry while nickel mining, through the participation of a Canadian company, has also produced viable export activities.

These exports were destined mainly for the European Union (27 per cent) and the Bolivarian Republic of Venezuela (17 per cent), as well as Canada (10 per cent), China (9 per cent) and the Russian Federation (9 per cent). The relative importance of the Bolivarian Republic of Venezuela as an export market declined recently and that of the European Union and the Russian Federation rose. In these markets, Cuban exports faced weighted average tariffs ranging from 1 per cent to 28 per cent.[7]

Estimated at $10.9 billion in 2017, merchandise imports were four times larger than merchandise exports as the country relies heavily on imports for the supply of essential energy and foodstuffs, as well as capital goods. Basic food (21 per cent), including cereals (8 per cent) and meat (3 per cent); fuels (8 per cent); manufacturing including machinery and transport equipment (33 per cent); and other manufactured goods (25 per cent) are indeed the main imported items. Cuba reportedly meets 70 per cent to 80 per cent of domestic food needs from imports. As to energy, since 2000 the country has maintained a preferential oil agreement with the Bolivarian Republic of Venezuela (essentially an oil for medical personnel barter arrangement) that until recently provided the country with a quantity of oil covering two thirds of its domestic consumption.

[6] As reported in the balance of payments, balance of payment-based statistics of trade in goods may differ from international merchandise trade statistics reported elsewhere in the text owing to differences in the concepts and definitions.

[7] United Nations Conference on Trade and Development TRAINS database, accessed through WITS.

The main sources of imports were: the European Union (29 per cent), China (22 per cent), the Bolivarian Republic of Venezuela (10 per cent), Canada (5 per cent) and Brazil (4 per cent). It is notable that the United States is ranked sixth on account of its food exports as noted above. The relative importance of the Bolivarian Republic of Venezuela declined lately favour of China.

Cuba has developed important export capabilities in the services sector over the past two decades. In 2016, Cuba's services exports stood at $11.2 billion, and imports, at $42.1 billion, generating a trade surplus of $9.2 billion as noted. Key sector activities generating foreign exchange are the export of professional services, largely medical personnel supplying services in the Bolivarian Republic of Venezuela, and booming tourism services. Tourism has grown significantly since the mid-1990s and an estimated 4.7 million tourists visited the country in 2017 with a corresponding increase in tourism revenues. In 2016, related travel services generated $3 billion in exports, accounting for 27 per cent of total services exports.

On the other hand, remittance flows to Cuba sent by migrants and workers abroad amounted to some $3.5 billion in 2016, $3 billion of which was estimated to originate in the United States. The amount was greater than the country's total merchandise export receipt and equivalent to 4 per cent of its GDP. Remittances have been the major source of external finances and could potentially serve as investment capital for households and private enterprises.

Further development of these promising activities, however, has been constrained by the embargo as travel to Cuba for tourist activities remains prohibited in the United States. The United States regulations currently restrict travel to Cuba to licensed travellers engaged in certain specified activities. The United States embargo also restricts financial transactions affecting Cuba with extraterritorial effects and compromised efficient remittances flows and increased remittance costs.

Conclusion

Recent actions taken by the United States have affected the efforts to ease the embargo and normalize bilateral diplomatic relations. The essential elements of the embargo remain in force and continue to restrict a healthy development of commercial relations between the two neighbouring countries. This continues to be a matter of concern to Cuba as trade plays a crucial role in its economy. To date, the embargo has frustrated the country's efforts to use trade as an instrument of sustainable development, including through further expansion of promising tourism and professional services activities, as well as productive use of remittances. This is all the more significant in the light of the 2030 Agenda for Sustainable Development and the Sustainable Development Goals which profile international trade as an essential means of implementation and calls for significantly increasing the exports of developing countries under its target 17.11.