THE ROLE OF THE UNITED STATES IN THE CUBAN ECONOMY

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The collapse of the Soviet Union and its European proxies in the early 1990s inaugurated a very difficult period for Cuba and an unprecedented economic recession that seriously threatened the survival of the Castro government. The Cuban authorities were forced to loosen up their centrally planned economy, establish more developed relations with the capitalist world, and introduce limited market reforms in areas including trade, foreign investment, and tourism. Given the emergency situation of the Cuban economy, the end of Cuba's active support of revolutionary forces in Africa and Latin America as well as the end of its close ties with the Soviet Union, one could have expected the beginning of friendlier relations between Washington and Havana. Instead, the United States tightened the embargo against the island with the enactment of the Torricelli law in 1992 and the Helms-Burton law in 1996. As noted by Jorge Domínguez, "The Cold War had turned colder in the Caribbean. Cuba was the only country governed by a communist party whose domestic political regime the United States was still committed by law and policy to replace, albeit by peaceful means."[2]

Although one of the reasons for additional sanctions was to stimulate democratic reforms in Cuba, the whole point of U.S. policy was to exert economic pressure on the Castro government (and eventually hasten its demise) by stemming the flow of hard currency to the Caribbean island. A spokesman for the U.S. Treasury Department has recently admitted that sanctions against Cuba were mainly intended to "deprive the Castro regime of the financial wherewithal to oppress its people."[3] We can also add that the United States tried to capitalize on Cuba's economic dilemma and frustrated economic adjustment. Up to 1989, the embargo placed conditions on the 15% of Cuba's international trade that fell outside the socialist market. However, after 1991, the embargo placed conditions on more than 90% of that trade.[4] Under these circumstances, it appears obvious that U.S. policymakers had an unparalleled opportunity to finally get the most out of economic sanctions that had failed for thirty years to overthrow the rule of Fidel Castro in Cuba.

There has been considerable debate about just how effective U.S. economic sanctions against Cuba have been in denying hard currency earnings to the Castro government. In light of the available information, it could be argued that the United States has not only been unable to foster fundamental political reforms in Cuba, but has actually contributed to the recovery of the island's economy from the deep recession of

1. This paper is mostly based on field research conducted in Cuba during the summer of 2003. The Center for Latin American Studies at the University of Florida and a Wilgus Research Grant financially supported travel to Cuba and the preparation of this paper. The author alone is responsible for the content and interpretations.

2. Domínguez, Jorge I. "U.S.-Cuban Relations: From the Cold War to the Colder War." *Journal of Interamerican Studies and World Affairs*, v. 39, n. 3, Fall 1997, p. 49.

3. Kirkpatrick, David D. "U.S. Halts Cuba Access by Educational Groups." *The New York Times*, May 4, 2003.

4. Schwab, Peter. *Cuba: Confronting the U.S. Embargo.* New York: St. Martin's Press, 1999, pp. 71-72.

the early 1990s. The purpose of this study is to demonstrate that, in spite of the tightening of the embargo, the United States has played and continues to play quite an important role in the Cuban economy. More specifically, significant amounts of hard currency have been channeled into the Cuban economy through U.S. visitors (including Cuban-Americans), remittances sent by Cuban exiles to their families in the island, American food exports (sold in government-owned dollars stores), and U.S. investors who hold publicly traded shares of major foreign firms engaged in business activities with the government of Fidel Castro. The study also intends to demonstrate that a significant share of hard currency reaching Cuba is in violation of U.S. regulations, thus providing some evidence for the inability of the U.S. government to obtain compliance from its own citizens.

The importance of this work resides in the attempt to enrich the general debate on the role and usefulness of economic sanctions and shed light upon a specific aspect that has been generally neglected by scholars of international relations and by the literature on the Cuban embargo. While many scholars tend to evaluate the utility of sanctions by analyzing the behavior of the target government, this study focuses on the citizens of the coercer state. Far from downplaying the importance of economic adjustments devised by the target country to cope with sanctions, the contention of this paper is that U.S. citizens' economic activities (both legal and illegal) have mitigated the impact of the Cuban embargo and undermined its main goal. The study begins with an analysis of international tourism in Cuba and the presence of U.S. visitors in the island. It continues with an examination of the importance for the Cuban economy of remittances sent from U.S. residents (Cuban exiles) after Cuba's legalization of dollar holdings in August 1993. Finally, it provides a brief review of recent developments in U.S. food sales to Cuba and American investments in foreign companies that operate in the Cuban market. The conclusion summarizes the main findings of the research and offers some suggestions for a more effective U.S. policy toward the government of Fidel Castro.

INTERNATIONAL TOURISM AND U.S. VISITORS TO CUBA

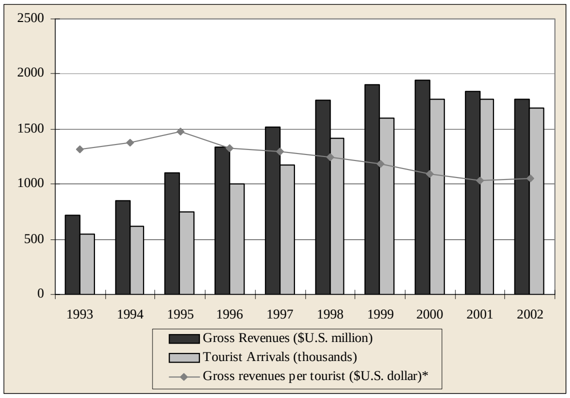
Since the late 1980s, Cuba has targeted tourism as a priority sector because of its ability to generate foreign exchange. International tourism is today, at least in gross terms, the single most important source of hard currency for the Cuban government. Cuba is again emerging as one of the Caribbean's most popular holiday destinations. The tourism industry, which was relatively small prior to 1990, has grown at an astounding 18.5% annually since the legalization of the dollar sector of the economy in 1993, with a period of decline following the September 11, 2001, terrorist attacks on the United States. Even more important, there has been a significant improvement in the integration between local industries and the Cuban tourist sector. The proportion of domestically produced goods provided to the tourist industry has increased from 12% in 1990 to 68% in 2002.[5] While ten years ago practically all products for hotels and restaurants were imported, local corporations and joint ventures with foreign firms currently supply a wide range of products such as mineral water, soft drinks and alcoholic beverages, processed meat, omnibuses, air conditioners, telephones, and electronic equipment.[6]

Figure 1 shows data on gross revenues from tourism, number of tourist arrivals and gross revenues per tourist for the period 1993-2002. According to official figures, arrivals rose from 546,000 in 1993 to over a million in 1996 and reached around 1.68 million at the end of the year 2002. Similarly, gross revenues from tourism increased from $720 million in 1993 to more than $1.9 billion in 2000, making the tourist industry, as Cuban officials often describe it, the "engine" of the island's economy. For 2002, the

5. Brundenius, Claes. "Tourism as Engine of Growth. Reflections on Cuba's New Development Strategy." Paper presented at the 2003 meeting of the Latin American Studies Association (LASA), Dallas, Texas, March 27-29, 2003.

6. Figueras Pérez, Miguel Alejandro. "El Turismo Internacional y la Formación de Clusters Productivos en la Economía Cubana." In *Cuba. Reflexiones Sobre su Economía*. Universidad de La Habana, 2002, p. 112.

Figure 1. International Tourism in Cuba, 1993-2002



Fuente: Anuario Estadístico de Cuba 2001; ONE 2003.
* Author's calculations.

National Statistical Office (ONE) reported a slight decrease in gross revenues from tourism in comparison to 2001 ($1.77 billion and $1.84 billion, respectively), but other sources indicate that the decline could have been more pronounced. For instance, the U.S.-Cuba Trade and Economic Council reported that gross tourism revenues were about $1.5 billion in 2002, representing a decrease of approximately 18% from 2001.[7] In terms of tourist expenditures, gross revenues per tourist per year increased from $948 in 1991 to $1475 in 1995. However, since then, they decreased steadily and in 2001 they were $1037, just 9% above the 1991 level. This suggests that, if there are not other avenues for the economy to grow in the future outside tourism, the Cuban economy might plateau once the tourist sector reaches its maturity. In 2002, gross revenues per tourist were approximately $1049, only 1.2% above the 2001 level.

Restrictions on travel from the United States to Cuba have been a key component of U.S. policy toward the Castro government for most of the last 40 years, although they have changed many times since 1963. During the 1990s, president Clinton made repeated changes to travel regulations in response to actions by the Cuban government. As a reaction to the *balsero* crisis of the summer of 1994, he banned family visits by Cuban-Americans (who were previously allowed to visit their close relatives in the island) except in cases of "extreme humanitarian need." In 1996, after the shooting down of two U.S. planes flown by Cuban exiles, he suspended direct flights between the two countries.[8] However, in 1999, as part of a new policy aimed to promote people-to-people contacts, he streamlined travel procedures for students, athletes, artists, and other groups and individuals to visit Cuba. Clinton's policy, inaugurated in the wake of the Pope John Paul's historic visit to Cuba, also allowed resumption of charter flights from Miami to Havana as well as new direct flights from New York and Los Angeles. These changes were mainly intended to facilitate family reunions between Cuban-Americans and their families in the island.[9]

In order to travel to Cuba, individuals subject to U.S. law must be authorized by a general license (which requires no written authorization) or a specific license (which requires approval) from the Office of Foreign Assets Control (OFAC) of the Department of the Treasury. The majority of individuals traveling under a general license are Cuban-Americans who can visit immediate family members once a year for a self-defined "humanitarian purpose," such as a sick or dying relative. Others who can travel without specific documentation from OFAC include U.S. government officials, full-time journalists, professional researchers, and academics. A specific license is instead required for businessmen, free-lance journalists, members of religious organizations, and Cuban-Americans who want to visit their families more than

7. U.S.-Cuba Trade and Economic Council (USCTEC). *Economic Eye on Cuba* (20-26 January 2003).

8. Robyn Dorothy, Reitzes James D. and Church Bryan. "The Impact on the U.S. Economy of Lifting Restrictions on Travel to Cuba." *The Battle Group*, Center for International Policy, Washington D.C.: July 15, 2002, p. 2.

9. Eckstein Susan and Barberia Lorena. "Cuban-American Cuba Visits: Public Policy, Private Practices." Report of the Mellon-MIT Inter-University Program on Non-Governmental Organizations and Forced Migration, Center for International Studies, Massachusetts Institute of Technology, January 2001, p.12.

Table 1. U.S. Visitors to Cuba, 1990-1998

	1990	1991	1992	1993	1994	1995	1996	1997	1998
U.S. citizens not of Cuban descent	7,375	11,233	10,050	14,715	17,937	20,672	27,113	34,956	46,778
Cuban-Americans*	2,600	4,600	14,600	19,400	33,500	39,300	58,300	71,700	94,900
Total	9,975	15,833	24,650	34,115	51,437	59,972	85,413	106,656	141,678
Rank**	7	7	6	6	5	4	4	4	4

Source: ONE 1996, 1998, and 2000; Alvarez A. and Amat D. "El mercado emisor turistico estadounidense hacia el Caribe." Facultad de Economía. UH. Trabajo de diploma, 1996; World Tourism Organization. *Yearbook of Tourism Statistics*, 200 and previous editions.

* Author's estimates. ** The rank refers to the position of the United States among nations whose citizens visit Cuba

once a year. In March 2003 the Bush Administration introduced new regulations on travel (and remittances) that allowed more Cuban-Americans to visit relatives on the island and forbid trips to Cuba that combined non-credit educational activities with people-to-people contacts (which ended up becoming a loophole for groups to travel to Cuba when the educational aspect was barely evident). The new rules eliminated the requirement that visits take place only in cases of "humanitarian need," thus easing the conditions under which U.S. citizens of Cuban descent can travel to Cuba.[10]

Table 1 reports data on U.S. visitors to Cuba for the period 1990-1998. Notwithstanding the travel restrictions, the number of U.S. visitors to the island has increased significantly during the 1990s. According to Cuban official statistics, which include only U.S. citizens of non-Cuban origin, travelers from the United States rose from about 7,000 in 1990 to more than 46,000 in 1998. Regarding Cuban-Americans, the actual number of visitors grew from approximately 2,600 in 1990 to almost 40,000 in 1995. Between 1996 and 1998 (when the Clinton administration banned direct travel), Cuban-American visits to Cuba almost doubled from 58,300 to 94,900.[11] In short, whereas in 1990 about 10,000 U.S. citizens traveled to Cuba, representing the seventh largest group among foreign travelers, in 1998 this number had jumped to more than 140,000. By 1995, the United States was already the fourth largest source of visitors to the island after Canada, Italy, and Spain.[12]

In the last few years, the presence of the United States in the Cuban tourist market has become increasingly important. Table 2 presents data on arrivals to Cuba from selected countries for the period 1999-2002. In 1999, an estimated 182,000 U.S. citizens (about 120,000 were Cuban-Americans) traveled to Cuba, more than from any other country except Canada. Since then, visits from the United States have increased constantly, consolidating U.S. citizens as the second largest group among foreign travelers. For instance, tourists from Germany, Italy, and Spain have declined significantly since 2000. Instead, approximately 125,000 Cuban-Americans and 79,000 U.S. citizens of non-Cuban origin visited Cuba in 2001, representing about 11.5% of total arrivals to the island. About 50,000 were tourists who traveled via third countries, with or without their government's authorization.[13] As noted by a Canadian official, "U.S. tourists are quite visible among visitors arriving in Cuba on flights from Montreal, Tor-

10. Lexington Institute. "Cuba Policy Report: The Bush Administration Unveils its Travel Policy." April 7, 2003.

11. Susan Eckstein and Lorena Barberia argue that there is contradictory information about Cuban-American visits to Cuba. According to them, while Cuban sources report that individuals of Cuban descent visiting the island between 1994 and 1996 were about 20,000 per year, U.S. sources estimate that the actual number was approximately 40,000 in 1994 and 100,000 per year between 1995 and 1999. Eckstein and Barberia (2001). See note 8, p.13.

12. In 1995, Canada (143,541) was the most important source of visitors to Cuba, followed by Italy (114,767), Spain (89,501), and the United States (59,972). In 1998, Canadian travelers to Cuba were 215,644, followed by Italians (186,688), Germans (148,987), and individuals from the United States (141,678).

13. The Economist. "Embargo or not, US is now Fidel Castro's economic partner." January 7, 2003.

Table 2. Tourist Arrivals by Origin, 1999-2002

	1999	%	2000	%	2001	%	2002(e)	%
Canada	276,346	17.2	307,725	17.3	350,426	19.7	348,468	20.7
United States	182,445	11.4	200,298	11.3	203,989	11.5	216,000	12.8
U.S. citizens (ncd)*	62,345	3.9	76,898	4.3	78,789	4.4	90,000	5.3
Cuban-Americans**	120,100	7.5	123,400	7.0	125,200	7.1	126,000	7.5
Germany	182,159	11.4	203,403	11.5	171,851	9.7	152,662	9.1
Italy	160,843	10.0	175,667	9.9	159,423	9.0	147,750	8.8
Spain	146,978	9.2	153,197	8.6	140,125	7.9	138,609	8.2
France	123,607	7.7	132,089	7.5	138,765	7.8	129,907	7.7
United Kingdom	85,829	5.4	90,972	5.1	94,974	5.4	103,741	6.1
Mexico	70,983	4.4	86,540	4.9	98,495	5.5	87,589	5.2
Others	373,591	23.3	424,095	23.9	416,493	23.5	361,436	21.4
Total	1,602,781	100.0	1,773,986	100.0	1,774,541	100.0	1,686,162	100.0

Source: *Anuario Estadístico de Cuba 2001*; ONE 2003; EIU 2001 and 2003; U.S.-Cuba Trade and Economic Council, 2002; Guy Allard, Jean. "Record de visitantes procedentes de EE.UU." *Granma Internacional*, January 7, 2003; Cuban Ministry of Tourism, 2003; World Tourism Organization. *Yearbook of Tourism Statistics*, 2003 edition.

(e) Preliminary estimates * Individuals not of Cuban descent (ncd) ** Author's estimates

onto, Kingston, Nassau, and Mexico City."[14] What's more important, U.S. travelers are believed to spend about $200 million a year in Cuba.[15] Thus, even with sanctions in place, the United States is an important source of hard currency for the Cuban tourist industry, providing almost 11% of its total gross revenues in 2001. While the total number of tourists to Cuba in 2002 declined by 5%, preliminary estimates from Cuban sources report a record presence of 216,000 U.S. visitors last year, constituting 12.8% of arrivals from all countries. For U.S. citizens not of Cuban descent, the number of arrivals peaked at about 90,000 (an increase of 14.2% over 2001),[16] with an additional 126,000 Cuban-Americans visiting their families in 2002.[17]

There is no doubt that the increasing number of U.S. visitors to Cuba in the last few years has been triggered by Clinton's people-to-people contacts policy inaugurated in January 1999. However, it is important to take into consideration that many individuals from the United States visit Cuba through third countries without U.S. travel permits, thus being technically in violation of U.S. economic sanctions prohibiting spending money for unlicensed purposes (licensed travelers are currently allowed to spend up to $166 per day for hotels, meals, ground transportation, etc.). Since 1994, the number of individuals subject to U.S. law traveling to Cuba, but not authorized from OFAC to do so, has increased on average 19% to 21%, while legal visits rose just by 9% to 11%. For instance, it is reported that approximately 22,000 U.S. citizens visited Cuba in 2000 without authorization from OFAC.[18] Other estimates put the number of U.S. illegal visits to Cuba between 40,000 and 50,000 per year, representing up to one fourth of total U.S. travel to the island. Cuban authorities, eager to accept U.S. visitors paying in dollars, do not stamp the passports of Americans, leaving no official trace of their presence.[19] One 33-year old artist from Minneapolis said she was visiting Toronto when she saw there was a flight to Havana. So she bought a

14. United States International Trade Commission (USITC). *The Economic Impact of U.S. Sanctions With Respect to Cuba.* February 2001.

15. Oppenheimer, Andres. "U.S. may tighten Cuba travel." *The Miami Herald*, December 15, 2002.

16. Interview with a Cuban economist in Havana, May 27, 2003.

17. Guy Allard, Jean. "Record de visitantes procedentes de EE.UU." *Granma Internacional*, January 7, 2003.

18. U.S.-Cuba Trade and Economic Council (USCTEC). *2002 Commercial Highlights* http://www.cubatrade.org/2002Lst.pdf (hereinafter "USCTEC 2002").

19. Sullivan, Kelly. "Americans defy Cuba embargo." *Washington Post Foreign Service*, October 31, 2001.

ticket and spent a week touring the city. Another U.S. citizen from Minneapolis said he headed illegally for Cuba by way of Cancun, Mexico, bringing gifts for locals and spending about $2,000 in cash during his stay because the travel ban prohibits Americans from using credit cards in the island.[20]

Since President George W. Bush took office in 2001, OFAC has been cracking down on those who travel to Cuba without permission. During the Clinton Administration, OFAC took steps to levy fines (the average fine is $5,500) on 46 to 188 Americans a year. That figure jumped to 700 in 2001.[21] However, these fines affect fewer than 3% of the total number of violators per year, and they target primarily U.S. citizens of non-Cuban descent. As noted by U.S. representative Jeff Flake (R-AZ), U.S. authorities pay no attention to Cuban-Americans even as they harass and level fines against Americans who go to the island. While being allowed to travel for a self-defined humanitarian need, "their relatives always seem to get sick around the same time, like Christmas and other major holidays."[22] In addition, there are several cases of Cuban-Americans who are able to visit Cuba twice a year without asking OFAC for a specific license. Asked to comment about how she was able to visit Cuba twice in 2000 to meet a newborn nephew and to take a vacation on the beach, a Cuban-American replied: "Coming to Havana is very easy. Although I am a U.S. citizen, I am required to have a Cuban passport. So I use my (U.S.) passport to enter and leave the United States and the third party country, while using my Cuban passport for the rest of the journey."[23] In short, whether they target U.S. citizens of non-Cuban descent or Cuban-Americans, travel restrictions are unable to stem illegal travel to Cuba. Even admitting that the threat of prosecution might have discouraged some potential travelers, it is virtually impossible for the U.S. government to prevent its citizens from visiting Cuba and spending money there in violations of U.S. regulations.

REMITTANCES TO CUBA

As a result of the deep economic recession that threatened Cuba's survival in the early 1990s, the Castro government decriminalized both the possession and the use of hard currency (especially U.S. dollars) in August 1993. In addition, the government legalized dollar-denominated remittances under its 1994 monetary reform program. Since then, family remittances mainly sent from Cuban-Americans have become an important source of supplemental income for many Cubans. Even more important for the purpose of this study, these practices have significantly boosted the domestic dollar market in Cuba. As observed by Ana Julia Jatar-Hausmann, the legalization of the use of foreign currency encouraged more family remittances, and the high prices at government-owned dollar stores acted as a hidden sales tax on remittances, effectively allowing the Cuban authorities to obtain access to that money.[24] In light of this development, several scholars contend that money sent from abroad has been the single most important factor in reactivating the Cuban economy in the second half of the 1990s.

Pedro Monreal, an academic from the island, argues that Cuba has become in recent years increasingly dependent on remittances and donations from abroad. He specifies that, in strict terms, the Cuban economy cannot be qualified as an economy that depends fundamentally on remittances because other important activities such as tourism and mining have emerged. Nevertheless, he concludes that the importance of money sent from abroad is beyond question. In fact, in net terms, remittances are the biggest source of foreign exchange for the country, more than tourism and sugar.[25] Many of those who analyze data on reve-

20. Moreno, Jenalia. "Cuba back into game of tourism." *The Houston Chronicle*, February 28, 2003.
21. "Americans who make trips to Cuba without OK could be prosecuted." *The Houston Chronicle*, March 9, 2003.
22. Eaton, Tracey. "8 vow to have U.S.-style meeting in Cuba." *The Dallas Morning News*, March 11, 2003.
23. "Forbidden fruit of Cuba lures U.S. travelers." IPS. November 1, 2001.
24. Jatar-Hausmann, Ana Julia. "Cuba: Is America Business Missing Out? Sí, A Bright Future." *Across the Board*, July-August 2000.
25. Monreal, Pedro. "Las Remesas Familiares en la Economía Cubana." *Encuentro de la Cultura Cubana*, N.14, Otoño de 1999.

nues from tourism ($1.8 billion in 2001) believe that the tourist industry is the main generator of hard currency for the Cuban economy. However, it must be noted that these are gross figures. In net terms, revenues are significantly lower. In March 2001, Carlos Lage estimated the cost per dollar of gross income from tourist activities at $0.76.[26] This indicator is very high and refers only to the direct cost in dollars, not the indirect cost incurred by the state in the tourist sector. Also consider that domestically-produced goods for tourism have an imported (indirect) component in dollars, which implies that the cost per dollar of gross income would be even higher. Direct and indirect cost per tourism dollar have been estimated by some economists at more than $0.80, which would mean for the country a net result of just $0.20 for every dollar of gross income from tourist activities.[27] Such an estimate has been recently confirmed by Cuban vice-minister of tourism Marta Maiz. In May 2003, in an interview for the Cuban magazine *Bohemia*, she said that the last year "income from tourism was $52.2 million less than in 2001, with a cost of USD 80 cents for every dollar captured by the country."[28]

Americans can send no more than $300 every three months to friends and relatives in Cuba. Prior to the new OFAC regulations regarding travel and remittances to Cuba enacted in March 2003, a cap of $300 in remittances was also applied to licensed travelers to Cuba, who were required to report the visa recipient's full name, date of birth, and the number and data of issuance of the visa or other travel authorizations issued. A licensed traveler was authorized to carry only remittances that he or she was authorized to remit and could not carry remittances being made by other persons. Since 1999 the U.S. government has also authorized several companies in the United States to legally transfer money to Cuba by relying on local individuals in Cuba who are contracted to deliver the money. The three most established businesses are Western Union, MoneyGram, and *El Español*. Within the limit of $300 per trimester, senders in the United States (who must be at least 18 years old) can send smaller amounts, such as $100, more than once in that period. However, they have to pay a fee (around $27 dollars in June 2002) each time the money is transferred. The new OFAC regulations of March 2003 allow U.S. authorized travelers to Cuba to carry as much as $3,000 in household remittances, up from $300 each quarter. The increased amount of remittances is intended to help up to 10 households per traveler.[29]

Estimating the flow of remittances to Cuba is difficult, given the lack of reliable information. Official figures (as reported by the Economic Commission for Latin America and the Caribbean, or ECLAC) make inferences from "net current transfers" in Cuba's balance of payments, which are mostly made up of remittances and, to a lesser extent, of donations. However, it is unclear how the Cuban government records remittances under net transfers. For instance, some Cuban economists argue that these figures include only transactions thorough official mechanisms (such as Western Union, Transcard,[30] and other

26. Lage, Carlos. Declaration on Cuban National Television (Noticiero Nacional de la Television Cubana), March 18, 2001.

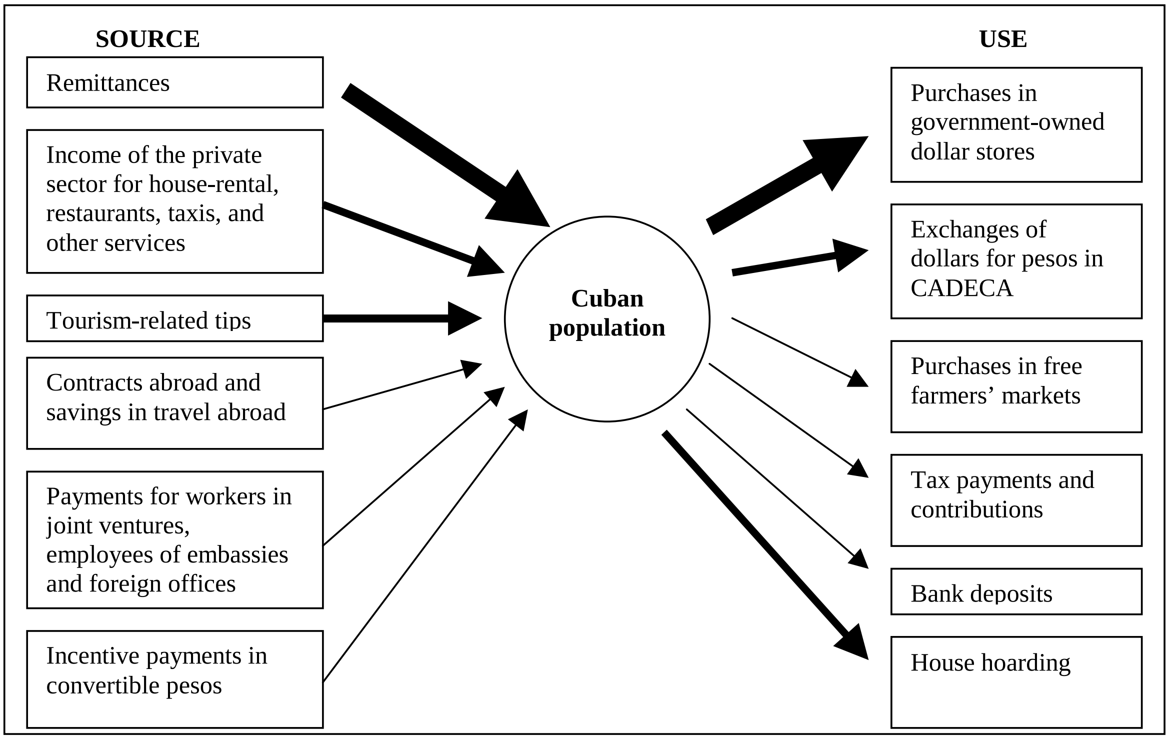
27. "Cuba: economía y turismo." Economics Press Service. N .10, May 31, 2001.

28. Fariñas, Gilda and Tesoro, Susana. "Turismo: Monedas al aire." *Bohemia*, Año 95, No. 10, May 16, 2003.

29. San Martin, Nancy. "Rules changed on Cuba trips." *The Miami Herald*, March 25, 2003. The OFAC amendments not only increase the limit on the number of remittances that can be carried to Cuba by an authorized traveler, but also introduce the following technical changes: (a) authorize licensed remittances to be made from blocked inherited funds; (b) restrict quarterly remittances from being sent to senior-level Cuban government officials or senior-level Cuban Communist Party officials; (c) simplify rules on authorization for certain emigration-related remittances. For further information see OFAC (U.S. Department of the Treasury). "New regulations impacting Cuban travel." March 24, 2003. http://www.treas.gov/offices/enforcement/ofac/legal/regs/fr68_14141.pdf

30. An ever-increasing number of Cubans are turning to the Transcard (a Canadian company) as a fast, efficient, and less costly alternative to receiving remittances via Western Union. Individuals outside of Cuba can establish accounts in any Transcard office throughout the world and designate a Cuban national as the beneficiary, who is issued a credit card to access the account and make purchases. See U.S.-Cuba Trade and Economic Council (USCTEC). *Economic Eye on Cuba*, 27 October 1997 to 2 November 1997. It must be noted that transactions with Transcard are routed via Canadian banks, thus avoiding control from U.S. authorities.

Figure 2. Main Sources of Hard Currency and Possible Uses for the Cuban Population



Source: Elaboration of the author from Aguilar Trujillo, José Alejandro. "Las Remesas desde el Exterior: Un Enfoque Metodológico-Analítico." *Cuba Investigación Económica*. INIE, Año 7, No.3, Julio-Septiembre 2001, p. 100.

* A thicker arrow indicates a larger amount of hard currency received and used by the Cuban population

money transfers services), excluding a variety of informal money transfers from abroad carried out through entrusted entrepreneurs ("mulas") as well as friends and relatives visiting the island.[31] Other economists, instead, contend that Cuban authorities use formal transfers only as a reference, to which they add estimates derived from sales in dollar stores, exchange activity of dollars for pesos in "money exchange houses" (CADECA), hoarding (money that people keep at home for preservation or future use), etc. Nevertheless, they quickly recognize that figures should be interpreted with caution. According to them, calculations exclude sales in tourist dollar stores (where Cubans also buy products) and make use of unreliable surveys to estimate the level of hoarding in Cuba.[32] Finally, some scholars simply claim that recorded figures under net transfers are calculated as the turnover of dollar shops minus dollar earnings accounted for by official payments of dollars (mainly through incentive schemes).[33]

Whatever the method used by the Cuban government to record transactions under "net current transfers," it appears that official counts of remittances highly underestimate the amount of money sent from Cubans abroad to their families in the island. Although it is virtually impossible to provide accu-

31. Interview with a Cuban economist in Havana, June 9, 2003.

32. Interview with a Cuban economist in Havana, May 20, 2003.

33. Barberia, Lorena. "Remittances to Cuba: An Evaluation of Cuban and U.S. Government Policy Measures." The Rosemarie Rogers Working Paper Series, The Inter-University Committee on International Migration, Massachusetts Institute of Technology, September 2002, p. 13.

rate estimates of remittances to Cuba, the best way to proceed is to analyze the main sources of hard currency for the Cuban population and its possible uses, as described in Figure 2. Remittances are believed to benefit as many as 30% of Cuba's 11 million citizens and constitute without any doubt the most important source of hard currency for the population of the island.[34] Several jobs in the tourist sector can also bring significant amounts of dollars tips to Cuban workers such as cab drivers, waiters, bartenders, and hotel employees. Similarly, Cubans in the private sector can earn hundreds of dollars per month for services of house-rental, restaurants, taxis, etc.[35] Finally, relatively small payments in dollars or eventually in convertible pesos are received by Cubans who work in joint ventures, embassies, foreign offices, or in certain industries that generate hard currency such as tourism, tobacco, and oil extraction among others. In short, jobs that can earn dollar salaries or tips from foreign businesses and tourists have become highly desirable in Cuba. Regarding the possible use of hard currency, the large majority of Cubans use dollars to make purchases in government-owned dollar stores (mainly for food and clothes) or exchange them for pesos in CADECA. Smaller amounts are utilized to make purchases in free farmers' markets, tax payments and contributions, and eventually to open dollar accounts in local banks. The level of hoarding also may be quite significant, but the lack of information makes it impossible to reliably assess the extent of this practice.[36]

Using available information on sales in dollar stores and dollar purchases by CADECA (where Cubans utilize the vast majority of hard currency they receive), it is possible to estimate the level of remittances to Cuba. As I said before, remittances are the most important source of dollars for the Cuban population, but they are not the only one. Thus, in order to estimate the amount of money sent from Cubans abroad to their families in the island, we must consider other ways through which Cubans enter in possession of dollars. Table 3 offers a calculation sample of remittances for the year 2001. Figures for sales in dollar stores are official data provided by the Cuban government, while the other amounts are estimates based on conversations with Cuban economists. Total sales in dollar stores in 2001 were about $1.2 billion, with an additional $100 million of dollar purchases by CADECA. From this amount, we must deduct the dollar income of Cubans who provide services of house-rental,[37] restaurants, taxis, etc. (about $70-80 million), tourism-related tips (assuming that direct workers in the tourist sectors earn on average 4-5 dollars a day, the total amount would be approximately $145-180 million), contracts abroad, and incentive payments in dollars and convertible pesos (about $25-30 million).

As shown in Table 3, total remittances to Cuba in 2001 were an estimated $1,030 to $1,080 million, significantly higher than the amount reported by sources like ECLAC that rely on Cuban government balance of payments data. If ECLAC figures ($730 million for 2001) are correct, then the level of transactions in dollar stores and CADECA ($1,320 million) imply that, in addition to remittances, Cubans receive about $600 million a year in hard currency revenues. This is highly improbable. Admittedly, hard currency sources not related to remittances may not be negligible, but they can hardly make up for the difference between the amount of money trans-

34. Johnson, Tim. "U.S. action after Cuba crackdown debated." *The Miami Herald*, May 5, 2003.

35. It must be noted that Cubans with contracts abroad such as musicians, technicians, and other professionals may also obtain payments in hard currency. However, very few people are included in this category and the amount of dollars generated by these activities, while significant at the individual level, remains overall almost negligible.

36. Interestingly, some Cuban economists argue that the level of hoarding in Cuba could be as high as $500 million. Interview with a Cuban economist in Havana, May 20, 2003.

37. It is reported that there are currently 2,705 people with licenses who rent (charging dollars) rooms to foreigners in Havana, where 80-85% of all Cuba's dollar renters are located. In addition, there are an estimated 5,200 unlicensed renters around the country who charge dollars or other foreign currencies. See Grogg, Patricia. "Landlords on the verge of a nervous breakdown." Inter Press Service (IPS), July 4, 2003.

Table 3. Calculation Sample of Remittances in 2001 ($U.S. million)

Sales in dollar stores	1,220
Dollar purchases by CADECA	100
Total	**1,320**
From this amount we deduct:	
Income of the private sector (of which)	70-80
• House-rental	
• Restaurants, taxis, and other	45-50
services	25-30
Tourism-related tips	4-5 dollars a day x 100,000 direct workers in the tourist sector 145–180
Contracts abroad, workers payments, incentive payments in dollars and convertible pesos, etc.	25-30
Total remittances	**1,030-1,080**

Source: ONE. "Ventas de la producción nacional con destino a tiendas y turismo", 2002; Estimates of the author based on conversations with Cuban economists

fers calculated by ECLAC and sales in dollar stores plus transactions in exchange houses. Cuban economists estimate that foreign exchange income from activities not related to remittances can at best represent about 20% of all dollar revenues for the Cuban population.[38]

Using sales in dollar stores and dollar purchases by CADECA as a reference, Table 4 provides estimates of remittances to Cuba for the period 1995-2002. Figures from ECLAC are also included in order to make a comparison. Since the legalization of dollar holdings in 1993, remittances to Cuba have increased significantly. ECLAC reports that individuals of Cuban descent sent more than $500 million to their relatives in the island in 1995, while this figure topped at $740 million in 2000. Almost 90% of remittance dollars received came from the United States.[39] Sales in dollar stores have experienced a similar expansion, but they increased at much higher rates between 1997 and 2001. In 1997 the total value of sales in dollar stores was $867.4 million, while in 2001 they reached $1,220 million. This suggests that the actual amounts of remittances to Cuba for the period 1997-2001 might have been much higher than those reported by ECLAC. Whereas remittances as calculated by ECLAC increased only by 9% during this period, sales in dollar stores rose by more than 40%. Transactions at CADECA also grew by approximately 25% between 1998 and 2001.

The author estimates that remittances were $750 million in 1997, $950 million in 1999, and more than $1 billion since 2000. The assumption of significant undercounts in the calculation of remittances is also consistent with the growth of Cuban-American visits to the island after Clinton's inauguration of the people-to-people contacts policy in early 1999 (see Table 2). We should remember that a large part of money transfers is undertaken in the "gray area" of the informal tourist sector. Preliminary estimates for 2002 put total sales in dollar stores at $1,350 million and remittances to Cuba at about $1,150 million (more than 10% over the previous year). As evidence of such an increase, it is reported that many new items were sold in dollar stores last year, including construction materials (mainly cement), freezers, food products, etc. Only CIMEX, the corporation that runs the largest number of dollar outlets announced sales of about $600 million in 2002.[40] CIMEX officers also revealed that Western Union, which provides services of money transfers to Cuba only from the United States, registered a record of $50 million in remittance transactions in December 2002 alone.[41]

Accurate estimates of remittances to Cuba are inevitably complicated by the existence of well-developed

38. Interview with a Cuban economist in Havana, June 3, 2003. If remittances represent about 80% of all dollar sources for the Cuban population, then they would be approximately $1,050 million in 2001.

39. Orozco, Manuel. "Challenges and Opportunities of Marketing Remittances to Cuba." Inter-American Dialogue, Washington D.C., July 27, 2002, p.1 (hereinafter "Orozco 2002").

40. Interview with a Cuban economist in Havana, June 18, 2003.

41. Interview with a Cuban economist in Havana, May 20, 2003.

Table 4. Sales in Dollar Stores, Dollar Purchases by CADECA and Remittances to Cuba, 1995-2002 ($U.S. Million)

	1995	1996	1997	1998	1999	2000	2001	2002*
Sales in dollar stores	537	743.9	867.4	1,027	1,108.8	1,203.4	1,220	1,350
Dollar Purchases by CADECA**	—	—	—	75	82	90	100	100
Net Current Transfers	646	744	792	813	799	740	813	—
Remittances (ECLAC estimates)	537	630	670	690	700	740	730	—
Remittances (author's estimates)	537	640	750	880	950	1,030	1,050	1,150

Source: ONE. "Ventas de la producción nacional con destino a tiendas y turismo." 2002 and earlier editions; ECLAC. "Cuba: Evolución Económica Durante 2001." June 6, 2002; Cuban Central Bank, 2002.

* Preliminary estimates

** Estimates of the author based on conversations with Cuban economists

informal mechanisms for money transfers. Instead of making use of formal wire transfer services (fees charged by U.S. based companies remitting to Cuba are the highest among all operators engaged in legal money transfer to Latin American countries), U.S. citizens of Cuban descent tend to rely on relatively inexpensive and more user-friendly informal remittance channels.[42] It is well known that a huge flow of remittances arrive on the island in the luggage of friends, relatives, or entrusted agents. The latter, usually referred to as "mulas," are entrepreneurs who travel frequently to the island as tourists and without a license to operate as a business. They carry both money and packages of goods to Cuban relatives of the senders for cheaper fees than the ones charged by official agencies. A November 2001 survey carried out by the Inter-American Development Bank shows that only 32.1% of U.S. citizens of Cuban descent make use of Western Union to transfer remittances, while more than 46% prefer to send money with persons who are traveling to the island. In terms of the volume of the economic transactions, it is estimated that informal mechanisms capture up to 80% of the total flow of money transfers to Cuba from the United States.[43]

Some analysts have attempted to estimate the amount of remittances sent to Cuba by tracking the activities of money transfer companies operating in the island from the United States and Canada, and by carrying out extensive interviews with officials of those companies, travel agents, and other entrepreneurs. Recent figures from the Inter-American Development Bank (IADB), which do not differ significantly from the author's estimates, put the total amount of remittances to Cuba at $930 million in 2001 and $1.138 billion in 2002, an increase of about 22% over the previous year.[44] These findings are extremely surprising in light of the economic downturn of the U.S. economy following the terrorist attacks of September 2001. The November 2001 IADB survey estimated that about 67% of U.S. citizen of Cuban descent over age 18 sent remittances back home.[45] Using data from the 2000 U.S. Census on the Hispanic Population in the United States, the total number of Cuban-Americans sending remittances to Cuba would be more than 700,000. Whereas more than 50% of Cuban respondents in the survey said they sent less than $100 per transaction, interviews with "mulas" say that, on average, they carry more than $200 per individual package.[46]

42. Eckstein, Susan. "Diasporas and Dollars: Transnational Ties and The Transformation of Cuba." The Rosemarie Rogers Working Paper Series, The Inter-University Committee on International Migration, Massachusetts Institute of Technology, February 2003, p. 15 (hereinafter "Eckstein 2003").

43. Orozco 2002, pp.4-5.

44. Inter-American Development Bank (IADB). "Sending Money Home: An International Comparison of Remittance Markets." February 2003.

45. Orozco 2002, p.1.

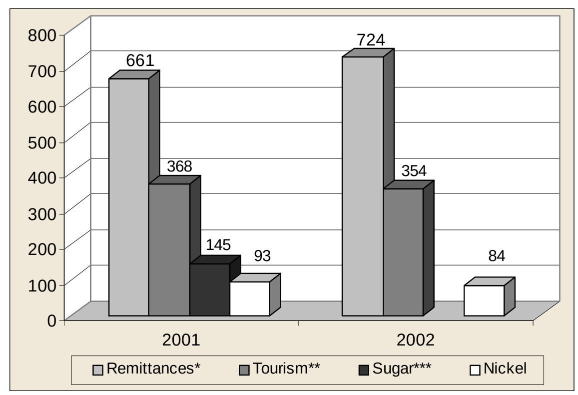
46. Personal conversation with Manuel Orozco, April 5, 2003.

Given that most of the "mulas" travel twice a month using different routes, it is likely that money transfers using these entrepreneurs violate the annual limit of $1200 in remittances for U.S. citizens. As further evidence, if we divide the author's estimates of remittances (to be more precise, we can deduct 10% because not all remittances come from the United States) by the estimated number of Cuban-Americans who regularly send money to their families (700,000), we can see that money transfers to Cuba from the United States were on average $1,350 per person in 2001 and $1,478 per person in 2002.

It is well known that many Cuban-Americans use services in foreign countries to engage in "special" transactions that circumvent the cap on remittances. Asked to comment about his remittance activities, a Cuban exile from New Orleans revealed in 1997 that he had sent $200 dollars back home to Cuba every month for the past 15 years using a Canadian company.[47] Unlimited informal transactions are currently facilitated by the emergence of a new web-based money transfer service (Cash2Cuba) that reduces commissions and increases the speed of transfers to Cuba. The service, which is based in Canada, facilitates informal practices by providing registered Cuban recipients a card to make cash withdrawals. More specifically, the remitter can send money that the recipient in Cuba withdraws in cash at banks or official exchange businesses with a local credit card issued by the Cuban corporation CIMEX. Merchandise can also be purchased by credit card in Cuba's retail stores in hard currency.[48] In its first month of operation in December 2002, Cash2Cuba reported a volume of transfers of $320,000 dollars and 10,000 registered users.[49]

Limitations on remittances are perhaps the most contradictory element of current U.S. policy toward Cuba. While being part of a series of U.S. restrictions intended to squeeze the Castro government economically, remittances have been Cuba's fastest growing hard currency source during the 1990s. To put things into perspective, Figure 3 provides rough estimates of Cuba's four largest sources of hard currency revenues (net figures) in 2001 and 2002. The total amounts are based on the author's data, figures released by the Cuban vice-president Carlos Lage and Cuban vice-minister of tourism Marta Maiz, and calculations of some Cuban economists.

Figure 3. Cuba's Main Sources of Hard Currency in 2001 and 2002 (net revenues in $U.S. million)



Source: Author's estimates based on Nova González, Armando. "Continuará la Dolarización?" Economics Press Service, 2001; Declaration of Carlos Lage on Cuban National Television, March 18, 2001; Economics Press Service. "Cuba: economía y turismo." N.10, May 31, 2001; Declaration of Carlos Lage in Mayoral, Julia María. "El país tiene confianza en su avance social y económico." *Granma Internacional*, April 5, 2003; Declaration of Marta Maiz in Fariñas, Gilda and Tesoro, Susana. "Turismo: Monedas al aire." *Bohemia*, Año 95, no. 10, May 16, 2003

* Net revenues are calculated as 63% of total transfers from abroad ($1050 in 2001 and $1150 in 2002)

** Assuming the cost per dollar of gross income from tourist activities at $0.80 or 80 cents.

*** Net revenues from sugar in 2002 are significantly lower than in 2001

Remittances are a source of fresh capital for the Cuban population but, in terms of revenues, they do not constitute a net benefit for the Castro govern-

47. Hegeman, Roxana. "Exiles prop up Cuban economy by sending money to families." Associated Press, November 28, 1997.
48. Arreola, Gerardo. "Canadian company exploits family remittances exceeding $1 billion yearly." *La Jornada*, November 27, 2002.
49. Economist Intelligence Unit (EIU). "Remittances flows become easier." *Country Report: Cuba*, February 1, 2003.

ment. The latter obtains access to remittances mostly through sales in dollar stores, and obviously there are costs involved in procuring the goods exchanged in these transactions. In selling products at dollar stores, the Cuban government applies an ideal mark-up (hidden tax) of 240%. This means an item that costs $100 dollars to produce domestically (or import), with a 240 percent tax, would sell for $240 dollars.[50] Therefore, net revenues of dollar stores are about 58% of total sales. We must also consider that some remittances end up in CADECA, free farmers' markets, hoarding, etc. Nova González, an economist from the island, has estimated that net revenues from remittances are about 63-64% of the total amount of money sent to Cuba.[51] From Figure 3, we can see that remittances in 2001 generated more hard currency revenues for the Cuban government than any other source, totaling approximately $660 million. In net terms, profits from money transfers were almost 80% more than tourism revenues ($368 million), four and a half times the amount of sugar revenues ($145 million), and more than seven times the value of nickel revenues ($93 million). Figures for 2002 are even more striking. In 2002, net profits from remittances ($724 million) were more than twice the level of revenues from tourism activities ($354 million), and exceeded nickel revenues ($84 million) by more than eight times. Regarding sugar, we can fairly assume that net revenues in 2002 were significantly lower than in 2001. Although Cuba reached a production level of 3.605 million tons of raw sugar in 2002 (2% higher than the previous year), low sugar prices in the international market meant losses of approximately $120 million in export revenues in 2002 compared to 2001.[52] In sum, the importance for the Cuban economy of money sent from abroad appears quite evident. Even if they are intended to provide the Cuban population a much-needed source of additional income, remittances end up in the hands of the Cuban government, thus allowing the latter to meet the most urgent needs of the country and pay unavoidable short-term debts with high interest rates.[53]

AMERICAN FOOD SALES TO CUBA

In the last few years, economic sanctions against Cuba have been under fire in the U.S. Congress. As a result of growing skepticism on the utility of economic coercion as well as lobbying efforts by U.S. business and agricultural communities (in particular food exporters), an increasing number of lawmakers has pushed for a relaxation of the 40-year old embargo and the beginning of a new trade relationship with the Castro government. In October 2000, the U.S. Congress passed the "Agriculture, Rural Development, Food and Drug, Administration, and Related Agencies Appropriations Act, 2001." Title IX of the bill, signed into law by President Clinton a few weeks later, includes provisions that allow sales of U.S. food and agricultural products (and medicines) to Cuba for the first time in nearly forty years. It should be noted that a clause inserted in the final version of the bill prohibits U.S. companies and financial institutions from providing credits for such transactions, thus obligating the Cuban authorities to complete their purchases only with cash payments or through financing provided by third-countries' companies. Enraged by that restriction, the Cuban government initially said it would not buy any food until the embargo was completely lifted.

Indeed, for about a year after the passage of the U.S. law, Cuba refused to buy "a single grain of rice" from the United States. However, after hurricane Michelle caused widespread damage to the island in November 2001, the Castro government began to take advantage of the law and buy American food to replenish its reserves. The first contract between a U.S. firm and the Cuban government, worth about $40 mil-

50. Eckstein 2003, p.17.

51. Nova González, Armando. "Continuará la Dolarización?" Economics Press Service, 2001.

52. Triana Cordoví, Juan. "Cuba; Desempeño Económico en el Primer Semestre del 2002." Centro de Estudios de la Economía Cubana (CEEC), Havana, 2002. Sugar prices dropped by 27% in the first six months of 2002.

53. Interview with a Cuban economist in Havana, June 5, 2003.

lion, was signed on December 16, 2001. Since then, Cuba has purchased approximately $200 million of American food products.[54] Table 5 reports the value of Cuba's food imports from the United States in 2002 compared to total Cuban imports of the same products in 2001.

Table 5. Cuba's Food Imports from the United States in 2002 ($U.S. million)

Product	From United States 2002	Total 2001	U.S. vs Total*
Wheat	22.8	119.2	19%
Corn	22.7	19.5	116%
Poultry	21.6	62.0	35%
Soybean Oil	21.4	19.3	111%
Soybeans	20.9	15.4	136%
Soybean Oil Cake	19.3	26.7	72%
Total Imports	138.6	827.8	17%

Source: Sources: U.S.-Cuba Trade and Economic Council, 2003; García Alvarez, Anicia. "Sustitución de Importaciones de Alimentos en Cuba: Necesidad vs. Posibilidad." CEEC, March 2003.

* Cuba's imports from the United States are for 2002 while total imports from all countries are for 2001.

The United States is becoming an increasingly important trading partner for Cuba, ranking first among the island's sources of imported food in 2002.[55] In 2002, according to the U.S.-Cuba Trade and Economic Council, the Cuban government bought $138.6 million worth of American food products, including wheat ($22.8 million), corn ($22.7 million), poultry ($21.6 million), and soybean products ($61.6 million). One company alone, Illinois-based Archer Daniels Midland, reported agricultural exports to Cuba valued at $70 million in 2002.[56] However, Cuba has signed contracts with 84 other U.S.-based firms from 24 different U.S. states. It is important to note that, since restrictions on agricultural trade were eased in October 2000, the United States has provided 17% of Cuban food imports from all countries (using 2001 as a reference). Preliminary figures for 2002 show that U.S. food sales could have represented more than a quarter of Cuba's total agricultural goods imports in 2002.[57] Cuban officials estimate that the U.S. share could rise to about 60% with a complete lifting of the embargo.[58]

To some extent, the Castro government's decision to buy products from the United States may be seen as part of a political attempt to encourage anti-embargo forces in the U.S. Congress. However, Cuba's economic considerations in terms of price competition have also been a factor in such a decision. As recognized by a senior official in Havana, "the proximity of U.S. Gulf ports saves freight and warehousing storage costs, which give U.S. exporters the equivalent of up to 20% price advantage."[59] American food sales to Cuba have already affected the island's key trading partners, among them Canada, France, and Spain. For instance, Canada's official statistics report that poultry and wheat exports to Cuba were down, respectively, by 60.9% and by 79.2% in 2002. More specifically, Canada exported to Cuba about $12.4 million of poultry and $14.9 million of wheat in 2001. In 2002, Canadian sales of poultry and wheat dropped to $4.8 million and $3.1 million, respectively.[60] Similarly, the French government declared that food and agricultural sales to the island (71.2 million

54. Frank, Marc. "US-Cuba trade group wants Havana food show to go on." *Reuters*, June 20, 2003.

55. Snow, Anita. "United States become Cuba's No. 1 source of imported food." *Associated Press*, March 2, 2003 (hereinafter "Snow 2003").

56. U.S.-Cuba Trade and Economic Council (USCTEC). *Economic Eye on Cuba*, February 17-23, 2003. It must be noted that Cuban authorities estimated American food purchases in 2002 at $189 million, because they include transportation, taxes, and other additional costs.

57. Economics Press Service. "Las compras en números." March 15, 2003, p. 10. Preliminary statistics from the U.S. Department of Agriculture's Foreign Agricultural Service indicate that Cuba imported about $452 million worth of farm products in 2002.

58. Jordan, Pav. "U.S.-Cuba Trade Grows Despite Restrictions." *Reuters*, February 17, 2003.

59. Frank, Marc. "Cuba slashes imports amid ongoing cash crunch." *Reuters*, October 15, 2002 (hereinafter "Frank 2002").

60. For further information see Statistics Canada, June 29, 2003 at: http://strategis.ic.gc.ca/sc_mrkti/tdts/tdo/tdo.php.

euros in 2002) decreased by 39.3%.[61] French wheat sales were down by approximately 40% in the first six months of 2002.[62] As shown in Table 5, the value of U.S. wheat and poultry sales to the Castro government ranked first and third among all U.S. agricultural products exported to Cuba in 2002. Using again 2001 as a reference, we can see that the United States has already captured a significant share of Cuba's wheat (19%) and poultry (35%) markets. Finally, the total value of all exports to Cuba from Spain dropped by 23.7% in 2002. The Spanish government reports that exports to the island were 625 million euros in 2001 and 476.6 million euros in 2002.[63] Regarding food products, Cuba's purchases from Spain plunged by 43.1% in the first nine month of 2002. Food sales by other traditional Cuban trading partners also decreased during the same period, including drops of 40.5% for Brazil, 39.6% for Mexico, and 81% for Argentina.[64]

How do U.S. food sales generate hard currency revenues for the Cuban government? This is quite simple. Although the majority of U.S. commodities exported to Cuba go into ration stores, almost 10% end up in local dollar shops.[65] Just as an example, it is reported that products exported to Cuba by Indiana-based Marsh Supermarket and sold at government-owned dollar retail stores continues to rise. Since October 2002, Marsh brand cereals, gelatin desserts, instant pudding, pie filling, and hot cocoa mix have been available in Cuba, with additional items reaching the local hard currency market since January 2003.[66] As stated previously, the price mark-up for imported food in government-owned dollar stores is about 240%. Therefore, the 10% of U.S. food sales ($200 million since December 2001) worth approximately $20 million that reached Cuba's dollar stores would sell for about $48 million, thus generating as much as $28 million in hard currency revenues for the government of Fidel Castro. Given that Castro has promised to increase food imports from the United States in 2003, a growing amount of foreign exchange revenues (once generated by products imported from other countries) will be generated by U.S. trade activities with Cuba. American food sales to the island were up by more than 39% in the first six months of 2003 (as compared to the same period in 2002),[67] and they are projected to increase by nearly 20% this year, for a total value of about $166 million.[68]

U.S. INDIRECT INVESTMENTS IN CUBA

This section provides a brief overview of an increasingly important and largely unexplored aspect of U.S.-Cuba economic relations, that is, the presence of American investors in foreign firms that trade with or invest in Cuba. More specifically, the U.S. Department of the Treasury authorizes individuals and firms subject to United States law to invest in a third-country company that has commercial activities in Cuba, as long as they do not acquire a controlling interest of that company and provided that a majority of the revenues of the third country company are not produced from operations within Cuba.[69] Thus, if the investment is an indirect one, a U.S. entity

61. Douanne Francaises. "Echanges commerciaux bilateraux en 2002." Statistics of the French Embassy in Havana, May 2003.

62. Frank 2002.

63. Europa Press. "La balanza comercial de España con Cuba registró un saldo positivo de 316 millones de euros en 2002." June 13, 2003.

64. Snow 2003.

65. Personal conversation with John Kavulich, president of U.S.-Cuba Trade and Economic Council, April 11, 2003.

66. U.S.-Cuba Trade and Economic Council (USCTEC). *2003 Commercial Highlights*. http://www.cubatrade.org/2003Lst.pdf (hereinafter USCTEC 2003).

67. U.S.-Cuba Trade and Economic Council (USCTEC). *Economic Eye on Cuba*, August 11–17, 2003.

68. Huettel, Steve. "Tampa port officials will travel to Cuba." *St. Petersburg Times*, June 12, 2003.

69. U.S.-Cuba Trade and Economic Council (USCTEC). *2000 Commercial Highlights* http://www.cubatrade.org/ (hereinafter "USCTEC 2000").

Table 6. U.S. Investments in Selected Foreign Companies Operating in Cuba

Year	Company	Country	Type of Operations in Cuba	Presence of U.S. Investors (%)	Major U.S. Investors
2000	Hotetur	Spain	Management contracts in 3 hotels	26%[a]	Florida-based Carnival Corporation
2000	Iberia Airlines	Spain	Two joint ventures (cargo terminal and aircraft maintenance)	2%	Texas-based American Airlines Inc.
2000	Mitsubishi Motors	Japan	Exporter of vehicles	10.41%	California-based Capital Research and Management Co.
2000	Nestle	Switzerland	Mineral water and soda-bottling joint venture	14%	—
2000	Sol Meliá	Spain	22 Management contracts and 4 equity investments in Cuba's tourist sector	16%	—
2000	Telecom Italia	Italy	Joint venture in telecommunications	3%[b]	New York-based Lehman Brothers Holdings Inc.
2001	Alcan	Canada	Exporter of aluminum products	23%	—
2002	Fiat Group	Italy	Exporter of vehicles	20%	Michigan-based General Motors Corporation
2002	Leisure Canada	Canada	Developer of luxury multi-destination resorts	30%	California-based Robertson Stephens Inc.
2002	LG Electronics Investment	South Korea	Exporter of refrigerators, washing machines, air conditioners, televisions	6.6%	New-York based The Goldman Sachs Group
2002	Accor	France	Several management contracts in Cuba's tourist sector	16.7%	—
2003	Souza Cruz	Brazil	Joint venture in tobacco sector	5.1%[c]	—

Source: Compilation of the author from data of U.S.-Cuba Trade and Economic Council (2000-2002) and financial reports of individual companies.

a. In 2000, Carnival Corporation owned 26% of U.K.-based Airtours PLC, which owned 50% of Hotetur.

b. In 2000, Lehman Brothers owned 3% of Italy-based Olivetti S.p.A. Telecom Italia is a subsidiary of Olivetti.

c. In March 2003, U.K.-based British American Tobacco (BAT), which also has U.S. capitals, held 75.3% of the shares of Souza Cruz.

should have no problem in building a Cuba-related stock portfolio.

In order to give a sense of the importance of U.S. indirect business connections with Cuba, Table 6 provides data on the presence of U.S. shareholders in selected foreign companies that operate in the island's market. As observed by John Kavulich, "American companies have affiliations with and U.S. citizens have investments in Sol Meliá, Unilever, Accor, Alcan, Fiat, Daimler Chrysler, and Nestlé among many other companies, which have commercial activities within Cuba." He also notes that, "most of the largest U.S. financial institutions and investment banks provide services for companies that have commercial activities within Cuba."[70] Obviously, Table 6 is just a sample based on public information, and the presence of American investors in certain companies could be higher than that reported. The key aspect is that, in an increasingly globalized world, the nationality of a specific firm may become almost irrelevant. The following are some details of specific U.S. indirect links with Cuba as reported by the U.S.-Cuba Trade and Economic Council and by financial reports of individual companies.

- In 2000, individuals subject to United States law held approximately 16% of the shares of Spain-based Sol Meliá and 14% of Switzerland-based Nestlé.[71] Sol Meliá is the largest hotel company

70. "U.S. goods, people, cash pour into Cuba." *Reuters*, July 28, 2001 (hereinafter "*Reuters* 2001").

71. USCTEC 2000.

in Spain and the leader in Cuba's tourist sector with equity interests in 4 hotels and 22 management contracts.[72] Nestlé owns several mineral water bottling plants in Cuba and has a joint venture (Los Portales S.A.) with the Cuban company Coralsa that produces and markets the best selling soft drinks and mineral waters in the island.[73]

- In 2000, Texas-based American Airlines Inc. owned 2% of Spain-based Iberia Airlines and California-based Capital Research and Management Co. owned 10.41% of Japan-based Mitsubishi Motors.[74] Iberia Airlines has a joint venture (Empresa Logística de Carga Aérea S.A.) with the Cuban company Aerovaradero S.A. involving a new freight terminal in the vicinity of the José Martí International Airport, and another joint venture (Empresa Cubano-Hispana de Mantenimiento de Aeronaves IBECA S.A.) for aircraft maintenance.[75] Mitsubishi sells automobiles, spare parts, and accessories to Cuba through the Panamanian company Motores Internacionales del Caribe S.A.

- In 2000, New York-based Lehman Brothers Holdings Inc. purchased 3% of the shares of Italy-based Olivetti S.p.A. Telecom Italia S.p.A., a subsidiary of Olivetti, has a joint venture (ETECSA) with the Cuban telephone company EMTEL for the modernization and expansion of Cuba's telephone system. In terms of capital invested, ETECSA is one of the most important joint ventures operating in Cuba. Also in 2000, Florida-based Carnival Corporation increased indirect minority presence in Cuba through the purchase by United Kingdom-based Airtours PLC of 50% of Spain-based Hotetur Club S.L. Carnival Corporation owns 26% of the shares of Airtours PLC.[76] Hotetur Club has management contracts in three hotels in Cuba, the Deauville in Havana, the Hotetur Palma Real and the Hotetur Sun Beach in Varadero.

- In 2001, U.S. investors held approximately 23 percent of Alcan of Canada, which exports aluminum products to Cuba.[77]

- In 2002 New York-based The Goldman Sachs Group had a 6.6% interest in South Korea-based LG Electronics, Michigan-based General Motors Corporation had a 20% interest in Italy-based Fiat Group, and California-based Robertson Stephens Inc. owned about 30% of the shares of Canada-based Leisure Canada.[78] U.S investors also held 16.5% of the shares of the French group Accor.[79] LG Electronics has a strong presence in the Cuban market. A variety of its products, including refrigerators, washing machines, air conditioners, and televisions among others, are assembled and sold in the island. The Fiat Group has established in 1995 a dealership in the island (Agencia Cubalse Fiat) in conjunction with Cuba's government-operated Cubalse S.A. Since then, the Italian company has sold thousands of vehicles every year in Cuba, including automobiles, industrial vehicles, and agriculture machinery. Leisure Canada is developing five-

72. Spadoni, Paolo. "Foreign Investment in Cuba: Recent Developments and Role in the Economy." In *Cuba in Transition—Volume 12*. Association for the Study of the Cuban Economy (ASCE), 2002, p.170 (hereinafter "Spadoni 2002").

73. Pérez Villanueva, Omar Everleny." El Papel de la Inversión Extranjera Directa en el Desarrollo Económico. La Experiencia Cubana." Centro de Estudios de la Economía Cubana (CEEC), March 2003, p. 91.

74. USCTEC 2000.

75. Comellas, Miguel. "Iberia and Aerovaradero establish joint venture." *Granma International*, April 10, 2002.

76. U.S.-Cuba Trade and Economic Council (USCTEC). *2001 Commercial Highlights* http://www.cubatrade.org/.

77. *Reuters* 2001.

78. USCTEC 2002.

79. Interestingly, U.S. entities hold more shares (16.7%) of the French group Accor than any other international investor. Major shareholders are also from the United Kingdom (16.3%), Germany (5.2%), Belgium (3.7%), Luxembourg (2.9%), and Switzerland (2.5%). The complete list of Accor shareholders by country as of December 31, 2002 can be found at: www.accor.com.

star hotels, timeshare condominiums and PGA golf courses in Cuba, with an estimated investment plan of $400 million. Curiously, Leisure Canada announces in one of its brochures that the company is positioned to capitalize on the current growth of Cuban tourism, and the future growth fueled by the United States, following the inevitable normalization of U.S.-Cuba relations. It also specifies that it is perfectly legal for U.S. potential investors to purchase shares of the Canadian company, and that U.S. investment banks already control over 20% of Leisure Canada.[80] Finally, France's Accor group manages several hotels in Cuba with establishments that operate under the Novotel, Sofitel, Coralia, and Mercure Brands. For instance, Accor runs the Sofitel Sevilla hotel in Havana, the Mercure Cuatro Palmas hotel in Varadero Beach, and the Sofitel Casa Granda Hotel in Santiago de Cuba. The French group, which will complement its actions with the Coralia Club Bucanero Hotel in Santiago de Cuba, expects to run over 15 facilities in the island under the consortium's different brands.[81]

- In March 2003, individuals subject to United States law held approximately 5% of the shares of Brazil-based Souza Cruz. U.K.-based British American Tobacco (which also has significant U.S. capital) owned 75.3% of the Brazilian company.[82] In April 1995, Souza Cruz created a joint venture (BrasCuba S.A.) with Cuba's Unión del Tabaco. With an initial investment of $7 million, BrasCuba renovated an existing cigarette factory in Havana and started producing and selling several brands of cigarettes for the domestic market as well as for external markets. Today, after eight years of operations in the island, Brascuba has the virtual monopoly of cigarettes in Cuba's dollar stores and for exports.[83]

It is quite difficult to offer a comprehensive analysis of U.S. indirect business connections with Cuba, given that private companies are not required to make public the list of their shareholders. Such an endeavor is also complicated by the fact that, with millions of dollars moving around the world every second via electronic transactions, the real origin of financing for specific business operations is often unknown. As Everleny Pérez reminds us, "there are many companies in Cuba that are based in the Bahamas, other Caribbean islands, Spain or Britain, and you really can't tell if these companies receive U.S. funds attracted by the high interest rates we (Cubans) pay."[84] Nevertheless, the information presented in Table 6 shows that American entities hold publicly traded shares of several major foreign firms engaged in business activities with the government of Fidel Castro. While profits from the Cuba-related stock portfolio may not be particularly significant for some U.S. investors in terms of their global revenues, American investments in foreign companies that operate in the island are just another example of gaping holes in the United States' effort to isolate Cuba economically. If we consider that some of these foreign firms have provided Cuba much-needed capital, technology, management expertise, and new markets for its main exports, then the importance for the Cuban economy of U.S. indirect business operations in the island appears evident.

80. On June 11, 2003, Leisure Canada reported that the company had created a hotel brand (Mirus Resorts and Hotels) to use on properties within Cuba. The Canadian firm has been given the right to manage the Monte Barreto hotel in Havana under the new brand. According to the company, "the development of a hotel brand that can quickly transfer to a North American hotel chain, once the doors to Cuba open, further establishes Leisure Canada's vertically integrated gateway to Cuba." USCTEC 2003. For further information also see: www.leisurecanada.com.

81. "Accor: Big groups turn eyes toward Cuba." DTC News. Directorio Turístico de Cuba, 2003. It is reported that the Novotel Miramar in Havana, run by Accor since 2000, is now managed by the Spanish group Occidental Hotels & Resorts. For further information see "Hoteles-Occidental entra en Cuba y baja ventas un 11% en 2002." *Granma Internacional*, June 9, 2003.

82. The list of Souza Cruz shareholders is available at: www.souzacruz.com.

83. Spadoni 2002, p. 167.

84. *Reuters* 2001.

CONCLUSION

From the analysis presented in this paper, we can argue that, in spite of the tightening of the embargo, the United States has contributed in a significant way to the recovery of the Cuban economy following the deep recession of the early 1990s. While intended to stimulate democratic reforms and exercise pressure for regime change in Cuba by stemming the flow of hard currency to the island, U.S. economic sanctions have achieved neither of these goals. Admittedly, the role of the United States in the Cuban economy would have been much more important in the absence of sanctions. However, even with restrictions in place, significant amounts of hard currency have been channeled into Cuba through direct and indirect means of travel, remittances, food sales and secondary investments. Washington's policy toward Havana ended up throwing a lifeline to the same government it was supposed to undermine.

Even more important, formal and informal activities by the Cuban-American community, the most vocal group in the United States in favor of the embargo, have been a major factor in keeping afloat the economy of the Caribbean island. For instance, of approximately 200,000 U.S. citizens who traveled to Cuba in 2001 with or without their government's approval (they were the largest group of visitors after Canada), about 125,000 were Cuban-Americans. In addition, remittances to the island sent from U.S. citizens of Cuban descent mostly through informal mechanisms have been, in net terms, Cuba's most important source of foreign exchange. As argued by Susan Eckstein, "the remittance economy reflects a society that is transnationally grounded, able, willing, and wanting to operate according to its own networks and norms, in defiance both of U.S. and Cuban official regulations that interfere."[85]

In light of this situation, two possible options are available to U.S. decision-makers for a more successful policy toward Cuba. The first option is to strengthen current restrictions on travel and remittances by significantly reducing the number of U.S. citizens authorized to visit the island and the amount of money that Cuban-Americans can send legally to their families. In order to be effective, these measures should increase the level of scrutiny for potential violations on travel and money transfers as well as hold citizens of Cuban descent to the same standards as any other American. While such a policy may be unpopular and quite expensive to implement, it makes no sense to make exceptions for a specific group of U.S. citizens that channel into Cuba more hard currency than any other group.

Recent changes of rules on travel and remittances introduced by the Bush administration in March 2003 do not help much in this regard. The new regulations put an end to "people to people" exchanges (travel permits no longer will be granted to numerous organizations that had allegedly used the licenses to build tour-operator businesses), facilitate Cuban-American visits to their families in the island by eliminating the requirement for "humanitarian need," and allow travelers to carry up to $3,000 in remittances for 10 households, up from $300. Although these measures may appear expansive at a first glance, they simply legalized what could not be prevented and may well lead to an increase in the flow of hard currency to Cuba. In single trips, "mulas" and other entrusted agents already carried thousands of dollars in remittances to be distributed to many different households in Cuba. While U.S. citizens can now carry more money with them, there is no guarantee that informal practices will be reduced. In addition, the new rules will probably trigger a rise of both illegal trips to the island by U.S. citizens not of Cuban descent and Cuban-American visits to their families. At any rate, it should be noted that so far U.S. authorities have taken no enforcement actions against Cuban-Americans for violations on travel. The general requirement for "humanitarian need" was so broad that it was hardly worthwhile to scrutinize.

A second option, which is not necessarily more viable politically but certainly less expensive than the first one, is to promote a rapprochement with Havana

85. Eckstein 2003, p. 16.

and a gradual removal of the embargo in recognition that economic sanctions have not achieved their main goals. A policy that respects the rights of Americans to trade with, invest in, and travel to the island may more effectively serve U.S. interests in post-Soviet Cuba by defending human rights, helping the Cuban people, and spreading the values of the American society.[86] It would also increase pressure on the current government in Havana by preventing Fidel Castro from using his traditional argument that the United States promotes economic deprivation in Cuba and seeks to constrain Cuban sovereignty.

In short, unless significant steps are taken in one of the suggested directions, the United States will have no choice but to wait until Castro passes from the scene by natural causes, and hope his successor will be less resilient than him, or perhaps more inclined to introduce extensive democratic reforms. To conclude, consider a recent quote by U.S. president George W. Bush that exemplifies the great irony of economic sanctions with respect to Cuba. In May 2002, Bush stated: "The sanctions the United States enforces against the Castro regime are not just a policy tool, but a moral statement. It is wrong to prop up a regime that routinely stifles all the freedoms that make us human."[87] If this is the case, then the findings of this paper demonstrate that U.S. policy toward Cuba in the post-Cold War era has been nothing else than a "wrong" policy.

86. Peters, Philip. "A Policy toward Cuba that Serves U.S. Interests." Washington D.C.: The Cato Institute, November 2, 2000.

87. U.S. Department of State. "The United States and Cuba." International Information Programs. http://usinfo.state.gov/regional/ar/us-cuba/.