

A POLITICAL ECONOMY APPROACH TO US NORMALIZATION POLICY TOWARDS CUBA: OBAMA AND TRUMP

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In this chapter five contributions are made to advance understanding of US Cuba relations. First, empirical evidence is provided on outcomes with respect to the flows of persons, goods and services, and capital between Cuba and the US. While the evidence stresses the last decade, it goes back to the 1990's when feasible and relevant. Second, policies and their implementation by both the US and Cuba's governments are viewed as the actions of political agents that provide opportunities and challenges for these outcomes to fluctuate over time in pursuit of a variety of goals. Third, these outcomes are treated as responses of US and/or Cuban entities and residents as economic agents to the policies and their implementations by the two governments. Fourth, throughout the essay interactions between different policies within each country as well as between the two countries are analyzed in terms of their impact on actual outcomes. Finally, in the last substantive section the role of political factors in the two US administrations is highlighted to bring out interactions between political and economic dimensions and to illustrate the policies explicitly or implicitly adopted by the Trump administration.

Before starting on the individual sections below some general comments on the approach taken will help the exposition. A political economy approach is characterized by including in the analysis two features of government actors as decision makers affecting the economy. First, government actors as economic agents have self-interests that may or may not coincide with

¹ This paper significantly updates an earlier one on the general topic of the Trump's administration potential Cuba policy. Comments on the earlier one by Luis R. Luis, John Devereux and Jorge Perez-Lopez continue to benefit this one. Comments on the present version by Richard Witmer have substantially improved the exposition, especially for the benefit of non-specialists. Any errors new or old are the sole responsibility of the author.

those of the governed. This is true in both democracies and non-democracies. Hence, in the context of US Cuba relations it applies to both governments. Second, even in cases where the interests of government actors and of those they govern coincide perfectly, there are potential deviations between announced policies and the actual outcomes of those policies as a result of implementation issues. Once again, in the context of US Cuba relations this gap between objectives and realizations applies to both countries. I will emphasize throughout the deviations between announced policy and its implementation while mentioning convergence of government and citizens' interests far more sparingly and only when appropriate in the context of a particular discussion.

Economists' analysis of the gap between announced policy and implemented policy at the micro level has been characterized as requiring the adoption of three different roles in these evaluations: scientists, engineers and plumbers in Duflo's (2017) terminology. The scientific role relies on economic theory or on a specific model to derive a logically expected outcome of a policy at an abstract level; the engineering role introduces additional aspects that may affect outcomes upon implementation with varying degrees of rigor; and the plumbing role introduces idiosyncrasies and behavioral patterns arising at the implementation level that are difficult to describe rigorously in general terms but that can determine whether expected outcomes reflect those intended by the policy. While the policies considered here are macro policies, they can be evaluated in similar terms.

Just as indicated previously we concentrate on the gap between announced policies and their implementations, i.e., on engineering and plumbing aspects that lead to actual outcomes differing from expected ones. For instance, with respect to macro policies the engineering issues often arise from general equilibrium and strategic interaction effects that are ignored at the

scientific level often on the grounds of simplicity. Similarly, these engineering aspects require a number of adaptations for implementation as a result of idiosyncrasies or of behavioral patterns of economic or political agents that can be characterized as plumbing needs. These idiosyncrasies and/or behavioral patterns are the same as what existing literature in politics and economics characterizes as principal-agent problems, e.g., between any ruler and any bureaucracy that implements his/her policies. This essay attempts to incorporate these engineering and plumbing issues throughout the paper.

Facts on the ground are a useful starting point for policy analysis in general because to understand where we are going it is useful to know where we are coming from. For instance, evidence and perspective on Obama's policy and its effects can provide insights on Trump's announced policy (The White House Press Office, June 16, 2017) as well as on its implementation both with respect to what changed and what did not change. In the context of US Cuba relations, however, Obama's Cuba normalization policy is also useful because it was focused primarily on the embargo either explicitly or implicitly.² The latter has three dimensions from an economic "scientific" viewpoint: flows of persons, flows of goods and services and flows of capital across the two countries. I consider each dimension separately in the next three sections.

Notwithstanding the prior discussion, the embargo has important non-economic but equally "scientific" aspects in terms of political interests of policy makers that affect and interact with the mainly economic dimensions of the previous three sections in determining outcomes.

² Background on embargoes, the history of Cuba's embargo and the positions taken by various economic agents and policy makers in Cuba and the US are available in an earlier paper (Betancourt 2013). An important insight from that paper is that statements true about one economic dimension are often false or irrelevant about the other two. Thus, in general it obscures rather than enhances our understanding to lump them together.

The discussion of these issues occupies a single section that also serves to illustrate the actual policies adopted by the Trump administration explicitly or implicitly. A succinct conclusion highlights the two main explicit changes between Obama's and Trump's normalization policy for the reader's convenience.

FLOW OF PERSONS BETWEEN CUBA AND THE US IN RECENT YEARS

The flow of persons between countries takes two main forms: migration and tourism. In the case of Cuba US relations migration was for many years mainly a one-way flow from Cuba to the US, while tourism has become a two-way flow in recent years. Hence, I begin by providing evidence on the nature of these flows as well as brief commentary on accompanying events associated with these flows and interactions between different types of flows. Six types of flows are explicitly discussed: three types of immigration flows into the US, i.e., as formal permanent residents, as informal visa less aliens, and as a special category of political refugees; emigration flows out of Cuba; and two types of 'tourists' or temporary flows, i.e., Cuban 'tourists' to the US and US 'tourists' to Cuba.

Data on a numerically and politically important type of migration flow from Cuba to the US that are captured in US immigration statistics provide a useful starting point. Table 1 presents data on the number of Cubans admitted to the US as Lawful Permanent Residents between 1998 and 2016. These numbers reflect two entirely different types of influences. The first influence reflects the decisions of Cubans in the US at a particular time to become US permanent residents. These individuals could have come in originally as refugees, or under a wide variety of nonimmigrant visas (B-1 or B-2, for example), or illegally as visa-less aliens. If at some point in their lives they decided to apply for permanent U.S. residence, they would show up in Table 1 in the year in which the status was granted.

A second influence reflects Cubans admitted to the US directly as lawful permanent residents. These individuals would include those claimed by their relatives in the US, for example, granted U.S. permanent resident status while in Cuba as well as those admitted under the US- Cuba Migration Accord of 1994/1995. This Accord required the US to take in a minimum of 20,000 Cuban immigrants a year as lawful permanent residents. US immigration officers select these immigrants by lottery from a pool of participants. The last lottery, held in 1998, identified about 500,000 Cubans potentially eligible to come.

<< TABLE 1 GOES ABOUT HERE >>

The data in Table 1 have two characteristics: a high degree of variability, reflecting numerous influences determining Cubans becoming permanent residents, as well as a trend. The average of the numbers between 1998 and 2006 is much lower than the average between 2008 and 2016. The Accord and policy factors affecting its implementation are the main determinants of the trend. More specifically, the arrival of the Obama administration in 2008 is associated with the higher average of lawful permanent residents over the 2008-2016 period. It also generates increases for each ten- year period between 1998 and 2006.

While association does not mean causation, there is no doubt that the flow of Cuban lawful permanent residents into the US increased substantially during the Obama years. Institutional analysis suggests that policy outcomes depend on formal rules as well as on informal ones prevailing at the time of implementation. Hence, Obama's well-known views on Cuba policy before his own election are likely to have had an impact on these numbers, including those generated by the consequences of the Migration Accord as well as those generated by the more recent granting of B-1 and B-2 visas associated with Cuba's liberalization of its migration law on January 13, 2013.

One of the reasons for the variability in the number of Cuban immigrants becoming lawful permanent residents is the result of individuals arriving at different times deciding to change their status in any one year. We also have data on the number of arrivals of visa-less Cuban immigrants in each of the last twelve years from the work of the Center for Immigration Studies (Luna 2016; Krogstad 2017). These visa-less Cuban immigrants are those admitted into the US under the policy popularly known as "wet foot, dry foot", which is associated with the implementation of the Migration Accord. They are not to be confused with those admitted into the US directly as part of the category of refugees.

Table 2 provides the numbers of visa-less Cuban aliens admitted yearly during the period 2005-2016. Interestingly this table has the same features as the previous one: substantial variability as well as a trend. Nonetheless, there are significant differences. First, these characteristics occur over an annual period rather than a biennial one. Second, the trend is very marked towards the end of the period. While the variability depends on many factors, including individual decisions to migrate through risky mechanisms, for example home-made rafts ("balseros"), the trend is easier to explain and associate with one specific policy. The year 2013 is the beginning of secret negotiations between Cuba and the US on normalization of relations.

Among the reasons the Cuban leadership began negotiations with the Obama Administration were the deterioration of the economic situation despite their reforms, officially approved in 2011, fears of Venezuela imploding after Chávez's death in March of 2013, and a failure to find oil through deep sea exploration drilling of four zones in the Gulf of Mexico by the end of 2012 (Betancourt 2016). While there can be arguments as to the extent of awareness by the Cuban population of the last two issues, the population was certainly aware of the first one. Indeed, experientially it would have been even more aware than the Cuban leadership. The

Cuban Standard Economic Trend Index (CSETI), an indicator of the performance of the Cuban economy, reveals a negative trend starting in August of 2013 and continuing throughout 2014 (Vidal Alejandro and Hernández Catá, 2016: Figure 1).

<<TABLE 2 GOES ABOUT HERE>>

Official announcement to seek normalization of relations took place on December 17, 2014. Table 2 reveals a doubling of visa-less Cuban immigrants in the two-year period 2014-2016. Hence, its association with normalization policy is extremely strong. This effect is a striking (probably unintended) general equilibrium and interaction effect of Obama's normalization policy. Indeed, if the objective of Obama's normalization policy had been to increase Cuban migration into the US, one could not ask for a more resounding success based on Tables 1 and 2. The year 2016 saw more than 66K Cubans become US lawful permanent residents and over 56K Cubans admitted into the US as visa-less aliens. These figures represented a 42% and a 31% increase, respectively, over the previous year.

Nevertheless, a dramatic change in policy took place on January 12, 2017: namely, the Obama Administration eliminated the wet foot, dry foot policy.³ A plausible explanation for this new policy is that these substantial increases in migration were unattractive to the Obama administration and its perception of the interests of the Democratic Party. In the short-run changing an international treaty was difficult and it would have been ineffective in controlling the outcome. On the other hand, the wet, foot dry foot policy could be changed by executive order and its effect would be immediate in reducing new flows to almost zero. Furthermore,

³ One interpretation of this policy change would be that it was intended to make it difficult for the incoming Trump Administration to reverse normalization policy without clashing with its anti-immigrant position. An alternative one would be that it was a parting gift to the Cuban government which had long argued that the wet foot, dry foot policy was a provocative incentive designed to stimulate Cubans to migrate to the US. Both seem far-fetched.

exposés of abuses of the policy had already led to denunciations by a Cuban-American Republican Senator from Florida who was seeking changes in implementation. He was praised by the Sun Sentinel in an editorial for this activity (January 8, 2016). Republican opposition to the policy change, if any, was unlikely to be uniform.

While those admitted as visa-less aliens could continue to apply for the category of refugees immediately, having it granted at the discretion of the immigration officer working their case was a low probability event. The numbers in Table 3 below suggest, when compared to those in Table 2, that there was a far higher level of difficulty for Cubans to be directly admitted into the US with the status of refugees. Table 3 provides the figures for Cubans admitted into the US directly as refugees during the period 2004-2016.

<<TABLE 3 GOES ABOUT HERE>>

One subtle aspect of the wet foot, dry foot policy change of 2017 is as an illustration of the strategic interaction effects of policy changes. One would expect the numbers of visa-less migrants coming from Cuba to the US to be substantially reduced from 2017 onwards, since the Trump Administration's normalization policy officially maintains this policy change and its enforcement efforts in this general area have been more Draconian than the Obama ones were. As mentioned in connection with Table 2 above, undertaking the uncertain act of migrating by Cubans was made much easier by a change in Cuba's migration policies in 2013. Yet elimination of the wet foot, dry foot policy meant that doing so after January 2017 would lead to migrants ending up in detention centers with low probabilities of being admitted to the US as refugees. This is likely to reduce the number of Cubans that will end as visa less aliens in Table 2, and the Trump implementation policies are unlikely to increase substantially the numbers observed in

Table 3. Of course, this assertion assumes other factors underlying the data in Table 3 remain stable without major changes in 2017 and future years.

An interesting coupling of strategic interaction and general equilibrium effects arises as a result of Cuba's own policy changes with respect to migration in January of 2013 coupled with its announced reforms in the Spring of 2011. Table 4 presents net migration data from Cuba's statistical agency. Several observers writing in the ASCE Blog (Ernesto Hernández-Catá, February 2016; Luis R. Luis, February 2017) have pointed to a change from net emigration to net immigration in 2013 and 2014 and speculated on its causes: methodology, coverage, demographic revolution, statistical blip or mystery.

<<TABLE 4 GOES ABOUT HERE>>

Simpler economic explanations are available. Cuba's migration decree of January 2013 lowered the costs of emigrating substantially, directly and indirectly. Anyone who left in 2012 could take advantage of the lower indirect cost by returning and leaving again with permission to stay abroad without loss of citizenship privileges for two years (renewable twice) instead of one year. The internal economic reforms were starting to be implemented and those returning could leave again at lower direct and indirect costs if unhappy with the situation. By 2015 it was clear to many observers inside and outside the island that despite the process of normalization of relations with the US, the reforms were proceeding very slowly. Indeed, even Raúl Castro characterized the process as "slowly but surely" (*sin prisa, pero sin pausa*). Thus, it is neither mysterious nor surprising that in 2015 emigration out of Cuba once again dominated immigration into Cuba by a substantial margin. Either emigrants viewed the "slowly" as a contradiction of the "surely" or their rate of time preference was inconsistent with the pace implied by the "slowly." The numbers for 2016 support this view.

Migration flows are not the only person flows among countries. There are also nonimmigrant flows arising due to a variety of reasons. The two best-known reasons are tourists and "temporary" workers of one kind or another. These reasons fall in the category of B-2 nonimmigrant visas in the US. Moreover, in the case of Cuba-US flows, nonimmigrant visas are primarily tourist visas. Table 5 provides information on the number of Cuban nonimmigrants admitted to the US with B-2 visas between 2007 and 2016. In contrast to Tables 1-3, Table 5 exhibits less variability across the years. For instance, there is only one change in sign and, as a result, a steadier upward trend. In similarity with Tables 1 and 2, however, there is a substantial jump in the last three years and the largest numbers were recorded in the last two years reported in the table. That is, during two full years of implementation of normalization policy under the Obama Administration.

<<TABLE 5 GOES ABOUT HERE>>

Incidentally, some of these B-2 visa holders might also be counted in Table 2 under three circumstances: if they chose to overstay their B-2 visa, lie about having one in order to stay in the US, or claim political persecution. A noteworthy feature underlying the numbers in Table 5 is that the recent increase in the number of tourists, which resulted from Cuba's immigration reform in January 2013 together with normalization of relations by President Obama on December of 2014, includes very different types of tourists. Some tourists are individuals who come to visit family members residing in the US. Other tourists are "cuentapropistas" [small business owners] or their agents who come to purchase goods and materials for their businesses in the island. Still others are "undercover" immigrants who come to stay permanently taking advantage of the wet foot, dry foot policy and the benefits afforded by the Cuban Adjustment

Act. Finally, the remainder come for diverse reasons associated with their roles in Cuba's society, e.g., dissidents, artists, and well-to-do members of the nomenclature.

The flow of persons moving in the other direction, i.e., from the US to Cuba, consists of two types: Cuban-Americans and non-Cuban-American (NCA) US citizens. On the US side, restrictions on Cuban-Americans traveling to the island were lifted systematically by the Obama administration since 2009. Restrictions on NCA US citizens were lifted informally but more systematically during Obama's second term and especially after the normalization process started in December 2014. On the Cuban side, their statistical office provides information on arrivals for two categories of persons from the US: members of the Cuban Diaspora (Comunidad Cubana en el Exterior) and US citizens. The former is composed mainly of Cuban-Americans: Cuba does not classify Cuban-Americans as US citizens even if they have proof of citizenship through a US passport. Perelló (2016) reports them to have been 292,692 in 2015. That is 75% of the Cuban Diaspora total for that year reported in Table 6 below together with the numbers for NCA US citizens.

<<TABLE 6 GOES ABOUT HERE>>

Increases in tourists visits during the two years of full normalization under Obama were far higher for NCA Americans than for the mainly Cuban-American Diaspora. For instance, the change for the 2014-2016 full normalization period was about 68% of the number of US citizen tourists in 2016. By contrast the change for the Cuban Diaspora during the same period was about 16% of the total number in 2016. Assuming that the proportion of Cuban-Americans in the diaspora remain the same as it was in 2015 during the 2014-2016 period, one can derive a plausible expectation of the impact of Trump's normalization policy on tourists visits. While the

impact will be negative for both types of tourist visits, one would expect the biggest impact on tourist flows to fall on NCA US citizens for several reasons.

First, at the formal level Trump's normalization policy remains the same for Cuban Americans but it became more restrictive for NCA US citizens. The latter must now provide evidence of belonging to one of the 12 allowed categories of visitors rather than self-declaring that they do belong to these categories. Second, at the implementation level the new climate in the US created by the Trump policy (discouraging of individual visitors) interacting with its requirements to ensure that tourist dollars do not flow to companies associated with the Cuban military or party hierarchy (which are difficult to enforce and avoid) will be deterrents for both NCA US visitors and Cuban American ones. Since the former grew far more rapidly during Obama's normalization (4 times as fast according to our estimates above), they are also likely to decline more rapidly in the absence of family or affective motivations for the visits. Finally, implementation could be tightened informally through plumbing effects in the form of barriers through the Treasury Department licensing, which would affect mainly NCA US citizens, and immigration officers' attitudes towards returning visitors, which would affect both.

Incentives for a decrease in both types of tourist visits as well as in Cuban tourists to the US are magnified by a recent event. Namely, the withdrawal of a substantial number of US personnel from the embassy in Cuba for medical reasons of a somewhat mysterious origin. It was officially ordered on September 2017 (<https://cu.usembassy.gov/end-ordered-departure-u-s-embassy-havana/>). While the ordered withdrawal was ended in March of 2018, the US Embassy in Cuba continues to operate with a restricted number of personnel. This affects the issuing of visas to Cuban tourists and less directly the encouragement to all tourists from the US through the security and convenience provided by a fully operating embassy. With respect to tourism

from Cuba to the US, there is likely to be a decrease in numbers for two additional reasons. First, tourists coming in as undercover immigrants have their path legally blocked by the abolition of the wet foot, dry foot policy. Second, the financial costs of visits to the US are high, especially relative to Cuba's official average income, and less likely to be affordable unless current economic conditions in Cuba improve substantially.

Summing up, the various types of person flows between Cuba and the US have exhibited significant oscillations in response to a variety of policy changes and their implementations in both countries despite the embargo. For the immediate future, however, one would expect these oscillations, except perhaps for the refugee category, to be on the downward side. In the long term, it would not be surprising if all the other types of person flows were to resume an upward course with one exception: visa-less Cuban aliens. The end of the wetfoot, dry foot policy has become a bi-partisan American policy.

FLOW OF GOODS AND SERVICES BETWEEN CUBA AND THE US

Most of the statements by proponents and opponents of the embargo can find some support and relevance with respect to the flows of goods and services. Proponents can point to the limitations of Cuba's economic system and opponents can point to areas where the system has either overcome its limitations or the effects of the embargo have been so extreme that it is difficult to attribute them to any economic system. The first exception is with respect to the flow of 'export' services to tourists in Cuba and of professional services of various types, e.g., medical experts, sport trainers, and military personnel, to the rest of the world.⁴ The second

⁴ The 'export' services label is used to emphasize that tourist revenues play the same role as goods exports and exports of professional services in terms of providing foreign exchange to any economy.

exception is with respect to the exports of goods to the US. We discuss first the flow of goods between the two countries and subsequently the flow of services.

One of these prominent exceptions highlighting the effect of the embargo is Cuba's exports of goods to the US. It provides a useful starting point to a discussion of the flow of goods between the two countries due to its simplicity. These exports have remained at zero in each of the last 20 years (US Census, Trade in Goods with Cuba). This fact experienced a change in January 2017 (Delgado 2017; Vinik 2017) when a shipment of Cuban marabú charcoal made by a private cooperative was allowed to enter the US as a result of Obama's normalization policy. Coabana Trading/Holdings LLC is the US company that imported the marabú into the US (Alonso 2017) and to whom the grandfathering provision of Trump's normalization policy would apply. It confirms the difficulty in arguing that Cuba has no comparative advantage in any good that could be imported by the US no matter how inefficient its economic system.

More generally, it is useful to look at Cuba-US trade in terms of its aggregate pattern with respect to imports. Cuban imports of manufactured and agricultural goods peaked in 2008 and had not recovered by 2014. Cuba's imports from the US were mainly agricultural products, amounting to 95% to 99% of total imports during the period 2005-2014 (Colby- Oizumi 2016: p.19). The general pattern of aggregate imports during the period was similar for the US as for Cuba's other main trading partners, regardless of composition (Colby-Oizumi 2016: Figure 1). Table 7 below provides details over the period 1998- 2016 on Cuban imports of US goods. Succinctly put, the table shows a great deal of variability with no trend evident. Just as indicated earlier, exports of goods remained constant at zero until 2017. Under Trump's normalization policy there is no reason to expect significant deviations since embargo provisions on goods and

services have not changed much except for a hard to enforce list of enterprises that American visitors should not patronize and American firms should not transact with.

<<INSERT TABLE 7 HERE>>

Cuba's trade in general has been characterized by a predominance of service exports relative to goods and a predominance of goods imports relative to services. The two main components of service "exports" have been professional services and tourist services. Revenues from professional services such as doctors and others are difficult to estimate as they involve a variety of essentially barter agreements linking exports of professionals by Cuba and imports of oil in the case of Venezuela and/or payments for the professional services partially to the Cuban government and partially to the individual whose services are exported. Moreover, these professional services exports do not involve the US in any significant fashion. Cuba's data on tourist revenues, however, are easily available. Table 8 below presents the figures for the period 2012-2016.

<<INSERT TABLE 8 ABOUT HERE>>

While these tourist revenues include income generated by all visitors classified as tourists, US citizens plus Cuban-Americans represented 13% of all visitors in 2015. Moreover, they probably represented a substantially higher percentage of the tourist revenues as their expenditures would include what Cuban-Americans purchase for family members and friends while in Cuba. This interpretation is supported by the declining trend between 2012 and 2014 and its reversal for the period 2015-2016 when relations were restored and normalization was at its most extensive level. A detailed chronology of the relaxation of restrictions is available

(Sullivan 2017). One would expect tourist revenues from the US to decrease as a result of Trump's normalization policy and its reversal of travel relaxations.

Summing up, the flows of goods and services between Cuba and the US have been limited both by the embargo restrictions (as well as the inability to obtain trade financing which will be discussed in the next section) in the case of goods and by the nature of the economic system in the case of services where the barter system employed by Cuba with respect to professional services is a far greater hindrance in trading with the US and other liberal democracies than with non-democracies or illiberal ones. In the short term no change in the situation is likely to occur; in the long term changes with respect to goods seem more likely than with respect to services other than tourism, at least in the absence of far more profound reforms in Cuba than what has taken place in the last seven years.

FLOWS OF CAPITAL BETWEEN CUBA AND THE US

It is in terms of restricting a variety of capital flows that the US embargo has been most effective in terms of impacting the Cuban economy directly and indirectly. Not surprisingly, in this area of capital flows Trump's normalization policy has been to maintain the restrictions that prevailed during the Obama administration before restoring relations, while grandfathering the minor relaxations that took place in this area after restoring relations to prevent injuring business interests created during that two- year period. For expositional purposes, it is helpful to review the variety of items encompassed by the term capital flows.

Financial flows between countries involve a variety of different mechanisms: short-term arrangements such as trade credits and short-term loans secured in various ways, long-term ones, such as foreign direct investment and development loans and grants from countries or international financial institutions, and mixtures of short and long term items such as repatriation

of profits, interest payments and remittances. On the one hand, in the case of some of the items listed above embargo restrictions have been as effective as the trade embargo on export of goods from Cuba to the United States we saw in the previous section. On the other hand, at least in the case of remittances, these limits were systematically relaxed during Obama's first term and eliminated during the second one as a result of normalization policy. Trump's announced normalization policy has continued this practice at least formally. I will consider each type of mechanism separately.

Many countries, if not most, subsidize exports in various forms and the provision of trade credit to institutions in other countries to finance their imports of a country's goods has become commonplace. In the US, imports from other countries without developed legal and financial institutions were normally financed through the Export-Import Bank of the United States (EXIM). Of course, without loans from EXIM, exporters from these countries would have to find other alternatives. In Cuba's case the direct impact of the embargo is that Cuban institutions have to pay for US imports with cash or use private finance rather than with loans guaranteed by EXIM. One could argue that the inability to rely on trade credit from the US could be a potential reason for the variability of Cuba's imports from the US observed in Table 7. It must be noted, however, that the embargo restriction on private sector finance was relaxed by the Obama administration in January 2016 (Hirschfield Davis 2016) with not much of an effect visible in Table 7. Ability to pay and credit worthiness are also important in obtaining trade credit.

Among the long term mechanisms that have impacted Cuba the most with respect to capital flows is the inability to obtain loans or grants from the multinational financial institutions (IFI's) in which the US plays an important role in terms of substantial voting power, namely the IMF, the World Bank and the Inter-American Development Bank. The Helms-Burton Act, which

was passed in 1996, requires the US directors at these institutions to vote against any loans or grants to Cuba. Even if the US would not provide capital flows directly to Cuba, it could do so indirectly through these institutions but this option is closed to the U.S. government. To provide some perspective on what Cuba foregoes in terms of capital flows from IFI's: The Dominican Republic, with 10.6 million inhabitants, obtained \$5.957 billion in disbursements from the Inter-American Development Bank in 2016 (Inter-American Development Bank Annual Report 2016: Table 1); Cuba with 11.1 million inhabitants obtained zero.

Foreign direct investment (FDI) is another important source of long term capital flows for many countries. Direct and indirect embargo restrictions have impacted Cuba significantly. Once again, however, it is doubtful Cuba would have received substantial FDI flows from the US under its current economic system even in the absence of the embargo. Indeed, an economist sympathetic to the lifting of the embargo has provided a thorough report on the challenges and opportunities facing foreign direct investment in Cuba in a monograph sponsored by the Brookings Institution (Feinberg 2012). More recently (2016), the same author quotes Everleny Pérez Villanueva, a highly regarded Cuban economist, as the source of an estimate for an accumulated amount of FDI over the period 1990-2009 of \$3.5 billion. He also provides estimates of FDI for other countries from various sources over the same period (Table 3) (<https://nacla.org/article/foreign-investment-new-cuban-economy>) which can be used to estimate the opportunity cost to Cuba of not being able to tap into FDI.

Briefly put, the Dominican Republic received \$17 billion in FDI from all sources over the same period (1990-2009); Cuba has received zero from the US even after normalization. Incidentally, the figure for the Dominican Republic includes US FDI. In a recent year (2013) total FDI flow into the DR was \$1.991 billion and the US component was \$ 0.3735 billion or

about 19%. If we apply the same percentage to the cumulative \$17 billion it would be \$3.73 billion, which implies non-US FDI in the DR of \$13.77 billion. The latter figure is still almost 4 times as much from sources other than the US as Cuba has received during the same period.

Lack of FDI in Cuba has happened for a variety of reasons many if not most of which fall in the categories described by Feinberg in his 2012 piece and are largely unrelated to the US embargo. Furthermore, the situation in terms of FDI flows has not changed that much in the more recent period despite the guidelines ("lineamientos") or reforms, a new foreign investment law, and the creation of the Mariel Economic Development Zone (ZEDM). For instance, Luis (2016) has estimated FDI figures for Cuba during the 2009-2015 period. FDI was \$0.438 billion in 2013, the largest annual amount during the period. It had decreased to \$0.129 billion by 2015.

Similarly, a recent evaluation of the ZEDM by the Havana Consulting Group and Tech (Morales, June 2018) describes its five-year progress (since 2013) as a collapse because: only 10 projects have become operational with 25 in process; only \$1.191 billion has been invested against an expected \$12.5 billion; and only 4, 888 jobs have been created directly by FDI as opposed to the hundreds of thousands created by self-employment. The reasons behind the poor performance put forth by Morales (2018) are similar to the ones emphasized by Feinberg (2012). Another factor, however, must be mentioned in this context. Namely, the most important private company expected to play a key role in ZEDM investments, a Brazilian construction and engineering company (Odebrecht), became limited in its ability to do so due to its getting caught in the Lava Jato corruption scandal in Brazil. The latter has led to indictments and convictions of former Presidents in Brazil (Lula and Rousseff, respectively) and resignations of current ones (Kuczynski) in Peru.

Most short-term and long-term capital flows into Cuba from the US and aligned institutions have been restricted by the embargo. Normalization policy under Obama had a very limited impact on ameliorating their effects for a variety of reasons. For instance, many of these reasons in the case of FDI are related to the rigidity of Cuba's bureaucracy in performing tasks required for approval or in providing ancillary operational services and are unrelated to the embargo. In the case of official long-term flows, for example, the legal restrictions are impossible to avoid and difficult to change for political reasons. Trump's normalization policy does not change the formal embargo restrictions, has had a limited impact on implementation and no impact on the ones stemming from the operation of Cuba's bureaucracy. Nonetheless, an exception to all these limited impacts is provided by one type of capital flows: remittances. The latter are a substantial component of capital flows between countries. Indeed, they have become a main source of capital flows from high income to low income countries in the 21st century and the US Cuba flows are no exception.

Perhaps the most important source of official data on remittances worldwide is the World Bank (*Migration and Remittances Factbook* 2016). Unfortunately, the country table for Cuba (p.109) has no entry data on remittances. Nevertheless, a variety of sources have tried to construct estimates over various periods. One of the most often cited source of estimates is The Havana Consulting Group. In a recent analysis (April 2017) by its President, Emilio Morales, estimates for 2011-2016 are provided. Table 9 below reproduces them. An idea of the importance of these numbers for the Cuban economy can be gathered from the fact that revenues from total exports between 2011 and 2015 ranged from 5.87 billion CUC to 3.35 billion CUC, according to ONEI. Or, that remittances exceed tourist revenues in 4 of the 5 corresponding years in Tables 8 and 9. Moreover, in 2015 they do so by over half a billion CUC's.

[\(http://www.cubatrademagazine.com/analysis-cuba-remittances-shifting-pattern-cuban-emigration/\)](http://www.cubatrademagazine.com/analysis-cuba-remittances-shifting-pattern-cuban-emigration/)

<<TABLE 9 GOES ABOUT HERE>>

Incidentally, the data above only include cash remittances. Estimates by the Havana Consulting Group, cited in the previously mentioned analysis, adding the value of remittances in kind led to a total value of \$6.85 billion in 2015. The increase in remittances is also associated with the increase in Cuban migrants to the US documented in Tables 1 and 2. Indeed, the Havana Consulting Group estimates a loss of about \$1 billion in remittances during 2017 as a result of the reduced number of migrants due to the Obama Administration's elimination of the wet foot, dry foot policy in January 2017. On the other hand, they also estimate in a more recent study an increase in remittances due to the fact that the lack of banking facilities through US institutions has led most commercial transactions through self-employment involving US entities to rely on the same channels used for remittances (The Havana Consulting Group, March 3 2018).

One consequence is an expected increase in the amounts of cash through these channels. Unfortunately, the numbers may now represent a totally different phenomenon that has little to do with traditional views of remittances and a lot to do with the lack of financial institutions in the US willing and able to engage in financial transactions with Cuban institutions. Trump's normalization policy prohibiting transactions with institutions associated with the Cuban military does not affect remittances directly, since the list of 180 explicitly forbidden entities includes hardly any Cuban financial institutions as can be seen in the link below <https://www.state.gov/e/eb/tfs/spi/cuba/cubarestrictedlist/275331.htm>. But it does so indirectly because of the uncertainty it creates in the US and the lack of Cuban financial institutions designed to engage in financial transactions with foreigners. Most relevant for the present

discussion, it provides incentives for using traditional remittances channel for new modes of transactions, including some encouraged by the Trump policy such as rentals in homes which are contracted through Airbnb.

Summing up, embargo restrictions on capital flows have been the most effective ones in terms affecting outcomes of US Cuba relations with one exception: remittances. The main reason, of course, is that restrictions on the latter for Cuban-Americans have not applied as widely, or have not been tightly enforced during most of the Obama administration. Moreover, they were eliminated as a result of Obama's normalization policy in the last two years of the administration. Trump's normalization policy in this area has been a continuation of Obama's with respect to Cuban-Americans but not with respect to NCA US citizens.

NON-ECONOMIC DIMENSIONS AND THEIR INTERACTIONS WITH THE ECONOMIC ONES ABOVE

Politicians have private interests which they often wrap up around lofty purposes. With respect to Cuba, President Obama's normalization policy was driven or inspired by his desire for a lasting legacy resulting from his two terms as President, his vision of the embargo as a failure expressed during his 2008 campaign, and the curious claim that normalization as a prelude to lifting of the embargo would lead to regime change from authoritarian to democratic even with the same people in charge. This claim seemed to appeal to Obama's liberal base despite the obvious evidence that it does not happen provided by the experiences of China and Vietnam over the last 40 to 50 years.

What about normalization policy under Trump? The formal announcement appealed to Trump's base as well as to broader themes selected by President Trump which may or may not be connected to what is actually happening. Even within the conservative base normalization

policy accommodates a broad variety of perhaps conflicting interests. Moreover, the Cuban-American community, for whom this issue matters a great deal, is also heterogeneous with respect to different aspects of the policy with well-defined patterns for some such as the wet foot, dry foot policy. For example, the pattern for the latter differs substantially by migration arrival date⁵. In practice normalization policy is also likely to incorporate Trump's perceptions of himself as a master deal maker, such as his expressed views during the campaign that the US got nothing or very little in return from the concessions already made to Cuba, and the somewhat curious claim that he would seek concessions that would protect human rights. The latter is curious in terms of the logic in explaining why it makes sense to do so in Cuba but not in Saudi Arabia.

With the previous discussion as a background, Cuba's normalization policy in the Trump administration follows along three major fault lines. First, a formal reversal of the Obama policy did not take place in two important areas. (1) Official relations and activities such as the opening of the US Embassy in Havana and visits by US government officials for a wide variety of purposes. Of course, the purposes, e.g., increasing the flow of goods and services, need not and most likely will not be the same as in the previous administration. (2) Changes in the Helms-Burton Act that would require action in the form of new legislation by Congress. The costs of reversals in these two areas are high politically and in the time and resources that would need to

⁵ The Cuban-American community is very heterogeneous in its attitude toward normalization and attitudes can be segmented by time of arrival of cohorts in the US, according to a recent FIU Cuba Poll (conducted in October 2016). Recent arrivals (post-1995) are most favorably inclined toward Obama's normalization policy, including the wet foot, dry foot policy prior to its abolition, but less likely to be able to vote because they have not become U.S. citizens. Prior arrivals (post 1982 and pre-1982) were unfavorably inclined toward Obama's normalization policy and increasingly so the more distant in time their US arrival date. Not surprisingly, they also were more likely to be US citizens (<https://cri.fiu.edu/research/cuba-poll/2016-cuba-poll.pdf>).

be spent on the effort. In contrast, the benefits of doing so are low, perhaps even marginally negative economically and strategically relative to the status quo. Thus, the major economic ‘scientific’ aspects of the embargo remain the same with respect to legislation or treaties affecting the three mainly economic outcome dimensions of the previous sections.

Second, many of the features of Obama’s normalization policy could be reversed at low cost, if desired, in a manner similar to how they were implemented, namely through executive orders and implementation directives (administrative regulations). Hence, Cuba’s normalization policy in the Trump Administration has developed following a piece meal approach. The latter modifies, or not, any policy supported by an executive order or implementation directive based on the perspective of its impact on the interests and goals of the Trump Administration, its supporters, and private interest groups lobbying the Administration. Those areas selected for change have been announced with fanfare as validating the pursuits of laudable goals from some vantage point, e.g., decreasing resources flowing to the military and the party elites and protecting human rights. Those areas selected to remain the same as in the Obama administration were announced with less fanfare, e.g., wet foot, dry foot policy.

Third, many aspects of implementation of policy arising from explicit directives, executive orders or legislation depend on the actions of agents in the bureaucracy. These officials may interpret the formal policies in ways consistent with the intentions of policy makers or deviating from them, wittingly or unwittingly, for a wide variety of reasons or circumstances. This is true of all policies in general. This behavior follows from the principal agent problem and it can also be described as a ubiquitous plumbing problem of policy advice which is usually ignored even in Duflo’s appeal to economists to become plumbers. In sum, at the macro policy level examined here the main issues lie within the second fault line identified above and their

interactions with the three economic dimensions of the policy discussed in earlier sections. That is, on what one might call consequences of the engineering aspects of the policies.

An illustration of a most interesting engineering aspect of Cuba's normalization policy in the Trump Administration is one that did not change from Obama's: namely, their adoption of repeal of the wet foot, dry foot policy as their own. This policy associated with the implementation of the Migration Accord in 1995, was originally announced on January 12, 2017 effective immediately by the Obama Administration, <https://obamawhitehouse.archives.gov/the-press-office/2017/01/12/record-press-call-cuba-policy-announcement>. It was reiterated as US policy in the June 2017 announcement of the Trump administration. One reason given by the Obama Administration in the announcement was the substantial increase in the number of visa-less aliens from Cuba admitted into the US after the normalization announcement (which is documented in Table 2 and already discussed in the section on person flows). The Obama announcement left in place other aspects of the Migration Accord, including the yearly minimum number of at least 20,000 permanent residents to be admitted into the US from Cuba.

What the announcements did not mention, however, was the potential consequences for remittances over the next three or four years discussed in the previous section on capital flows. Keeping the policy unchanged is consistent with the anti-immigrant stand adopted by the Trump Administration. Moreover, the potential consequences of decreases in remittances to Cuba as a result of the well-known finding that the number of migrants sending remittances decline with distance from year of arrival was not highlighted either in the Obama administration announcement of change or in the Trump administration announcement of no change. Yet in the future the role of a substantial decrease in the number of potential migrants and its effect on remittances might be important in negotiations with the Cuban government in a variety of

settings, e.g., with respect to accepting deportees trying to enter illegally that are also part of the Migration Accord and were left in place by both announcements. While this policy could reduce the amount of money available to Cuba from migrants' remittances, identifying these effects with the data currently gathered could be difficult given the changes in capital flows and their measurement discussed at the end of the previous section.

Finally, the wet foot, dry foot policy allowed substantial and widespread fraud and abuse of the refugee provisions denounced by a broad segment of those who became aware, including Cuban–American legislators as mentioned earlier. Hence, it was either low cost politically and most likely a benefit for the Trump Administration to adopt repeal of the policy as their own. Ironically, an Obama Administration argument for the abolition of the policy was that now Cubans were being treated like every other immigrant group. This argument was, of course, not mentioned by the Trump Administration in its official announcement of normalization policy. A number of other less contentious policies were also left in place by the official Trump announcement. For instance, those related to cruises, to Cuban American travel and remittances, and to limits on the value of tobacco and rum that could be brought into the US from Cuba trips as well as the grandfathering of contracts already signed as mentioned before.

General equilibrium effects of policies and strategic interactions illustrated by migration and remittances in international settings are engineering considerations that often affect macroeconomic policies.⁶ For instance, they also arise with respect to restrictions on the use of trade credit to finance exports from the US to Cuba and embargo compensation issues. For

⁶ Unforeseen factors also generate substantial effects of this type. For instance, the medical reasons leading to evacuation of US embassy personnel mentioned early are now expected to prevent fulfillment of the Migration Accord annual commitment allowing a minimum of 20,000 Cubans as permanent residents due to the lack of processing capacity (Cancio Isla 2018).

example, agricultural interests have been working on a bill that would allow financing by private sources in exchange for paying an excise tax on agricultural sales to fund payments of certified claims of expropriated property (Gómez-Torres 2017).

Since the Cuban government has tried to make compensation for costs of the embargo a required item in negotiations about compensation for expropriated properties, this potential bill would allow the Trump normalization policy to be tough on Cuba and at the same time permit an increase in US agricultural exports to Cuba. Whether it would get enacted by Congress, however, is a different issue. At this point it just provides another illustration of how a policy change could generate general equilibrium effects between goods flows and capital flows as well as strategic interactions effects if non-economic considerations led to their enactment by Congress.

CONCLUDING REMARKS

One of the main policy changes actually adopted by the Trump administration is limiting doing business with the Cuban military by both tourists and firms. It is an attractive policy goal for a variety of laudable reasons, especially signaling concerns about human rights. By the very nature of the Cuban economy, however, it is nearly impossible to do a substantial amount of tourism in Cuba's hotels and resorts without doing business with the military. GAESA, a conglomerate controlled by the military, is heavily involved in domestic air travel and tourism enterprises including hotels, restaurants and stores. For instance, the Cuban military recently took over Habaguanex, which controls hotels, restaurants and stores in Old Havana. The latter is one of the main tourist attractions in Cuba. Habaguanex has over 20 hotels in Havana in the list of 180 Cuban forbidden firms. This is good news for Airbnb and Cubans with rooms to rent but less so for tourists and the hotel industry in Cuba.

Another major policy change adopted by the Trump administration is that individual travel for American tourists who are not Cuban-Americans will be far more limited than under Obama's normalization policy. A list of relaxations on travel and remittances for both types of tourists under Obama between January of 2015 and October of 2016 is available (Sullivan 2017, p.26). Using Table 6 figures, these relaxations led to an increase in travel by NCA Americans during these two years of 104% per year. By contrast the increase in travel by Cuban Americans during these two years was 12% per year. This estimate generously assumes that all of the increase in travel came from Cuban-Americans, in contrast to the Perelló (2016) estimate of 75% of Cuban Diaspora travelers being Cuban Americans in 2015 reported earlier. Perhaps the most significant travel restriction re-imposed by the Trump administration in the November 2017 implementation of normalization policy is the elimination of the individual people to people travel category under self-declaration (De Young 2017). It reintroduces licensing for this group category and the need for documentation for all travelers.

Succinctly put, over the next few years one should expect a significant reduction in travel to Cuba by NCA US citizens and from Cuba by Cuban citizens as a result of the change in normalization policy from Obama to Trump. In addition, trade with and investments in Cuba by most US firms will remain at low levels except for a few special cases, e.g., Airbnb.

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Tables

Table 1. Cubans Admitted to the U.S.as Lawful Permanent Residents:1998-2016.

Year	Number Admitted
1998	17,750
2000	20,831
2002	28,272
2004	20,481
2006	45,614
2008	49,500
2010	33,573
2012	32,820
2014	46,679
2015	54396
2016	66,156

Source: Department of Homeland Security: Yearbook of Immigration Statistics (Table 3, various years).

Table 2: Visa-Less Cuban Aliens Admitted to the US, 2005-2016

Year	Number Admitted (at all U.S. entry points)
2005	9,064
2006	10,431
2007	13,064
2008	14,276
2009	7,504
2010	7,487
2011	7,821
2012	12,240
2013	17,696
2014	24,279
2015	43,154
2016	56,406

Source: Luna (May 2016) and Krogstad (January 2017) for 2016.

Table 3: Cubans Admitted to US as Refugees, 2004-2016

Year	Number
2004	2,980
2005	6,360
2006	3,143
2007	2,922
2008	4,177
2009	4,800
2010	4,818
2011	2,920
2012	1,948
2013	4,205
2014	4,062
2015	1,527
2016	354

Source: Department of Homeland Security, *Yearbook of Immigration Statistics* (Table 14, various years).

Table 4: Cuba's Net Migration Flows 2011-2016

Year	Number
2011	-39,263
2012	-46,662
2013	3,302
2014	1,922
2015	-24,684
2016	-17,251

Source: Oficina Nacional de Estadística e Información (2016, Table 3.21).

Table 5: Cuban Nonimmigrants Admitted to the US with B-2 Visas, 2007-2016

Year	Number Admitted
2007	11,237
2008	15,130
2009	17,047
2010	23,745
2011	18,593
2012	21,197
2013	34,615
2014	43,737
2015	52,215
2016	52,735

Source: Department of Homeland Security, *Yearbook of Immigration Statistics* (Table 26, various years).

Table 6: Tourists Arrivals in Cuba by "Country of Origin", 2008- 2016

Year	Cuban Diaspora	US
2008	n.a.	41,904
2009	n.a.	52,455
2010	375,431	63,046
2011	397,873	73,566
2012	384,181	99,052
2013	373,371	93,420
2014	361,210	92,325
2015	390,111	162,972
2016	427,477	284,252

n.a. not available.

Source: Oficina Nacional de Estadística e Información (2014; 2015; 2016), *Anuario Estadístico de Cuba*, Table 15.3; years 2012- 2016, Table 15.6.

Table 7. US Trade in Goods with Cuba (Cuban imports from the US) in million US dollars, 1998-2016

Year	Value of Imports
1998	3.6
2000	7.0
2002	145.9
2004	404.1
2006	340.5
2008	711.5
2010	363.1
2012	464.5
2014	299.1
2016	247.2

Source: US Census Bureau, International Trade Statistics, Trade in Goods with Cuba.

Table 8. Cuba's International Tourism Revenues (in billion CUC), 2012- 2015

Year	Revenue
2012	2.613
2013	2.608
2014	2.546
2015	2.819
2016	3.069

Source: Oficina Nacional de Estadística e Información, *Anuario Estadístico de Cuba* (2016, Table 15.15).

Table 9. Remittances to Cuba, 2011-2016 (billion US dollars)

Year	Remittances
2011	2.295
2012	2.605
2013	2.834
2014	3.129
2015	3.354
2016	3.445

Source: The Havana Consulting Group. Cuba Trade, April 27 2017: Figure 1.