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How Big U.S. Export Market Could Cuba Be?

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Since *President Obama* announced the normalization of U.S. relations with ***Cuba*** in December of 2014, U.S. businesses have begun to plan for the eventual lifting of U.S. economic sanctions against Cuba. While the Obama Administration has taken a number of steps to jumpstart interactions between U.S. businesses and the Cuban private sector, including easing travel and trade restrictions, only Congress can lift the sanctions entirely. And Congress will need some convincing.

A new study from the ***U.S. International Trade Commission*** ("ITC"), released April 18, 2016, was requested by ***Congress*** to inform discussions about the potential benefits to U.S. businesses and the U.S. economy from more open trade with Cuba. Mindful of the limited size of the Cuban market — with a population of about 11 million — the ITC finds that eliminating trade barriers on U.S.-Cuba trade could yield measurable gains to U.S. exports of goods, with more limited prospects for U.S. services.

The ITC study was originally requested in December 2014 by then-Chairman of the Senate Finance Committee Senator Ron Wyden in order to "gain a better understanding of the economic effects on exports of U.S. goods and services, including digitally traded goods and services, of statutory and administrative restrictions related to trade with and travel to Cuba by U.S. citizens." The ITC's study, he said, would "provide a foundation for re-evaluating the current U.S. economic relationship with Cuba." That request was later modified by current Senate Finance Committee Chairman Orrin Hatch, who asked the ITC to expand the study to address "Cuban non-tariff measures, Cuban institutional and infrastructural factors, and other Cuban barriers that inhibit or affect the ability of U.S. and non-U.S. firms to conduct business in and with Cuba."

According to the ITC, the U.S. restriction most often mentioned by U.S. businesses as limiting their exports to Cuba is the requirement that Cuba pay for most U.S. exports in cash or via financing through third-country sources. Also cited were restrictions on the use of promotional and marketing funds sourced from the U.S. Department of Agriculture or U.S. industry, restrictions on business travel to facilitate trade, the ban on U.S. tourist travel, and restrictions on U.S. investment in Cuba.

Cuban non-tariff measures that do or could restrict U.S.-Cuba trade stem principally from the Cuban government's near-exclusive control of imports and distribution, as well as the government's tendency to make decisions about trade and investment based on political factors. While Cuba's investment climate is expected to improve to meet government goals for foreign investment, the government has been unwilling to approve investments by wholly foreign entities and potential investors are concerned about the lack of rights to own land and some physical goods. The Cuban legal system, particularly as it affects resolution of commercial disputes, lacks transparency, and enforcement of IP rights is inconsistent. Other challenges to increased trade include poor infrastructure and telecommunications connections, as well as generous credit terms offered to the Cuban government by third countries that U.S. exporters may not be willing or able to match.

Using an economic model, the ITC predicts that, within 5 years of eliminating U.S. restrictions on trade with Cuba, U.S. exports could increase by nearly 350 percent from their 2010-2013 average to approximately $1.8 billion. Since it is already legal to sell some U.S. agricultural products to Cuba, the majority of the gains would be in manufactured goods. If U.S. restrictions were eliminated *and* Cuban import barriers were reduced to the average level for developing countries, the ITC predicts that U.S. exports could increase by an additional $442 million to $2.2 billion, an overall increase of over 450 percent.

Cuba imports nearly 80% of its food needs. The ITC's model shows that the U.S. share of Cuba's market for agricultural products would more than double, from 16 percent with restrictions to 34 percent without restrictions, while the shares of other suppliers to the Cuban agricultural market would decline. The largest gainers would be wheat and rice. For manufactured products, the U.S. share of the Cuban market would increase from less than 2 percent to 12 percent, with the largest gains in processed food and beverages and chemicals and chemical products (such as fertilizers).

Because Cuba is not currently a significant importer of services, prospects for U.S. export growth under either scenario are more modest. In essence, the ITC finds that tight government control on Cuba's growing tourism sector will limit short-term prospects for services exports to that sector and that gains in other sectors could occur in the longer term as the Cuban economy grows.

Overall, the report concludes that "while U.S. exports to Cuba would increase further if Cuban tariff and nontariff measures were decreased, the largest share of the effects on U.S. exports would come from the removal of U.S. restrictions on trade." By cataloging the barriers on both sides and putting numbers to the trade gains that eliminating those barriers could bring, the ITC's report will likely inform further policy discussions regarding U.S.-Cuba economic relations.

The need for reciprocity is also likely to feature prominently in policy discussions. Covington was instrumental in promoting a study by the Peterson Institute for International Economics which called U.S. policymakers to insist on reciprocal treatment by Cuba of U.S. companies looking to trade with or doing business in Cuba as part of any normalization process.

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