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NOTHING BUT THE FACTS:
AN IN-DEPTH ANALYSIS OF THE EFFECTS OF ECONOMIC SANCTIONS AGAINST CUBA

Christy M. DeMelfi*

Introduction: Importance of the Issue

With the current uncertain state of the United States' economy, any measure to improve the economy would be welcomed. If the U.S. were to sell more goods, either at home or abroad, the increase in demand might strengthen the U.S. economy enough to foster a turn around. The question arises, how to sell more goods. One obvious answer would be for the U.S. economy to enter into a new market. In this globalized world economy, it may be difficult to find such a market for U.S. goods or services. By looking no further than 90 miles off the southern coast of Florida, however, one finds such an untapped economy: Cuba.

Although opening trade with Cuba may help alleviate some of the United States' economic woes, the U.S. has refused to lift its 46 year embargo. Why? Policy makers find it politically difficult to lift the sanctions because of the authoritarian nature of the Cuban government. The economic sanctions are seen as a way for the U.S. to display its disapproval of communism and uphold the American ideals of freedom and democracy. Policy makers are concerned that lifting the sanctions may give off the appearance of weakness in U.S. foreign policy. There is debate, however, over whether the sanctions actually accomplish their objectives. Even if they do, there is further debate as to whether the sanctions cause serious harm to the U.S. economy. The costs and benefits of the situation, from both economic and political perspectives, must be analyzed properly to ensure the correct policy is being instituted. The current state of the economy thus makes the topic of sanctions against Cuba an...

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important issue because the U.S. is in need of measures that will help the economy recover.

This article will seek to analyze the state of affairs in detail, in order to provide an increased understanding of this situation. The article will begin by giving a general overview of the country of Cuba, by providing basic facts on its government, demographics, government, and economy. The article will next explore a theoretical analysis of economic sanctions. A clear definition of economic sanctions will then be presented along with a discussion on the types, purposes, and effects of economic sanctions. Then a historical overview of general economic sanctions will be presented. The article next turns to the history of the Cuban embargo, followed by a brief overview of the current situation.

Theories of international trade that may be helpful to explain sanctions are addressed in the next section. This discussion includes models in both a general and partial equilibrium framework. Next, an assessment of the Cuban embargo will be presented where the sanctions against Cuba, as well as its specific objectives are defined and explained. An assessment of these goals will then be presented, followed by an overview of U.S.-Cuban relations before the implementation of the embargo. Then economic effects of the embargo are discussed using the models presented earlier and various trade statistics. Also in this section, the actual effects of the embargo on both Cuba and the U.S. are addressed.

The article will then present a policy debate focusing on arguments for lifting and keeping the embargo. Following the policy debate, outlooks for the future, as well as recommendations to policy makers are discussed. Finally a conclusion will follow summarizing the main points of the article.

Cuba: Geography and Demographics

The Republic of Cuba, or simply Cuba, is an island located 90 miles south of Key West, Florida. The island is slightly smaller than Pennsylvania, yet is the largest Caribbean island.

Climate is classified as tropical, however, there is a separate dry and rainy season from November to April, and May to October, respectively. Plains make up most of Cuba’s terrain, but some hills and mountains are found in the southeast. Several natural resources are found in the country, including cobalt, nickel, copper, iron ore, salt, timber, manganese, petroleum, silica, and arable land.

Over eleven million people live in Cuba, most of which, sixty nine percent, are aged 15 to 64. (World Fact Book, 2002, pg. 3) There is a negative net migration rate out of Cuba at -1.21 migrants/1000 population (World Fact
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Book, 2002, pg. 3) which is most likely caused by the large amount of Cubans that flee the country in order to enter the U.S. This illegal migration into the U.S. is quite significant each year. It was estimated that 5,400 Cubans attempted to enter the U.S. illegally in 2000, and only 750 were prevented by the U.S. Coast Guard. (World Fact Book, 2002, pg.4)

Most, fifty one percent, Cubans are mulatto; however, thirty seven percent of the citizens are white. Spanish is spoken in this country, like most of Central and South America. Roman Catholic is the predominate religion, comprising eighty five percent of the population. (World Fact Book, 2002, pg. 4)

According to social development standards, Cuba is doing quite well. The country has a very low population growth rate at only .35 percent. (World Fact Book, 2002, pg. 3) Life expectancy in Cuba is also good, at 79 for females and 74 for males. (World Fact Book, 2002, pg. 4) In addition, there is a high literacy rate, at ninety six and ninety five percent for males and females, respectively. (World Fact Book, 2002, pg. 4)

Cuba: Government and Economy

Cuba, one of the last communist nations in the world, is headed by Fidel Castro Ruz. The government is located in the capital city of Havana. Its legal system is based on Spanish and American Law; however, elements of communist legal theory are present. Along with an executive branch, there is also a unicameral legislative branch called the “National Assembly of People’s Power,” and a judicial branch known as the “People’s Supreme Court.”

Economically speaking, Cuba is a command economy, meaning the government controls the economy. Like other command economies, Cuba faces problems with efficiency, and thus has seen its Gross Domestic Product (GDP) stall at $25.9 billion. (World Fact Book, 2002, pg. 6) The major component, fifty eight percent, of GDP is services, followed by industry at thirty five percent of GDP. (World Fact Book 2002, pg. 6) If one looks at the sector composition of GDP, it appears that Cuba should be fairly prosperous; however, the GDP per capita remains low at $2300. (World Fact Book, 2002, pg. 6) This is due in part to the composition of the labor force, of which twenty five percent is in agriculture. (World Fact Book, 2002, pg. 7) Much of the low per capita can be explained simply by the nature of the economy.

There are a large number of industrial and agricultural goods produced in Cuba. The industrial goods that are produced include petroleum, tobacco, chemicals, construction, services, nickel, steel, cement, agricultural machinery, and biotechnology. The main agricultural products are livestock, beans, potatoes, rice, coffee, citrus, tobacco, and sugar. Of the goods produced, sugar,
nickel, and tobacco are the main exports. Fish, citrus, coffee and medical products are also exported by Cuba. The main imports of the country are petroleum, food, chemicals, machinery, and equipment.

Definition of Economic Sanctions

Economic sanctions are the most common tool in international politics. Sanctions serve as an important aspect of foreign policy, because of the frequency with which they are used. In order to understand why sanctions are so important, one must first know the definition of a sanction. An economic sanction can be defined as a restriction imposed on one country, the target, by another country, the sender. This restriction is meant to persuade the target country to change a policy by affecting international commerce engaged in by the target. In other words, sanctions are policy tools imposed by a country to influence another country in order to achieve some political goal.

Types of Economic Sanctions

There are many types of sanctions which a country can choose to implement. Many of the sanctions are various restrictions on trade, including arms embargoes, export and import tariffs (Haass, 1998, pg. 2) or even full trade embargoes. Countries may also prohibit financial involvement in another country, which prevents financial transactions between citizens. (O’Quinn, 1997, pg. 3) Countries may even just place an overall restriction on credit, financing, and investment. (Haass, 1998, pg. 2) This will cause the economic growth of the target country to decline due to a decrease in foreign direct investment (FDI), which is a type of capital flow between countries. This type of investment “gives the lender operating ownership and control over the borrower.” (Yarbrough and Yarbrough, 2000, pg. 383) The country which capital flows out of is the lender, while the receiving country is the borrower.

Political maneuvers may also act as economic sanctions. Such maneuvers include visa denials, cancellation of air links, as well as foreign assistance reductions and cutoffs. Revocation of most-favored-nation trade status, votes in international organizations or a complete withdrawal of diplomatic relations can also be used as economic sanctions.

As described by Randy Newnham, there are two broad categories of sanctions: specific economic linkage and general economic linkage. Specific economic linkage is a “state directly linking economic actions to a political demand on a target state.” (Newnham, 2002, pg. 1) General economic linkage can be defined as “using economic aid or penalties to influence a country in a general way.” (Newnham, 2002, pg. 1)
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Newnham goes on to distinguish between two other types of sanctions: positive and negative sanctions. A positive sanction is one often overlooked by many analysts but as Corthrigh and Lopen said, they are “more useful than many believe.” (Newnham, 2002, pg. 8) An example of a positive sanction would be granting most-favored-nation status to a country for making a change the sender country wanted. When most people think of sanctions; however, they think of negative ones, which often occurs when one country seeks to punish another for some action.

Sanctions may be applied in one of two ways: unilaterally, or multilaterally. When one country imposes a sanction against another, it is an example of a unilateral sanction. The important element here is that only one nation imposes the sanction. Because there are many other potential trade partners, when sanctions are unilateral, the target country simply finds another supplier/buyer. For this reason, unilateral sanctions rarely produce the desired effect. If sanctions are implied multilaterally, it is much easier for the desired result to occur. A multilateral sanction is imposed by a group of countries on another country or countries. For this reason, the sender country often needs to find international support of the sanction. This method of application is preferred because the chance of success is greater. At times international organizations, such as the United Nations or World Trade Organization, initiate sanctions in order to control our global society. One recent example of such sanctions is those imposed by the United Nations against Iraq.

Purpose of Economic Sanctions

The exact purpose of economic sanctions varies by situation. According to Richard N. Haass, director of the Foreign Policy Study of the Brookings Institute in Washington, D.C., there are four basic purposes of economic sanctions. These purposes are deterrence, punishment, coercion, and signaling. Deterrence is the goal of trying to prevent something from occurring, while coercion is trying to convince a country to act in a certain way. Punishment and signaling are similar goals in that they both express a dislike of another country’s actions. Punishment is done after the action has occurred, while signaling is done prior to the action. Sanctions may be implemented in order to achieve any one or a combination of these goals. Although there are only four main purposes of sanctions, there are many more specific goals which fall under one of the general categories.

One common reason for imposing economic sanctions is to achieve a national security objective. The basic goal may be “to deter military aggression or to force an aggressor to withdraw its armed forces from a disputed territory.” (O’Quinn, 1997, pg. 4) Another goal may be to “discourage the proliferation of
weapons of mass destruction and ballistic missiles, end support for terrorism or discourage armed aggression.” (Haass, 1998, pg. 1) In this case, the sanctions will serve as a signal for a country to discontinue its threat to the sender country’s security or else face military action. The goal of a sanction may even be the replacement of a government if the threat from that regime is very high.

There are other political or humanitarian objectives that sanctions may seek to fulfill. Sanctions can be implemented for a variety of purposes, from protecting the environment to preventing illegal drug trafficking. When imposed against non-democratic states, the sanctions typically seek to aid in democratization. Often in such states, sanctions are also used to promote the rights of workers. Between democratic states, sanctions are used to resolve international trade and investment disagreements. When imposed in such a way, sanctions are used to “ensure market access or compliance with trade agreements.” (Haass, 1998, pg. 1)

The mere threat of sanctions also serves a purpose. A threat of a sanction can increase the bargaining power of the sender country. The threat will serve as a way to protect the country in all negotiations with other countries. A very common reason for applying sanctions is to appease the public. Here sanctions serve as an important political maneuver where one country can take action against another without using military force.

Even though sanctions are imposed frequently, they do not always achieve their objectives. Sometimes only part of the original goal is achieved, while in other cases a completely different outcome is realized.

**Economic Effects of Economic Sanctions**

The concept of economic sanctions is simply to put pressure on the economy of the target country. This strain is brought about by affecting trade patterns of the target nation by imposing one of the various types of sanctions. One effect of sanctions is a reduction in income of the target country due to a decrease in exports. The import sector of a country is affected, thus sanctions may force a country to buy necessary goods from other suppliers who are often higher priced. This in turn causes the cost of imports to rise. If sanctions are imposed multilaterally, however, a nation’s ability to use alternative suppliers may be greatly reduced, forcing the country into an autarky state. This would drive the cost of imports even higher or may even completely cut off a country from a certain good. This could force the country to have to produce the good domestically or no longer use the good.

Even though economic sanctions are intended to have negative effects on the economy of the target country, they also affect the economy of the country or countries imposing them. In addition to having a general negative
effect on the economy, sanctions can also affect individual companies and employees. There are many negative consequences of imposing sanctions, such as lower exports, less foreign investments, fewer jobs in the export sector, and loss of market share in the global economy. (O'Quinn, 1997, pg. 9)

A decrease in the direct foreign investment a country receives can have severe effects on its economy. When this reduction occurs, companies that rely on those funds may be forced to cut back production. In turn this will reduce the number of jobs available in that sector. The subsequent drop in employment may cause a decrease in consumer spending and trigger a downward spiral in the economy. Most jobs are not completely destroyed by a sanction because over time many of the workers will be absorbed into other sectors of the economy. Although the employment rate will return to near normal, the value of the workers in the new sectors is lower than the original value of production.

Lost market share of businesses in the imposing country can also be a consequence of economic sanctions. In such a case, because of the lost market share, those companies will sell fewer goods. This decrease in demand will thus cause jobs to be cut in the economy. It is clear that the negative consequences of economic sanctions in the imposing country can be quite severe. To put this into perspective, the Council on Competitiveness found that “eight specific sanctions cost the U.S. economy $6 billion in annual export sales and 120,000 export related jobs.” (O'Quinn, 1997, pg. 9) Even though the U.S. economy is very large, with a GDP over $10 trillion, (Work Fact Book 2002) a loss of that magnitude can not be written off as totally insignificant.

It is tempting to believe that the easy way to solve the problem of the negative consequences would be to lift the sanctions. The solution, however, is not always that simple. Even after sanctions have been lifted there may be continuing negative effects. In order to regain lost market share in the target country, U.S. companies may be forced to transfer technology, cut prices, or make unusual concessions. Another long term consequence may be strained international relationships. These relationships may be harmed between the sender and the target country as well as between other countries not directly involved. Sometimes after sanctions have been lifted, the target country remains hostile toward the sender country. Relationships with potential trade partners can also be affected by sanctions. Here, the threat of sanctions being imposed causes unnecessary fear in these nations, harms those relationships.

History of Economic Sanctions

Economic sanctions in some form have been part of international trade from the beginning of time. Ever since countries have traded with each other, one country has always tried to manipulate, or gain an advantage over the other.
The first modern example of sanctions occurred in the 1930's when Germany used the "manipulation of trade to gain security advantages." (Newnham, 2002, pg. 5) Here, trade manipulation was used by Germany in order for the country to pave the way for its military conquests in World War II.

In political science, there are two competing views on what is the most important issue for a country. The realist view, which emphasizes national security, dominated the world of political thought from the 1930's to 1950's. According to this view, everything, including the economy, was of secondary importance. Since the 1950's however, the liberal view has gained momentum. This view puts less emphasis on issues of power in regards to national security. Instead, the liberal view focuses "on the use of economic power to solve economic problems." (Newnham, 2000, pg. 8)

Since the beginning of the liberal movement the importance of sanctions has increased. Since World War II, economic sanctions have played a major part in international relations. Between World War II and 1984, there were ninety one cases of economic sanctions. (Carter, 1988, pg. 10) The U.S. took part in imposing sanctions in sixty two of those cases, which is the most of any country. (Carter, 1988, pg. 11) Today, sanctions serve as the most important political tool a country possesses because they are widely used and preferred to military action.

Sanctions are regarded as successful if the overall objective was reached. The success rate however has greatly varied. Overall, U.S. sanctions were only successful thirty seven percent of the time. (Carter, 1988, pg. 14) The success rate also varies according to the type of goal sought. The two most successful kinds of sanctions are those with the goal of destabilization or modest policy goals. Examples of such goals include creating tension against the current government, and encouraging minor policy changes, respectively. Destabilization goals have been reached in sixty seven percent of the cases, while modest policy goals have been achieved forty percent of the time. (Carter, 1988, pg. 23) Sanctions that are typically unsuccessful include those that seek to disrupt military adventures, to impair the military potential of the target country and to induce major policy changes.

There are several specific cases of successful sanctions since World War II. In World War II, a trade embargo imposed by the Allies kept strategic materials from being bought from neutral countries. The embargo was placed into effect by the Allies, including the U.S. and Great Britain, on the Axis countries of Germany and Japan. It can be said this embargo "played at least a modest role in the defeat of the Axis countries." (Carter, 1988, pg. 10) Sanctions were also at least partially successful during the Cold War. In the mid 1970's, the mere threat of financial and export sanctions by the U.S. and
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Canada helped prevent the spread of nuclear weapons. This threat persuaded South Korea not to purchase a plant that could produce nuclear weapons.

Sanctions in the form of reductions in military and economic assistance were successful against Brazil from 1977 to 1984. The sanctions helped to increase respect for human rights in the country, by helping to remove the threat of political repression and torture. Sanctions were also successful against Haiti. Here a suspension of foreign assistance also helped to overthrow their government in 1986.

There are also many examples of the failure of sanctions. The two most famous examples, other than Cuba, concern sanctions against Pakistan and Iraq. During the Cold War, sanctions could not persuade Pakistan to fully accept multilateral safeguards. The sanctions imposed multilaterally by the U.N. against Iraq have been unsuccessful for a number of years. Originally, the sanctions were imposed to punish Iraq for its invasion of Kuwait. However, once the Gulf War was won, the sanctions were not lifted. The U.N. did not lift the sanctions in hopes of gaining leverage that could be used to encourage Iraqi disarmament. It is obvious that the leverage the U.N. hoped to gain did not actually happen. Saddam Hussein showed great disrespect for the U.N. and was often cited as saying their inspections were a joke.

When Hussein was still in power, disarmament did not take place to its full extent. If the sanctions would have been successful in persuading the country to disarm, when the U.N. inspectors searched Iraq at the end of the Gulf War they would not have found anything in violation of the peace agreement. It is puzzling that Hussein was found in violation of the agreement, yet the U.N. did nothing.

Recent events involving the war with Iraq have shown that the sanctions did not achieve their desired goal. If the sanctions had been effective, the war would have been unnecessary and full disarmament would have occurred. This however was not the case. When the sanctions were the only measure taken against Iraq, Hussein acted without regard to the consequences. Because the sanctions alone did not force any political change, nor did they achieve disarmament, the sanctions must be considered a failure.

History of the Cuban Embargo

In the midst of the Cold War, the U.S. took a strong stance against communism when it applied economic sanctions against Cuba. Although the sanctions began many years ago, it still is a subject of great controversy, and has been dealt with by every President since 1960. The U.S. government imposed the sanction because it was concerned about Cuba forming an alliance with the Soviet Union that would establish a totalitarian regime in Cuba. The
U.S. was greatly concerned about this possibility because of the extensive trade with Cuba. In addition, the possibility of a nation so close to the U.S. being aligned with the Soviet Union alarmed many in the U.S. government.

The U.S. policies towards Cuba have changed over the years. According to Donna Kaplowitz the embargo can be divided into five different stages. These periods are: 1) 1960-1962, 2) 1962-1970, 3) 1971-1980, 4) 1981-1989, and 5) 1989-1996. (Kaplowitz, 1998, pg. 2) We are currently in a transition period that began in 1996. In general, the history of the sanctions is characterized by alternating periods of strengthening and weakening of the sanction’s terms.

In 1960, Dwight D. Eisenhower was the first US President to impose sanctions against Cuba. This was a mere year after Fidel Castro led a rebel army into power. At this time, the U.S. developed and imposed a unilateral sanction against Cuba. It was then that all exports to Cuba were prohibited. In 1961, the U.S. fears of an alliance between Cuba and the Soviet Union were strengthened when the two nations signed a trade agreement. This reaffirmed the basic reason for imposing the sanction.

The second period of the sanctions began on February 3, 1962 when a full trade embargo was imposed against Cuba, meaning that both exports and imports were completely restricted. By 1964, all imports, exports, and finance between the U.S. and Cuba were banned. This action was taken because the Kennedy Administration was “convinced that Castro was moving rapidly toward the establishment of a totalitarian regime in alliance with the Soviet Union.” (Varona, 1994, pg. 7)

This period is defined by efforts on behalf of the U.S. to include other countries in the embargo. The embargo was tightened further in July of 1964 when the Organization of American States (O.A.S.) expanded the embargo to the entire continent of South America. The O.A.S. made this decision to support the U.S. embargo because Cuba was repeatedly involved in aggressive acts against its member countries. The O.A.S. governments’ were angered by Cuba’s support of many violent revolutions occurring throughout the Americas.

The embargo was first loosened during the 1970’s. During this decade, several countries resumed trade with Cuba. Castro sought to resume trade relationships with the O.A.S. countries because of the failure of Cuba’s economic policies. Imports from Latin America in 1958 before the implementation of the embargo was at $84 million. Just over ten years later, during the heart of the O.A.S. ban, trade with Latin America hit an all time low, with both exports and imports valued only at $1 million each. Eventually, many O.A.S. countries resumed trade with Cuba, because of the mutual economic benefit.
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In 1974, President Gerald Ford looked into improving the overall relations between the U.S. and Cuba. Products made by U.S. subsidiaries in Latin America were allowed to be exported to Cuba in 1975; however, there was a limit on which products could be exported. Only products that had less than twenty percent U.S. made content could be exported. In this same year, the O.A.S. ban was completely lifted. Once the sanctions of the O.A.S. were lifted, trade between Cuba and Latin America quickly increased. By the end of 1975, imports from other Latin American countries to the island nation reached $230 million.

President Jimmy Carter continued loosening the sanctions during his term. He relaxed the travel restrictions during the late 1970’s, and established two interests sections in various embassies. In 1977, a U.S. interests section was set up in the Swiss embassy in Havana and a Cuban interests section was set up in the Czech embassy in Washington.

This trend was reversed in the 1980’s, however, when Ronald Reagan was elected President. Reagan “entered office intent on reversing the tide of Soviet-Cuban advancements throughout the Third World.” (Varona, 1994, pg. 9) The period from 1981-1989 is characterized by a tightening of the embargo. A partial ban on travel was re-imposed in 1982, and subsidiaries were strongly warned not to exceed limits established on trade content.

The tightening continued during the next period from 1989 to 1996. During this period efforts were once again made to globalize the embargo. This created animosity among the U.S. allies who expressed strong anti-embargo sentiment. It was during this period that the U.S. lost the support of regional and international organizations. This is shown by the many votes in the United Nations that condemn the U.S. policy towards Cuba. In fact, for ten years the General Assembly has called for the end of the embargo. (Reuters, 2001, pg. 1)

In October of 1992, President George Bush signed the Cuban Democracy Act into law. It was enacted because of “Castro’s refusal to introduce democratic reforms and the increasing incidence of human rights violations on the island.” (Kaplowitz, 1998, pg. 9) This act tried to make the embargo world-wide by closing the subsidiary loophole for trade. This act also “encouraged U.S. foreign aid recipient nations to avoid providing assistance to Cuban regime.” (Kaplowitz, 1998, pg. 10)

The Helms-Burton Act of 1996 signed by President Bill Clinton expanded the embargo extraterritorially. This act “seeks to discourage investment in Cuba by imposing sanctions on foreign companies profiting from property confiscated by the Castro regime.” (Vasquez and Rodriguez, 1996, pg. 1) The act tries to discourage third parties from being involved in business activities that use or profit from the use of property that was confiscated in 1959 by the Cuban government. A major provision of the act allows U.S. nationals
who had property confiscated to file law suits in U.S. district courts to recover damages. It also states anyone who participates in activities involving confiscated property may be banned from visiting the U.S. Another provision limits the ability of the U.S. President to cease the sanctions against Cuba. The last main provision called for the U.S. executive branch to improve enforcement of current laws relating to Cuba, such as tightening the existing sanctions.

Current Situation

The most current period, from 1996 to the present, is one filled with confusion. Although both President Clinton and President George W. Bush have been against the relaxation of the sanction, there has been increased disapproval of the embargo among the American people. “A growing coalition of U.S. critics – liberal Democrats, Catholic bishops, agribusiness giants, libertarian free-traders – argues that the embargo is an antiquated relic.” (Jacoby, 2002, pg. 2) The concerns of the critics have led to lobbying of members of the U.S. Congress, several of whom now support easing the sanctions. In fact, the House of Representatives passed legislation in July 2002 that would “ease restrictions on trade and travel to Cuba.” (Boston Globe, 2002, pg. 1) Even former President Carter has been getting in on the debate. The Carter Center and Carter himself have been pushing the idea that the best way to promote change in Cuba is “through maximum contacts between our two countries.” (Keen, 2002, pg. 2)

Thus far President Bush seems unfazed by the growing dissent, and has vowed to continue with a hard-line stance against Cuba. Bush has taken such a stance in response to the demands of the Cubans in Florida who typically vote Republican. In order to be elected Bush needed their support, and thus appeared to be committed to following their demands. For this same reason, humanitarian efforts, such as allowing trade for food have been allowed in Cuba.

Economic Models

The basic theory behind an embargo is simple: one country harms another by forcing it into an autarky state. This is accomplished by cutting off a country’s trading partners in order to force a country to be self-sufficient. In reality, the target country never becomes a true autarky because of the presence of other potential trading partners throughout the world. The effects of moving from free trade to autarky can be analyzed in a general equilibrium framework or a partial equilibrium model.
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In order to understand the models, one must have an understanding of various economic concepts, including a production possibilities frontier and indifference curves. A production possibilities frontier (PPF) graphically shows the different combinations of two goods that can be produced using a set amount of resources. Indifference curves represent a combination of two goods which yield the same utility, or welfare. The indifference curves closest to the origin have the lowest utility, while those farther from the origin yield higher utility.

General Equilibrium

The neoclassical model of trade provides a general equilibrium framework, which analyzes the effects of sanctions on the country as a whole. Under free trade, the neoclassical model would appear as figure 1, Neoclassical Free Trade. In this model, the production capabilities of two countries for two goods are graphed using a production possibilities frontier. The world price ratio \( \frac{P_X}{P_Y} \) of the two goods in a country is graphed as well, in order to determine the optimal production point. This optimal production point is where the PPF is tangent to the price line, at point \( P^F \) in the graph. This point shows the highest level of production that can be reached by using only the resources available, and given the current prices.

According to this model, under free trade a country can consume beyond its production capability by trading. As seen in the figure, under free trade a country will produce at point \( P^F \), but will consume different amounts of both goods, represented by point \( C^F \). The country will face a situation where it produces more of one good than it consumes and thus exports this good to other countries. It will then import the other good, which it consumes more of than it produces from another country. This graph shows that this country will export good X in the amount of DF. The country will then import good Y in the amount of AB. Remember, the actual consumption point after trade must lie on the price line, \( \frac{P_X}{P_Y} F \). The corresponding indifference curve of the consumption bundle is also graphed to show the welfare associated with this bundle. The welfare achieved by this bundle of consumption is represented by indifference curve \( I^F \).

By forcing a country to move to autarky, the sender country is trying to reduce the target country’s welfare. The receiving country’s welfare will be reduced because it can only consume what it produces. Consider figure 2: Neoclassical Autarky. By adding to the graph for Neoclassical Free Trade, one can see the consequences of a move to autarky. When enforcing the embargo, the consumption and production points will move to point \( P^A \), because the relative prices change to \( \frac{P_X}{P_Y} A \), reflecting the prices that occur in the
domestic market. At this point, production in the economy is equal to 
consumption, because all that is consumed must be produced domestically since 
trade is no longer a valid option. In this situation both imports and exports 
equal zero. This moves society down to a new different indifference curve, IC^A. 
Since the new indifference curve is closer to the origin than the free trade one, 
IC^F, then by definition the welfare of the country has decreased.

This analysis assumes that the sanctions are imposed multilaterally by 
all countries against the target. In reality, the sanctions are rarely imposed by 
every country in the world. In order to be more realistic, the neoclassical model 
must be expanded to include three countries. Consider figure 3, Neoclassical 
Embargo Reality. In this model, one country would be the sender, one would 
be the target and the other can represent the rest of the world. The third country 
will continue to trade with both countries without regard to the sanction. When 
doing this analysis the true effects of the sanction cannot be determined without 
knowing the relative prices of all three countries.

In general, the effects of trade will still be present as described above; 
however, they will now be less dramatic. Production is this scenario moves to 
P^E, and consumption moves to C^E. The country now imports less goods in the 
amount IK, and exports less goods in the amount of LJ, as compared to AB and 
DF respectively, under free trade. Instead of pushing the country back to 
autarky, if effective, the embargo will push consumption back to IC^E, resulting 
in lower utility than the free trade scenario, but higher than autarky.

**Import Sector Partial Equilibrium**

The neoclassical model argues that there are two goods in the 
economy, one which is imported, and one which is exported. As a result, if the 
target is small and the sender country is large, the effect of the embargo for the 
sender country in a general equilibrium sense would be small. However, the 
impact on specific sectors of the economy could be large, even when the target 
is a small country. In order to understand the effects of the embargo on a 
specific sector, one must use a partial equilibrium analysis.

When considering the effects of an embargo in partial equilibrium, one 
can view the embargo as a quota. When one country imposes an embargo 
against another it is like the former’s government restricting imports from a free 
trade level to the level of zero. An embargo prohibits all imports; therefore, the 
imports would be at a level of zero. Another sanction, a quota may also limit 
the amount of imports to zero. One can then draw a parallel between the two, 
and view an embargo as a quota of zero.

Under partial equilibrium free trade, the graph would look like figure 
4, Import Sector Partial Equilibrium Free Trade. On a graph, the supply and
demand curves, S and D respectively, are drawn for the imported good. The world price of the good is then graphed as a horizontal line below the intersection of the supply and demand. Supply and demand quantities are determined by the intersection of each line with the price line. At the world price, the country will produce at point A, but demands a level of goods at point B. The amount of imports is shown as the difference between the supply and demand at the world price level. In this graph, the level of a good supplied will be different than at equilibrium. To meet the excess demand of the people, the country must import the difference between its production and consumption points, the amount of AB.

The welfare of a section of the economy can be seen using a partial equilibrium framework. In such a framework, one can distinguish between the welfare gained by consumers and the welfare gained by producers. The welfare of consumers is referred to as consumer surplus, while producers' welfare is called producer surplus. The producer surplus is the area above the supply curve up to the price level. Under free trade, it would be the area HEA. The consumer surplus is given by the area above the price line and below the demand curve. Before the quota of zero was imposed, this area was GEB.

The graph would be different under an import quota of zero, as shown in figure 5, Import Sector Partial Equilibrium Zero Quota. The quota of zero would decrease the level of imports to where supply equals demand at point C if the target country is the only source of imports for the sender. The point C is the equilibrium where the supply curve intersects the demand curve. This will raise the domestic price of the good up to the level \( Dp^0 \), because the country must now produce all of the good domestically.

The change in the welfare of the country can be seen by comparing the consumer and producer surplus in each graph. Following the imposition of the quota, the producer surplus would increase to FCH because of the increase in price. This means that domestic producers would gain from a zero quota. After the imposition of the quota, the consumer surplus is reduced to FGC because of the price increase. Consumers would thus be hurt by a zero quota. The net change in welfare is seen by the area ABC, which is a dead weight loss. The total effect of the embargo, or a zero quota, would be a net loss. Since one can consider the effects of a zero quota to be similar to the effects of an embargo, an embargo would also create a dead weight loss.

Because there are other countries of the world to consider, the actual effect of the embargo would not be a quota of zero. Most likely however, the country would be forced to pay at some level above the world price but below the domestic price, at possibly WP^E. This scenario can be seen in figure 6, "Import Sector Partial Equilibrium Embargo Reality" in the appendix. The effect of the embargo would be the same as a quota; however, the net loss
would not be as great. Consumers lose out in this scenario as their surplus decreases to GLK. Producers gain however, because their surplus increases to HLJ. The losses from this scenario would most likely be felt by the sender country, however, if the target’s trade constitutes a small fraction of the sender’s trade, then the net loss with be small. The effects could also occur in the target country’s import sector. This would occur because the target would be forced to purchase goods it originally bought from the sender from a higher priced supplier. The new net loss would fall to JABK as seen in the graph.

**Export Sector Partial Equilibrium**

Effects of the embargo can be seen in the export sector as shown in figure 7, Export Sector Partial Equilibrium Free Trade. The basic ideas are the same for imports as for exports. In the export sector, the production and consumption points are determined the same way as in the import sector, by the intersection of the price line with the supply and demand curves. The difference is that now the world price under trade is above the intersection of supply and demand. In the graph, point A is the consumption and point B is the production. The country would therefore export the difference between the two points, represented by the distance AB. Consumer and producer surplus is determined the same way as in the import sector. In this graph the producer surplus would the area EBH, under free trade. The consumer surplus is GEA. As one can see the producers are much better off under free trade.

The graph for a quota of zero in the export sector is figure 8, Export Reality Partial Equilibrium Zero Quota. The effects of the quota would be to decrease the level of exports to the intersection of supply and demand. Point C would then be the equilibrium for the target country, assuming the sender was the only buyer of the good. This will reduce price to $D_p^Q$ because the country can no longer export its excess supply of goods, and therefore must consume all it produces domestically.

The change in the welfare can be seen in this graph by comparing the consumer and producer surplus. Following the imposition of the quota, the producer surplus would decrease to FCH because of the decrease in price. This means that domestic producers would lose from a zero quota. After the quota is imposed, the consumer surplus is increased to FGC because of the price decrease. Consumers would thus win from the imposition of a zero quota. The total effect of the embargo, or a zero quota, would be a net loss, as seen by area ABC. Since one can consider the effects of a zero quota to be similar to the effects of an embargo, an embargo would also create a dead weight loss.

Because there are more than two countries in the world, the actual effect of the embargo would be different than an export quota of zero. Consider
figure 9, Export Sector Partial Equilibrium Embargo Reality. In most cases, the country will have to pay a price between WP and $D_P^Q$, such as $WP^E$. The effects again would be similar to a zero quota, except on a smaller scale. The producer surplus would be the area LKH, which is smaller than with a zero quota, but larger than under free trade. The consumer surplus in this graph is GLJ, which is slightly smaller than under free trade, but larger than under a zero quota. In this instance, the net loss would only be JABK, as compared to ABC.

**Assessment of the Cuban Embargo**

Applying the information presented previously, one can now clearly define the sanctions against Cuba. Specifically, the U.S. has imposed a full trade embargo against Cuba. This is an example of a specific economic linkage, because the action is taken directly by the U.S. Because of the restrictive nature, it is also an example of a negative sanction.

**Specific Objectives**

The sanction was first initiated in order for the U.S. to express its disapproval of communism. The sanction’s original goal sought to cause Cuba economic hardship in hopes of forcing Castro’s communist regime to be removed.

Over the past four decades, the objectives of the embargo have evolved. While these objectives have not always been clearly defined, there were six main goals. These objectives are 1) overthrow Castro, 2) retaliation, 3) containment, 4) break Soviet Cuban ties, 5) demonstrate opposition, and 6) change the internal situation. (Kaplowitz, 1998, pg. 3)

In a very general sense, applying only the definition of an embargo, the embargo against Cuba has been implemented successfully. Because the embargo has prevented nearly all direct and indirect commercial relations between those subject to U.S. jurisdiction and Cuba or its nationals, in theory, the embargo has been successful. When you look at specific goals, however, the successfullness has varied.

The original goal discussed was to overthrow Castro. It was hoped that the strain of the sanctions would anger the population and encourage them to overthrow Castro. Once it was realized that Castro would not be removed from office, the objective changed to one of retaliation for the confiscation of U.S. property in Cuba. In total, there was $1.8 billion in claims from the U.S. against Cuba. In 1960, the State Department said that the purpose of the embargo was to "defend the legitimate economic interests of [U.S] citizens . . .
against the aggressive, injurious and discriminatory policy of Castro’s regime.” (Kaplowitz, 1998, pg. 4)

As time evolved, the goal was changed to containment, because it was clear Castro would not be overthrown, and U.S. citizens would not have their property returned. Under this new goal, the Cuban revolution was meant to be deprived by decreasing money available to the Cuban government. In theory, it was meant to make sure the communist movement did not gain further momentum and spread to other countries.

Another goal of the economic sanctions was to break the ties between the Soviet Union and Cuba. It was believed that the increased cost of this relationship would cause it to break down. Another goal of the U.S. embargo was symbolic in nature, seeking to express U.S. opposition to the policies of the Cuban regime. Symbolism itself had two parts to it. The embargo was supposed to show Cubans that Castro did not have their best interests in mind, because his policies were the reason the Cubans were cut off from many goods. It was also supposed to show the rest of the Western Hemisphere that communism did not belong.

The most recent objective of the economic embargo against Cuba was to change the internal situation in the country. This was seen as the primary objective in the 1990’s, because of the failure of the original goals. Although similar to other goals, it is different because it sought to actually change Cuban policies, instead of just expressing distaste for them. The goal was no longer to remove Castro rather it now sought any measure that would make the country more democratic. For example, the Cuban Democracy Act stated a goal was to “further isolate the Castro regime in order to weaken its repressive apparatus and to increase pressure for democratic change on the island.” (Varona, 1994, pg. 5) One can see the new goal expressed well in a statement by Assistant Secretary of State, Bernard Aronson. In March of 1990, Aronson said that “if Cuba holds fully free and fair elections under international supervision, respects human rights and stops subverting its neighbors, we can expect relations between our two countries to improve significantly.” (Kaplowitz, 1998, pg. 8)

In 1996 via the Helms-Burton Act, twelve criteria were laid out for lifting the embargo. Currently, this appears to be the aim of President George W. Bush, who has made statements such as “If Cuba’s government takes all the necessary steps to ensure that the 2003 elections are certifiably free and fair and if Cuba also begins to adopt meaningful market-based reforms, then and only then, I will work with the United States Congress to ease the ban on trade and travel between the two countries.” (Shadid, 2002, pg. 2) Clearly the goal has now evolved into one less extreme, which is more likely to be realized.
Assessment of Objectives

The first goal of overthrowing Castro's regime has failed in practice because of propaganda exposed by Castro. Castro made the Cuban people feel loyalty to him by blaming the U.S. for the economic problems the country faced. "Castro blames Cuba's shambles of an economy and endless shortages on the embargo." (Jacoby, 2002, pg. 2) Although not entirely wrong, Castro's position is not completely right. It is true that the Cuban people face hardships because of the embargo; however, Castro does not admit that his economic policies are to blame for most of the hardships. In general, the U.S. can be partially blamed for the economic problems, but it is too strong to say the hardships are entirely the U.S.'s fault. Castro was successful in convincing his people of this position because he is a very charismatic and persuasive person. It is important to note that the command economy of Cuba failed like all other command economies in the past. In general, command economies fail because they create chronic shortages, as was evident in the former Soviet Union. Cuba too faces shortages, especially of food, caused by the command economy, which hinders development.

The goal of retaliation was also not reached. The actual consequence of the embargo was that it was ensured that the U.S. would not be paid for the property which was confiscated by the Cuban government.

The goal of containment was partially successful. According to Donna Kaplowitz in Anatomy of a Failed Embargo, (1998) this objective failed because the goal was "nebulous, changing, and difficult to obtain." (Kaplowitz, 1998, pg. 6) The main reason this goal was so hard to achieve is because Cubans turned to another source to finance their revolutions. This other source was the Soviet Union, which provided a great deal of aid to Cuba during most of the embargo's life. The embargo did not prevent Cuba from exercising its influence in other parts of the world, particularly in other South American countries, and Africa. Remember, Cuba's involvement in other Latin American countries is what sparked the O.A.S. sanction in the 1960's. Cuba also supported revolutions in such African countries as Ethiopia and Angola. The goal was partially successful, however, because communism did not spread around the globe.

The goal of the embargo in breaking ties with Cuba and the Soviet Union also failed. Even though the cost of the relationship did increase, the relationship did not disintegrate, rather it was strengthened. The embargo caused Cuba to move much closer to the Soviet Union because it was tied to
Soviet trade and assistance more than ever. When the Soviet Union broke up, Cuba was greatly harmed because of its reliance on the Soviets.

Some believe that the symbolic goal was achieved (at least originally) because the U.S. public demanded action. This is no longer the case, as is evident from a 1998 Gallup poll in which many people stated to re-establish economic and diplomatic relations with Cuba. (Kaplowitz, 1998, pg. 8) To many, the objective to change the internal situation in Cuba is no longer valid because Cuba no longer poses a threat. The reasoning behind this statement is that without Soviet support Cuba does not have the resources to harm the U.S.

When looking thus far, one can see that the goal to induce change in Cuba also has not been achieved. Castro’s policies are the same as they have always been, very controlling in nature. Although on the surface it may appear some policies have changed, upon close examination the policies are empty promises.

In general, sanctions against Cuba are a tricky matter. The sanctions were originally imposed unilaterally; however, they were not very effective. Several other democratic nations later joined in the imposition of sanctions; however, Cuba was able to find a trade partner—the Soviet Union—to fill the trade void. In the last few decades though, with the collapse of the Soviet Union, Cuba has lost its main trading partner. Thus the economic effects are more prominent in recent history than ever before. This has forced Castro to make some changes in policy such as dollarization. Dollarization occurred in Cuba when the dollar was legalized as a currency. Although on the surface it appears that changes have indeed been made, upon closer inspection one can see the changes are merely a facade. The dollar is not available to all people, rather only the elite use this denomination of currency.

There are various reasons offered as to why the embargo has failed. The basic reason is that the Cuban government has learned to get around the embargo by trading with other countries. As was seen, this is often a problem. This was especially true when Cuba turned to trading with the Soviet Union during much of the embargo’s life. Others feel the embargo failed because of the ingenuity of Fidel Castro. Castro has smartly shifted the blame for Cuban economic problems onto the U.S. Some also feel the embargo failed because its goals were too difficult. This is particularly true of the goal to oust Castro. Here the U.S. tried to exercise too much power.

When looking at the various objectives set forth for the embargo, it is clear to see why many feel it has been a failure. Many scholars and people in general feel the embargo has been a failure for good reasons. Scholars such as Jorge Dominguez have said “In a broad strategic sense, U.S. policies toward Cuba have failed.” (Kaplowitz, 1998, pg. 9) Sanctions expert Margaret Doxey also agrees, stating that “the general ineffectiveness of the [Cuba] embargoes
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has long been apparent.” (Kaplowitz, 1998, pg. 9) Many of the facts seem to support these scholars’ views.

U.S.-Cuban Relations before the Embargo

In order to better understand the effects of the Cuban embargo, one must be aware of the situation prior to the embargo’s implementation. Following Cuba’s independence from Spain in December 1898, Cuba was administered by the U.S. for four years from 1898 to 1902. From that time until the 1950’s, Cuba and the U.S. had substantial trade. During this time, Cuba benefited greatly from its close economic ties to the U.S. In fact, in 1959 just before the implementation of the embargo “Cuba’s economic and social indicators ranked among the highest in the world.” (Cubafacts.com, 2002, pg.1)

In 1958, the U.S. was Cuba’s leading trade partner, accounting for three-quarters of Cuban imports (Kaplowitz, 1994, pg. 11) and eighty five percent of Cuban exports. (Enterprise Florida Inc., 1999, pg. 1) The U.S. was also a large investor in Cuba, lending $11 million to the country for developmental projects in 1958. (Cubafacts.com, 2002, pg 1) In addition, many people, approximately 300,000 people, from the U.S. would visit Cuba each year during the 1950’s.

Economic Effects of the Embargo

Although in the big picture, Cuban trade made up only a small part of the total U.S. trade, some industries were hurt extensively. Cuba was an important source of several goods for the U.S. Cuba supplied the U.S. with a substantial amount of sugar, cigars, citrus fruits, nickel, and unprocessed minerals. Several export industries suffered losses due to the embargo including, agriculture, tourism, port, cruise, and medical supply industries. Several Cuban sectors were initially harmed a great deal by the embargo, including the livestock, nickel, and sugar industries. As was shown earlier, the Soviet Union soon replaced the U.S. as Cuba’s leading trade partner and helped to offset much of the economic effects of the embargo.

By analyzing the trade pattern before the embargo and applying the trade models, one can get a better idea of the losses created by the embargo. Using the neoclassical model for three countries, assume the U.S. is the capital abundant country, while Cuba is labor abundant. This assumption is based on current export patterns of Cuba, which indicate the economy’s reliance on agriculture.

Let “X” be the capital intensive good and “Y” be the labor intensive good. Because the U.S. is the most developed country, it is safe to assume the
U.S.'s relative price of good “X” and “Y” is the lowest. Cuba's relative price could then fall in the middle or be the highest. If Cuba’s relative prices are such that they are in the middle, the embargo would be ineffective. This is because based on relative prices prior to the embargo, the U.S. and Cuba would not have traded extensively.

Due to the extensive amount of U.S.-Cuban trade before the embargo, it can be assumed that Cuba has the highest relative price. This places the rest of the world in the middle. This pattern of relative prices would have to be true in order for trade between the U.S. and Cuba to occur. If the relative prices were not as such, trade would not have occurred between the countries, because each would have bought from a lower priced supplier. This means that if Cuba’s relative price was in the middle both the U.S. and Cuba would have traded more with the rest of the world than with each other. Since there was substantial trade between the U.S. and Cuba before the implementation of the embargo, one can assume that Cuba’s relative price was in fact the highest.

Such a situation is shown in figure 3, Neoclassical Model Embargo Reality. The embargo in this case would be harmful to both economies because each would be forced to buy from a higher price supplier. The country would thus reduce its imports to IK, as compared to AB. Exports would also decrease as well moving from a level of DF to LJ. This would push each country back to an indifference curve below free trade, but above autarky, shown as IC\textsuperscript{E}. For the U.S. such a move to a new indifference curve would create small losses, however, the percentage lost in Cuba would be much bigger simply due to the size of each economy.

Partial equilibrium analysis can be used to determine the losses caused by the embargo, because it is known that several sectors were affected more than others. Because Cuba supplied the U.S. with a great deal of sugar, consider the sugar market in both Cuba and the U.S.

In Cuba, under free trade the world price for sugar would be above the autarky price. After the embargo, however, the price level Cuba faced would fall similar to what would happen if an export quota was imposed. This means that the world price Cuba faces would lower than the free trade world price, yet it would remain above autarky price, as shown in figure 9, Export Sector Partial Equilibrium Embargo Reality. The lowering of world price would decrease the producer surplus to LKH and increase the consumer surplus to GLJ, relative to the free trade amounts of EBH and GEA, respectively. The total effect would be a net loss, as shown by the area AJKB. Note this area is smaller than the loss created by a zero quota, shown as ABC.

In the U.S. there would be a similar net loss; however, the embargo would act as a quota on imports. Here the world price would begin below the equilibrium price, as seen in figure 6, Import Sector Partial Equilibrium
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Embargo Reality. Once the embargo was in place, the world price would rise to \( WP^E \), but not as high as the autarky price. This measure would decrease consumer surplus to GLK, but increase producer surplus to HLJ. The total net effect would again be negative, as shown by area JKBA.

The trade loses that occurred are in line with the predictions of the model. The embargo has cost the U.S. an extra $35 million for purchasing nickel from other suppliers. (Kaplowitz, 1994, pg. 12) Citrus importers also lost a great deal, totaling $34 million per year. (Kaplowitz, 1994, pg. 12) Seafood, tobacco, coffee and rum import industries were also harmed. In total it is estimated that the U.S. has lost $15 to 30 billion due to the embargo. (Kaplowitz, 1994, pg. 12) Currently the U.S. GDP is over $10 trillion, meaning the total losses from the embargo accounts for .15 to .03 percent of GDP. Annually this means the U.S. losses are less then 1 millionth percent of GDP.

The losses incurred by Cuba are not as clear cut, because of their extensive trade with the Soviet Union. By 1961, the Soviet Union replaced the U.S. as Cuba’s main trading partner. The basic trade agreement called for Cuba to exchange sugar and nickel for Soviet oil and petroleum products. In fact, nearly eighty percent of Cuban sugar exports went to the Soviet Union, China, or other Soviet bloc countries. This measure ensured that the Cuba sugar market was not greatly harmed by the U.S. sanction.

Although the Soviet Union almost completely replaced the U.S. demand in the sugar market, it could not do so in every sector of the Cuban economy. Tourism was especially harmed. Tourists from the Soviet bloc countries never exceeded 30,000 per year, while approximately 300,000 U.S. tourists used to visit the island.

Foreign investment in Cuba was basically non-existent until the middle 1980’s. At this time, the Cuban government realized Soviet economic assistance was becoming unsure. Soviet assistance was four to six billion dollars annually in 1990, which was a forty five percent decline from the assistance in the previous year. Luckily by 1990, foreign investment from other countries reached a level of $800 million. Most of the investment has been in the tourism industry, which caused the industry to perform well in recent years. It is important to note that the growth of this industry is what led to Cuba’s eventually dollarization.

Since the collapse of the Soviet Union, the effects of the sanction have been apparent in Cuba. Since the early 1990’s, Cuba has faced hard financial times. The country has faced a vicious cycle of economic hardships caused by limited capital inflows, and reduced exports which led to lower domestic production. In fact Cuba is now considered one of the least developed countries in the Western Hemisphere with a GDP per capita at only $1560. This is a huge
decrease in the standard of living considering that Cuba was one of the most developed countries in the 1950's.

It has been hard for Cuba to find alternative suppliers, and markets for its goods which has reduced production and hindered development. Agricultural production was especially hurt by the collapse of the Soviet Union. In fact from 1989 to 1994, agricultural production fell fifty four percent because of shortages of fuel and equipment.

Currently, Cuba's trade value is much lower than it could have been if things would have continued as well as they did in the 1950's. Today Cuba's exports are only valued at $1.8 billion according the CIA World Fact Book. (World Fact Book 2002) Their primary export trading partners are the Netherlands (22.4%), Russia (13.3%), Canada (13.3%), Spain (7.3%), and China (6.2%). (World Fact Book, 2002) The goods exported from Cuba have remained the same since the 1950's, which has caused the economy to stagnate. The main exports are sugar, nickel, tobacco, fish, medical products, citrus and coffee. Goods which are imported have remained similar as well. Imports in Cuba are primarily petroleum, food, chemicals, machinery and equipment, which are valued at $4.8 billion. (World Fact Book, 2002) The main import trading partners are Spain (12.7%), France (6.5%), Canada (5.7%), China (5.3%), and Italy (5.0%). (World Fact Book, 2002) As one can see from examining the trade statistics, no trading partner comes close to replacing the volume of U.S. trade.

The Policy Debate

There are basically eleven reasons for lifting the embargo against Cuba as defined by Adolfo Leyva De Varona in Propaganda and Reality: A Look at the U.S. Failed Embargo Against Castro’s Cuba (1994). In this section, a brief discussion on each of the reasons is set forth.

Does the Embargo Cause Suffering?

Some believe the embargo should be lifted because it causes the Cuban people unnecessary suffering and deprivation. Others go a step further, and claim the embargo is nothing but harassment of the Cuban people. Because the U.S. was Cuba’s largest trading partner before the sanction, accounting for over seventy five percent of both Cuban imports and exports, it is believed that Cubans are cut off from various goods, which only the U.S. could bring to them. This is of great concern to many because the goods that cause suffering are the U.S.’s medical advancements. Due to the embargo, medicines that are only made in the U.S. are denied to people who need them in Cuba.
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Others believe this viewpoint is false. In reality, the suffering of the Cuban people is caused by Castro’s inability to admit that communism has failed. One must realize the suffering of the Cuban people is not caused completely by the U.S.; instead the Cuban government is the culprit. In addition, it is false to believe the embargo encourages suffering, because the U.S. does allow trade for food and medicine so that the people of Cuba are not deprived. The U.S. is not the cruel heartless country that Castro portrays.

Will Lifting the Embargo Lead to Change?

Many feel lifting the embargo would bolster economic reform which would eventually lead to political reform and liberalization. Some feel that the economic reforms such as joint and private enterprise and dollarization that has already taken place in Cuba, are a good indication that more reforms would accompany the lifting of the sanction. These measures are seen as important steps in the progress toward economic reform that would continue faster if the embargo was lifted.

Other people agree the embargo should be lifted in order for change to occur. Some believe that if the embargo is lifted, Castro would become more confident and take measures to help his country. It is argued that this liberalization would have to happen because Castro would not be able to blame the U.S. for every problem the country faces. In this instance, some believe the embargo simply strengthens Castro. The embargo makes Castro appear to be a fearless fighter against capitalism, which bolsters his support. This is further exemplified by anti-Castro Cubans going back and supporting Castro because they are fearful of the returning exiles coming into power.

Other critics of the embargo feel that a free flow of tourism and trade to the U.S. would inspire change in Cuba. It is believed that lifting the embargo would allow more information into the country which the public would use to encourage change. The increased pressure on the government by the people would then ensure change.

Those in favor of the embargo believe that such claims are unrealistic. Even though it appears that several reforms have been made in Cuba, they are a facade. These beliefs are false because of strict limitations on the reforms. One of these reforms is the allowance of joint enterprises with foreign investors. This may seem good on the surface, but upon closer inspection one sees that Cuban citizens are not allowed to establish their own businesses or join in with foreigners on investments.

Another reform is the emergence of private enterprises. This is also hollow because the businesses are extremely regulated. These businesses are not allowed to have brokers or to hire employees. They are also required to sell
any food they produce to the government so that a free market does not prevail. Dollarization is also an empty step taken by the Cuban government. Normal citizens are not allowed to have dollars, unless they work in Cuba’s tourism industry. This scarcity of the dollar created a powerful black market in Cuba. In order to combat some of this illegal market, Castro forced some people with dollars to convert back to the peso. Obviously then, the dollar is not free to circulate throughout the country.

As it is seen in any interview with Castro, he is already a confident leader. Lifting the embargo would not increase his confidence further. Even if it did happen, there is no reason to believe he would suddenly open up to democracy and liberalization.

It is also false to believe that full tourism and trade will raise expectations and encourage change in Cuba. People in Cuba already have high expectations. They hear from their exiled relatives and hope for a better life. They are not affected by the embargo in this regard. One cannot believe tourism will be the magic cure to inspire change. It must be remembered that tourists from the rest of the world go to Cuba and that has not sparked change. The main reason for this is that most Cubans have nothing to do with the tourism industry. This fact would not change as long as Castro is in office no matter if American tourists are on the island.

Have the Objectives been Successful?

Another argument for lifting the embargo is that it has failed. Since one of the original goals of inspiring change in the country has failed, the embargo should be done away with. After 30 years, the country is still communist and is run the same way as it was before. The embargo is clearly ineffective.

Those in favor of the sanction feel it is unfair to say the embargo has failed for years. These people point out that only recently, since the collapse of the Soviet Union, has the embargo begun to work. Prior to that time, it was ineffective because of the massive amount of aid the Soviets gave to Cuba. After 1991, when the Soviet subsidies were cut off, is when the economic effects began to take place in Cuba. It is only since then that we can judge the effectiveness of the embargo.

Others state the embargo should be lifted because Cuba is no longer a threat to U.S. security. The reasoning is that since the Cold War is over and the Soviet Union no longer exists, Cuba does not have the support it once had. Critics here believe that the embargo is a relic and is outdated because the circumstances have changed.
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Some people do not believe that Cuba is no longer a threat. Even though Castro is getting old, there is no reason to believe his attitude has changed. He still has a lust for international prominence and he still harbors ill feelings towards the U.S. Both of these characteristics were easily seen in Barbara Walter’s interview with Castro which appeared on ABC’s 20/20. We should not discount Castro as a threat for another reason. He has openly supported terrorism in the past and there is no reason to believe he does not now. In the wake of September 11th, this point is of special importance because of the U.S.’s strong stance against terrorism. The U.S. can no longer give people the benefit of the doubt that they are docile. Each threat or potential threat must be taken seriously and the U.S. can no longer ease up on suspected terrorist supporters, like Castro and the country of Cuba.

Other people believe the embargo is harmful to U.S. businesses. The idea here is that U.S. businesses are losing out to other investors around the world in Cuba. Foreign current investors are reaping profits from their enterprises in Cuba while U.S. businesses miss out on this opportunity for gain.

Those in favor of the sanction feel the reality here is that foreign investment is not as great as everyone expected. One must also consider the fact that the Cuban economy is small. Even if opened to U.S. investments there would not be a great amount, therefore, the U.S. businesses are not missing out on much.

Is the Embargo Representative?

Another reason the embargo should be lifted, is that U.S. foreign policy towards Cuba does not reflect the opinions of most Cubans. It is believed that U.S. policy is controlled by a small conservative group of Cuban exiles that do not represent the general sentiment of the Cuban people. It is believed that these exiles only represent the opinions of a small minority.

An additional objection to the embargo stems from this idea. Some critics believe “Cuban exiles are insensitive to the suffering caused by the embargo because they have little in common with those that are left behind in Cuba.” (Varona, 1994, pg. 41) The concept here is that the exiles do not know what conditions are like now, they only know of the previous ones. The conditions and opinions of people in Cuba may have changed and they (the exiles) will have no idea of the current situation.

People in favor of the embargo believe that most Cuban exiles are represented by the U.S. policy towards Cuba. The fact is that eighty three percent of exiles from Cuba approve of the embargo. (Varona, 1994, pg. 38) It is false to say that the exiles do not know what the people in Cuba are currently going through. What some fail to realize, is that exiles are truly representative
of the Cuban people, because they come from all walks of life, so every class is represented. One must also realize that exiles still have contact with those left behind, so they are aware of the current situation.

The final reason offered why the embargo should be lifted is because the Cuban people have done nothing to suggest they want change. Proponents of this view say that the population of Cuba has shown no willingness to fight for change. Since the people of Cuba do not want change, then the U.S. has no business forcing it upon them. Critics of this argument suggest that the people of Cuban do want change, but they are afraid to take measures against the government. According to those exiled, the people of Cuba do not agree with Castro and would like to see change. The people, however, know they do not have the power to force any change in the country.

**Outlook for the Future: Recommendation to Policy Makers**

My recommendation to policy makers is simple. Lift the embargo. It is proven that free trade is advantageous to an economy; therefore, this is the situation we should strive for. Although opening trade with Cuba would not be a big boost to the U.S. economy, it would help. Even though Cuba is a small market, it is still one which is unsaturated with U.S. goods. Opening the embargo would only help the U.S. economy at this point. It would also greatly help the Cuban economy, which has been suffering since the collapse of the Soviet Union. As was stated in the *Boston Globe* in August 2002, “U.S. sanctions against Cuba have done little but deny Cubans goods made in the United States while denying Americans potential business in Cuba.” (Jacoby, 2002, pg. 2)

Economically speaking, the embargo should be lifted, but we also have to consider the political issues. The biggest objection to lifting the embargo is that the U.S. will be giving into communism. This is not a valid objection. The U.S. has begun to trade with China, and they are still communist, so why should Cuba not be traded with? Sheer common sense will tell anyone that Cuba is much less of a threat to the U.S. than China.

The main reason the U.S. should lift the embargo is because it has failed to reach its most basic objective of forcing political change in Cuba. Representative Jeff Flake of Arizona said that the embargo has “Failed to produce any meaningful political or economic change in Cuba.” (Lawrence, 2002, pg. 2) All the embargo has done is given Castro a tool for making the U.S. appear evil to the Cuban people. As stated by Jeff Jacoby in the *Boston Globe*, the U.S. is blamed for all the problems of the Cuban economy. Removing the embargo may help the Cuban people to stop seeing Americans as the bad guys because they would have access to more goods. In my opinion,
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only by opening trade can we really hope for any change to take place. This is the same opinion expressed by former President Jimmy Carter, who has said that “the best way to promote peaceful change in Cuba is through the maximum contacts between our two countries.” (Keen, 2002, pg. 2)

Predictions for the Future

Although trade with Cuba seems insignificant on a large scale, the embargo has caused great losses. Once it is lifted both economies will receive a boost. According to Rosson and Adcock, (2001) it is expected all fifty states would receive increases in economic output, income, value added and employment caused by opening trade. For the Cuban Policy Foundation, Rosson and Adcock conducted extensive research involving the “economic impacts of expanded U.S. agricultural exports to Cuba” (Rosson and Adcock, 2001. pg. i) using an input-output model. Rosson and Adcock analyzed the effects in three separate scenarios. The first scenario allowed trade, but on a very restricted scale. The second allowed for more moderate trade between Cuba and the U.S. The final scenario anticipated a large volume of trade between the U.S. and Cuba once the embargo was lifted.

It has been predicted that the U.S. would gain $1 to 2 billion in exports via trade with Cuba. (Kaplowitz, 1994, pg. 5) This increase would lead to an increase of $47 million to 1.6 billion in GDP as well as create 1,000 to 31,262 jobs in the agricultural industry. (Rosson and Adcock, 2001, pg. i) The increase in jobs would help raise household income between $25 million and $818 million. (Rosson and Adcock, 2001. pg. i) The moderate export growth scenario calls for large increases on average. Under this scenario, agricultural exports are expected to increase GDP by $517 million. (Rosson and Adcock, 2001. pg. i) Also, 10,656 jobs are expected to be created, and household income is expected to rise to $273 million. (Rosson and Adcock, 2001. pg. i) These large increases are seen because of the expected market share regain by U.S. companies. U.S. companies are expected to regain 33 to 50 percent of Cuban trade. (Kaplowitz, 1994, pg. 5)

Opening trade would help specific industries. In particular it is expected to affect at least 22 commodity sectors in the U.S. One area that would receive a boost would be the U.S. agricultural industry. This is based on current trade patterns of Cuba which show that agricultural imports are the greatest. Here it is expected that ending the embargo would lead to a $37.5 million to 1.24 billion increase in agricultural exports, as well as $84 million to 3.6 billion increase in business sales. (Rosson and Adcock, 2001, pg. i)
As we have seen, U.S.-Cuban trade would definitely help the U.S.
economy. Even though it may be a small percentage in total, the increases can
not be ignored or written off as completely insignificant.

Conclusion

By moving from a general understanding of what sanctions are to a
more specific look at the Cuban embargo, it is my hope that a reader has gained
a greater understanding of economic sanctions against Cuba. Sanctions have
been a part of international politics for many years. Recently, they have
become more popular as policy makers have begun to favor the liberal over the
realist approach to foreign policy. Although there are only a few basic types of
sanctions, there are many potential purposes, which vary according to each
situation. In general the purpose of sanctions is to harm the economy of the
target country. The effects of these sanctions can be analyzed using either a
general or partial equilibrium approach.

It has been shown that the U.S. imposed one type of embargo, a trade
embargo, against Cuba beginning over forty years ago. This embargo was
originally initiated during the Cold War, in hopes of ridding the Western
Hemisphere of communism. The goals of the Cuban embargo have changed
over the years, but one fact remains, nearly all of these objectives have failed.
Even though the goals of the embargo have failed there is still a policy debate
over what should be done. Although some policy makers feel that we should
keep the embargo in place, public sentiment, has become increasingly
unsupportive.

Various economic models show that lifting the embargo would be
beneficial to both Cuba and the United States. The benefits would be greater
for Cuba, however, because of the relative size of the two economies. This is
based on a basic economic fact that free trade is beneficial. Because of the
economic benefits that will be achieved, and the fact that many of the
embargo’s objectives have failed, it was recommended that the embargo be
lifted. Both economically and politically this is the better solution. It is
obvious that a future without the embargo looks brighter. One hopes that policy
makers will consider all these facts when considering this matter in the future.
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REFERENCES

http://www.geographyiq.com/countries/cu/Cuba_map_flag_geography.htm


Figure 1: Neoclassical Free Trade

Figure 2: Neoclassical Autarky
Figure 3: Neoclassical Embargo Reality

Figure 4: Import Sector Partial Equilibrium - Free Trade

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Figure 5: Import Sector Partial Equilibrium - Zero Quota

Figure 6: Import Sector Partial Equilibrium - Embargo Reality
Figure 7: Export Sector Partial Equilibrium - Free Trade

Figure 8: Export Sector Partial Equilibrium - Zero Quota
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Figure 9: Export Sector Partial Equilibrium - Embargo Reality