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# Cuban Trade Relations Under the U.S. Embargo and their Impact on Human Development

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Cuban Trade Relations Under the U.S. Embargo and Their Impact on  
Human Development

By

Elizabeth Ernest

Submitted in Partial Fulfillment  
of the Requirements for  
Graduation with Honors from the  
South Carolina Honors College

May 2016

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## **EXECUTIVE SUMMARY**

For over five decades, the United States has imposed an embargo, or official ban on trade and other economic activities, against Cuba. As a Caribbean nation, less than two hundred miles off the coast of mainland Florida, Cuba is a natural trading partner for the U.S. However, relationships between the two countries have been tense for the majority of their history. The embargo has its roots in the Cold War, a 20<sup>th</sup> century conflict between the United States and the Soviet Union as global power, which focused on the ideological differences between communism and a democratic, capitalist society. The Cold War ended with the collapse of the Soviet Union in the early 1990s, but the embargo against Cuba remains in place.

The embargo has attracted international attention, especially since it was expanded in the 1990s in an attempt to interfere with Cuba's trade relations with other countries and entities outside of the U.S. It is generally viewed in the international community as a failed and ineffective relic of the Cold War, which was unsuccessful in achieving its purpose and hurts the Cuban people far more than the government that it originally targeted. Both the Cuban government and other members of the international community have repeatedly blamed the embargo for poverty and lack of development in Cuba, and called on the U.S. to end it. However, many Cuban exiles came to the U.S. when the current Cuban government came to power, and still hold a grudge against the regime for what they believe was stolen from them. This group heavily influences political opinion on the issue in the U.S., and the embargo has become a hot topic in the current presidential campaign and political season.

There are generally two sides to the argument over whether or not to keep the embargo in place. Supporters of the embargo claim that ending it now would be "giving

in” to an oppressive regime with a history of human rights violations. They believe the embargo should remain in place until certain conditions are met by the Cuban government, which include elections for the people of Cuba and repayment for property that was taken from businesses and individuals by the current government during their rise to power. Opponents of the embargo, on the other hand, believe that the embargo was a failed attempt and it is time to try something new. They argue that the embargo has not accomplished its goal after more than five decades, and that it actually hurts its objectives at this point by providing a scapegoat for the Cuban government’s failings and preventing the exchange of ideas and products with the Cuban people.

This paper will attempt to explore both sides of that argument by examining how the embargo actually works and confirming or disproving some of the myths surrounding it, examining Cuba’s trade relations with countries outside of the U.S. and how those may have been impacted by the embargo, and finally analyzing the state of human development in Cuba currently over the past several decades.

## **INTRODUCTION**

The United States embargo against Cuba, referred to in Cuba as “el bloqueo” or “the blockade”, is a comprehensive set of commercial, economic, and trade restrictions against the nation of Cuba which has spanned more than five decades. However, it has lately been the focus of more discussion as the U.S. President, Barack Obama, has begun to ease some of the restrictions against Cuba that fall within his power. The core embargo still remains in place, and can only be lifted by an act of the U.S. Congress. It is largely condemned in the international community, as many people view it as an ineffective Cold War relic and even a violation of human rights. Other individuals and groups, primarily former Cuban exiles living in the United States and other regions, are outspoken proponents of the embargo and view lifting it as giving in to the Cuban government under the Castro brothers. In spite of the Cuban term for the sanctions, there has not been a physical blockade of Cuba by the United States since the Cuban Missile Crisis in 1962. Rather, the ongoing embargo against Cuba primarily affects trade, travel, and foreign direct investment (FDI). Although the embargo falls under U.S. law and is therefore technically applicable only to U.S.-Cuba relations, it has been frequently criticized by the international community for its extraterritorial nature, which many representatives in the United Nations (UN) have said violates the sovereignty of nations. U.S. owned subsidiaries are forbidden from trading with or investing in Cuba, and any entity that simultaneously has commercial, economic, or trade relationships with Cuba can potentially face punishments from the U.S. As U.S. relations with Cuba gradually begin to change, the embargo has become an increasingly complex and polarizing issue. In an effort to influence the U.S. policymakers one way or another, many people all over the world have attempted to analyze the “success” of the embargo and its impact on the

Cuban people, the Cuban government, and other third party entities. The current political environment and media coverage of the topic in the United States, as well as the opportunity to travel to Havana, Cuba in March 2016 as part of university group, inspired me to delve deeper into the topics and issues surrounding the embargo. While this is an immensely complex issue that cannot be solved in a single paper, this thesis will attempt to shed light on one aspect of the issue by focusing primarily on the impact of the embargo on Cuban international trade relations, and the resulting impacts on human development in the island nation.

### **HISTORY OF CUBAN POLITICS AND INTERNATIONAL RELATIONS**

In order to understand Cuban international trade relations, particularly with the United States, it is necessary to have a general understanding of the country's political history. When Christopher Columbus reached the new world in 1494, he discovered Cuba but chose not to establish a settlement there because the area was already heavily populated by the native Taino Indians. Within twenty years, however, one of the conquistadors who had originally discovered the island with Columbus returned to claim the island for Spain (GJELTEN 6?). Spain managed to maintain control over the island for nearly 400 years, in spite of multiple revolutions that attempted to overthrow the Spanish crown. By 1898, however, Spain's control of the island had weakened to the point that individuals in the United States became concerned about their business interests and property on the island, and the U.S. sent a warship called the U.S.S. Maine to signal its intent to defend its interests there. When 260 American sailors were killed in an explosion onboard the warship which was, many years later, proven to be an accident, the United States accused Spain of blowing up the ship (Gjelten 70-78). Using the

incident as a rallying cry, the U.S. abandoned all pretense and began full military intervention in the region. Before the end of the year, Spain had signed over the rights to several of its territories, including Cuba, Puerto Rico, and Guam (Suddath), to the U.S. in a peace treaty that almost entirely excluded Cuban interests and representatives.

Many Cubans had not wanted American intervention in their fight with Spain, as their goal was independence, not simply rule under a different colonial power. They were frustrated by the realization that the Americans, who had claimed to be intervening with the ultimate goal of supporting Cuban Independence, had no desire to leave. The United States was bound by the Teller Amendment, in which it had agreed to surrender jurisdiction over the island, yet many U.S. leaders believed that they could essentially convince the Cubans to “choose” to remain under American rule and become part of the U.S. In this mindset, the Americans cleaned, repaired and updated Cuban cities and infrastructure, improved education, and lead numerous other civil projects. In spite of American efforts, however, the commitment of the Cuban people to the cause of independence remained defiantly strong, surprising many Americans who overestimated the Cubans’ desire to join the United States. In 1902, almost four years after the war with Spain that supposedly earned Cuba’s independence, the U.S. conditionally surrendered jurisdiction and finally left the Cubans to govern themselves (Gjelten 82-92).

Cuban history and government following Spanish colonization and the initial American occupation can be divided roughly into three parts: approximately 50 years of capitalist governments with varying levels of democracy, seven years of dictatorship, and another five plus decades of socialist revolutionary government under the Castros. When the Americans left in 1902, the new president in charge was Tomás Estrada Palma, a



proponent of continued ties with the U.S. He ran unopposed after his only opponent withdrew in protest of an election committee stacked against him that the U.S. had put in place, and was elected five months before the U.S. officially withdrew from Cuba. Estrada Palma was unpopular from the start, at least in part due to the way in which he won the election. When the opposing party mobilized a militia against the government, Estrada Palma threatened to ask the U.S. military to return to Cuba. Eventually, he resigned and left the newly independent island nation without a functioning government, resulting in U.S. intervention returning to the island (Gjelten 92-95). Cuban autonomy was returned shortly thereafter, and a series of leaders, both democratically elected and put in place or overthrown through coups and violence, controlled Cuba from 1909 to 1952. With each successive change the government became more violent and corrupt, as the American mafia moved much of their headquarters and operations to the island and revolutionary tensions increased. Finally, in 1952, former President Fulgencio Batista, who had held the office from 1940-1944 but was unlikely to win this second election, staged a coup d'état and overthrew the existing government three months before the planned election, effectively ending democracy in Cuba (Gjelten 118-154).

Batista proved to be a violent, oppressive dictator, and the U.S. turned a blind eye to his violence and murders. Yet the turmoil of the previous decades had given rise to numerous revolutionary leaders and groups, including one Fidel Castro. Born in Biran, Cuba in 1926, Castro attended the University of Havana Law School and became embroiled in the political turmoil there. When Batista overthrew the existing government in 1952, he ruined Castro's plans to run for a position in the House of Representatives. On July 26, 1953, an angry Castro led an attack on the Moncado Barracks with the intent

to overthrow Batista's government. A poor planner, his rebellion was unsuccessful and he was sentenced to 15 years in prison. However, he was released in 1955 and went into exile in Mexico, until he returned to Cuba in 1956 and created a stronghold in the Sierra Maestra mountains (Brudevold).

On January 1, 1959, after several failed attempts, Fidel Castro and his group of rebels successfully overthrew the government of Cuban President General Fulgencio Batista in what is now known as the Cuban Revolution. The U.S. immediately recognized Castro's new government, and a few months later he traveled to Washington, D.C. to meet with U.S. leaders and tour the monuments. The alliance, however, would be short lived. What followed next was essentially a rapidly devolving game of retaliation, with both sides claiming the other started it. Over a relatively short period of time, the new Castro government repeatedly raised taxes and privatized foreign companies while the U.S. increasingly blocked trade, beginning with cutting the quota for Cuban sugar imports and oil exports and ultimately leading to the embargo.

Today, there is heavy debate about the embargo. President Obama and Raul Castro have taken significant steps towards improving relations between the two countries, including officially reopening diplomatic relations and embassies, but the core embargo remains in place and can only be removed through Congressional legislation. The politicians who initially imposed the embargo were primarily influenced by two groups of people in the U.S., both of whom believed Castro's government had stolen from them: American businessmen and companies who had owned land, businesses, and company subsidiaries in Cuba before they were taken over by the government, and Cuban refugees and exiles who had fled to America and been forced to leave everything behind.

One of these individuals was Joaquin Pujol, a Cuban currently living in Miami, Florida. Mr. Pujol, who I met in Miami while preparing to travel to Havana, was a college student around the time of the Cuban Revolution. His father, a wealthy businessman, sent him to study in the United States at the Wharton Business School. One semester, he received a call telling him not to come home for the summer, and that his father had arranged for him to visit family in Europe instead. Shortly afterwards, his father was warned that he was about to be arrested and fled to the U.S., leaving behind nearly everything the family owned. Thanks to his education at the Wharton School, Mr. Pujol was successful in the U.S. and eventually went on to work for the International Monetary Fund (IMF) for many years, before retiring to Havana and continuing to influence research and opinions on the embargo and Cuba through his involvement with the Association for the Study of the Cuban Economy (ASCE). Even as President Obama has lifted many of the restrictions on remittances and travel to Cuba, Mr. Pujol does not believe Americans should travel to Cuba, as he views any weakening in the embargo as “caving” to the Castro regime. There are many others like him in Miami, New York, and other regions of the U.S. who have been very successful in the U.S. but remain angry at the Castro government over what was taken from them, and they significantly influence current American politics. This was evident over the past year in the presidential campaign of Marco Rubio, a son of Cuban immigrants born in West Miami whose campaign website lists Cuba as one of the key issues on his platform and calls the Obama administration’s Cuba policy “nothing but unilateral concessions from the United States that will strengthen the brutal Castro regime and do nothing to help free the Cuban people” (“How Marco Rubio...”).

#### **THE U.S. EMBARGO AGAINST CUBA**

The U.S. embargo against Cuba was put in place in 1960 in response to the seizure of U.S. property in Cuba by Castro's government, and the decision of the Castro regime to embrace the Soviet Union and communism. It was originally an attempt by the president of the United States to punish Castro, but since the 1996 Helms-Burton Act the embargo can only be lifted by Congress or when Cuba "holds free and fair elections, releases political prisoners and guarantees free speech and worker's rights" (Adams). The original embargo, established by President Eisenhower, stopped trade between the two countries and froze Cuban assets in the U.S. The embargo was strengthened in 1962 when President Kennedy established a full economic embargo and began restricting travel to the island, and again in the 1990s when the Torricelli and Helms-Burton Acts added further restrictions, penalized other countries conducting trade with Cuba, and set conditions for the lifting of the embargo (Santiago).

According to a 2009 report by Amnesty International, "the original trade embargo has broadened into a more comprehensive set of economic, financial, and commercial sanctions" based on six statutes and regulations: the Trading with the Enemy Act of 1917, the Foreign Assistance Act of 1961, the Cuba Assets Control Regulations of 1963, the Cuban Democracy Act of 1992 (also known as the Torricelli Act), the Cuban Liberty and Democracy Act of 1996 (also known as the Libertad or Helms-Burton Act), and the Trade Sanctions Reform and Export Enhancement Act of 2000. The Trading with the Enemy Act gave the U.S. President the authority to impose sanctions against hostile countries in times of war through regulating or prohibiting trade and financial transactions. In 1933 this was amended to allow the President to impose a comprehensive embargo during war or "any period of national emergency declared by the

President”, which was reversed to war time only in 1977 but with the allowance that the President could temporarily “extend the exercise of such authorities for one-year periods upon determination... that the exercise of such authorities... is in the national interest of the United States” (*The U.S. Embargo*). This was the initial act on which Eisenhower’s first sanctions were based in 1961, and as of 2009 the sanctions had been extended every year since 1977. Also in 1961, Congress approved the Foreign Assistance Act prohibiting assistance to any communist country, including Cuba. In 1962, President Kennedy used the authority granted him by this act to make Presidential Proclamation 3447, which would “impose and maintain a total embargo against Cuba” (*The U.S. Embargo*). A year later, the U.S. added legislation known as the Cuban Assets Controls Regulations to the Trading with the Enemy Act, freezing all Cuban assets in the U.S. and authorizing the U.S. Treasury Department to regulate all commercial transactions with Cuba. This effectively outlawed any American travel to Cuba, as it prohibited transactions such as food, airplane tickets, and hotels. The next major addition to the embargo did not come until 1992, when President George H. Bush signed the Cuban Democracy (Torricelli) Act officially banning travel to Cuba, in addition to forbidding subsidiaries of U.S. companies from trading with Cuba and outlawing the sending of remittances to the country. In an attempt to influence other countries cooperating with Cuba, the Cuban Democracy Act also included a 180-day prohibition from loading or unloading any vessel that had traded with Cuba in U.S. ports, as well as other sanctions against countries as a whole. Four years later, the Helms-Burton Act was signed by President Bill Clinton. The Helms-Burton Act is divided into four sections: Title I aims to increase international sanctions against Cuba, primarily by reaffirming the Cuban

Democracy Act and working to prevent Cuban membership in international financial institutions such as the International Monetary Fund (IMF); Title II establishes the steps and conditions which would lift the embargo and what the U.S. policy and assistance towards Cuba would entail in those circumstances, and Titles III and IV primarily relate to the U.S. claims against property appropriated by the Cuban government.

Recently, the two countries have begun working to ease tensions and lift the embargo, although it has been a gradual process. The 2000 Trade Sanctions Reform and Export Enhancement Act began allowing agricultural and medicinal exports to Cuba for humanitarian purposes, and in 2009 this legislation was amended to make these transactions easier. As a result, the U.S. has been the main provider of food and agricultural products to Cuba since 2002 (*The U.S. Embargo*). Also in 2009 President Obama lifted restrictions on travel for educational and religious purposes, and U.S. telecommunications companies were allowed to begin exploring business opportunities on the island. In 2014, after Cuba released over 50 political prisoners, President Obama finally agreed to restore diplomatic relations and begin easing economic sanctions against Cuba. Cuban-Americans were allowed to begin sending more money to relatives in the country, and plans were put in place to enable use of American credit and debit cards on the island. In May 2015 the United States removed Cuba from the list of state sponsors of terrorism, which had increased economic sanctions and prevented Cubans from accessing American banking services. Two months later, the two countries reopened embassies and officially resumed diplomatic relations (Santiago). However, the embargo itself is still in place and can only be lifted by legislative action on the part the U.S.

Congress, which currently has a Republican majority that has largely opposed President Obama's attempts to improve relations with Cuba.

As of March 2016, general licenses for travel to Cuba are available within 12 categories, including “family visits; official business of the U.S. government, foreign governments, and certain intergovernmental organizations; journalistic activity; professional research and professional meetings; educational activities; religious activities; public performances, clinics, workshops, athletic and other competitions, and exhibitions; support for the Cuban people; humanitarian projects; activities of private foundations or research or educational institutes; exportation, importation, or transmission of information or information materials; and certain authorized export transactions” (United States of America. *Frequently Asked Questions*). Travelers authorized under these general licenses are allowed to bring Cuban goods worth a maximum of \$400, with no more than \$100 of that amount being comprised of alcohol and tobacco, back into the U.S. as accompanied baggage. Certain Cuban goods and services produced by independent Cuban entrepreneurs (an approved list of which is available on the U.S. State Department website) are also available for direct import to the U.S. U.S. entities are still not allowed to conduct business or investment in Cuba, unless they have a license from the Office of Foreign Assets Control (OFAC), which allows the exportation to Cuba of goods when authorized by the Department of Commerce's Bureau of Industry and Security (BIS). Any companies authorized to export goods to Cuba may assemble those goods in Cuba, under the condition that no Cuban raw materials or Cuban-origin goods are incorporated during the assembly. Per the Trade Sanctions Reform and Export Enhancement Act of 2000, agricultural exports to Cuba may only be

paid for by cash in advance or through approved financing by a third-country institution. However, as of January 2016 the payment restrictions on all other exports have been lifted (United States of America. *Frequently Asked Questions*).

#### **IMPACT OF THE EMBARGO ON OTHER KEY TRADE RELATIONSHIPS**

In the years immediately following the U.S. embargo and for the subsequent nearly three decades, Cuba turned to the Soviet Union for economic and political support to replace the potentially crippling loss of the United States as a trade partner. In 1972, it was admitted into the Council for Mutual Economic Assistance (also known as COMECON or CMEA), which is estimated to have boosted its volume of trade significantly. It is also estimated that the Soviet Union provided around U.S. \$23 billion in assistance to facilitate trade with Cuba from 1963 to 1983, in the form of artificially high prices for Cuban goods such as sugar and artificially low prices for Soviet oil. Other Soviet allies, including Bulgaria, Czechoslovakia, and East Germany also provided just shy of a billion U.S. dollars in subsidies to Cuba during that time (Binns). Additionally, the Soviet Union and other COMECON member states provided assistance used in the development of infrastructure, such as factories, which enabled Cuba to produce more goods for consumption and export.

Currently, Cuba's largest trading partners by region are other Latin American countries, making up a combined 46.8% of exports and 48.5% of imports, and Europe, making up a combined 16.8% of exports and 23.3% of imports (*Cuba: Country Profile*). The table below, taken from lecture slides used by Dr. Antonio Romero, economics professor at the University of Havana, shows Cuba's main trading partners in terms of individual countries.



**Fig. 1 Cuba: Main Trading Partners (Million USD and %)**

	2008	%		2013	%
1.- Venezuela	4.887,0	27,3	1.- Venezuela	7.067,3	35,3
2.- China	2.157,9	12,0	2.- China	1.877,3	9,4
3.- Spain	1.427,3	7,9	3.- Spain	1.397,8	7,0
4.- Canada	1.412,4	7,8	4.- Neth. Antilles	1.348,7	6,7
<b>5.- United States</b>	<b>962,8</b>	<b>5,4</b>	5.- Canada	912,9	4,6
6.- Brazil	641,8	3,6	6.- Brazil	694,8	3,5
7.- Italia	552,0	3,1	7.- Netherlands	543,9	2,7
8.- Germany	404,7	2,3	8.- Mexico	529,9	2,6
9.- Netherlands	386,2	2,2	9.- Italy	516,0	2,6
10- Mexico	383,3	2,1	<b>10- United States</b>	<b>401,9</b>	<b>2,0</b>
<b>TOTAL:</b>	<b>17.898,2</b>	<b>100</b>	<b>TOTAL:</b>	<b>19.989,7</b>	<b>100</b>

The EU, Canada, and Mexico have gone so far as to enact their own “blocking” laws, which are intended to prevent compliance with the extra-territorial aspects of the U.S. sanctions by individuals or entities existing within these territories. This has created conflict for U.S. persons or U.S. owned or based entities located in these territories, as OFAC can impose civil penalties of up to \$250,000 or twice the amount of the violating transaction and criminal penalties can include up to 20 years in prison plus a fine of \$1 million or twice the amount of the violating transaction (*U.S. Economic Sanctions*). However, enforcement of the blocking laws, particularly in the EU is rare.

As highlighted in the table, the United States is already one of Cuba’s top ten trading partners and has been for several years, in spite of the embargo. However, the U.S. moved farther down the list from 2008 to 2013, possibly suggesting that Cuba has worked hard to find other trading partners in order to fill their needs for goods unable to be obtained from the U.S. due to the embargo. According to Dr. Romero, this is a significant risk for Cuba, as several of their top trading partners (Venezuela, China,

Canada, Brazil) are currently “in the middle of a very difficult economic (and political) period.” For this and several other reasons, he believes accepting U.S. proposals in order to expand trade between the two countries would have significant positive economic benefits for Cuba.

Although the U.S. embargo against Cuba is bilateral in theory, it currently affects Cuba’s trade with other countries in numerous ways. Cargo ships who have docked in a Cuban port are forbidden from entering any U.S. port for 180 days (6 months) from the date they last left Cuban territory, no matter what country or company the ship is affiliated with (United States of America. *Notice to Mariners*). This means that even shipments which have no connection to either the U.S. or Cuba except as a trading partner can still be discouraged from trading with Cuba if the U.S. is an important trading partner. The Treasury Department’s Notice to Mariners gives the example of a cargo ship transporting produce from South America, stopping at multiple ports of call along the Atlantic seaboard including in Santiago de Cuba. Upon arriving at its final destination in the U.S., the ship will be turned back and cannot return to the U.S. for six months due to its recent stop in Cuba, resulting in spoiled produce, barriers to trade in the near future, and significant financial losses for both the importers and exporters.

#### **IMPACT ON HUMAN DEVELOPMENT IN CUBA**

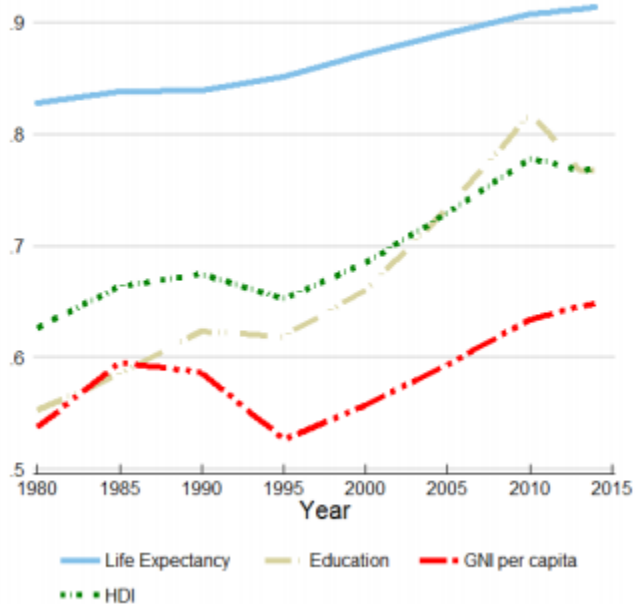
Although it has become an immensely compact legal and political entity, the U.S. embargo against Cuba is still, at its core, a set of restrictions on trade and travel. Its greatest impact on human development in Cuba has therefore been the lack of access to goods and services. The most commonly used comparative measure of socioeconomic development is the Human Development Index, presented annually by the United Nations

Development Program (UNDP). The Human Development Index (HDI) is a summary measure intended to emphasize the importance of people and their capabilities in assessing development and guiding policy choices, rather than just economic growth. Although there are countless development indicators and ways of organizing them, this paper will look at the effect of international trade relations on human development in Cuba in the organizational context of the HDI, which is divided into three main dimensions - standard of living, health, and education. The table and graph below, taken from the HDI country report on Cuba, show general HDI trends for Cuba over the past few decades.

**Fig. 2 Cuba's HDI trends based on consistent time series data and new goalposts**

	<b>Life expectancy at birth</b>	<b>Expected years of schooling</b>	<b>Mean years of schooling</b>	<b>GNI per capita (2011 PPP\$)</b>	<b>HDI value</b>
1980	73.8	12.1	6.5	3,529	0.627
1985	74.5	11.9	7.7	5,176	0.664
1990	74.6	12.3	8.5	4,873	0.675
1995	75.4	11.3	9.2	3,274	0.653
2000	76.7	12.2	9.6	4,020	0.685
2005	77.9	14.6	9.9	5,095	0.730
2010	79.0	16.2	11.0	6,631	0.778
2011	79.1	15.4	11.3	6,821	0.776
2012	79.2	14.5	11.5	7,029	0.772
2013	79.3	13.8	11.5	7,222	0.768
2014	79.4	13.8	11.5	7,301	0.769

**Fig. 3 Trends in Cuba's HDI Component Indices**

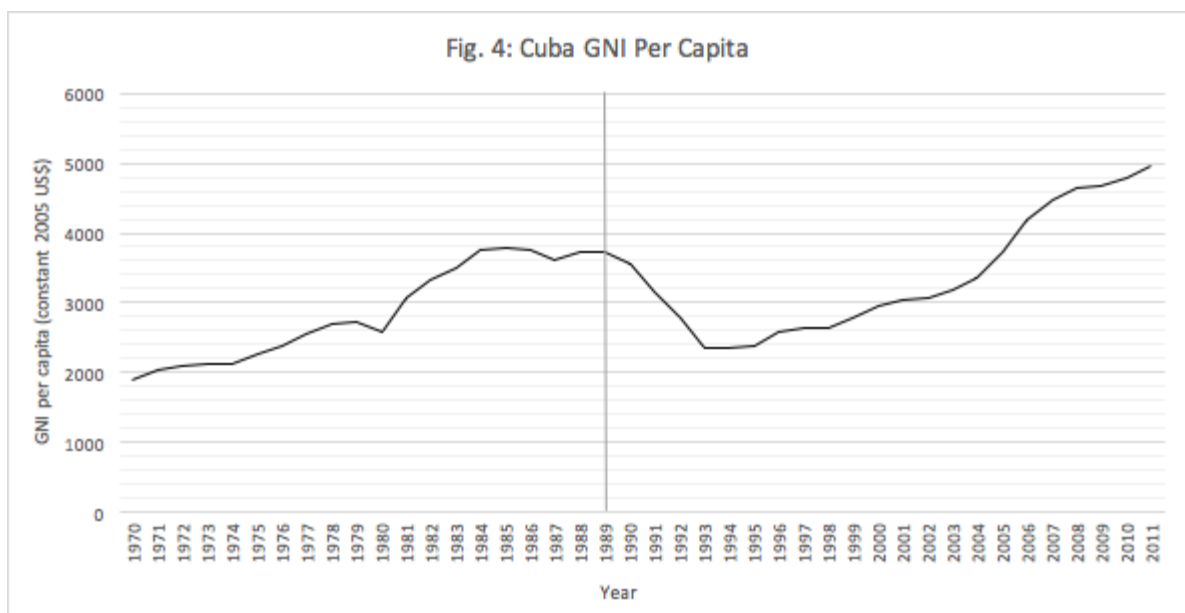


Overall, Cuba's HDI ranking is 67 out of 188, placing it around the middle of the high human development group. The different ranking levels are low human development, medium human development, high human development, and very high human development. Cuba shares this ranking with Lebanon, and falls just below Serbia and above Costa Rica. The sections below will take a more in-depth look at each of the three dimensions.

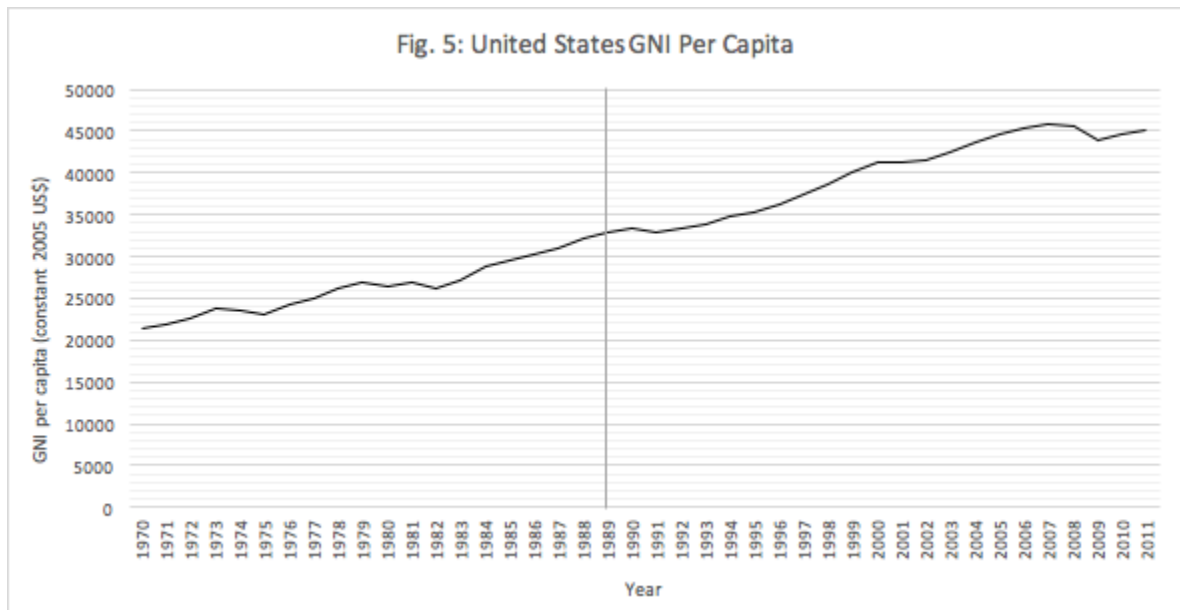
### Standard of Living

The first dimension, standard of living, is measured by gross national income (GNI) per capita, which Todaro and Smith define as "the total domestic and foreign output claimed by residents of a country", divided by population. According to Todaro and Smith, this is how economists have traditionally defined development in an effort to expand output faster than population growth, because "real" per capita GNI can then be used to measure overall economic well-being in the form of how much goods and services the average citizen has access to. GNI differs from gross domestic product

(GDP), another common measure of an economy, in that GDP is only the final output of goods and services produced, while GNI also includes factor incomes from residents abroad and domestic income being sent to individuals abroad. The graph below, created using data from the World Bank, shows Cuban GNI per capita from 1970, roughly ten years after the start of the embargo, until 2011. Per capita GNI climbed steadily through the first few decades of the embargo, though it dropped sharply around the time of the fall of the Soviet Union, represented by the vertical line on the graph. Although the official fall of the Soviet Union did not come until 1991, this paper will reference the year 1989, as this was the start of rapidly deteriorating economic support for Cuba from the Soviet Union and other Eastern Bloc countries. Overall, the GNI per capita grew almost 96% (2.34% per year) from 1970 to 2011 in spite of the significant decrease in the early 1990's. However, growth was significantly higher during the period prior to the loss of Soviet support, with GNI per capita growing 67.37% from 1970 to 1989 (3.55% per year over a 19 year period) but only 33.07% from 1990 to 2011 (1.57% per year over a 21 year period).

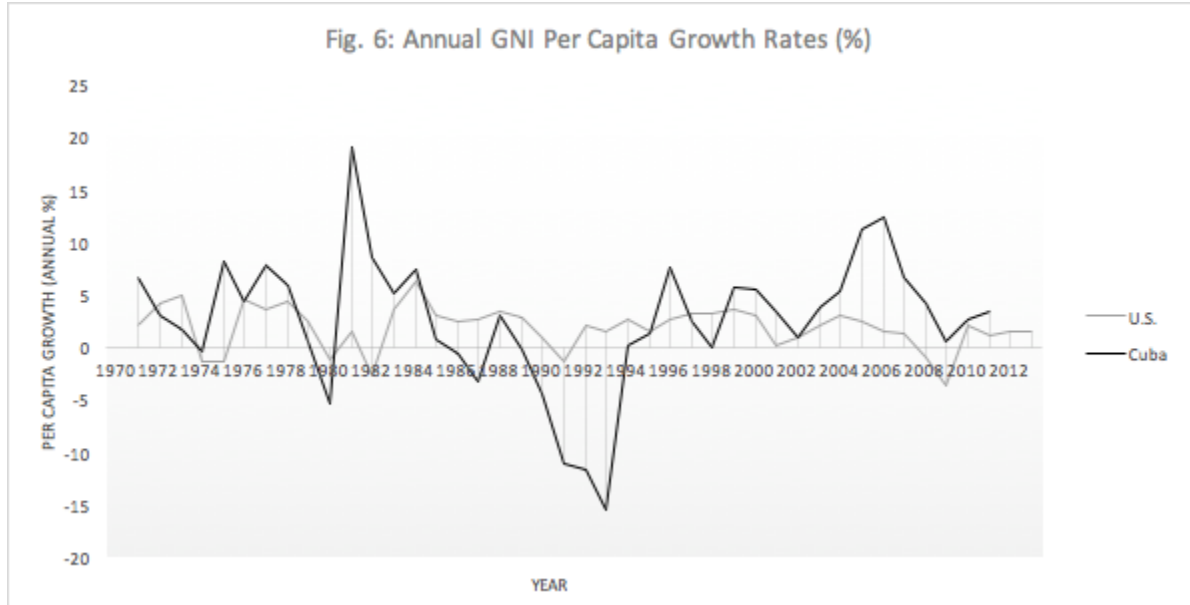


The graph below provides U.S. data over the same period for comparison. The U.S. GNI per capita, which is roughly ten times that of Cuba, actually increases at a much slower rate, with overall growth over the period being 74.80% (1.82% per year). However, the United States' growth is much more steady and constant, and actually comes close to matching Cuba's annual growth rate in the years following the collapse of the Soviet Union (the United States' annual growth rate from 1990-2011 was 1.45%).



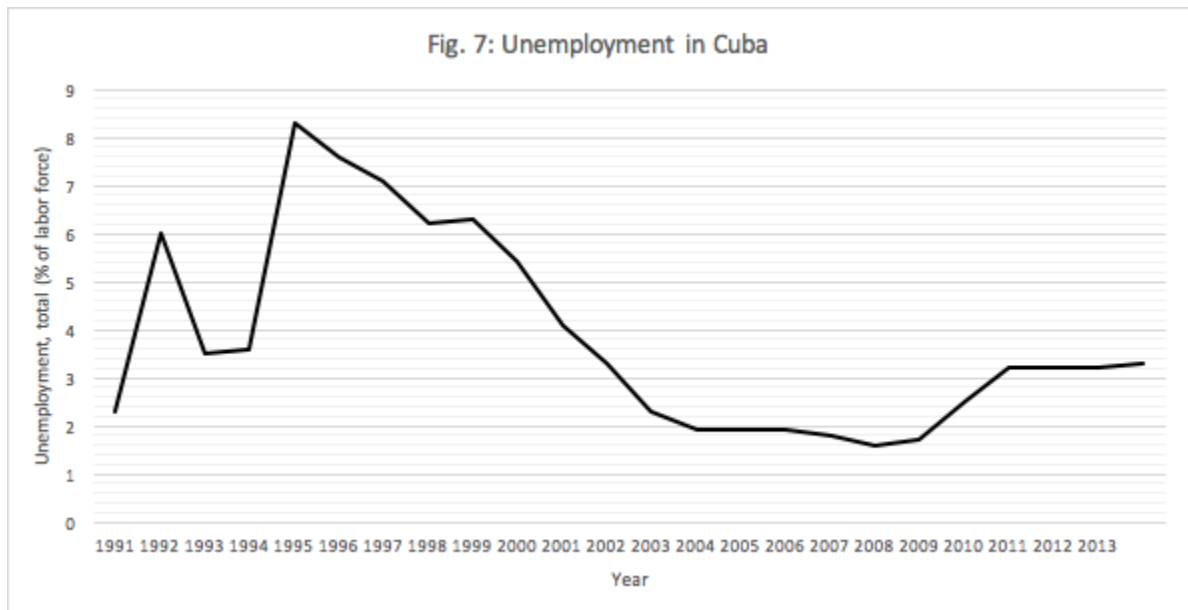
The following graph, showing GNI per capita growth rates as an annual percent for the U.S. and Cuba, creates a picture of the difference in growth for these two countries. Compared to the U.S., which stays fairly steady within a 10% range, Cuba is extremely volatile. This is typical when comparing a highly developed country with a less

developed country.



As evidenced in Figure 1, the collapse of the Soviet Union had a significant impact on the standard of living in Cuba. The Soviet Union had largely propped up the Cuban economy since the implementation of the U.S. embargo and the loss of their largest trading partner, as well as the significant subsidies and financial support the Soviet Union had provided them, severely crippled the Cuban economy. Cuba had received trade subsidies from the Soviet Union for 30 years, the most significant being the subsidized trade of Soviet oil for Cuban sugar, which was estimated at having a \$4 billion dollar benefit to the Cuban economy in 1989 alone. Soviet trade, which made up 85% of Cuba's international trade in 1989, made up only 20% by 1993. This was also linked to a 34% drop in Cuba's GDP over the same period (Dolan). Cuba also experienced high unemployment in the 1990's, as shown in Figure 4. In an effort to combat this and as part of his reforms aimed at helping the economy recover from the loss of Soviet support, Castro legalized self-employment in some sectors. Although this

new private sector was very limited, it was the first time since the revolution that Cubans had the opportunity to earn more than the set government wage.



It was also only one of several internal changes Cuba has made over the past few years that will likely, in conjunction with the easing of U.S. sanctions, impact trade. In early 2011, Cuba passed their new “Social and Economic Policy Guidelines”, which Dr. Romero refers to as a “vast compendium of economic and social transformation”. These guidelines include an economic management model, macroeconomic policies, external economic policies, investment policies, science, technology, innovation, and environmental policies, social policies, agro-industrial policies, and others (Romero). Additionally, a new Special Enterprise Zone is being built in Mariel, Cuba, 30 miles west of Havana, with the intent of attracting more foreign investors to Cuba. This free trade zone allows foreigners to claim full ownership of their companies and receive significant tax breaks, among other benefits that are not available elsewhere in Cuba. As of the end of 2015, the first foreign firms were being approved for this free trade zone (Kahn).



Although the combination of these internal changes and gradually improving relations with the U.S. will likely improve Cuba's trade environment, and as a result their standard of living, it is difficult to measure the exact impact. These changes are relatively recent, and there is very little data available about their long term impact. Additionally, any data that is available with regards to the internal state of the Cuban economy difficult to compare due to the dual monetary system currently in place and related inconsistencies. Cuba currently has two currencies: the Cuban peso (CUP), and the Cuban convertible peso (CUC), which is pegged 1:1 to the U.S. dollar. While traveling and studying in Cuba in March 2016, I was told by multiple Cuban citizens and professors that although the market exchange rate is roughly 24 CUP to 1 CUC, the government sometimes uses a 1:1 ratio for their books. As the CUP is used for all national economic data, including GDP and GNI, this creates potentially difficult inconsistencies when attempting to measure growth or compare Cuba to other economies. According to Dr. Romero, this dual monetary system is causing problems in the Cuban economy and a time schedule for currency unification and monetary reform which would eliminate the CUC was approved in the fourth quarter of 2013. He expects the elimination of the CUC to be enacted by the end of 2016, but predicts that this change will actually have a worse effect on the economy in the short term before it starts to improve.

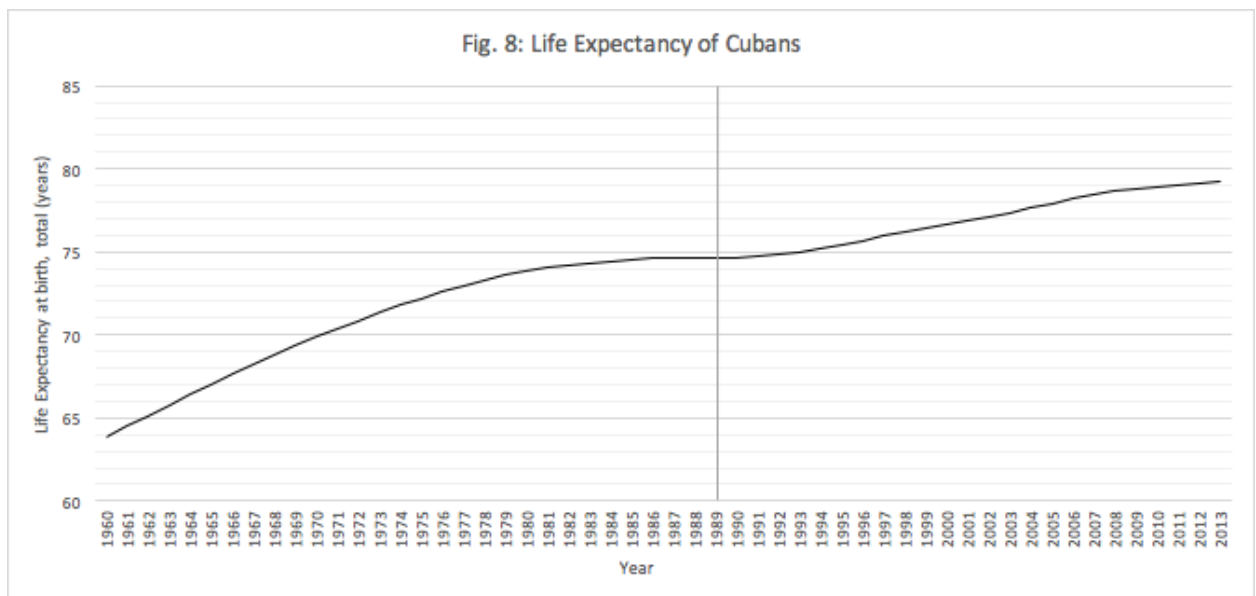
One of the biggest concerns for Cubans regarding standard of living is gentrification and income inequality. According to Dr. Romero the GINI index, which measures inequality, is currently around .75 for Cuba. Although this still makes Cuba the most equitable society in the Western hemisphere, it is significantly worse than the .20

that Cuba boasted relatively recently. The dual currency system and increased tourism have significantly contributed to these issues. While in Cuba, I spoke with Conner Gorry, an American writer who has lived in Havana for 14 years and also runs Cuba Libro, the only English bookstore in Havana. She started Cuba Libro, which serves as a lending library, local art gallery, coffee shop, and non-profit promoting private enterprise, in an effort to empower young people in Havana both through money and the experience of collective decision making. She runs the business as a co-operative (co-op), giving her young Cuban employees business experience that is lacking in Havana, pays them a living wage, and has a tip jar to help them see when they do a good job - something that is still prohibited in many places in Havana. Conner told us that she has seen many students leave Cuba after graduating, because rapid gentrification has made it difficult to support a family there even with a free university degree. Both she and Javier, a young Cuban translator who frequents Cuba Libro, favor controlled development for Cuba. Development is, according to Javier, long overdue for Cuba, but allowing it to occur too quickly could result in further gentrification and increased inequality with drastic results for the Cuban people.

### Health

Cuba has built up an extremely proficient healthcare system and pharmaceutical industry over the past 50 years, arguably due to forced self-reliance as a result of the lack of foreign assistance and trade, and provides free healthcare to everyone. The Cuban healthcare system is highly proactive, using education on disease prevention and healthy lifestyles to keep its population healthy without expending as much on the expensive, big ticket outcomes that occur if health is neglected. Dr. Fitzhugh Mullan of George

Washington University refers to it as “as intelligent a use of scarce healthcare dollars as anywhere you could imagine” (*¡Salud!*). As of 2013 data reported in the CIA World Factbook, Cuban health expenditures were only 8.8% of GDP, compared to 17.1% in the U.S. To a large extent, it seems to be working: the Human Development Index (HDI) measures health by life expectancy, and by this measurement, the Cuban people are significantly healthier than they were prior to the embargo. According to data from the World Bank, the average life expectancy in Cuba was 63.9 years in 1960, at the start of the U.S. Embargo. In 2013 it had increased to 79.3 years, and the 2015 Human Development Report put it at 79.4 years for an increase of over 15 years over the lifetime of the embargo. The graph below shows steady growth at a gradually slowing rate over the timespan of the embargo, with a brief plateau coinciding with the fall of the Soviet Union (represented by the vertical line).



This is fairly on pace with the U.S., which had a life expectancy at birth of 69.8 in 1960 and 78.8 by 2013, as well as the rest of Latin America.

Other factors show a similar improvement in Cuban healthcare. One of these is infant mortality, which has decreased from 47 deaths per 1,000 under the age of five in 1963 to just 5.7 deaths per 1,000 in 2013, according to the World Bank. The CIA World Factbook, on the other hand, puts infant mortality even lower at 4.63 deaths per 1,000 in a 2015 estimate. It ranks Cuba 180th out of 224 countries, with a higher ranking representing lower infant mortality rates. Cuba also has densities of 6.72 physicians per 1,000 population (as of 2010) and 5.3 hospital beds per 1,000 (as of 2012), which is significantly higher than the United States' 2.45 physicians and 2.9 beds per 1,000 (as of 2011). Additionally, Figure 9 shows Cuba compared to a number of other Latin American countries in consideration of several other health metrics, using data from the CIA World Factbook.

Fig. 9: Health Metrics for Latin American Countries	Improved drinking water source	Improved sanitation facility access	HIV/AIDS Adult Prevalence Rate (%)	HIV/AIDS Deaths	Risk of Major Infectious Diseases
Costa Rica	97.80%	94.50%	0.26%	200	Intermediate
Cuba	94.90%	93.20%	0.25%	100	Intermediate
Dominican Republic	84.70%	84.00%	1.04%	3,100	High
Guatemala	92.80%	63.90%	0.54%	1,700	High
Haiti	57.70%	27.60%	1.93%	3,800	Very High
Honduras	91.20%	82.60%	0.42%	1,200	High
Nicaragua	87.00%	67.90%	0.27%	400	High

However, even with a strong, proactive healthcare system, Cuba still faces a number of health problems rarely seen in developed countries owing to a lack of access to food, medicine and equipment. In the documentary ¡Salud!, one Cuban doctor tells a story about the x-ray machine in her office, which is over 40 years old and which the doctors sometimes have to tie with wire to make it work. Another doctor talks about having to go through third party countries to buy a specific medicine (Prostaglandin E1) only made in U.S. labs, which is used in surgery for children with congenital heart

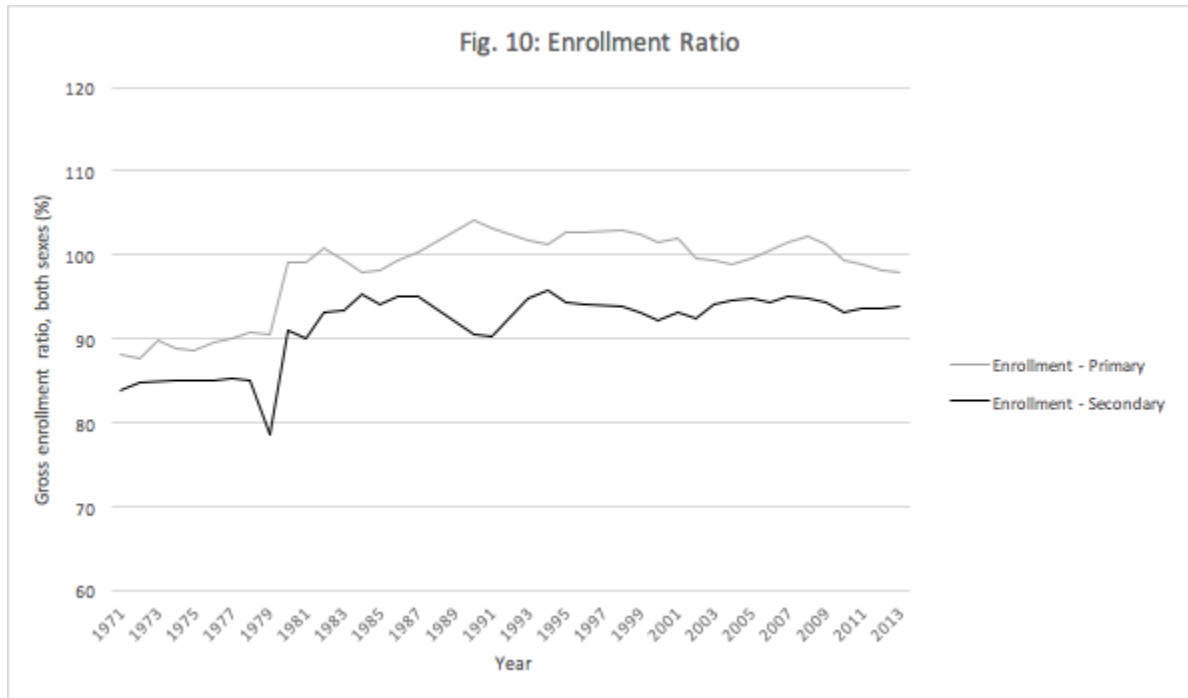
defects and which at one point was so hard to get in Cuba that there was only one ampule in the whole country. Many of these healthcare problems developed or became more pronounced in the 1990's, owing to a combination of the Soviet Union's collapse and the passing of the Torricelli Act and the Helms-Burton Act in the United States. During the first three decades of the embargo, life expectancy in Cuba grew about 0.54% per year, for total growth of 15.5% from 1960 to 1989. In addition to general support for their economy, the Soviet Union was providing Cuba with a large portion of their raw materials for medicine. When this support was lost, Cuban access to medicine and healthcare declined. From 1990 to 2013, life expectancy grew only about 6%, or 0.26% per year. Additionally, adult caloric intake decreased by 40% and the percentage of underweight newborns increased 23% after the loss of Soviet aid (Drain & Barry). The Torricelli Act also drastically reduced access to medicine in 1992 by preventing U.S. subsidiaries from selling medicine to Cuba. Cuba had previously imported \$719 million worth of goods from U.S. subsidiaries annually, 90% of which was food and medicine. After 1992, this number fell to \$0.3 million total over a period of three years (Drain & Barry). Then in 1996, the Helms-Burton Act again reduced the number of companies supplying medicine or raw materials used in pharmaceutical production to Cuba. Throughout the decade, numerous healthcare crises resulted. In 1994, an epidemic of optic and peripheral neuropathy began which was later attributed to food shortages and malnutrition, and an increase in diarrheal diseases and an outbreak of Guillain-Barré Syndrome were associated with contaminated water due chemical shortages. Medicine shortages were associated with a 48% increase in tuberculosis deaths from 1992 to 1993 (Drain & Barry).

In recent years, Cuba has been focused on improving trade relations with countries around the world, including the United States. This will have a significant impact on their pharmaceutical industry, as it is estimated that approximately 90% of the raw materials the island imports are used in pharmaceuticals (*Industry Forecast*). It is also predicted that Cuban import of pharmaceuticals will grow from “USD86.7mn to USD119.5mn with a compound annual growth rate (CAGR) of 6.6%” between the years 2015 and 2020 (*Industry Forecast*). This opening of trade has the potential to benefit the Cuban economy and people in other ways as well, as pharmaceuticals and healthcare are one of the main competitive advantages the country currently has. In spite of the growth in pharmaceutical imports, Cuba has a positive balance of trade in this industry, which is supposed to increase further by 2020. The Cuban Ministry of Health’s Head of Pharmaceutical Services announced in 2013 that they had established pharmaceutical export agreements with over 50 countries, for medicines including 30 innovative drugs developed in Cuba as well as numerous generic drugs.

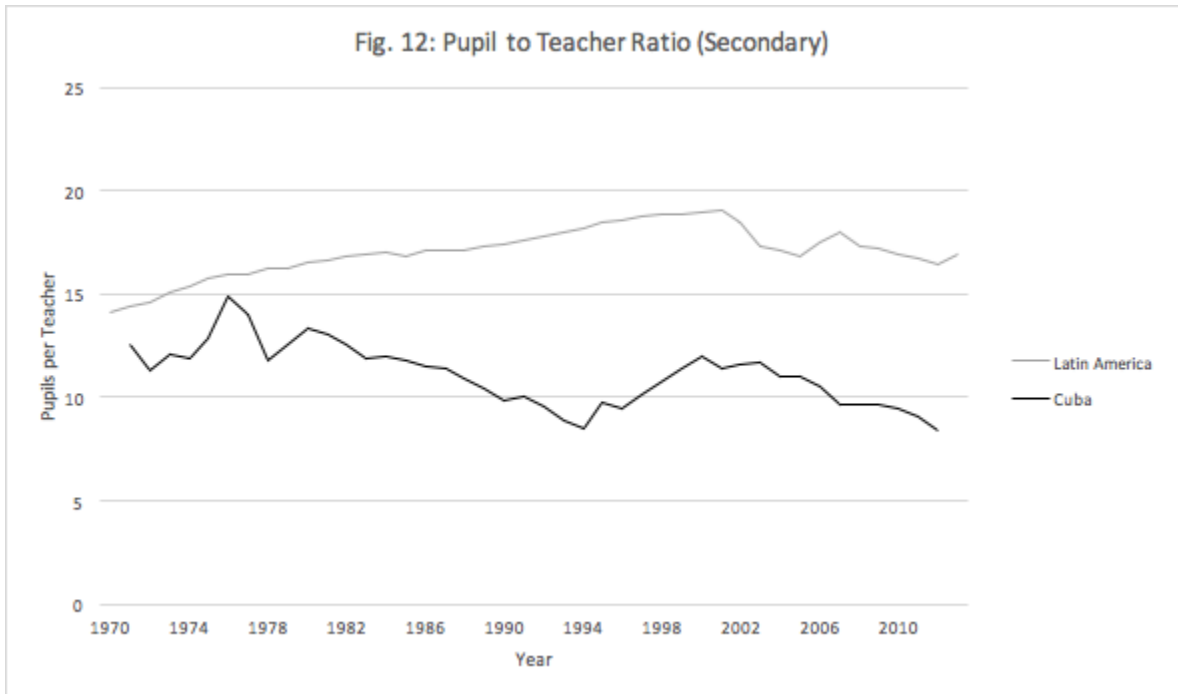
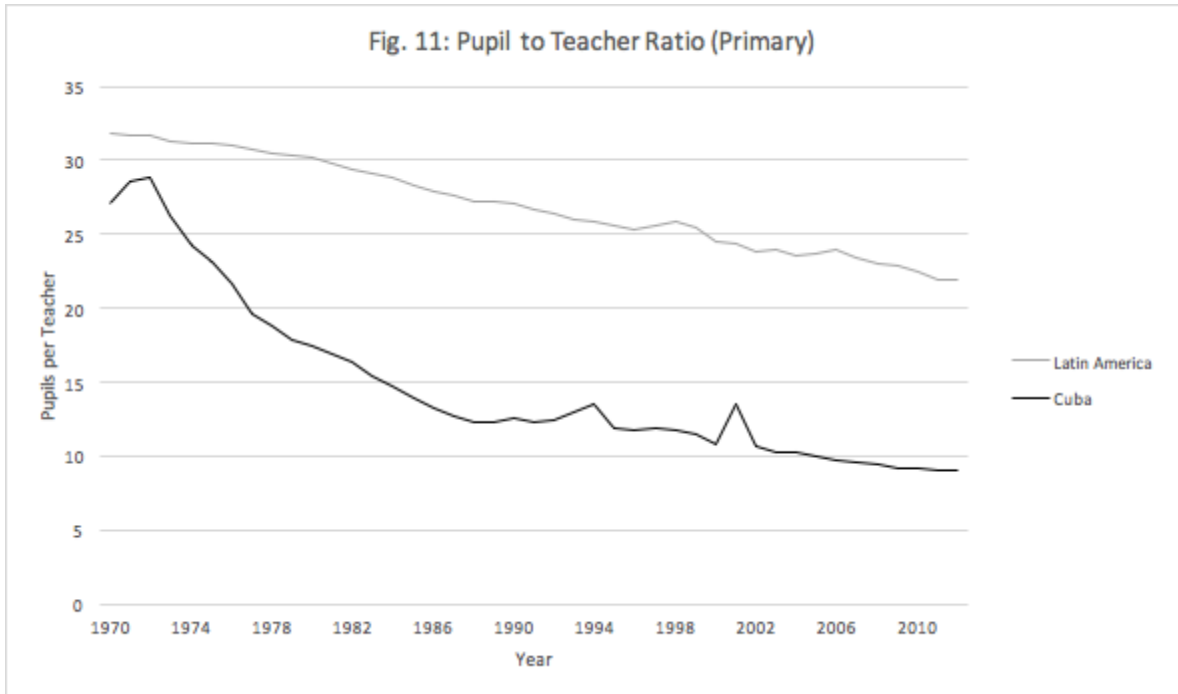
### Education

The HDI measures education by expected years of schooling and mean years of schooling. Expected years of education or school life expectancy, which is the total number of years of schooling (primary to tertiary) that a school age child can be expected to receive, is 13.8 for Cuba. Mean years of schooling, on the other hand, is the average total years of schooling that the population (25 years and older) has completed. In Cuba, this number is 11.5. It is difficult to comparatively analyze this data, as it includes grades repeated and quality of curriculum is not necessarily equal between different countries or even some regions. However, the difference between mean years of schooling and

expected years of education seems to imply that educational opportunities for Cubans have improved over time. This is also supported by enrollment data over the period, as shown in Figure 10.



According to the CIA World Factbook, Cuba ranks second in the world for education expenditures, with their expenditures making up 12.8% of total GDP as of 2010. In comparison, the U.S. is 63rd worldwide for education expenditures with 5.2% of GDP. Adult literacy, defined as the percentage of the population over age 15 who can read and write, was 97.85% in 1981 and reached 99.75% by 2012, compared to an average of 92.35% in 2010 for the rest of Latin America. Cuba also has a 100% rate of primary teachers who are trained, compared to 88.95% for Latin America. Figures 6 and 7 show another metric for evaluating the quality of an education system: pupil to teacher ratio. Based on this metric, Cuba is doing significantly better than the rest of Latin America, and has improved notably over the past 40 years, particularly in primary education.



Cuba's high quality education system has given it a unique opportunity to improve its trading relationships and national wealth by trading services for goods. As seen in Figure 8 below (Romero), exports of services make up a significant portion of Cuba's overall external trade.



**Fig. 13 Cuba: External trade (goods and services). 2008-2013. (Millions current US \$)**

	2008	2009	2010	2011	2012	2013*
Exports of goods	3,940.0	3,020.4	4,754.0	6,340.4	5 900.5	5,587.7
Imports of goods	14,312.3	8,937.8	10,689.3	14,022.9	13,943.6	14,778.0
Balance of goods	-10,372.3	-5,917.4	-5,935.3	-7,682.5	-8043.1	-9,190.3
Exports of services	8,566.4	7,818.5	9,455.5	10,816.7	12,757.9	13,250.0
Imports of services	493.8	655.6	711.3	776.1	944.4	1,104.9
Balance of services	8,072.6	7,163.0	8,744.2	10,040.6	11,813.5	12,145.1
<b>Global Trade Balance (goods and services)</b>	<b>-2,299.7</b>	<b>1,245.6</b>	<b>2,808.9</b>	<b>2,358.1</b>	<b>3,770.4</b>	<b>2,954.8</b>

One of the major ways it has done this is through its international “doctor diplomacy”, in which it sends temporary doctors to countries fighting disease outbreaks, natural disasters, shortages of healthcare professionals, or other healthcare crises. Since 1963, over 100,000 Cuban health professionals have served in over 100 countries, and they have helped start 11 medical and 2 nursing schools in underdeveloped countries around the world. Havana also hosts the new Latin America Medical School (ELAM), which trains doctors from all over the world, including the United States, on the condition that they return to work in underserved communities in their home country (*¡Salud!*). Cuba is paid directly for its “doctor diplomacy” service, either by the country it is providing doctors to or by donor countries through the World Health Organization (WHO), and earns approximately \$7.6 billion annually for its healthcare workers overseas (O’Grady). The government then pays the doctors serving overseas a monthly wage, around \$150 (*¡Salud!*). This trade in educated professionals in many industries is being used by the Cuban government to maintain their balance of trade, pay off debt, and obtain needed

goods. However, it is also drawing a good deal of criticism for the low wages the Cuban government pays these workers and for the questionable conditions it occurs under.

Questions of low government wages and the potential problems raised as a result exist within almost all domestic markets as well. The newly expanding private sector is attracting many Cubans with income that is significantly higher than regulated government salaries, and as of December 2014 more than 535,000 Cubans were “self-employed” (Romero), the term that broadly includes anyone working in the private sector. However, privatization is not yet legal in many of the industries that traditionally require higher education levels, such as healthcare or higher level education and research. While traveling in Havana in March 2016 as part of a university course, I encountered individuals with the equivalent of bachelor’s degrees and higher working as taxi drivers, waiters, tour guide translators, and other jobs for which they were highly overqualified. Many of these individuals had previously been employed as university professors or doctors before the expansion of the more lucrative private sector. This raises questions about the long term sustainability of the current system.

Although the formal education system in Cuba is generally well regarded, another aspect of providing for an educated population with which Cuba struggles is access to information. Only high ranking government officials have wi-fi in their houses. For the average Cuban, accessing internet either means struggling with impossibly slow dial-up internet or purchasing a one hour wi-fi card for around three CUC and sitting on a bench in the nearest wi-fi park. Either option is very expensive for most Cubans, considering the monthly salary for a government employee is still around 15-30 CUC. Individuals working in the private sector find it somewhat more affordable, though, and many

Cubans have found resourceful ways to access information in their homes. Javier, the translator I met at Cuba Libro, assured me he had watched MTV “back when it was actually still music videos” because he and his friend found a way to set up satellite dishes and illegally intercept DirectTV’s signal. Lester Bollos, another local Habanero, described the makeshift receivers he had set up in his house to strengthen the wi-fi signal from the nearest park enough to reach throughout his house. Both Lester and Javier showed a cavalier attitude about these activities, suggesting that while they were technically illegal government enforcement is not anything near what it once was.

## **CONCLUSION**

Cuba’s proactive healthcare services, medical outreach and affordable education are all rightfully acclaimed. Yet they often struggle with lack of access to food, certain medicines, equipment, and infrastructure. In looking at the three dimensions of the HDI, trends begin to appear showing that Cuba has exceeded expectations in service related areas but struggled with access to material goods over the past several decades. What is far less clear is where to place blame for their failings and praise for their successes. Access to accurate, unbiased information regarding the history and current state of the Cuban social, economic, and political systems is difficult to find, even with first hand experience. Where data is available, causality is nearly impossible to determine in a complex global environment. Are the successes of the healthcare system due to the Cuban government, the resourcefulness of the Cuban people, or the support of third parties outside of Cuba and the U.S.? Is the lack of access to infrastructure and material goods due to the U.S. embargo or an inefficient government and economic system? The U.S. embargo seems to be an obvious scapegoat for the Cuban government, although it is

extremely difficult to measure its true effects. Very likely the answer is all of the above and more.

What is certain is that Cuba is going through an important time of transition, and that the outcome is closely tied to its relationship with the United States. Both countries will undergo changes in leadership over the next two years, at a time when their relationship is highly controversial. Whether or not the embargo has significantly hurt the Cuban people, and whether or not the Castro regime has used it as an effective scapegoat to shift the blame off themselves, the fact remains that their regime has lasted over five decades and continues to survive.

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