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## **Economic relations of Brazil and Cuba: recent developments and prospects**

**Dantas, Alexis Toribio<sup>1\*</sup>**

<sup>1</sup>State University of Rio de Janeiro, Faculty of Economic Science

**Abstract:** The aim of this paper is to analyze recent commercial developments in Brazil in order to identify the main features that distinguish Cuba within Brazilian economic transactions – part of a broad strategy of the Brazilian foreign policy in the context of MERCOSUR. The main results are: (a) since the beginning of the first term of President Lula, the policy guidance leads to an enlargement of the share of Latin America and the Caribbean (and particularly Cuba) in the Brazilian trade flow as whole; and (b) one can see that Cuba has strengthened its role in the strategy of internationalization of Brazilian companies.

**Key words:** Brazil, Cuba, Trade, Foreign Direct Investment (FDI)

**JEL classification:** F590

## **Економски односи Бразила и Кубе: најновија кретања и перспективе**

**Сажетак:** Овај рад има за циљ анализу скорашњег комерцијалног развоја у Бразилу како би се одредиле основне карактеристике које разликују Кубу у оквиру економских трансакција Бразила - део широке стратегије спољне политике Бразила у контексту заједничког тржишта Јужне Америке. Најважнији резултати су: (а) од почетка првог мандата председника Луле, смернице политике доводе до повећања учешћа Латинске Америке и Кариба (а посебно Куба) у протоку трговине Бразила у целини; и (б) може се видети да је Куба ојачала своју улогу у стратегији интернационализације предузећа Бразила.

**Кључне речи:** Бразил, Куба, трговина, директне стране инвестиције

**JEL класификација:** F590

### **1. Introduction**

Latin America and the Caribbean are explicitly targets of Brazilian foreign policy, especially as an extension of the ties created from MERCOSUR and, in this context, Cuba can play an important role. Thus, not only because of the official statements from the Brazilian Foreign Ministry, the analysis of the data related on the recent Brazilian commercial path reinforces the importance of Latin America and the Caribbean (and Cuba).

In this sense, the aim of this paper is to analyze the recent commercial developments in Brazil in order to identify the main features that distinguish Cuba within Brazilian economic transactions. So, the next section evaluates trade relations between Brazil and

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\* [alexis.dantas@gmail.com](mailto:alexis.dantas@gmail.com)

Cuba, looking for possible sources to strengthen economic relations of these countries. Beyond recall, final considerations are the essence of the third and last section.

## 2. Economic Relations of Brazil and Cuba

With President Luiz Inacio Lula da Silva in 2002, Brazilian foreign policy experienced an important shift concerning the cooperative relationship with Cuba, both in terms of trade and related to foreign direct investment. This behavior, so to say, converges with the general path of Brazilian foreign policy, which clearly highlights the emphasis on relations with Latin America and the Caribbean. In the case of Cuba, the change was clear, as outlined in the official statements of Brazilian diplomacy (Brazil, 2008, p. 84.89):

*“The end of the United States embargo on Cuba would greatly help to open discussions concerning the re-democratization of that country. A policy of constructive cooperation is always better than one of isolation. The more you isolate a country, the more rigid their internal structures become. For this reason, we maintain a policy of solidarity with a Latin American country which, for forty years has suffered an embargo with which we do not agree. We have discussed certain gestures. For example, we are against the death penalty, against summary judgments. But there are certain limits that have to be respected. We cannot substitute the Cuban people and their leaders, but we can contribute towards (creating) a more positive atmosphere<sup>1</sup> [...] I believe that what we are doing in this Seminar is taking an exceptional step (forward) so that Cuba and Brazil can interact with all their (respective) scientific and technological knowledge, their industrial development potential, and their potential in the area of services and tourism, so that we can increase, and build closer ties so as to mutually contribute towards the growth and development of both Cuba and Brazil. During recent months, I have invited Brazilian entrepreneurs to visit Cuba. (...) The globalized world, as it stands now, needs not only bolder trade policies but, above all, it requires the ability to bring together all that we have by way of our complementarities, so that we can have the means to compete on a more equal footing with countries that are technologically, economically and industrially more developed<sup>2</sup>.”*

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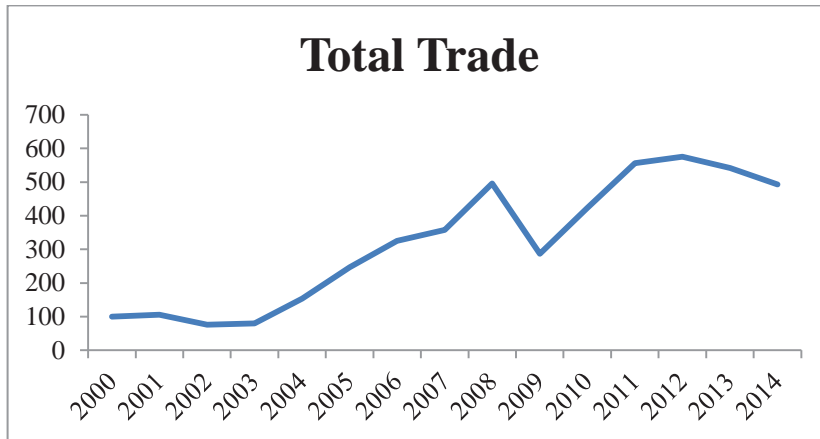
<sup>1</sup> “Interview given by Minister Celso Amorim to the *Jornal do Brasil* newspaper - Rio de Janeiro, July 24, 2003. In: Brasil. Ministério das Relações Exteriores. Secretaria de Planejamento Diplomático (2008). *Brazilian Foreign Policy Handbook/Brazilian Ministry of External Relations, Bureau of Diplomatic Planning*. - Brasília: Alexandre de Gusmão Foundation”

<sup>2</sup> “Speech by President Luiz Inácio Lula da Silva during the Cuba-Brazil Meeting of Entrepreneurs - Havana, September 27, 2003. In: Brasil. Ministério das Relações Exteriores. Secretaria de Planejamento Diplomático (2008). *Brazilian Foreign Policy Handbook/Brazilian Ministry of External Relations, Bureau of Diplomatic Planning*. - Brasília: Alexandre de Gusmão Foundation”

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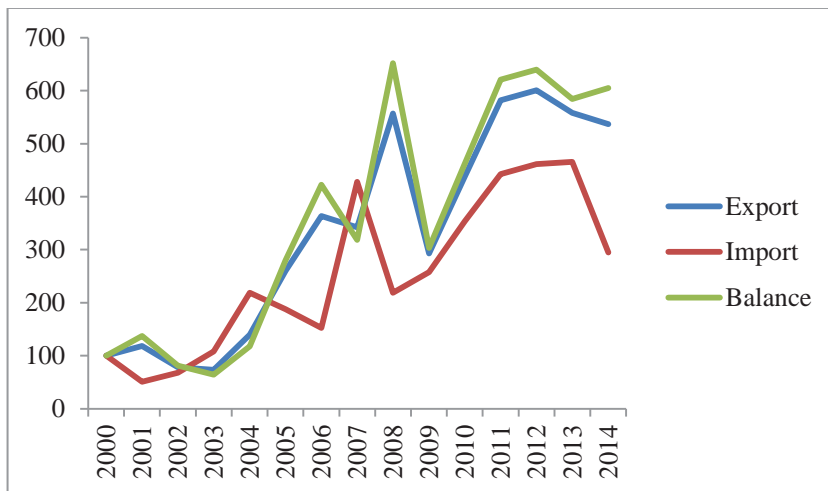
As shown in Figures 1 and 2, the trade flow of Brazil and Cuba follows a path of rapid expansion since 2002, especially with regard to Brazilian exports (imports also grow, but in a much more moderate pace). Thus, the trade surplus is increasing and follows, in general, the trajectory of the exports to Cuba.

Figure 1: Total Trade (Imports plus Exports) Brazil/Cuba – 2000/2014 (2000=100)



Source: (MDIC)

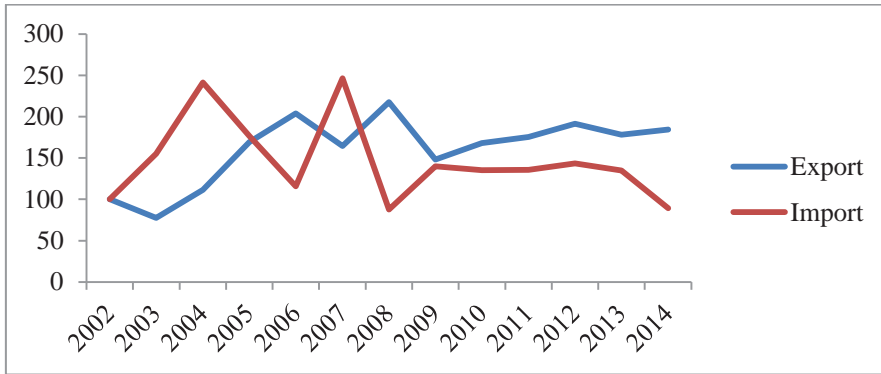
Figure 2: Brazil/Cuba: Imports, Exports and Trade Balance – 2000/2014 (2000=100)



Source: (MDIC)

A clear result of this is the great increase in the share of Cuba in the total volume of exports from Brazil (four times higher in 2012 than in 1994). Brazilian imports from Cuba, however, reduce its relative share over the period - despite growth in absolute terms, the overall imports from Brazil recorded a greater increase. Anyway, it is important to note that trade relations of Brazil and Cuba are still very small comparing to overall volume of Brazilian transactions.

Figure 3: Cuba's Share in Brazilian Imports and Exports – 2002/2014 (2002=100)



Source: (MDIC)

Another important aspect to point out is that the trade relation between Cuba and Brazil is also uneven with regard to the list of main import and export products, especially as the variety of the list of products in terms of exports and imports. In this context, one can see that Brazil has a larger set of products exported to Cuba, while the imports from Cuba are strongly concentrated in the extracts of glands, cigarettes and cigars (see Tables 1 and 2).

Table 1: Imports: Main Products – 2014

Produtos	%
Glands Extracts	70,77
Cigarrets	9,54
Cigars	6,21

Source: (MDIC)

Table 2: Exports: Main Products – 2014

Produtos	%
Chicken	20,24
Rice	17,11
Soybean Oil, Refined	10,78
Soybean Oil	6,14
Meat And Sausage	3,94

Source: (MDIC)

The path of Brazil's foreign policy in the recent years seems to contribute to a gradual and growing improvement of the relations between Brazil and Cuba, not only from a commercial point of view. In a recent visit to Cuba, President DilmaRussef could improve significantly important economic agreements that may become crucial for the political and economic reforms in the island. The main focuses of the agreements are: (A) to stimulate the development of a "free export zone" in Cuba, especially the (re) construction and modernization of the Port of Mariel by Brazilian construction company

Odebrecht which is financed by the National Bank for Economic and Social Development of Brazil (BNDES);

(B) expansion of the Cienfuegos oil refinery;

(C) opening special credit lines and closer negotiations with leaders of Brazilian companies and development institutions for trade in Brazil;

(D) investments in the sugar sector (also operated by Odebrecht in association with the Cuban state enterprise).

In the case of Port of Mariel, Brazil and China are the main investors and the idea is to make it one of the largest terminals in Latin America. It is important to highlight that the participation of the National Bank for Economic and Social Development of Brazil (BNDES) financing Odebrecht, converges with the strategy pursued by the bank to strengthening the internationalization of Brazilian companies, especially in the direction of south-south integration (and cooperation) assumed by Brazilian foreign policy in recent years. Among the investments one can find the renovation of more than 30 km of roads, the construction of 60 km of structure for railways and about 20 km of road access. The dredging works, fundamental to the large ships access, allow the movement of approximately one million containers per year.

To create a duty free zone, it was established an agreement to set up a pharmaceutical plant with Brazilian resources and technology developed in Cuba, with particular attention to the production of anticancer medicines. About the expansion of the Cienfuegos oil refinery, it is expected the creation of capacity to expand the current production of 65,000 barrels to 150,000 barrels per day.

In order to stimulate trade relations between Brazil and Cuba, the Brazilian government undertook to open a \$ 350 million credit line to finance the purchase of food by Cuba, making use of the Export Financing Program (ProEx) . Besides that, it was agreed to open another line of credit of \$ 200 million (in that case from the Foreign Trade Chamber – Camex), for the program More Food (MaisAlimentos). The aim is to facilitate the acquisition of equipment and inputs for agriculture. On the Cuban side, the Minister of Foreign Trade and Foreign Investment, Rodrigo Malmierca, emphasized the change in legislation providing areas for constructions of new companies and hotels (contracts of 99 years), renewable indefinitely.

An important symbolic change refers to the entry of Odebrecht for the production of sugar in Cuba – the first foreign capital investment in the sugar industry on the island since 1959. Through the IOC (Works Company Infrastructure), Odebrecht's subsidiary in Cuba, the company will sign an agreement with the state company Azcuba for the management and operation of the factory 5 de Septiembre in Cienfuegos, central Cuba, foreseeing an association of 10 years to increase the capacity of production. Odebrecht is one of the largest producers of ethanol in Brazil and its entry into the Cuban economy will certainly take this direction, as well as energy production from biomass. Similar project is conducted by the Brazilian conglomerate in Angola through a joint venture, indicating therefore a global Odebrecht strategy. Thus, the production fits, from a strategic point of view, the rise in ethanol export capacity by the company, although there is a long process of investment needed to recover the productive capacity in Cuba (much of the land is, for a long time, abandoned).

### **3. Final Considerations**

Latin America and the Caribbean have registered important and growing relative share in Brazilian trade relations, as a result of explicit policy guidance since the beginning of the first term of President Lula. Moreover, the region is a key destination for manufactured

goods exported from Brazil, whose growth contrasts with the general trend of Brazilian trade to increase the relative share of commodities in the global volume of exports.

With regard to Cuba, cooperative ties are becoming closer, with reflections on actual and potential foreign direct investment (in addition to efforts to increase bilateral trade countries) and, although the total trade is still a very small share of the whole Brazilian Trade, it is growing significantly, driven mainly by Brazilian exports.

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