

Activity: Cuba and Trade (Answer Key)

Cuba and Trade: a Sixth District Connection

Economics and history students, learn about the Federal Reserve’s structure, including the 12 Reserve Banks and 24 branch offices stretching across the country. Five of these branches—Birmingham, Jacksonville, Miami, Nashville, and New Orleans—are located in the Federal Reserve’s Sixth District, headquartered in Atlanta.

FUN FACT

If your currency is distributed from our District, you will see the letter *F* in the Federal Reserve seal on the left-hand side of the bill for \$1 and \$2 notes. On higher denominations, there will be an *F6* on the left-hand side of the bill—*F* is the sixth letter of the alphabet and we are the Sixth District.

What many people do not know is that in the early history of our District, the Bank operated two mini-branches, known as agencies, which were organizations unique to the Sixth District. Created to meet the coin and currency requirements of local banks, agencies provided limited services as a convenience for area bankers. In 1918, the same year the Sixth District established the Jacksonville and Birmingham Branches, an agency office opened in Savannah, Georgia. Just five years later, in 1923, the first and only Federal Reserve agency office to operate on foreign shores opened in Havana, Cuba.

Why Cuba?

Throughout the late 1800s, Cuba’s economic importance to the United States was growing and it became the United States’ largest trading partner. The United States imported the majority of Cuban sugar, tobacco, coffee, fruits, and nuts as well as all of its copper production.

In 1899, Cuba received \$177 million in export revenue (in 2017 dollars) from its American trade. Following the Treaty of Paris, which gave the United States control over Cuba following the Spanish-American War, the American dollar became Cuba’s official currency and several American and Canadian banks soon opened there to service North American business interests on the island.

Initially, when the Federal Reserve agency office opened in Havana, the Atlanta Fed and the Boston Fed shared responsibility for operations. Boston handled the cable business used to transfer funds from the island since most American banks operating in Havana were based in New York or Boston. Atlanta processed and distributed currency to local banks. Because the Atlanta Fed's Jacksonville Branch was the closest central banking presence to the island, it became responsible for issuing the \$40 million in U.S. currency circulating there.

Both Boston and Atlanta opened their respective Havana offices for business on September 1, 1923. Upon beginning cash operations, one of the first things discovered by the Atlanta staff of the Havana agency was that the \$40 million in U.S. currency circulating in Cuba as legal tender was largely unfit and plagued by counterfeiting. The Atlanta staff quickly replaced the counterfeit notes with fit currency, restoring the island's money stock. This reduced the need for local banks to store large amounts of "clean currency" in their vaults.

FUN FACT

From 1918 until 1971, when a check collection and coin and currency center opened in Miami (later to become a full branch in 1975), the state of Florida was served solely by the Jacksonville Branch.

Bank run in Havana

During the week of April 6, 1926, the new agency would face its first trial, as rumors about the insolvency of a Canadian bank based in Havana sparked a bank run that would clear out nearly all of the reserves of Havana banks by that Friday, April 9. Even the \$10 million in currency reserves held by the Atlanta office fell short of the reserves needed and fears of a banking system collapse grew.

When Fed officials in Atlanta learned of the situation, they organized a \$26.5 million cash rescue package for Cuba. Proving too heavy for transport by plane, a three-car chartered train carried the cash from Atlanta to Key West. After its arrival, the cash was loaded onto a gunboat for transportation to Cuba. Reaching Havana in the early hours of Monday, April 12, all currency arrived safely and was distributed to Havana banks by 7 a.m. The swift action of the Atlanta central bankers successfully ended the bank run.

FUN FACT

The Savannah agency office survived for just over a quarter of a century. Concerns that the agency was redundant (due to its close proximity to Atlanta) led to its closing in 1945.

An investigation into the handling of the 1926 crisis led to a Board of Governors recommendation that Cuba would best be served by one Federal Reserve office, and in 1927 all duties were transferred to Atlanta. By 1934, declining business and operational losses led Atlanta to petition the Fed's Board of Governors to close the Havana agency and the Federal Reserve's Cuban operations ceased on September 30, 1938.

U.S.-Cuba trade today

Today, the Cuban trade embargo heavily influences trade between the United States and Cuba. In effect since 1960, the embargo today enjoys a gradual loosening of restrictions in certain goods and services such as food, medicine, and medical equipment. U.S. firms now export more than \$180 million worth of goods to Cuba, with 60 percent of that trade originating in the Sixth District. This is relatively small in terms of total U.S. trade, accounting for only one one-hundredth of a percent of U.S. exports as a whole.

Learn more

What countries does Cuba trade with now? What are Cuba's main exports? This activity will help students answer these questions and learn more about a country whose currency we once processed here in our own Federal Reserve Sixth District. For 15 years beginning in 1923, the Federal Reserve Bank of Atlanta operated an "agency" branch in Havana, Cuba, to meet the needs of American banks operating on the island. At the time, Cuba was the United States' largest trading partner, and U.S. currency was Cuba's legal tender. The Atlanta Fed's Jacksonville Branch processed this currency and was the only operating branch in Florida at the time. In addition to meeting banks' needs for liquidity, the processing also served to remove unfit currency from circulation and to resolve the island's problems with counterfeiting. Swift action by the Atlanta Fed averted a full-fledged bank panic in 1926 when the District transported a cash infusion to the area. As times changed both economically and politically in the 1930s, business declined and the Fed's Cuban operations, an interesting chapter in the Atlanta Fed's history, closed in 1938.

In this activity, students will read a short article on Cuban tourism and a post on Cuban trade. They will answer questions about the readings and research additional information about the state of Cuban trade today. This research provides a snapshot into the economy of one of the United States' closest neighbors. Students may also complete an economic comparison between the United States and Cuba as an optional additional activity extension. If assigning the extension, students may complete the answers to Question 2 in the chart for the extension activity, rather than writing them twice.

1. Read "[Cuban Trade Data](#)" and the *Economy Matters* article "[Travel Blooms in Cuba as U.S. Relations Thaw, but Obstacles Remain.](#)" Answer the following questions based on your readings:
 - a. What is the number 1 export of Cuba in terms of products and commodities?
Foodstuffs (45.0%)
 - b. What is Cuba's number 1 import? *Machinery and electrical (21.5%)*



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- c. What country is Cuba's number 1 trading partner? What do they trade?
Venezuela. The countries engage in oil for services trade.
 - d. How does the United States' trade with Cuba compare to its overall trade?
Currently, U.S. trade with Cuba is relatively miniscule. Last year's exports to Cuba were valued at less than two-tenths of a percent of U.S. exports to China, and approximately one-hundredth of a percent of U.S. exports as a whole.
 - e. How many tourists visited Cuba in 2016? From where did the largest number of tourists originate? How many Americans visited Cuba in the first half of 2016?
4 million. Tourists to Cuba from Canada outnumber those from any other country. Just under 137,000 Americans visited Cuba in the first half of 2016.
 - f. According to the survey taken on interest in visiting Cuba, what is the main reason most travelers want to visit? *General curiosity (60.9%)*
 - g. What market-based economic reforms have been initiated by Raul Castro's government? *Expanding private ownership of business, allowing citizens to buy and sell homes and cars, and approving a law to boost foreign investment.*
2. Navigate to the Central Intelligence Agency's (CIA) World Factbook [Cuba page](#) and answer the following questions by doing research under the Economy tab. (You may enter your answers below in the table for Question 3, if assigned.) *Answers are found in chart below for Question 3. The answers were correct as of September 2017.*
- a. What was Cuba's gross domestic product or GDP (purchasing power parity) in 2016? What is Cuba's per capita GDP? What is its growth rate?
 - b. What is the biggest part of Cuba's GDP and by what percentage? What percentage does government occupy?
 - c. What is the largest sector of Cuba's GDP? Is this also the largest sector of Cuba's labor force?
 - d. Name five important agricultural products and five important industries in the Cuban economy.
 - e. What is the level of Cuba's labor force?
 - f. What is Cuba's unemployment rate? What is its inflation rate?
 - g. Compare Cuba's exports and imports. What commodities does Cuba export? Does Cuba have a trade deficit? (Imports are larger than exports.)
 - h. According to the data found here, which country does Cuba export to the most? What country provides the largest percentage of Cuban imports?



3. **Country comparison** (optional extension activity):

- a. Complete the chart below using the data from Question 2 and research from the CIA's World Factbook [United States](#) page.

	Cuba	United States
GDP (purchasing power parity)	\$132.9 billion	\$18.57 trillion
GDP real growth rate	-0.9%	1.6%
GDP per capita	\$11,900	\$57,400
Largest component of GDP	Household consumption 55.9%	Household consumption 68.6%
Largest sector of GDP	Services 72.2%	Services 79.5%
Important agricultural products	Sugar, tobacco, citrus, coffee, rice, potatoes, beans, livestock	Wheat, corn, other grains, fruits, vegetables, cotton, beef, pork, poultry, dairy products, fish, forest products
Important industries	Petroleum, nickel, cobalt, pharmaceuticals, tobacco, construction, steel, cement, agricultural machinery, sugar	Petroleum, steel, motor vehicles, aerospace, telecommunications, chemicals, electronics, food processing, consumer goods, lumber, mining
Industrial production growth rate	-0.2%	2.1%
Labor force	5.117 million	158.6 million
Largest labor force sector	Services 72%	managerial, professional, and technical: 37.3%
Unemployment rate	2.5%	4.7%
Inflation rate	4.5%	1.3%
Export level	\$3.428 billion	\$1.471 trillion



	Cuba	United States
Important exports	Petroleum, nickel, medical products, sugar, tobacco, fish, citrus, coffee	Soybeans, fruit, corn, organic chemicals, transistors, aircraft, motor vehicle parts, computers, telecommunications equipment, automobiles, medicines
Number 1 export partner (%)	Canada 17.7%	Canada 18.6%
Import level	\$12.34 billion	\$2.205 trillion
Important imports	Petroleum, food, machinery and equipment, chemicals	Agricultural products, crude oil, computers, telecommunications equipment, motor vehicle parts, office machines, electric power machinery, automobiles, clothing, medicine, furniture, toys
Number 1 import partner (%)	China 21.3%	China 21.5%
Is there a trade deficit? (imports greater than exports)	Yes	Yes
Stock of direct foreign investment abroad	\$4.138 billion	\$5.566 trillion

- b. Using the data above, compare and contrast the U.S. and Cuban economies. What similarities and differences do you find between the two countries? (*Answers will vary, but may include many of the observations below*).

The United States is a much larger country than Cuba, with a labor force over 30 times that of Cuba. It therefore has a much higher GDP. The United States is also a much richer country than Cuba with a GDP per capita that is approximately five times



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that of Cuba. The U.S. economy is growing at a modest pace, while Cuba's economy is shrinking slightly in terms of GDP and industrial production.

In both countries, household consumption is the largest component of GDP, and services are the largest sector of GDP. The countries differ in the type of agricultural products that are important, with sugar and tobacco prominent for Cuba and grains, meat, and dairy products more significant for the United States. Petroleum is an important industry for both countries, but Cuba's industries focus on steel, cement, precious metals, and other components of the construction industry; the United States has importance in more advanced sectors such as electronics, telecommunications, and the aerospace industry. While nearly three-quarters of Cubans work in the service industry, the largest labor force sector for the United States is the managerial, professional, and technical sector. (This can be explained by Cuba's reliance on tourism as a main driver of its economy).

Cuba has a lower unemployment rate but a higher inflation rate than the United States. Canada is the number 1 destination for both Cuban and U.S. exports, and in both countries, about one-fifth of all imports originate in China. Cuba exports mainly agricultural products, while the United States exports some agricultural products as well as cars, computers, and telecommunication equipment. Both countries import machinery and crude oil/petroleum; consumer goods such as clothing, furniture, and toys are important in the United States. Both countries have a trade deficit. The higher levels of imports, exports, and foreign direct investment in the United States can be partially explained by the larger size of its economy.