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The Cuban Economy: Amid Economic Stagnation and Reversal of Reforms

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EXECUTIVE SUMMARY

Over the past few years the Cuban economy has shown a moderate rate of growth, insufficient to pull the country from the severe crisis which affected it from 1989 to 1993. The reasons for this slow growth are the structural characteristics of the Cuban economy, Cuba's difficulty in integrating into the international economy, the difficult international context in which the country operates, and its leaders' lack of political will to tackle in-depth transformation of the economy.

The island still depends excessively on primary production for export, while industrial production seems unable to meet the domestic market's demand for goods and services. The Cuban economy has always been very susceptible to the performance of its foreign trade. In the past few years, the significance of exports has decreased, because they are concentrated on a few primary products of limited value added.

Cuba's unfavourable position in the international economy is closely related to its economic structure, the terms of its foreign trade, the role of direct foreign investment, the state of external financing, and the state of its institutions. The lack of international financing sources – as a result of Cuba's inability to access multilateral financing mechanisms, of the pressure exerted by the economic embargo imposed by the United States, and of its failures to fulfill international financing commitments – is a key factor that hinders Cuba's insertion in the world economy.

In addition, there has been a significant deterioration in Cuba's international relations, because of the standoff with the United States – although sales from this country have reached levels that had not been seen in forty years – and the emphasis placed on human rights by the European Union and other countries. This has created some difficulties with important trade partners.

The reform process that started in the 1990s has stopped, and there are new trends towards centralization in the economic decision-making process. Official statements indicate that liberalization and decentralization of the Cuban economy are not likely, as long as there is no threat of a new economic collapse.



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RÉSUMÉ

Au cours des dernières années, l'économie cubaine a connu une croissance modérée, insuffisante pour sortir le pays de la grave crise qu'il a traversée de 1989 à 1993. La faiblesse de cette croissance peut s'expliquer par les caractéristiques structurelles de l'économie cubaine, par les difficultés qu'a le pays à s'insérer de manière efficace dans l'économie mondiale, par la complexité du contexte international et par le manque de volonté politique de ses leaders de s'engager dans une transformation radicale de l'économie.

L'île dépend toujours beaucoup trop de la production primaire pour ses exportations alors que la production industrielle semble incapable de répondre aux demandes du marché domestique pour ce qui est des biens et des services. Cette situation a accentué le sous-développement économique et exacerbé la dépendance intérieure du pays.

L'économie cubaine a toujours été tributaire de la performance de son commerce extérieur. Au cours des dernières années, l'importance des exportations pour l'économie cubaine a diminué, les exportations se limitant à quelques produits primaires à faible valeur ajoutée.

L'insertion de Cuba dans l'économie internationale dépend étroitement de sa structure économique, des termes de ses échanges internationaux, du rôle des investissements étrangers directs, de l'état du financement externe et de celui de ses institutions.

Le manque de sources de financement international – résultat de son incapacité à accéder à des mécanismes de financement multilatéraux, des pressions exercées par l'embargo économique imposé par les États-Unis, et de son incapacité à remplir les engagements liés au financement international – est l'un des facteurs qui font obstacle à l'insertion de Cuba dans l'économie mondiale.

Sur le plan des relations internationales de Cuba, celles-ci se sont grandement détériorées en raison de l'affrontement avec les États-Unis – bien que les ventes à partir de ce pays aient atteint des niveaux que l'on avait pas vu depuis 40 ans – et de la décision adoptée par l'Union européenne et d'autres pays de faire du respect des droits humains le pivot de leurs relations. Tout ceci a causé certaines difficultés avec d'importants partenaires commerciaux.

Le processus de réforme entrepris dans les années 90 s'est non seulement arrêté, mais on a vu émerger de nouvelles tendances vers une centralisation du processus de prise de décisions économiques; tendances qui, selon toute vraisemblance, vont se maintenir. Les déclarations officielles indiquent que la libéralisation et la décentralisation de l'économie cubaine seront peu probables tant que l'économie ne sera pas menacée d'un nouvel effondrement.

RESUMEN

En los últimos años, la economía cubana ha mostrado un crecimiento económico moderado, incapaz de sacar al país de la profunda crisis que padeció durante el período 1989-1993. Las razones que explican este lento crecimiento económico radican en las características estructurales de la economía cubana, en sus dificultades para asegurarse una inserción eficiente en la economía mundial, en el difícil contexto internacional que afronta el país y en la falta de voluntad política de sus dirigentes para acometer profundas transformaciones en los mecanismos de funcionamiento económico.

La isla sigue dependiendo excesivamente de la producción primaria para la exportación, mientras la producción industrial se manifiesta incapaz de satisfacer las necesidades de bienes y servicios del mercado interno. La economía cubana siempre ha sido muy sensible al comportamiento de su comercio exterior. En los últimos años la importancia de las exportaciones en el conjunto de la economía ha disminuido, debido a que se mantienen concentradas en unos pocos productos primarios de escaso valor agregado.

Las condiciones de inserción económica internacional de Cuba guardan relación estrecha con su estructura económica, las condiciones de su comercio exterior, el papel de la inversión extranjera directa, la situación financiera externa, y con las condiciones de sus instituciones. La falta de fuentes de financiación internacional – debido a la imposibilidad de acceder a mecanismos multilaterales de crédito, a la presión que ejerce el embargo económico de Estados Unidos, y al incumplimiento de sus obligaciones financieras internacionales - es uno de los factores más importantes que impiden la inserción de Cuba en la economía mundial.

Por su parte, las relaciones internacionales de la isla se han deteriorado sensiblemente por el enfrentamiento con Estados Unidos - aunque las ventas desde este país han alcanzado cifras sin precedentes en cuarenta años - y por la posición de la Unión Europea y de otros países al colocar la exigencia por el respeto de los derechos humanos en el centro de sus relaciones, lo cual ha traído dificultades con socios comerciales importantes.

Además de una parálisis del proceso de reformas iniciado en los años 90, se observan nuevas tendencias centralizadoras en las decisiones económicas, con escasas perspectivas de cambio. Las declaraciones públicas oficiales indican que no es posible esperar reformas más profundas para liberalizar y descentralizar la economía cubana mientras los imperativos de una nueva caída no lo sugieran.

Introduction

In the past few years, the Cuban economy's moderate rate of growth has been insufficient to pull the country from the severe crisis which affected it from 1989 to 1993. From 1993 to 2003, the average annual growth of the gross domestic product (GDP) was only 3.3%.¹ If this growth is projected forward, Cuba will recover its 1989 GDP level in 2006, i.e. 17 years later. This is an exceptionally slow recovery from an economic crisis for a country in peacetime.

The reasons for this slow rate of economic growth are the structural characteristics of the Cuban economy, Cuba's inability to integrate into the international economy, the difficult international context in which the country operates, and its leaders' lack of political will to modify in depth the mechanisms that drive the economy.

The Problems of Cuba's Economic Structure

The Cuban economy continues to depend excessively on primary production for export, while industrial production is unable to meet the domestic market's demand for goods. This has deepened the country's economic underdevelopment and exacerbated its internal dependency.

Sugar

Sugar is still a significant item in the Cuban economy and in the country's exports. However, this industry has been plagued by a severe crisis in production, and has been facing a precarious situation within international markets.

Despite the downsizing (*redimensionamiento*) process to which this industry was subjected in search of greater efficiency, there are still no signs that its efficiency has been improved. In the 2003-2004 harvest season, total sugar production was only 2.2 million tons. The government acknowledged that the result had been influenced not only by poor weather, but also by organizational problems and financial pressures which interfered with efforts to ensure the timely supply of inputs necessary for the harvest [Rodríguez, 2003]. This volume of production was the lowest figure in the socialist era of the Cuban economy, and it was only slightly higher than Cuban sugar production in 1933.

Industry performance has matched the levels reached at the beginning of the 20th century,² while income from exports has decreased significantly, so that in 2002 it accounted for only 19.5% of the foreign currency income earned by this sector in 1991. [See Table 1]

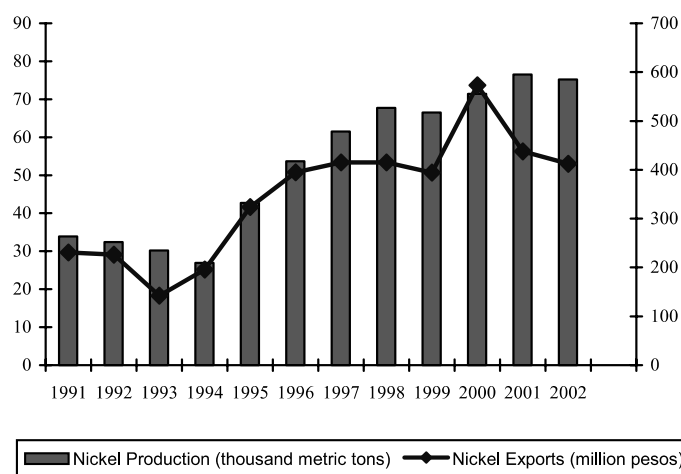
In the process of *downsizing* this industry, the number of sugar mills and the area of sugar cane plantations were reduced by half, with attendant reductions in the sector's work force. However, the displaced workers did not join the unemployment lines, but were by and large incorporated into the education system; their salaries were charged to the budget, without the backing of production of goods and services, a measure which can be supported because of the low levels of real income of the Cuban labour force.

Nickel and the Exploration of Other Natural Resources

The nickel industry is another mainstay of the Cuban economy. Nickel's importance as an export has grown significantly in recent times, so that it alternates with sugar at the top spot. However, in 2003, the production of nickel was 71.7 million tons, below the levels of 2001 and 2002. Although export income data are not available for 2003, official sources announced that income had increased as a result of favourable international prices. [Rodríguez, 2003] In 2002, this sector's contribution to Cuban exports rose to 412.5 million pesos, slightly below the value of sugar industry exports.

The nickel industry has attracted foreign capital as a result of promising calculations of reserves of this mineral. If production increases and market conditions improve, nickel could become the country's main export product.

**Graph 1:
Production and Exports of Cuban Nickel
1991-2002**



Source: ONE, 1998 and 2003; *Cuba's Annual Statistics*, Havana, 1996 and 2002.

Other mineral explorations on the island have increased in recent years, basically in response to the interest of foreign investors. Although there has been prospecting for copper, chromium, magnesium and zinc, results in all cases have been modest to date. On the other hand, crude oil and natural gas exploration has yielded significant increases in production levels, even if these still fall short of demand.

TABLE 1: Cuba - Sugar Production: Industrial Performance and Export Income

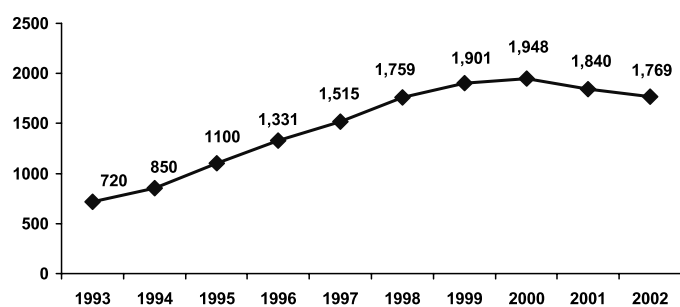
YEAR	SUGAR PRODUCTION (MILLION MT)	INDUSTRIAL PERFORMANCE	EXPORT INCOME (MILLION PESOS)	YEAR	SUGAR PRODUCTION (MILLION MT)	INDUSTRY PERFORMANCE	EXPORT INCOME (MILLION PESOS)
1990	8.1	10.4	4,333	1997	4.2	10.7	853
1991	7.6	10.4	2,287	1998	3.2	9.6	599
1992	6.9	10.3	1,240	1999	3.7	10.9	462
1993	4.1	9.6	758	2000	3.9	10.9	453
1994	3.8	9.0	759	2001	3.6	10.7	545
1995	3.1	9.7	714	2002	3.7	10.1	447
1996	4.4	10.5	976	2003	2.2	n.a.	n.a.

Source: ONE, 1998 and 2003; *Cuba's Annual Statistics*, Havana, 1996 and 2002.

Tourism

Tourism has become the main driver of Cuba's limited economic growth, but it still depends on imports for a considerable percent of its inputs, which limits its efficiency as a means of earning foreign currency. Also, in the last few years this sector has reported less gross income per visiting tourist. Whereas in 1995 gross income per tourist was 1,475 pesos, in subsequent years this indicator declined steadily, until it reached a low of 1,037 pesos in 2001, with only a slight recovery to 1,049 pesos in 2002.³ This situation reflects the fact that the tourists who arrive on the island are of low to middle income, and travel within low-cost packages. In spite of this, the overall gross income from this sector has increased, even if in recent years there has been a slight decline, stemming from the fall-off in international travel after September 11, 2001.

Graph 2:
Gross Income from Tourism (million pesos)



Source: ONE, 1998 and 2003.

TABLE 2A: Selected Cuban Industrial Production

	UNITS	1990	1996	1997	1998	1999	2000	2001	2002
Crude Oil Extraction	Thous MT	670.9	1475.9	1437.6	1657.6	2104.3	2620.8	2733.4	3533.4
Natural Gas	Million m ³	33.7	19.3	37.2	124.2	460.0	574.1	594.6	584.7
Steel	Thous MT	250.6	228.6	334.6	283.2	302.7	327.3	269.6	264.1
Gross Electricity Generation	Thous Gwh	15.0	13.2	14.1	14.1	14.5	15.0	15.3	15.7
Fertilizers	Thous MT	832.8	241.5	183.5	156.7	138.3	118.2	92.7	92.0
Tires	Thous U	373.1	212.3	233.4	164.7	156.6	160.5	144.7	47.7
Sugar Industry Machinery	Million pesos	20.5	21.5	21.7	8.4	11.7	9.9	9.9	4.2

Source: ONE, 1999 and 2003; *Cuba's Annual Statistics*, Havana, 1997 and 2002.

The fundamental problems of tourism in Cuba are a shortage of options beyond the enjoyment of sun and beach, the limitations in complementary infrastructure that result from underdevelopment, and the high cost of transportation, telecommunications and financial services systems.

Industry

Over the past decades, Cuban industrial activity has undergone a certain diversification. Except for sugar and related goods, nickel and tobacco, industry focuses basically on meeting internal market demand, at quality levels that prevent it from competing in international markets. Generally, Cuban industry is not intensive either in capital or technology, but it is in labour. There is virtually no machinery production, except for the assembly of transportation equipment (which has been in a state of paralysis since the 1990s), and a very limited production of sugar mill equipment.

In the past few years there has been significant growth in the production of crude oil, gas and fuel oil. Cuban crude oil has been able to supply about 90% of the country's domestic energy generation, maintaining levels close to those attained at the beginning of the last decade. [See Table 2A] This considerable increase in production is largely due to investments made by foreign companies involved in crude oil exploration. However, domestic crude oil is excessively heavy and difficult to use, given the technology of Cuban thermoelectric plants.

For other items, especially those that address domestic consumer demands, production levels are below those attained in 1990, even if increases reported last year are taken into account. As a result, there is a high level of unmet demand for such products. [See Table 2B]

Throughout 2004, new economic difficulties have arisen. The breakdown of an important electric power plant led senior Cuban leaders to adopt emergency measures which included the temporary closure of several industries, so as not to decrease excessively the supply of electricity to the population. This will undoubtedly affect not only the economic growth figures for 2004, but also budgetary and monetary balances because, for political reasons, the temporary closure of production enterprises in Cuba does not entail a suspension of salary payments. The budget will be affected by the payment of salaries, while income will decrease as production decreases.

Transportation and Communications

Cuba's transportation and communications infrastructure continues to be one of the most serious problems in the country's economy. Passenger transportation does not meet the population's basic needs. While Cuba's population increased from 10.8 million to 11.2 million inhabitants between 1991 and 2002, the total number of passengers transported dropped by 47.6% in the same period, from 2,014.7

million in 1991 to 959.7 million in 2002 [ONE, 1998 and 2003]. Undoubtedly, the situation was even more difficult at the critical point of the crisis in the 1990s, but recovery efforts have not improved this indicator significantly in recent years. Two sets of additional figures help illustrate the difficult situation in this area: In 1991, there were 3,997 urban-service buses in Cuba, but in 2002 there were only 940. The number of trips made by the urban-service buses went from 11.5 million in 1991—when they already failed to meet the demands of the population—to just 2.9 million in 2002. [ONE, 1999 and 2003]

The underdevelopment of Cuba's urban and intermunicipal transportation system is today one of the problems that most seriously affects the national economy and the life of the country's inhabitants. This problematic situation translates into losses in working and leisure time for Cubans, who must allocate an excessive amount of time to travel between home and workplace. At the same time, it has negative effects on work productivity and on people's emotional health, since the majority of people do not have their own means of transportation.

Freight transportation has also declined. The total freight transported in Cuba in 1991 was approximately 72.5 million tons; in 2002, it dropped by 69.6% to 50.5 million tons. [ONE, 1999 and 2003]

TABLE 2B: Selected Cuban Industrial Production

	UNITS	1990	1996	1997	1998	1999	2000	2001	2002
Textiles	Million m ²	188.1	47.9	53.7	54.0	51.0	47.4	46.9	29.7
Outerwear	Million U	43.9	10.0	10.1	11.1	14.3	13.2	14.3	12.1
Leather Footwear	Million Pairs	8.3	2.5	3.3	2.7	2.9	2.5	2.8	1.7
Pasteurized Milk	Thous MT	689.4	226.7	230.8	230.7	239.1	260.4	263.9	242.0
Bathroom Soap	Thous MT	11.1	8.7	12.4	12.7	13.4	13.6	13.6	16.7
Wash Soap	Thous MT	30.5	14.6	16.0	17.1	18.2	23.2	18.2	17.6
Household Refrigerators	U	3,447.0	5,518.0	9,852.0	8,771.0	9,106.0
Colour Television Sets	U	76.9	16.2	51.7	83.7	86.3	74.9	79.4	105.0

Source: ONE, 1999 and 2003; *Cuba's Annual Statistics*, Havana, 1997 and 2002.

There has been some progress in communications in recent years, as the number of telephone lines installed in the country went from 611.1 thousand units in 1991 to 811.6 thousand in 2002. However, telephone density per 100 inhabitants has increased only slightly, from 5.7 in 1991 to 5.9 in 2002. [ONE, 1999 and 2003] Cuba still has one of the lowest per capita number of computers and Internet connections in Latin America and the costs of this service are among the highest in the region. [UNDP, 2004] The Cuban government has banned the personal importation of computers, except in those cases where an official authorization has been given.

Cuba's Difficulty in Integrating into the International Economy

The Cuban economy has always been very affected by the behaviour of its foreign trade. Historically, Cuban exports have set the pace for rest of the economy. In the past few years, however, exports have noticeably decreased, and are now centred on a few primary products of limited value added. In 2002, Cuban exports contributed only 4.6% to the GDP. Sugar industry products accounted for 31.9% of the total, while mining made up 30.8% and the tobacco industry 10.1%.⁴

Over the past four decades, Cuba's foreign trade has shown a persistent trend toward deficits compared with the country's trade balance before 1960. Imports, which shrank during the worst years of the economic crisis, have recovered to a certain extent in recent years, although they declined again in 2002, to 4,129.5 million pesos.

Although more recent figures are unknown because they have not been officially reported, existing figures indicate some interesting changes in the geographic breakdown of Cuba's foreign trade. In 2002, the island's main trading partners were the members of the European Union, which represented 33.4% of Cuba's total foreign trade, followed by Latin American and Caribbean countries with 28.0% of the total. However, a breakdown by individual countries shows that the ten main trading partners were: Venezuela (13.5%); Spain (12.7%); China (10.7%); Canada (8.0%); The Netherlands (6.5%); Russia (6.4%); Italy (5.3%); France (4.7%); Mexico (4.1%); and the United States (3.1%). [ONE, 2003]

It is interesting to note the significant rise of the United States among Cuba's trading partners, considering that this trade consists only of imports (the US economic embargo laws do not allow Cuba to export its products to that country). Sales to Cuba have rapidly increased since 2000, when the American government authorized the sale of food and medicines, provided that the transactions are paid in cash, before the goods are unloaded at Cuban ports. The United States has become the main supplier of food to Cuba,⁵ with products such as live cattle, rice, eggs, chickens, corn and milk, among others. Imports from the United States have risen in recent years, reaching to about 260 million dollars in 2003, the island thus becoming an important buyer of items such as rice, chickens, condensed milk and beans. [Progressive Policy Institute, 2004]

It appears that purchases from the United States have become a political priority for the Cuban government in attaining an end of the economic embargo against the island through the application of pressure in Congress from political groups associated with American farmers. To meet its obligations to US suppliers, payments have been delayed to European and Latin American suppliers; some of these have begun to face serious financial problems, because their businesses are relatively small and are concentrated on Cuba. Nevertheless, considering that the country's international reserves are at minimum levels, it can be assumed that the first destination of foreign currency in the hands of the Cuban economic authorities will be to fulfill agreements with American suppliers.

Cuba's position in the international economy is closely related to its economic structure, the terms of its foreign trade, the role of direct foreign investment, its external financing situation, and the state of its institutions.

As indicated, Cuba's economic structure is built on intensive exploitation of its natural resources using relatively low-skilled labour. The island has been unable to adequately benefit from the competitive advantages of a labour force with relatively high qualifications, and has maintained a high degree of dependency on a few basic products—sugar, nickel and tobacco. As for tourism, Cuba attracts individuals

(...) exports have noticeably decreased, and are now centred on a few primary products of limited value added (...)

of relatively low economic level, and their expenditures do not substantially exceed those included in their tourism packages.

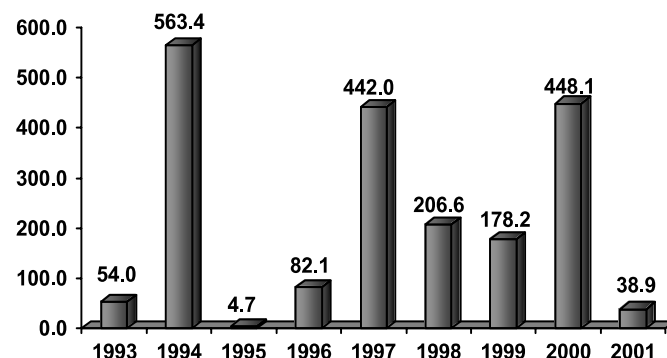
Over the past few years, the current account item of Cuba's international balance of payments has shown a tendency towards chronic deficits. This is due, above all, to the deterioration of the trade balance which, itself, runs a deficit, and to a persistently negative income balance. These are not compensated by the balance of services—traditionally positive—nor by the increasing current transfers, among which include family remittances, which carry a significant weight. [See Table 3]

Calculations from the figures in Table 3 reveal that the coefficient of coverage of exports relative to imports was 57.3% in 1993 and 34.5% in 2002. This indicates that it was increasingly difficult to pay for imports with the proceeds from exports.⁶ On the other hand, the surplus in the balance of services in any of the years included in the table failed to compensate for the deficit in the balance of trade.⁷

The increase in the relative weight of current transfers shows that the Cuban economy is slowly becoming more dependent on foreign donations, especially family remittances. In Cuba, as in several Latin American and Caribbean economies, family remittances have become one of the country's most important foreign currency income items.

Foreign direct investment has fluctuated dramatically over the past few years, and in 2001 it contracted by 94.1%. [See Graph 3]

Graph 3:
Foreign Direct Investment in Cuba (million pesos)



Source: ONE, 1999 and 2003; *Cuba's Annual Statistics*, Havana, 1997 and 2002.

Foreign direct investment in Cuba faces a series of difficulties. One is the uncertainty that results from systematic changes in economic policy, particularly those related to the market. Another is the limitation of the domestic market, which is small, low-income and segmented by Cuba's monetary duality; these characteristics discourage foreign investment in economic activities oriented towards this market. A final difficulty is the external pressure created by the Helms-Burton law.

TABLE 3: Current Account of Cuba's International Balance of Payments (million pesos)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Trade Balance	-847.4	-971.4	-1484.3	-1790.3	-2264.5	-2688.8	-2909.3	-3117.2	-3076.2	-2724.0
Exports of Goods	1136.6	1381.4	1507.3	1866.2	1823.1	1540.2	1456.1	1676.8	1661.5	1436.0
Imports of Goods	1984.0	2352.8	2991.6	3656.5	4087.6	4229.0	4365.4	4876.7	4838.3	4160.0
Balance of Services	476.7	663.8	845.2	1372.4	1519.0	1932.1	2162.7	2223.0	2212.8	2211.0
Balance of Income	-263.8	-422.8	-524.8	-492.6	-482.9	-448.7	-514.1	-622.2	-502.2	-600.0
Current Transfers	262.9	470.2	646.2	743.7	791.7	813.0	798.9	740.4	812.9	820.0
Current Account	-371.6	-260.2	-517.7	-166.8	-436.7	-392.4	-461.8	-776.0	-552.7	-293.0

Sources: ONE, 1999 and 2002; *Cuba's Annual Statistics*, Havana, 1997 and 2001; ECLAC, *Cuba: Economic Evolution in 2002 and Prospects for 2003*, Mexico, 24 July 2003.

A comparison of the officially acknowledged flow of foreign direct investment in the 1997-2001 period with the accumulated balance of income (repatriated profits plus interest) in the same period shows that while the foreign investment accumulated rose to 1,313.8 million pesos, the balance of income accumulated a negative result of -2,570.1 million pesos. Thus, the inflow of investment capital failed to compensate for the outflow of capital.

The lack of international financing is one of the main factors that prevents Cuba from thriving in the world economy. This situation results from Cuba's non-membership in international financial institutions such as the International Monetary Fund, the World Bank and the Inter-American Development Bank. Added to this are the negative pressure exerted on the island by the United States embargo, and Cuba's failure since the mid-1980s to meet its international financial obligations.

Cuba's foreign debt is one of the highest per capita debt levels in Latin America and the Caribbean. [ECLAC, 2003] In convertible currency, this debt has been estimated at about 11 billion dollars, but this figure does not include the debt owed to Russia, which was originally written in rubles, and which has for several years been the subject of litigation.⁸

(...) the reform process started in the 1990s has been reversed (...)

A Difficult International Context

In recent years, Cuba's international relations have deteriorated significantly. Besides the permanent confrontation with the United States (and in spite of the increase of limited trade links between the two countries), Cuba has also had conflicts with the European Union (EU), its main global trading partner. The EU's Common Position regarding Cuba, ratified at successive summits, has made democratization and respect for human rights *sine qua non* conditions for the establishment of closer ties with the island, and for the granting of the advantages enjoyed by less-developed countries in Africa, the Caribbean and the Pacific. On two occasions, the EU's position has led Cuba to decide to withdraw its candidature to join the Cotonou Agreement. The EU's recent eastward expansion has placed additional pressure on Cuba, given the clear undertaking of several ex-communist countries, such as the Czech Republic, to engage with Cuban dissidents.

The subject of human rights and democratic opening has also distanced Cuba from Canada, one of its main trading partners and an important source of direct foreign investment.

Furthermore, this issue has also led to a deterioration of relations with some Latin American countries. Diplomatic incidents have resulted in the breaking of diplomatic relations with Uruguay, and the temporary recall of ambassadors from Mexico and Peru. At the same time, Cuba's ties with Venezuela have been strengthened, and this country is today the island's main trading partner and fuel supplier. Thanks to the excellent political relations between their two governments, the island receives Venezuelan crude oil at preferential prices in return for Cuban support in areas such as public health, education and the training of political activists. Although in recent years the relations with Brazil and Argentina have noticeably improved, following electoral victories of leftist coalitions in those countries, good political relations have not led to preferential economic relations because of these countries' limited commercial interests in Cuba.

To this picture must be added the limitations imposed on the country by the US. The American embargo both prevents the export of Cuban products to the US, and hinders its access to commercial credit. In addition, the Helms-Burton Law affects third country enterprises interested in doing business with Cuba. Nevertheless, even if the American embargo was lifted, it is quite unlikely that Cuban exports could increase significantly because of the structural limitations affecting their supply.

Reversal of Reforms

In the past few years, the reform process started in the 1990s has not only stopped but has been reversed. There have been new trends towards centralization of economic decisions, while the so-called business efficiency system (*sistema de perfeccionamiento empresarial*), put in place in the late 1980s, has not resulted in true economic autonomy for State enterprises.

One example of the trend to centralization is the government's decision to limit access to dollar accounts of Cuban enterprises that operate in foreign currencies. The government decreed that the so-

called convertible peso—denominated as equivalent to the US dollar—must be used for internal transactions by these enterprises. The government also imposed state control over US dollar accounts; the objective of this policy is to concentrate the availability of foreign currency in the hands of the Foreign Currency Central Commission.

Steps have also been taken to reduce self-employment by slowing down the granting of new licenses, or by withdrawing existing ones, for certain types of work. On October 1, 2004, a resolution of the Labour Ministry came into force, suspending the concession of licenses for 40 self-employment activities. The country's authorities justified this measure by indicating that the State is capable of performing those functions. This would show that this type of measure is a response to a specific crisis, rather than a strategic conception of the economy's operating mechanisms aimed at promoting the consolidation of market relationships.

On the other hand, some recent economic policy modifications have weakened fiscal policy, by increasing the fiscal deficit. The fiscal deficit's share of the GDP rose to 3.4% in 2003, from 3.2% in 2002 and 2.5% in 2001. [ECLAC, 2004] The increase in the deficit—which in 2002 was already 996.5 million pesos—is the result of a greater increase in expenditures than in income. Items showing greater increases in 2002 include subsidies for losses posted by enterprises and social assistance.

Also, the salaries of certain labour categories have increased systematically in recent years, in response to the weakened purchasing power of salaries in Cuba. Because there has been no corresponding increase in productivity, these salary increases do not solve the mismatch between income levels and the actual value of the basket of goods and services that meet the needs of the population.

Monetary policy, in turn, is restricted to the control of money through the printing of currency. Other instruments of monetary policy continue to be disregarded, and the use of credit is limited to a certain type of credit for consumption. ECLAC reported a significant decrease in the monetary supply in 2003 (-11.4%) as the population increased its purchases of foreign currency, and term deposits increased while sight deposits and circulating cash

decreased. It is, however, interesting to note that a 5.0% increase in inflation was reported in 2003, following a 7.0% increase in 2002. In a context of monetary supply reductions, it is contradictory that prices should increase. The explanation is that the measurement of inflation in Cuba has a serious defect because it does not incorporate price increases that take place in foreign currency shops, which in fact offer products that are part of the basket of the goods and services needed by the population.

The elimination of the US dollar for internal transactions and its replacement by the convertible peso—currency that was already in circulation in the country, equivalent to the United States dollar—were unexpectedly announced in October 2004. At the same time, the government announced the collection of a 10% tax on dollar sale operations in the country, starting on 15 November of that year. Cuban authorities have declared that the measure is aimed, among other things, at countering the pressures

exerted by the American government, and to recuperate the country's "monetary sovereignty". As this paper was being written, no data had been provided about exchange operations. However, the government has announced that those dollars will serve to back the circulation of the convertible peso, artificially revalued by the previously mentioned tax. If this is the case, the Cuban convertible peso system would resemble the Argentine

convertibility system put into practice in the 1980s. This system's unfortunate fate is known worldwide, and has been severely criticized by many economists on the island.

As long as the Cuban currency is not backed by the production of goods and services that can be sold internationally, it will not be really convertible.

In Summary

At present, Cuba's economic situation offers limited prospects for change. The economy is close to stagnation, but official public statements convey the message that the worst and politically most dangerous moment of the crisis has passed. It is not possible to expect deeper reforms to liberalize and decentralize the Cuban economy as long as the threat of a new collapse is not taken seriously. This lack of action will translate into continued slow rates of economic growth, and even possible recessions.

Monetary policy is restricted to the control of money through the printing of currency

NOTES

¹ Indicator calculated from the geometric median of annual growth figures.

² Note, for example, that in 1910 the sugar industry performance base 96 was 11.95, while that for 2002 was 10.4. [Nova, 2003 and ONE, 2003]

³ Data calculated based on ONE. Anuario Estadístico de Cuba, 1998 and 2002.

⁴ Data calculated based on ONE, 2003.

⁵ Press reports have placed the United States as the island's fifth most important trading partner in 2003. As of this document's drafting date, official figures on Cuba's foreign trade had not yet been published.

⁶ The coverage coefficient of exports related to imports is calculated by dividing the value of exports by the value of imports, and indicates the capacity of the former to sustain the latter.

⁷ The balance of services reflects the income of foreign currency that any country receives for services rendered to others, less outflow for services it receives from other countries. Tourism, travel, professional and financial services are included in this balance. The balance of trade reflects exports less imports of goods.

⁸ The government of the island does not recognize the magnitude of the debt claimed by Russia because of the rouble's non-convertible status before 1990.

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