

SOLDIERS AND BUSINESSMEN: THE FAR DURING THE SPECIAL PERIOD

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Cuba's economic crisis began as a result of the collapse of the Soviet Union and an inefficient management of the economy. This crisis brought uncertainty to the survivability of the Revolution. Soviet subsidies to the Cuban economy could no longer be counted on by the Castro regime. A new focus on economic methods and techniques to sustain the Revolution were being examined by the *Fuerzas Armadas Revolucionarias* (Revolutionary Armed Forces — FAR). In latter part of the 1980s,¹ Defense Minister Raúl Castro sent a team of FAR officers to Europe to study Western techniques of economic management and production. The FAR were gradually assuming the responsibility of guiding the economy in its most difficult of times. The collapse of the Soviet Union ushered in a “Special Period in Time of Peace” as the supreme leader Fidel Castro used the term to signify the economic hardship of the system which called for a new initiative to solve the crisis.

The purpose of this essay is to analyze the FAR's involvement in addressing Cuba's economic crisis. The first part will look at the “special period” and its cause. The second part will review the FAR's management and strategy to address the crisis, e.g., the creation and implementation of *perfeccionamiento empresarial* and the last part will examine the armed forces control of the Cuban economy's two important sectors — tourism and sugar.

SPECIAL PERIOD

Cuba's economic crisis of the early 1990s created concern in the leadership for the survival of the regime. Speculation on the country's total economic collapse surfaced yet the regime saw in the FAR the opportunity to affect the economy's performance by employing new organizational management strategies and techniques.

Fidel Castro, the Commander-In-Chief, made a public pronouncement in January, 1990 forewarning the severe effect that the economic crisis would have on the Cuban populace. He stated,

What does the special period in time of peace mean? That the economic problems would be so serious — because of relations with the countries of Eastern Europe or because of factors or processes in the Soviet Union — that our country would face a situation in which obtaining supplies would be very difficult. Bear in mind that all of our fuel imports come from the USSR and think about what it could mean if such imports were reduced by a third or by one half because of supply difficulties in the USSR or even if they were reduced to zero, a situation that would be equivalent to what we call the special period in time of war...It would not be so grave in time of peace because there would be some possibilities of exports and imports in that scenario.²

1. See Jorge I. Domínguez, “Cuba in the 1980s,” *Foreign Affairs*, Vol. 65, No. 1 (1986), pp. 118-135, for an assessment of the 1980s.

2. “Período Especial,” Ministerio de las Fuerzas Armadas Revolucionarias (MINFAR), (June 29, 2000), <http://www.cubagob.cu/otras_info/minfar/periodo_especial.html>, (translation by the author).

Two underlying factors caused the economic crisis — first, the cut off of external aid and second an inefficient economic model. Jorge Pérez-López points out that “the underlying causes of the crisis are the well known inefficiencies of centrally planned economies, compounded by distortions created by massive inflows of resources from the socialist bloc and the obstinacy of the leadership to undertake the political and economic reforms necessary to overcome the crisis.”³ The “special period” forced a reexamination of the Cuban government’s economic policies and opened the way for the FAR to tackle the crisis by employing Western-styled business initiatives.

PERFECCIONAMIENTO EMPRESARIAL

Before the economic crisis of the 1990s, the Cuban government was examining new methods to make the economy more efficient and productive. The FAR were given the charge of taking control and administering enterprises so that they would implement organizational order to their function and production.

Army Corps General and Minister of the Revolutionary Armed Forces Raúl Castro saw the need to train his top officer corps in management techniques to run enterprises that would in effect be case studies and, depending on their success, would later be transferred to the civilian sectors of the economy. Prior to the collapse of the Eastern European socialist economies, Raúl Castro sent his top officers to Western Europe to train in business methods and practices so that they would later be able to apply them to the Cuban economy. Among those management experts studied were Peter F. Drucker, the late W. Edwards Deming and John P. Kotter.

In his book, *Management: Tasks, Responsibilities, Practices*, Peter Drucker addresses the policies and practices to accomplish managerial tasks. He states, “the manager always has to administer. He has to manage and improve what already exists and is already known. But he also has to be an entrepreneur. He has to redirect resources from areas of low or diminishing results to areas of high or increasing results. He has to slough off yesterday and to render obsolete what already exists and is already known. He has to create tomorrow.”⁴ Meanwhile W. Edwards Deming viewed with importance the concepts of quality and innovation. He articulated the view that “quality is improved in three ways: through innovation in design of a product or a service, through innovation in processes, and through improvement of existing processes. Hard work will not ensure quality. Best efforts will not ensure quality, and neither will gadgets, computers or investment in machinery. A necessary ingredient for improvement of quality is the application of profound knowledge we have in abundance. We must learn to use it.”⁵ And John P. Kotter guides the critical stages of leadership by changing the process of how organizations do business. Kotter believes that “transforming an organization is the ultimate test of leadership, but understanding the change process is essential to many aspects of a leader’s job. Two skills in particular — building coalitions and creating a vision — are especially relevant to our times.”⁶

The concepts and instructions of these management experts were the guiding strategy for FAR officers who applied their methods to the entrepreneurial environment. As Army General Reinaldo Muñoz López states, “we have trained our officials with a broader

3. Jorge F. Pérez-López, “The Cuban Economic Crisis of the 1990s and the External Sector,” in *Cuba in Transition—Volume 8* (Washington: Association for the Study of the Cuban Economy, 1998).

4. Peter F. Drucker, *Management: Tasks, Responsibilities, Practices* (New York: Harper Business, 1993), p. 45.

5. W. Edwards Deming, “Quality and the Required Style of Management: The Need for Change,” *The Journal for Quality and Participation* (1988). <<http://deming.eng.clemson.edu/pub/den/files/reqstyle.txt>>.

6. John P. Kotter, “Winning at Change,” *Leader to Leader*, no. 10 (Fall 1998), <<http://www.pfdf.org/leadersbook/L2L/fall1998/kotter.html>>.

profile, with a much greater understanding of the role of the economy in defense.”⁷

Cuba’s armed forces implemented their own management technique by creating *perfeccionamiento empresarial* (business improvement). By adapting the West’s management methods of business, the FAR began to put into practice their own homegrown business model. *Perfeccionamiento empresarial’s* main objective is to “increase maximum competition and efficiency of the base power, and establish the politics, principals and procedures that propel the development of the initiative, creativity and the responsibility of all managers and workers.”⁸

The Business System of the FAR and the Department of Economic Affairs of the Ministry of Revolutionary Armed Forces (MINFAR) oversee the business enterprises directed by the FAR. Under the direction of officers like Brigadier General Luis Pérez Róspide who headed the *Unión de la Industria Militar* (Military Industries Union — UIM), and Colonel Armando Pérez Betancourt, who is Secretary of the Grupo Gubernamental de Perfeccionamiento Empresarial, the FAR shifted their management experiences into policy action.

The first application of the new management techniques was in the Military Industries Union, a powerful conglomerate of 12 enterprises throughout Cuba. UIM has the “mission to assure the repair of arms and the technology present in land, air, and naval units of the Revolutionary Armed Forces (FAR) as well as their periodic modernization, in accord with advances in technological development worldwide. It also controls a number of factories destined for production of light armament for infantry, ammunition, mines and other diverse outputs. It also develops important production that is commercialized in the in-

ternational and national markets.”⁹ Not only is the UIM involved with the production of military goods, but also it is also into biotechnology, sugar mills and manufacturing pharmaceutical products. “In 1994, the Military Industries Union produced 58 million pesos worth of goods, striving to achieve the principle of financial self-sufficiency. The Union’s policies have enabled the FAR to satisfy a large number of its needs and successfully produce for the civilian sector.”¹⁰ Thus, the Union’s success served as a blueprint for transferring managerial and organizational methods and practices to the civilian sectors of the economy.

MILITARIZATION OF THE ECONOMY

The marginal success of the Military Industries Union gave FAR officers the necessary experience to oversee two important sectors of the economy: sugar and tourism. By placing the FAR in charge of these sectors of Cuba’s economy, the regime assured success to its survivability. In militarizing the management process and modernization of these sectors, the FAR ensured its own economic well being and that of the regime.

Domingo Amuchastegui contends that the FAR “are not militarizing the sectors and institutions to which they have expanded; it is not the regimentation of industries, services or agriculture, but its modernization according to certain models and standards perfectly comparable to those of *fordism*, including direct incentives. Their language is not that of *manu militari*, but of costs and benefits, of necessary layoffs, of responding to market demands of mathematical models, and relying on principles of financial engineering, of computerized systems and complex telecommunications, and not in giving orders or

7. America’s Defense Monitor, “The Cuban Military: An Economic Force,” Video Transcript (January 16, 2000).

8. “Bases generales del perfeccionamiento empresarial,” *Opciones: Semanario Financiero, Comercial y Turístico*, no. 46, Año V (Noviembre 15, 1998), <<http://www.opciones.cubaweb.cu/en39/wanda.html>>.

9. “Industria Militar,” Ministerio de las Fuerzas Armadas Revolucionarias (MINFAR), (June 29, 2000), <http://www.cubagob.cu/otras_info/minfar/industria/industria_militar.htm>.

10. Havana Cuba Vision Network, “Military Industries Increase Items for Civilian Sector,” in FBIS-LAT-95-071 (12 April 1995), <<http://wnc.fedworld.gov>>.

resorting to extra-economic coercion.”¹¹ This modernization of models and standards places an order of improved performance of the slowly recovering sectors of the economy.

In recent years, the sugar industry has suffered great losses. Minister of Sugar Nelson Torres was replaced in 1997 by Division General Ulises Rosales del Toro. This move by the regime was seen as a militarization of the Cuban economy. Jamie Suchlicki comments that “the sector is producing such poor results that there were no other alternatives. It is in part the militarization of the Cuban economy.”¹² Sugar production was at its lowest level in well over 50 years. For the 1997 and 1998 harvests, total production was between 3.1 and 3.2 million metric tons, while exports are believed to have reached 2.4 million tons. For the 1998/1999 harvest, the Cuban government is reporting production in the order of 3.6 million tons. It is estimated that for the 2000 harvest, production will rise to 4.5 million tons.¹³

However, the most lucrative sector of the Cuban economy and for the FAR has been tourism. In 1999, Cuba had 1.6 million visitors and during the first seven months of 2000, there were 1 million visitors.¹⁴ One of the key enterprises in the tourist sector is Gaviota, S.A., dedicated to promoting and commercializing its vast network of services to international tourism. Controlling Gaviota are active and former FAR officers. Gaviota operates and controls the following enterprises: Hoteles Gaviota, Gaviota Tour, Arcoiris, Marinas Gaviota, Via (auto rentals),

Transgaviota (helicopter and small aircraft rentals), Tiendas Gaviota, Parques Naturales Gaviota, Inversiones Gaviota and Commercial Gaviota. At the end of 1998, Gaviota with 7% of existing rooms in the country, was able to capture in its hotels 10% of the island’s visitors.¹⁵

Administering these enterprises and sectors are important players within the FAR command; among them is Division General Julio Casas Regueiro, who directs the Gaviota Tourism Group and is a *raulista*.¹⁶ Frank Mora best sums up the success of military involvement in these enterprises: “rather than this new economic mission contributing to discontent within the FAR, it has offered many active and retired officers the means of protecting themselves from the economic crisis. Not only does the new economic role help ensure the institutional survival of the FAR during the ‘special period,’ but it allows many of its high- and middle-ranking officers to take advantage of emerging and lucrative opportunities in these areas. This partially alleviated the problem of morale and conflict in the military.”¹⁷ By providing these officers with a financial stake in the economic successes of these enterprises, the regime has assured their loyalty, institutional economic self-sufficiency and a direct link between their economic well being and the survival of the Revolution.

Therefore, the Armed Force’s participation in economic activities has been beneficial to the regime as it provides a significant source of revenue from tourism

11. Domingo Amuchastegui, “Cuba’s Armed Forces: Power and Reforms,” in *Cuba in Transition—Volume 9* (Washington: Association for the Study of the Cuban Economy, 1999), p. 112.

12. Rui Ferreira, “Designación de militar genera debate entre expertos,” *El Nuevo Herald Digital* (October 26, 1997).

13. Gary H. Maybarduk, “The State of the Cuban Economy 1998-1999,” in *Cuba in Transition—Volume 9* (Washington: Association for the Study of the Cuban Economy, 1999), pp. 2-3; Pablo Alfonso, “Las ‘mentiras encuadradas’ del Ministro de Azúcar,” *El Nuevo Herald Digital* (Julio 23, 2000).

14. Directorio Turístico de Cuba, “Alcanza Cuba el millón de turistas en el 2000,” (Julio 24, 2000), <http://www.dtcuba.com/esp/news/turismo/240700_T4.asp>.

15. “Grupo Gaviota,” *El Nuevo Herald Digital* (Junio 13, 1999).

16. Raul Castro appointed key supporters loyal to him, thus consolidating his control over the FAR. For an assessment of the civilian control of the FAR see Frank O. Mora, “From Fidelismo to Raulismo: Civilian Control of the Military in Cuba,” *Problems of Post Communism*, vol. 46, no. 2 (March-April 1999), pp. 25-38.

17. *Ibid.*

as well as the enrichment of the officer corps, which creates loyalty to the hierarchy.¹⁸

CONCLUSION

The “special period” brought the FAR a new mission of active management of important economic sectors. The days of foreign campaigns have been replaced with domestic organizational leadership and direction of enterprises.

By adopting Western style management and organizational techniques, the FAR first began its business operation with the Military Industries Union (UIM) and later created its own business improvement model — *perfeccionamiento empresarial*. The success of the UIM was a catalyst to expand into the key economic sectors of the Cuban economy: sugar and tourism. Utilizing the concepts of modernized methods of management and organizational structure, the FAR retooled economic socialist theory with a quasi-capitalist styled one.

The modest success of these economic sectors under FAR control does not resolve the major problem that

the Cuban economy faces. The inefficiencies of centrally planned economies remains Cuba’s major economic hurdle to modernization and the FAR’s management of just two sectors does not sustain the failures of an economy based on this model.

Key officers involved in the FAR’s enterprises are loyal to Raúl Castro and their entrepreneurial successes are linked to the survivability of the regime. They are experienced business leaders who have a vested self and institutional interest in asserting control over the important sectors of the Cuban economy. They have built an economic power-base that will be important during the post-Castro transition period. Combined with their institutional power, they will be key actors in a transitional period. However, the risk that the FAR officers face is that a sole focus on entrepreneurial success that provides a high standard of living for them will erode military readiness and order and foster new loyalties that can be inimical to their interests.

18. Armando F. Mastrapa III, “Evolution, Transition and the Cuban Revolutionary Armed Forces,” in *Cuba in Transition—Volume 9* (Washington: Association for the Study of the Cuban Economy, 1999), p. 117.