THE CUBAN ECONOMY IN AN UNENDING SPECIAL PERIOD

Jorge F. Pérez-López

Speaking to the Cuban nation on November 2, 2001, President Fidel Castro described at length the ongoing world economic crisis, worsened by the September 11 terrorist attacks on New York City and Washington. Castro spoke about its impact on Cuba’s economy, particularly on the external sector, as world market prices for the island’s commodity exports declined and tourists postponed or cancelled vacations because of the slowdown and fear from terrorist attacks. Castro concluded that further belt tightening would be needed, as Cuba had financial obligations that had to be met despite the worsening economic situation: “We will confront the economic crisis and we will win. No sacrifice frightens us, not even giving up our lives. This is very well known. We have withstood sacrifices for many years. Those who thought that the revolution would only last weeks today admire our heroic capacity to resist and move ahead.”

Barely three days after these sobering remarks, Cuba suffered another blow: Hurricane Michelle, a category four storm, directly struck Cuba, crossing the island from south to north through the central provinces. Michelle affected 45 percent of the territory and 53 percent of the population, damaging the nation’s agriculture, transportation, communications and industrial sectors, as well as the already-deteriorated housing stock.

The one-two punch of the world economic slowdown and hurricane Michelle pummeled a Cuban economy already weakened by the loss a decade earlier of trade and economic assistance from the former Soviet Union and the socialist countries. In the early 1990s, Cuba plunged into a deep economic crisis that affected nearly all sectors of the economy and sharply reduced population consumption levels. Consistent with its proclivity to use military symbols to rally the population, the Cuban leadership referred to this economic crisis as “a special period in time of peace,” a national emergency occurring in peacetime but with potential consequences for the survival of the regime as serious as those of a war. After four consecutive years of economic contraction, the Cuban economy began to record positive growth in 1994, a trend that continued through 2001. Nevertheless, Cuban gross domestic product and many other economic indicators have yet to reach their pre-crisis levels.

The fragile recovery of the Cuban economy in the second half of the 1990s is seriously threatened in mid-2002 by several exogenous shocks that have added pressure to an already-stressed external sector, pre-

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1. This paper is a revised and updated version of “El período especial interminable de la economía cubana,” presented at a conference on Cuba sponsored by the Center for International Studies, El Colegio de Mexico, March 15, 2002, forthcoming in Foro Internacional. The paper expresses only the views of the author.


saging the continuation of the special period for the foreseeable future. The first part of the paper reviews very briefly the performance of the Cuban economy in the 1990s. The second part summarizes the Cuban government’s tentative and inadequate policy responses. The third part discusses developments that have complicated Cuba’s economic situation in 2002 and support the proposition that there is no end in sight for the special period.

TEN YEARS OF SPECIAL PERIOD: A LOST ECONOMIC GROWTH DECADE

In August 1990, President Castro declared that Cuba had entered a “special period in time of peace” (periodo especial en tiempos de paz), a severe economic crisis triggered by disruptions in trade with the socialist community. These disruptions manifested themselves in delays and shortfalls in imports of oil, raw materials and machinery from the Soviet Union and the former socialist countries of Eastern Europe and loss of financial assistance from, and markets in, these countries for Cuban exports. As is clear from the data in Table 1, the crisis affected nearly all aspects of the economy. Thus, between 1989 and 1993:

- The gross domestic product (GDP) contracted by 34.8 percent, probably the largest decline over

Table 1. Selected Cuban Economic Indicators, 1989-2000
(in million pesos unless otherwise indicated)

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<td>GDP at constant prices</td>
<td>19578</td>
<td>12768</td>
<td>12868</td>
<td>13185</td>
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<td>0.7</td>
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<td>7.8</td>
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<td>GDP per capita (at constant prices)</td>
<td>1851</td>
<td>1172</td>
<td>1175</td>
<td>1201</td>
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<td>0.8</td>
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<td>Gross domestic investment/GDP (%)</td>
<td>26.7</td>
<td>5.4</td>
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<td>Monetary liquidity/GDP (%)</td>
<td>21.6</td>
<td>73.2</td>
<td>51.8</td>
<td>42.6</td>
<td>41.8</td>
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<td>Budget balance/GDP (%)</td>
<td>-7.3</td>
<td>-33.5</td>
<td>-7.4</td>
<td>-3.5</td>
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<td>Merchandise exports</td>
<td>5400</td>
<td>1137</td>
<td>1381</td>
<td>1507</td>
<td>1866</td>
<td>1819</td>
<td>1512</td>
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<td>Merchandise imports</td>
<td>8140</td>
<td>1984</td>
<td>2353</td>
<td>2883</td>
<td>3659</td>
<td>3987</td>
<td>4181</td>
<td>4349</td>
<td>4849</td>
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<td>Foreign debt (US $ billion)</td>
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<td>8.8</td>
<td>9.1</td>
<td>10.5</td>
<td>10.5</td>
<td>10.2</td>
<td>11.2</td>
<td>11.1</td>
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<td>Sugar cane (000 metric tons)</td>
<td>81000</td>
<td>43700</td>
<td>43200</td>
<td>33600</td>
<td>41300</td>
<td>38900</td>
<td>32800</td>
<td>34000</td>
<td>36400</td>
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<td>Fresh vegetables (000 metric tons)</td>
<td>610</td>
<td>393</td>
<td>322</td>
<td>402</td>
<td>494</td>
<td>472</td>
<td>643</td>
<td>1015</td>
<td>1461</td>
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<td>Cereals (000 metric tons)</td>
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<td>226</td>
<td>300</td>
<td>304</td>
<td>473</td>
<td>545</td>
<td>391</td>
<td>554</td>
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<td>Citrus (000 metric tons)</td>
<td>1016</td>
<td>645</td>
<td>505</td>
<td>564</td>
<td>662</td>
<td>808</td>
<td>713</td>
<td>710</td>
<td>898</td>
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<td>Fish catch (000 metric tons)</td>
<td>192</td>
<td>94</td>
<td>88</td>
<td>102</td>
<td>121</td>
<td>136</td>
<td>134</td>
<td>145</td>
<td>162</td>
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<td>Milk (000 metric tons)</td>
<td>762</td>
<td>328</td>
<td>296</td>
<td>268</td>
<td>273</td>
<td>270</td>
<td>272</td>
<td>291</td>
<td>305</td>
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<td>Sugar (000 metric tons)</td>
<td>7579</td>
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<td>4259</td>
<td>4318</td>
<td>3291</td>
<td>3875</td>
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<td>Nickel (000 metric tons)</td>
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<td>30.2</td>
<td>27.0</td>
<td>42.7</td>
<td>53.7</td>
<td>61.6</td>
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<td>Oil (000 metric tons)</td>
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<td>1108</td>
<td>1299</td>
<td>1471</td>
<td>1476</td>
<td>1462</td>
<td>1678</td>
<td>2136</td>
<td>2695</td>
<td>275.3</td>
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<td>Electricity (billion kwh)</td>
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<td>Cement (000 metric tons)</td>
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<td>1085</td>
<td>1456</td>
<td>1438</td>
<td>1701</td>
<td>1713</td>
<td>1785</td>
<td>1633</td>
<td>-56.6</td>
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<tr>
<td>Steel (000 metric tons)</td>
<td>314</td>
<td>98</td>
<td>148</td>
<td>203</td>
<td>229</td>
<td>335</td>
<td>283</td>
<td>303</td>
<td>327</td>
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<td>Paper (000 metric tons)</td>
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<td>17.0</td>
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<td>11.4</td>
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<td>8.6</td>
<td>-91.6</td>
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<td>Beer (000 hectoliters)</td>
<td>3333</td>
<td>1304</td>
<td>1201</td>
<td>1330</td>
<td>1504</td>
<td>1639</td>
<td>1759</td>
<td>2099</td>
<td>2136</td>
<td>-35.9</td>
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<tr>
<td>Rum (000 hectoliters)</td>
<td>514</td>
<td>388</td>
<td>592</td>
<td>529</td>
<td>476</td>
<td>499</td>
<td>540</td>
<td>603</td>
<td>592</td>
<td>15.2</td>
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<td>Cigarettes (billion units)</td>
<td>16.5</td>
<td>12.2</td>
<td>14.5</td>
<td>12.6</td>
<td>10.7</td>
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<td>13.4</td>
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<tr>
<td>Cigars (000 units)</td>
<td>304</td>
<td>208</td>
<td>186</td>
<td>192</td>
<td>194</td>
<td>215</td>
<td>264</td>
<td>285</td>
<td>241</td>
<td>-20.7</td>
</tr>
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</table>

The Cuban Economy in an Unending Special Period

Figure 1. Cuban GDP Growth Rates, 1989–2000

- a four-year period in twentieth-century Cuba;
- GDP per capita contracted even more sharply, by 36.7 percent;
- Gross domestic investment fell from 26.7 percent to an abysmally low 5.4 percent of GDP;
- Monetary liquidity (cash balances in the hands of the population plus demand deposits) rose from 21.6 percent of GDP to 73.2 percent of GDP as citizens were not able to spend their cash holdings in consumption activities;
- The fiscal deficit mushroomed from 7.3 percent to 33.5 percent of GDP, as losses of state enterprises mounted and the government maintained social services expenditures close to pre-crisis levels;
- Merchandise exports contracted by 78.9 percent and imports by 75.6 percent; and
- The hard currency international debt increased by nearly 42 percent.

Physical production of all key agricultural and industrial products reported in Table 1 (with the exception of crude oil production) fell between 1989 and 1993, translating into sharp reductions in consumption and population standard of living. Of the products listed in the table, particularly significant were the declines in output of paper (89 percent), cement (72 percent), steel (69 percent), beer (61 percent), cereals (61 percent), milk (57 percent) and fish catch (51 percent); production of sugar cane (agriculture) fell by 43 percent and of sugar (industry) by 44 percent.

The economic slide apparently ended sometime around mid-1994, and according to official Cuban statistics, GDP grew by 0.7 percent in 1994. Cuba has recorded positive growth in every year since 1994, although the growth rate has fluctuated significantly from year to year (see Figure 1). Over the period 1993–2000, GDP grew by 29.7 percent, or at an annual average growth rate of 3.8 percent; over a like period, GDP per capita grew by 26.1 percent, or at an average annual rate of 3.4 percent. In 2000, however, Cuban GDP was still 15.4 percent below its
level in 1989—the last year before the economic crisis struck—and GDP per capita 20.5 percent below.

Therefore, the 1990s—the first decade of the special period—was a lost decade for Cuban economic growth and for the standard of living of the Cuban population. As Brundenius and Monreal write: “Even with official projected rates of growth of around 4 per cent per year, the Cuban economy would be back to its pre-crisis levels only by the year 2005. Thus the economic impasse of the 1990s would represent 15 years of lost economic growth for the country.”

The gross domestic investment to GDP ratio, a key indicator of future output growth, also recovered in the second half of the 1990s, climbing from 5.4 percent of GDP in 1993 to 10.8 percent of GDP in 2000. While this was a significant improvement, this ratio’s level in 2000 was significantly lower—by two and one-half times—than its level in 1989 (Table 1 and Figure 2). For comparison, the ratio of gross investment to GDP in 2000 for Latin American and Caribbean countries as a group was 21 percent; for Mexico, 23 percent; for Chile, 22 percent; and for China, 38 percent.

To further illustrate the sharp decline in investment, Table 2 shows the composition of merchandise imports in 1989-2000 by end use categories. In 1989, 10.4 percent of imports were consumption goods, 66.8 percent were intermediate goods for further processing and 22.8 percent were capital goods (investment goods) to support future production capabilities. During 1993-94, the peak years of the economic crisis, the share of consumer goods imports doubled to about 20 percent while the share of capital goods shrank to 3-5 percent. By 1999-2000, capital goods’ share of total imports had risen to over 13 percent, but was still significantly below its 1989 share, while consumer goods’ share was very high at over 20 percent.

In May 1994, the National Assembly of People’s Power adopted a resolution calling for strict discipline in the implementation of the budget law and for reductions in expenditures and increases in revenues at all levels of government. On the expenditures side, the National Assembly directed the Executive to take concrete steps to limit spending across the board, but particularly by reducing subsidies to cover enterprise losses. On the revenue side, the government increased prices of cigarettes and alcoholic bev-

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erages, gasoline, electricity, public transportation and of sending mail and telegrams; effectively increased prices of meals at workplace cafeterias by eliminating subsidies; and began to charge for services formerly provided free, such as school lunches, some medications, and admission to sports and cultural events. Two macroeconomic indicators in Table 1 suggest that the stabilization program instituted in the first half of the 1990s had some success:

- Monetary liquidity declined from the mentioned 73.2 percent of GDP in 1993 to 51.8 percent in 1994, and steadily thereafter, reaching 38.0 percent of GDP in 2000; and
- The budget deficit fell from 33.5 percent of GDP in 1993 to 7.4 percent of GDP 1994—reflecting a remarkable reduction in government spending—and decreased subsequently to 2.0 percent of GDP in 1996, inching up to 2.4 percent of GDP in 1999 and 2000.

Merchandise exports and imports recovered during the second half of the 1990s, with exports growing by 47.4 percent between 1993 and 2000, and imports by 144.4 percent during a like period. The much faster growth of imports relative to exports means that the merchandise trade deficit expanded significantly during this period, from 847 million pesos in 1993 to nearly 3.2 billion pesos in 2000. Although Cuba had very limited access to international credit markets in the 1990s (recall that Cuba defaulted on its hard currency debt in 1986 and credit has been limited to supplier loans and other instruments with very short maturity), the hard currency debt grew from $8.8 billion in 1993 to $11.0 billion in 2000 as a result of the accumulation of interest and shifts in the relative value of currencies in which the debt was contracted.

Turning to specific sectors of the economy, physical production of most items in Table 1 recovered in the second half of the 1990s. Notable exceptions were sugar cane (agriculture), milk, sugar and paper production. Nickel and citrus, two sectors that received foreign capital (in the form of joint ventures between foreign investors and domestic enterprises), showed significant increases in production after 1993, with
nickel output increasing by 136.4 percent—and reaching an all-time high in 2000 of 71,400 metric tons (MT)—and citrus by 39.2 percent. Oil production, another sector that has received foreign investment, continued to set records, reaching an all-time high output level of 2.7 million MT in 2000. For many of the products in Table 1, however, although production levels in 1999-2000 were higher than in 1993, they were still lower than in the pre-crisis year of 1989. This is the case, for example, for cement (2000 level of output was 56.6 percent below 1989), beer (39.7 percent below), and cigarettes (25.5 percent below).

The most successful sector of the Cuban economy in the 1990s has been international tourism. In 1990, 340,000 foreign tourists visited the island, generating $243 million in convertible currency revenue6 (Table 3). While other sectors of the Cuban economy struggled in the early 1990s, the number of international tourist arrivals and tourism revenues increased steadily, with the number of international tourists more than doubling and revenues more than quadrupling between 1990 and 1995. Double-digit annual growth rates in both international tourist arrivals and revenue from tourism were the rule through 1998, albeit starting from a low base. Figure 3 compares the value of exports of the sugar industry (principally raw sugar and molasses) and revenue from international tourism for the period 1990-2000. The figure shows the precipitous drop in the value of exports of the sugar industry in the early 1990s as preferential relations with the former Soviet Union and the Eastern European socialist countries came to an end and the continuing downward trend, at the same time that revenue from tourism expanded steadily. In 1993-94, tourism revenue overtook the sugar industry as the main generator of export revenue.

The tourism infrastructure expanded substantially in the 1990s, with the number of hotel and motel rooms suitable for international tourists nearly doubling between 1990 and 2000 (Table 3). Joint ven-

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6. Cuba produces two series of tourism revenue figures, one that should be more properly called gross revenue from tourism and includes, in addition to visitors’ receipts, revenue from other activities related to tourism such as international communications, aviation, and so on. The second series, more properly called net revenue from tourism, excludes the additional activities. Cuban government officials and some analysts use the series interchangeably, often resulting in incorrect analysis of the situation. See María Dolores Espino, “Cuban Tourism: A Critique of the CEPAL 2000 Report,” in Cuba in Transition—Volume 11 (Washington: Association for the Study of the Cuban Economy, 2001), especially pp. 344-346.

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### Table 3. International Tourism Industry Indicators, 1990-2000

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<td>Tourist arrivals (000)</td>
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<td>424</td>
<td>461</td>
<td>546</td>
<td>619</td>
<td>745</td>
<td>1004</td>
<td>1170</td>
<td>1416</td>
<td>1603</td>
<td>1774</td>
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<td>Growth rate (%)</td>
<td>—</td>
<td>24.8</td>
<td>8.7</td>
<td>18.4</td>
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<td>20.4</td>
<td>20.4</td>
<td>16.5</td>
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<td>10.7</td>
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<td>Convertible currency revenue (million USD)</td>
<td>243</td>
<td>402</td>
<td>550</td>
<td>720</td>
<td>850</td>
<td>1100</td>
<td>1333</td>
<td>1515</td>
<td>1759</td>
<td>1901</td>
<td>1948</td>
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<tr>
<td>Growth rate (%)</td>
<td>—</td>
<td>65.4</td>
<td>36.8</td>
<td>30.9</td>
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<td>29.4</td>
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<td>64.9</td>
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<td>71.7</td>
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<td>Employment (000)</td>
<td>39.7</td>
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<td>43.9</td>
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<td>52.3</td>
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<td>62.8</td>
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<td>1.6</td>
<td>1.5</td>
<td>1.7</td>
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<td>No. of hotels and motels</td>
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<td>347</td>
<td>346</td>
<td>356</td>
<td>331</td>
<td>348</td>
<td>375</td>
<td>400</td>
<td>412</td>
<td>424</td>
<td>431</td>
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<td>Growth rate (%)</td>
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<td>No. of rooms in hotels and motels</td>
<td>18565</td>
<td>20816</td>
<td>23221</td>
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<td>27236</td>
<td>29161</td>
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<td>36252</td>
<td>37178</td>
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<td>Growth rate (%)</td>
<td>—</td>
<td>12.1</td>
<td>11.6</td>
<td>4.5</td>
<td>2.6</td>
<td>9.5</td>
<td>7.1</td>
<td>6.5</td>
<td>12.3</td>
<td>3.9</td>
<td>2.6</td>
</tr>
<tr>
<td>Daily lodging capacity in hotels and motels</td>
<td>37740</td>
<td>41633</td>
<td>44956</td>
<td>49433</td>
<td>50410</td>
<td>50562</td>
<td>59350</td>
<td>62674</td>
<td>70222</td>
<td>74620</td>
<td>75869</td>
</tr>
<tr>
<td>Growth rate (%)</td>
<td>—</td>
<td>10.3</td>
<td>8.0</td>
<td>10.0</td>
<td>2.0</td>
<td>0.3</td>
<td>17.4</td>
<td>5.6</td>
<td>12.0</td>
<td>6.3</td>
<td>1.7</td>
</tr>
</tbody>
</table>


The Cuban Economy in an Unending Special Period

Figure 3. Sugar Exports and Tourism Revenues, 1990–99 (million pesos)


tures with foreign investors have been a key source of capital, management and markets for the international tourism industry. According to statistics of Cuba’s Ministry of Foreign Investment and Economic Cooperation, out of 392 joint ventures between foreign investors and Cuban enterprises active at the end of 2000, 70 (or about 18 percent) were in the tourism industry.7

ECONOMIC REFORMS—OR LACK THEREOF?

Cuba’s macroeconomic situation in the early 1990s was dismal: large government budget deficits, very high levels of repressed inflation (expressed through physical shortages and rampant black markets, including a hard currency black market), large monetary balances in the hands of the population, serious balance of payment imbalances, and inability to borrow in international markets.

The Cuban government’s initial response to the economic crisis brought on by the disruption of economic relations with the socialist countries was an economic austerity program to conserve energy and raw materials; a national program to increase food production; renewed efforts to secure new markets for exports; a campaign to attract foreign investment, particularly in the tourism industry; and some management reforms.8 At that point in time (1990), the Cuban leadership could not come to terms with the proposition that the political and economic changes that were occurring with lightning speed in Eastern...
Europe and the former Soviet Union were irreversible, and still harbored the illusion that the status quo ante of trade and economic support from the socialist bloc would be reestablished. The inadequacy of the initial Cuban government response—which lacked any meaningful policy reforms—is evident from the official statistics reported in the previous section.

**Reform Measures**

In the summer of 1993, the Cuban government began to take some policy actions to stabilize the economy, selectively liberalize segments of the economy and introduce some structural changes. Additional actions were taken the following year, but the pace of change slowed down subsequently. The policy reform actions taken during the 1990s are described briefly below more or less in chronological order.

**Legalization of the Holding and Use of Foreign Currencies:** In the summer of 1993, Cuba decriminalized the holding and use of hard currency by Cuban citizens. The purpose of this action was two-fold: (1) to stem the booming hard currency black market; and (2) to stimulate hard currency remittances to Cuban citizens by relatives and friends living abroad in order to close the balance of payments gap. To give concrete meaning to this so-called “dollarization” policy, the government created special stores at which individuals holding hard currencies could shop for items not available to Cubans holding pesos and liberalized travel to the island by relatives and friends of Cuban citizens. Later, the government created foreign currency exchange houses (Casas de Cambio, CADECA) at which Cuban citizens could exchange hard currencies for pesos at rates close to those prevailing in the hard currency black market and facilitated remittances by easing the procedures for receiving foreign funds and allowing private foreign companies to carry out some of the transactions.

**Self-Employment:** In September 1993 the Cuban government authorized self-employment in over 100 occupations, subject to some restrictions. The authorized occupations spanned home repair and transportation, agricultural and personal services. Among the restrictions on self-employment were, for example, that professionals holding a university degree could not become self-employed; similarly, since education and public health services continued to be supplied by the state, physicians, dentists, teachers, professors and researchers were excluded from self-employment altogether. Candidates for self-employment had to request a license, could not hire others, had to pay fees and taxes to the government, and were restricted how they sold the goods or services they produced. The list of occupations amenable to self-employment was expanded in October 1993 and in June 1995, bringing the total number of authorized occupations to 140.

**Agricultural Cooperatives:** Also in September 1993, the Council of State approved breaking up large state farms into Basic Units of Cooperative Production (Unidades Básicas de Producción Cooperativa, UBPC). These UBPCs would have the use of the land they worked for an indefinite period of time, own the output they produced, have the ability to sell their output to the state through the state procurement system (acopio) or through other means, have their own bank accounts and be able to elect their own management. The rationale for the policy change was that the shift from state farms to cooperatives would give workers greater incentives to increase production with the least expenditure of material resources.

**Tax Code:** In August 1994, the National Assembly approved a new and very broad tax code, to be implemented gradually beginning in October 1994. The new system levies taxes on the income of enterprises, including joint ventures with foreign investors, as well as on the value of assets owned; earned income; sales; consumption of products such as cigarettes, alcoholic beverages, electro-domestic appliances and

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established the Cuban Central Bank (Banco Central de Cuba, BCC) as an autonomous and independent entity and assigned to it traditional central banking functions; the BNC was restructured to perform strictly commercial banking functions. Decree-law No. 173, passed at the same time, set out the legal framework for registration and operation of commercial banks and financial institutions under the supervision of the BCC.

Are the Reforms Adequate?

To summarize, in 1993 and 1994, Cuba took some steps to reduce the state’s role in the economy by legalizing the use of foreign currencies, liberalizing and expanding self-employment, reforming the structure of agricultural production and allowing the creation of some private marketplaces. In 1995-96 it liberalized foreign investment and created export processing zones. The Cuban government also took some tentative steps to restructure the economy, establishing a tax code in 1994 and reforming the banking system in 1997. Cuba has not undertaken liberalization measures since 1996, and those in 1995 and 1996 were tightly focused on foreign investment.

The combination of stabilization measures and policy reforms that Cuba implemented in the 1990s has been successful in keeping Cuba’s socialist government in power and permitting it to maintain a tight grip on the polity of the nation. But the patchwork of reforms has been inadequate to return the population to the already-meager levels of income and consumption of the late 1980s and to lay the groundwork for sustainable future economic growth. Ominously, the relative economic improvement in the second half of the 1990s strengthened the hand of those who favored maintaining the political and economic status quo and paralyzed essential structural reforms. Ritter argued in 1998 that the reform process, in the sense of further liberalization of institutions and policies, had ceased and a case could be made that the process not only had been aborted but had in fact been put into reverse.10

Rather than following a blueprint to reform its economy to improve efficiency and compatibility with the world economy, the Cuban government has instead followed a piecemeal approach, seemingly only adopting policy changes reluctantly when faced with crisis, and undermining their application by contradictory actions and reversals. The Cuban government has postponed politically-sensitive measures such as restructuring of state enterprises, authorization of the creation of small businesses, liberalization of prices, and labor market reforms that although beneficial for the economy would also arguably either create unemployment and dissatisfaction among the population or reduce the grip of the state on productive resources.  

SPECIAL PERIOD IN TIME OF UNCERTAINTY  
At the end of 2000, the Cuban leadership could look back to seven consecutive years of positive economic growth, a nearly-miraculous turnaround for an economy widely believed to be on the ropes in the early 1990s. For 2000, Cuba reported a GDP growth rate of 5.6 percent and an average GDP growth rate of 4.6 percent for 1996-2000, a very respectable performance within Latin America. Cuban journalists highlighted the broadness and stability of the recovery, as did also a report by the Banco Central de Cuba. The latter report hinted that the special period might be over:

The Cuban economy has, therefore, followed an intense path of transformations during the last decade in order to achieve a substantial increase of efficiency, the opening to and insertion into the world economy, the creation of spaces for new economic players, the correction of the internal and external imbalance and entrepreneurial improvement. … After these years of Special Period, and with the end of the decade, there is a steady trend toward economic recovery begun at the end of 1994, with an average growth of 4.7 percent, higher than the 3.0 percent achieved by Latin America.  

Writing in April 2001, a journalist was more definitive, attributing the overcoming of the economic crisis to the Cuban people’s “discipline, pride and mass consciousness.”

For 2001, according to Minister of Finance and Planning José Luis Rodríguez, the GDP growth target was 5.0 percent; while recognizing the positive economic performance during 1995-2000, Rodríguez warned that the recovery was entering a new phase in which the emphasis would be on increasing efficiency in an adverse external economic environment. Other economic targets for 2001 were a 20 percent increase in merchandise exports; a 4 percent increase in merchandise imports; arrival of 2 million foreign tourists and a 14 percent increase in revenue generated by tourism; a sugar harvest of 4 million tons; growth of 5.7 percent in nickel output; a 26 percent in oil production (to 3.4 million MT); and a 10 percent growth in non-sugar agriculture.

Preliminary results suggest that most of the 2001 goals were not met.
• GDP grew at a rate of 3.0 percent, compared with a projected 5 percent growth rate, and GDP per capita grew by 2.6 percent;

• Value of merchandise exports fell by 1.5 percent (compared to a projected 20 percent growth) and imports fell by 1.7 percent (compared to a 4 percent projected growth rate);

• International tourist arrivals were essentially flat in 2001 (compared to a projected growth rate of 12.7 percent) and gross tourism revenue declined by 10 percent (compared to projected growth of 14 percent);

• Sugar production was 3.5 million MT, a 500,000 MT or 12.5 percent shortfall from projections;

• Crude oil production was 2.9 million MT, another historical high, and 7.5 percent above 2001 level, but short of the projection;

• Nickel production was 76,500 MT, a new record high, 7.1 percent above the 2000 level of 71,400 MT (the projected growth rate had been 5.7 percent); and

• Output of the agricultural sector overall declined by 1.7 percent (a 10 percent growth in non-sugar agriculture had been projected).

The disappointing performance of the economy in 2001 can be attributed to the inefficiency of Cuba’s socialist economy compounded by a severely worsened external economic environment: a global economic slowdown, the terrorist attacks of September 11 and the war against international terrorism waged by the United States and its coalition of allies, and a major hurricane that affected a large portion of the national territory. Cuba may well have entered a “special period in time of uncertainty”: a continuation of the special period in time of peace but in an environment fraught with uncertainty.19

**The Global Economic Slowdown**

Even before the tragic September 11 events, the World Tourism Organization had revised down its estimates of industry growth to 2-3 percent as a result of the deceleration of the world economy and waning consumer confidence.20 World market prices for sugar and nickel, Cuba’s main export commodities, also weakened markedly in 2001: sugar world market prices, which had been around 10 cents/pound in the second half of 2000 and first quarter of 2001, fell to about 9 cents/pound in the second quarter of 2001, 8 cents/pound in the third, and 7 cents/pound in the fourth; nickel prices, which averaged $8638/metric ton in 2000, declined to $6551/metric ton in the first quarter of 2001, $6477 in the second quarter, $5495 in the third quarter, and $5056 in the fourth quarter.

The global economic slowdown also affected foreign direct investment (FDI). Worldwide FDI fell sharply in 2001, declining by 40 percent from $1,271 billion in 2000 to $760 billion in 2001. FDI into Latin America and the Caribbean fell for the second consecutive year, to $80 billion in 2001 from $88 billion in 2000 and $105 billion in 1999.21 According to journalists who have had access to an unpublished report by the Banco Central de Cuba, FDI in Cuba amounted to $38.9 million in 2001, compared to $488 million in 2000, a 92 percent decline.22

**The Post-September 11 Shocks**

**Further Reductions in Tourism:** The aftermath of the terrorist attacks compounded the woes of Cuba’s

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tourism industry, particularly coming at a time when the island was preparing for the high tourist season, the time of the year when it receives the largest number of tourists. Gross revenue from tourism in 2000 was over $1.9 billion based on 1.774 million tourists and in 2001 about $1.8 billion based on 1.775 million tourists. The projected two million tourist arrivals would have meant revenue of about $2.2 billion (assuming the same expenditures per tourist as in 2000) and therefore actual revenues in 2001 were about $400 million off from the projection.

**Slowdown in Remittances:** Unrequited transfers to Cuba amounted to $799 million in 1999, $842 million in 2000 and an estimated $850 million in 2001. The bulk of these transfers—about 85 percent, according to estimates by the Comisión Económica para América Latina y el Caribe (CEPAL)—and the fastest growing segment are private remittances from the United States. Even before the September 11 attacks, the slowdown in the U.S. economy had affected the flow of remittances. As U.S. companies adjusted to slower demand for their goods and services, cutting back on overtime and laying off workers, income of the remittance-sending population declined. This tendency became even sharper after September 11 for two reasons: (1) the slowdown of the U.S. economy intensified; and (2) particularly hard hit was the U.S. tourism industry, a significant industry in South Florida, where the bulk of the remitters are believed to reside. CEPAL estimates that remittances actually turned down in 2001, to $730 million from $740 million in 2000.

The importance for Cuba of family remittances is evident in the public commitments President Castro made on November 2—as he prepared the population for more belt-tightening—when he pledged that despite the economic difficulties facing the nation: (1) the currency exchange outlets (CADECAS) would not be shut down; (2) all deposits in the banking system, whether denominated in pesos, convertible pesos or dollars would be absolutely respected; (3) hard currency stores would not be shut down; and (4) agricultural markets would continue to operate. With these commitments, Castro hoped to raise the confidence of the remittances-sending community that recipients in the island would continue to be able to make use of the funds they received from abroad to gain access to products and services not available in peso-denominated markets.

**Enhanced Controls on International Financial Flows:** One of the elements of the global campaign to root out international terrorism is to deny it financial means. The United States has taken a number of steps to freeze assets that terrorist organizations held in U.S. financial institutions. Several multilateral initiatives are also under way. While these actions do not directly involve Cuba, increased surveillance and control of international financial flows could have an adverse indirect impact on the island since they might affect investments of questionable origin.

Through 1995, 31 of the 212 joint ventures with foreign investors (15 percent) were reported by the Cuban government to involve capital originating from so-called “tax havens,” nations whose financial systems are not transparent and where the identity of depositors and the source of their deposits are safeguarded by banks and financial institutions. Drug traffickers and other criminals are believed to use tax

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The Cuban Economy in an Unending Special Period

havens to “launder” illicitly-generated funds and direct them to legal operations. There is scattered information that suggests that some of the foreign capital flowing to the island and invested there has originated from illicit sources.28

**Russian Withdrawal from Lourdes Base:** In mid-October 2001, Russian President Putin announced that Russia would close down its electronic eavesdropping center in Cuba before the end of the year.29 In addition to the political implications for Cuba-Russia relations of the unilateral Russian withdrawal, it also had financial implications, as Russia reportedly paid Cuba about $200 million per annum for the use of the facilities. This represented a significant inflow of foreign exchange to the island and its termination “obviously has an [adverse] impact” for the nation, according to Cuban economist and National Assembly member Osvaldo Martínez.30

**Hurricane Michelle**

In the afternoon of November 4, Hurricane Michelle made landfall near Soplillar, a small town in the southern coast of Matanzas province near the Bay of Pigs. After landing, Michelle turned east and crossed the island at a slow pace, exiting on Monday morning, November 5, through the northern coast of Matanzas-Villaclara provinces, near the town of Corralillo.

According to Vice President Carlos Lage, Hurricane Michelle pummeled Cuba with sustained winds of 130 mph, with gusts of 155 mph. The diameter of the hurricane was about 310 miles. It affected eight western provinces (Pinar del Río, Ciudad de la Habana, La Habana, Matanzas, Cienfuegos, Sancti Spiritus, Villa Clara and Ciego de Avila) plus the special municipality of the Island of Youth. The affected provinces account for 45 percent of the territory and 53 percent of the population of the nation.31 The hurricane caused significant damage to the sugar industry, non-sugar agriculture, industry, housing and infrastructure. In mid-December 2001, President Castro reported that the losses to the nation caused by Michelle amounted to 1,866 million pesos,32 or about 6 percent of GDP in 2001.33

**Sugar industry:** Hurricane Michelle’s strong winds affected over 590,000 hectares of sugarcane plantings, or 54 percent of total sugarcane plantings.34 Sugar crop losses associated with the hurricane have been estimated at 120 million pesos.35 Fidel Castro has stated that sugar exports would decline by 400,000 tons, valued at $60 million.36 There is no systematic information on damages to sugar mills and other sugar industry facilities resulting from Michelle, but there are reports that the roofs of 99 of

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the 100 sugar mills in the provinces affected by the hurricane were damaged.\textsuperscript{37}

**Non-sugar agriculture:** Hurricane Michelle damaged citrus production areas in the Isle of Youth before squarely hitting Jagüey Grande, in Matanzas province, the nation’s premier citrus production area. Michelle also flattened plantain plantings and affected other crops and agricultural equipment. Losses to the agricultural sector inflicted by Hurricane Michelle amounted to 260 million pesos, and the costs of remediating the effects of the storm to 317 million pesos.\textsuperscript{38}

**Industry:** In all, 780 industrial plants were damaged throughout the country.\textsuperscript{39} The electricity distribution and communications systems were also severely affected by the hurricane. Michelle brought down 125 high-voltage electricity transmission towers in the center of the island, a large microwave retransmission tower associated with the telephone and television systems located near Jovellanos and two television towers, one in Cienfuegos and the other in Santa Cruz del Norte.

**Housing:** The already deteriorated housing stock was severely affected by the hurricane. President Castro has reported that the hurricane damaged 166,515 housing units, totally destroying 12,579 of them.\textsuperscript{40}

**Infrastructure:** About 500 schools and over 80 public health centers were damaged.\textsuperscript{41}

**Prospects for 2002 and Beyond**
The economic picture for 2002 and beyond is not a promising one for the average Cuban citizen. The growth rate goal for 2000 has been set at 3 percent, the same rate reached in 2001. There is every indication that it will be a challenge to achieve even this relatively low growth rate given the aftermath of Hurricane Michelle and the very serious hard currency crisis facing the nation. As President Castro stated in an intervention before the National Assembly in December 2001,

> The most serious problem that our country will face in 2002 will be convertible currency revenue. This is not a new problem—we have been facing convertible currency deficits for the last decade of special period, but today we face a very different international situation, a world dominated by a single super power and numerous risks and dangers that threaten humanity.\textsuperscript{42}

Vice President Carlos Lage reported to the December 2001 session of the National Assembly that the factors that were pressuring the external sector were heavy indebtedness associated with the borrowing of funds in previous years to finance oil imports and the unfavorable performance of the five principal sources of foreign exchange: (1) tourism (reduced tourist arrivals); (2) sugar (damage to sugar cane crop from Hurricane Michelle and low world market prices); (3) nickel (low world market prices); and (4) tobacco (reduced world demand).\textsuperscript{43} The fifth source of income—not mentioned in the article—was undoubtedly family remittances.

Another source of pressure on the Cuban balance of payments is the rise in the price of oil in the world market and the apparent breakdown of the bilateral agreement between Cuba and Venezuela, signed in October 2000, that provided the island with 53,000 barrels per day of Venezuelan crude under preferential terms. After falling to $19 to $21 per barrel in the fourth quarter of 2001 and first quarter of 2002,

\begin{itemize}
  \item \textsuperscript{37} “Adelantan el inicio de la próxima zafra,” \textit{El Nuevo Herald} (21 November 2001), \texttt{www.elherald.com}.
  \item \textsuperscript{38} “Tenemos soluciones para cada situación,” \textit{Granma} (19 December 2001), \texttt{www.granma.cubaweb.cu/2001/12/20/nacional/articulo12.html}.
  \item \textsuperscript{39} Pablo Alfonso, “Cuba: El duro azote del huracán,” \textit{El Nuevo Herald} (9 November 2001), p. 1A.
  \item \textsuperscript{40} “Tenemos soluciones para cada situación,” \textit{Granma} (19 December 2001), \texttt{www.granma.cubaweb.cu/2001/12/20/nacional/articulo12.html}.
  \item \textsuperscript{41} Pablo Alfonso, “Cuba: El duro azote del huracán,” \textit{El Nuevo Herald} (9 November 2001), pp. 1A.
  \item \textsuperscript{42} Fidel Castro, intervention before the National Assembly, as given in María Julia Mayoral, Félix López and Juan Varela Pérez, “Lidiaremos con éxito contra todas las tempestades,” \textit{Granma Digital} (22 December 2001), \texttt{www.granma.cubaweb.cu}.
  \item \textsuperscript{43} Mayoral López and Varela Pérez, “Lidiaremos con éxito contra todas las tempestades.”
\end{itemize}
international oil prices climbed in the second quarter again to over $25 per barrel. In April 2002, Venezuela’s state owned oil company, Petróleos de Venezuela, S.A. (PDVSA), reportedly suspended oil sales to Cuba because of the island’s failure to pay for earlier deliveries. According to press reports, Cuba’s debt to PDVSA in April 2002 amounted to nearly $130 million. Indications were that PDVSA was prepared to continue to sell oil to Cuba, but was considering asking for payment in advance of the deliveries to prevent Cuba from running up the unpaid oil debt.44

Finally, as a result of the shortages of foreign exchange, the value of the Cuban peso in official exchange markets deteriorated by 22.7 percent in 2001, falling to 26 to 27 pesos to the dollar at the end of 2001 from 21-22 pesos to the dollar at the beginning of the year.45 In late May 2002, Cuba announced a general increase in prices of products sold at government stores that use hard currencies (Tien- das Recaudadoras de Divisas) ranging from 10 to 30 percent. This action was taken to soak up dollars from the population and presumably also to stimulate additional family remittances.46

The long-term prospects of the Cuban economy hinge on whether the current economic model is maintained or is reformed to bring it closer to a market economy. The current economic model is simply not capable of generating sustained economic growth in the medium and long term.47 Further liberalization and restructuring of the economy are essential for generating vigorous and sustained future economic growth.

CONCLUDING REMARKS

The decade of the 1990s was a challenging one for the Cuban economy, weaned suddenly from the subsidies and preferential economic relations it had enjoyed with the former Soviet Union and the socialist countries for three decades. In 1990, Cuba entered what the leadership called a special period in time of peace as it tried to stop a free falling economy. Cuba began to generate positive economic growth in 1994 and has done so for the last eight consecutive years. By the end of the decade, most economic indicators showed improvement from 1993-94 levels, although they were considerably below their 1989 levels. Thus, the 1990s were a lost decade for Cuba in terms of economic growth.

During the economic crisis of the 1990s, Cuba neglected investment in favor of consumption. This priority is readily observable in the low share of capital goods’ imports relative to consumption goods. The insufficient levels of investment will redoubt in low growth rates in the future and the inability to pull the economy out of the low-growth trap in which it currently operates.

In 2002, Cuba faces an economic conundrum: a weak recovery after a deep economic crisis and very tight constraints on external resources, worsened by external shocks such as the world economic slowdown, the September 11 terrorist attacks, the Russian withdrawal from the Lourdes Radar Base and Hurricane Michelle. Absent meaningful reforms that liberalize and restructure the economy, there is no end in sight for the special period. Until such reforms take place, the Cuban population will continue to experience economic hardships.

44. Pablo Alfonso, “Cuba tendrá que pagar por adelantado el crudo de Venezuela,” El Nuevo Herald (7 July 2002).
47. This point is also made by Brundenius and Monreal: “...in the absence of economic reforms directed towards the development of a sizable domestic non-state productive sector, sustained high economic growth should not be expected in Cuba.” Claes Brundenius and Pedro Monreal González, “The Future of the Cuban Model: The Longer View,” p. 148.