

CUBA—A GLANCE AT THE FUTURE: CHALLENGES AND OPPORTUNITIES

Oscar A. Echevarría

This paper reflects on several considerations to explain why Cuba is embarking on economic change and possible outcomes, presents two questions about the economic policies of Fidel and his protégée, Hugo Chávez, and ends with some thoughts about Cuba’s future once political and economic freedom finally returns to the island.

WHY CUBA WILL CHANGE

There are two main drivers behind the announced economic policy changes: first, because the “wardens” of this Island Prison have ordered it and second, because the realities of a failed economy.

The “wardens” recognition of the need to change can be summarized in a few basic points:

- “The Cuban model does not work even for us” (Fidel Castro interview by Jeffrey Goldberg and Julia Sweig, August 29, 2010).
- “We need to erase forever the notion that Cuba is the only country in the world where you can live without working.... eliminating the paternalistic approaches that curtail the need to work to live” (Raúl Castro, Fifth Ordinary Session of the Legislature, August 1, 2010).
- “[To solve].., the endemic scarcity of construction, agricultural and manufacturing workers, teachers, policemen and other occupations that are slowly disappearing. We know there is a surplus of hundreds of thousands of workers in the budgeted and enterprise sectors; some analysts estimates the surplus in excess of one million persons (Raúl Castro, Closing Session of the IX to increase productivity and thus income; sav-

Congress of the Union of Communist Youth, April 4, 2010).

The economic disaster is demonstrated by statistics in Tables 1, 2 and 3: strict commodity rationing, deterioration in the standard of living of the population and extremely high number of hours that a worker must labor in order to be able to be able to purchase basic goods, and a very negative external sector situation.

Table 1. Rationing Book

Product	Monthly Quota per Person
Rice	6 pounds (2.7 Kg)
Beans	1.25 pounds (570 g)
White sugar	3 pound s (1.35 Kg)
Raw sugar	3 pound s (1.35 Kg)
Milk (children up to age 7)	30 liters
Eggs	12
	Pounds per capita alternating every fifteen days:
Meat products	
Beef	0.5 pounds (227 g)
Chicken	1 pound (455 g)
Sausages	25 g
Salami	0.5 pounds (227 g)
Ground meat	0.75 pounds (340 g)
Fish	1 can (425 g)

Source: Mario González-Corzo and Susel Pérez, Análisis comparativo del poder adquisitivo en Cuba, ICCAS, University of Miami, May 2009.

The economic reforms proclaimed by Raúl Castro’s government will not work because:

- No country can develop on the basis of subsistence labor of craftsmen, street vendors, and roaming technicians. Progress requires enterprises with adequate capitalization to workers ratios; and capital endowment.

Table 2. Deterioration of the Standard of Living

Hours of Work for a Worker to Purchase	Cuba	Costa Rica	Honduras	Dominican Republic	Average 3 countries	Cuba/Average
1 lb (460 g) butter	42.6	2.1	2.9	3.8	2.93	14.52
400 g powdered milk	57.5	1.1	5.4	11.4	5.97	9.64
1 lb (460 g) chicken meat	15.8	2.1	1.8	4.5	2.8	5.64
1 lb (460 g) pork chops	20.5	1.9	3	4.2	3.03	6.76
1 lb (460 g) lard	20.5	0.6	1.2	16.2	6	3.42
1 lb (460 g) yellow onions	7.5	0.3	0.9	3.8	1.67	4.5
1 lb (460 g) white potatoes	8.5	0.3	0.9	2.3	1.17	7.29

Source: González-Corzo and Pérez, op cit.

Table 3. Destruction of Its Economic Independence

Concept	1958	2008	2008/1958
Exports	\$6,138,520	\$3,134,866	0.51
Imports	\$5,873,280	\$8,338,294	1.42
Population	6,563,000	11,500,000	1.75
Exports/capita	\$935.32	\$272.60	0.29
Imports/capita	\$894.91	\$725.07	0.81
Trade Surplus	\$265,240	-\$5,203,428	-19.62
Trade surplus/capita	\$40.41	-\$425.47	-11.20

Source: United Nations Data Base.

- The unemployed have no capital to build micro enterprises.
- Excessive regulations; defining the 180 or so allowed occupations discourages creativity.
- Very high (40%) taxes discourage initiative.
- Shifting 35% of the labor force to unemployment or to the informal economy would put Cuba in this regard below all the countries of the Euro Zone.

Two Questions About the Present

If China has achieved economic progress while the Communist Party maintains political control, why did Fidel not adopt China's reforms?

- By accepting private property and initiatives, China has achieved an average GDP growth of 10% per annum since 1990, resulting in three- and two-fold increases for the urban and rural population, respectively.
- China's private sector represents over 70% of China's economy.

Why does Hugo Chávez subsidize, adopt and promote Cuba's failed economic model? Hugo Chávez has devoted \$1,000,000 million in subsidies to Cuba and other ALBA countries to promote his Socialism of the XXI Century in Latin America and expropriat-

ed well run companies in Venezuela, but a few indicators suffice to expose his failures.

- According to *Petroleum Weekly*, in 1998 PDVSA was the second most valuable oil company in the world with 45,000 employees; today it has 100,000 employees producing 70% of what it used to in 1998.
- All the expropriated companies and land produce now less than when they were in private hands.
- Inflation at 25.1% is the highest in Latin America (2009) and second highest in the world.
- The public debt has grown from \$32.484 million when Chávez became President to \$125,000 million today.
- The housing deficit is 2.5 million units.
- According to DATOS, a very reputable market analysis firm, the income of the two lowest income categories, has dropped by 14% and 13% respectively.
- The number of homicides rose from 4,500 in 1998 to 21,132 in 2009 and 26,893 kidnappings

CONSIDERATIONS AND DIRECTIVES FOR THE FUTURE

"Plans for Cuba after Castro" are being written or being worked on by numerous government agencies and at headquarters of corporations with a current or future interest in Cuba's economy. I believe that while such documents contain valuable information and ideas, any approach to rebuilding Cuba after Castro's death should be guided by Russell Ackoff's dictum that "Planning is a Process" not a manual. My other self-evident proposition is that no one has a "crystal ball" or "killer solution" for the reconstruc-

tion of Cuba, so the process must rely on the experiences, talents and efforts of many.

Other points to consider for building the Cuba of the XXI Century include:

- We must gain the collaboration of the armed forces, public servants and managers and workers of state enterprises.
- No one should be “guilty by association” (e.g., by virtue of membership in the Communist Party, communist youth or armed forces) but rather based on acts of personal responsibility.
- Agreements with foreign companies should be respected and reviewed according to international law, avoiding measures that might discourage international investments.
- It is critical to build a legal structure that encourages and guarantees entrepreneurship, encourages savings and investments, and promotes the participation of the exile Cuban community which has capital to join up with those in the island to take economic initiatives.
- Property rights and restitution of confiscated assets should be reconciled with the need to obtain the maximum return on fixed assets, real estate and natural resources.

Since 1959, information on the status of the Cuban economy has been incomplete to say the least and at times outright untruthful and deceptive. References to pre-Castro Cuba as a benchmark and current data generated by Cuban dissidents and the international community have facilitated analysis of Cuba’s economic pursuits after Castro.

The following suggestions are based on review a review of contributions presented at the annual meetings of the Association for the Study of the Cuban Economy (ASCE) and other sources. As with any effort such as this one, there are probably worthy con-

tributions that have escaped us. We apologize for the oversight and welcome any rejoinders. To supplement the “desk research” involving published sources, I also requested ideas from fellow Cubans actively engaged in business in Latin America and the United States. I am very grateful to all who responded to my inquiries.¹

Agriculture

Citrus. According to Perry and Woods, if investments in inputs such as fuel, fertilizer, tools, replacement parts and new equipment were made, “an output level of 1.6 million tons of citrus fruits per annum...appears to be a reasonable post-transition, short-term target,”² exceeding the peak reached in the early 1990s of approximately 1 million metric tons. This target would put Cuba on par with Argentina as the 8th largest citrus producer in the world.

Sugar. Although Cuban sugar production has declined severely in the last 20 years and about half of the industrial production capacity has been dismantled, the industry might hold some promise due to new trends that “range from special sugars and rum to the commissioning of power plants to burn ‘bagasse’ residue. Both can be used in combination with imported coal to produce energy for Cuba and ethanol for blended fuel,”³ as “sugar is switching from being a food commodity to one strongly influenced by ethanol production.”⁴ This latter idea is supported by the fact that “the world market for ethanol has grown from 28 million liters in 2000 to 49 million liters last year [2005]”⁵ and given this increased demand, analysts expect that raw sugar prices could rise by as much as 25% in the near future.⁶ With this market perspective, the Association of Cuba’s Sugar Producers in exile believes that with growing global demand for ethanol and for other end products, the United States will have to look to other countries to satisfy

1. The author welcomes corrections or additions to incorporate in further work on the subject; please e-mail them to oae@globalex-pand.com.

2. Joseph M. Perry and Louis A. Woods, “Cuban Citrus Production in a Post-Transition Economy,” *Cuba in Transition—Volume 5* (Washington: Association for the Study of the Cuban Economy, 1995).

3. Financial Times, March 14, 2006.

4. Financial Times, October 5, 2005.

5. Financial Times, March 6, 2006.

6. Financial Times, March 24, 2005.

its demand.⁷ Ethanol demand in the U.S. went from 1,653 million gallons in 2000 to 10,847 million in 2009. Just 10% of this demand at \$2.75 per gallon would provide Cuba with \$3,000 million. Thus the proximity to the U.S. would allow reviving a sugar industry working at less than 20% of its historical average.

Industry

Construction. I fully agree with González Falla that “demographic aging ... of the U.S. ‘baby boom’ generation is creating a demand for retirement or second home in milder winter climates [where] Cuba can compete with a ... cost advantage to other more expensive locations for developing condominiums, hotels, second homes and timeshares. There will be a demand for this type of housing, not only from the ‘boomers’ but also from members of the Cuban-American community that may prefer a Cuban beach rather than one in any other [Florida] Key.”⁸ The approximately 600,000 Cuban American families represent a potential demand of several thousand units per year (3% purchasers per year at \$100,000 = \$1,800 millions). As pointed out below, the Internet will also enable many firms and executives to operate out of Cuba, similar to the case of German firms and executives operating out of Palma de Majorca.

Biotechnology. Although recent articles on the Cuban economy have not extensively addressed this sector, Julia Sagebien and Ramón Coto-Ojeda describe Cuba’s biotech sector as the most advanced in Latin America.⁹

Cuba began building up its biotechnology industry in the 1980s and has spent millions investing in the sector. The industry was initially geared “to apply biotechnology and genetic engineering to agriculture

in order to increase yields” but has also produced numerous vaccines, interferon, and other drugs and has exported many of its biotechnology products. In 1999, the British pharmaceutical company GlaxoSmithKline announced an agreement to test and market a new Cuban meningitis vaccine that might eventually be used in the United States.¹⁰

[In the 1990s] Cuba’s innovations included treatments for Parkinson’s patients, anti-cholesterol drugs, interferon, cancer drugs, and work on vaccines against Type-B meningococcal meningitis and Type B hepatitis. Some of the growth in biotechnology has been spurred on to meet the demands for treatments of diseases prevalent in the Latin American marketplace to generate hard currency for the country.¹¹

Recognizing the large investments made by Cuba in the training of scientists in pharmacology and biotechnology, Prego shares a positive view for these sectors in Cuba and predicts that they could blossom once they are taken away from state control.¹²

Services

Information Technology and Telecommunications. We believe that while the Cuban people have been greatly isolated, the ingenuity and entrepreneurship developed to overcome the destructive and tyrannical control of the economy and of their lives could serve as a foundation for several activities of the new economy.

González Falla highlights the importance of the Internet and points out that it and “the proximity of Cuba to the United States will ... facilitate businessmen to be able to conduct their business with the rest of the world from the cocoon of their own tropical paradise [in Cuba, thus reinforcing the building boom;]”¹³ Emilio Fernández, for his part, suggests

7. Productores de Azúcar de Cuba, Inc., “The Cuban Sugar-Cane Industry of the Future,” November 2005.

8. Celso González Falla, Developer, President SonCel Inc., private correspondence, March 2006.

9. Julia Sagebien and Ramón Coto-Ojeda, “Pirates or Partners? Cuba-Puerto Rico Commercial Relations in a Post-Embargo Scenario,” *Cuba in Transition—Volume 9* (Washington: Association for the Study of the Cuban Economy, 1999).

10. *Cuba: Issues for the 109th Congress*, CRS Report RL 23730, updated August 31, 2006, <http://openncrs.com/document/RL32730/2005-05-25/>

11. Steven G. Ullmann, *The Future of Health Care in a Post-Castro Cuba*, Cuba Transition Project, University of Miami, 2005, http://ctp.iccas.miami.edu/Research_Studies/StevenUllman.pdf.

12. Roberto Prego Novo, Vice President, Latin America IVAX Corporation. Private correspondence, March 2006.

13. González Falla, op. cit.

the potential of “software development and call centers” in a future Cuba.¹⁴

Media. For Guillermo Fernández, Cuba “could become a center of advanced technology, creativity and innovation. Within that environment, media services will have a great opportunity. Pre-Castro’s Cuba was a pioneer in the field of media and commercial advertising. Post-Castro, this talent will need to go beyond its commercial role to that of instilling and disseminating the values of freedom [and respect to dissenting opinions that have been totally suppressed since 1959].”¹⁵

Tourism. The main driver of the Cuban economy and the largest source of foreign exchange is tourism. Sagebien and Coto-Ojeda have suggested that above and beyond the current demand for Cuban tourism, there is still significant room for growth, especially if costs can be reduced and revenues increased.¹⁶ Thus, they state that, “in 1998, 1.4 million tourists visited the island bringing U.S. \$1,800 million in earnings... [although] occupancy rates are somewhat low... and the average daily spending is still considerably low at U.S. \$88.4/day.” The authors further suggested that Cuba could diversify its options for tourists, expanding offerings to include more alternative historic, ecological, mountainous, and cultural opportunities.

González Falla reinforces the case for tourism on the basis of one of his premises: “affordable air travel that given... Cuba’s traditions, its mild climate, [size and emblematic Colonial and pre-Castro buildings], makes the Island a destination that competes with... the Bahamas, Cancún and Santo Domingo.”¹⁷ Art Padilla shares this opinion and identifies three areas for tourism: new product innovation, re-branding,

and brand extension.¹⁸ New product innovations “would be short ferry services from Key West to Havana where tourists could bring their cars to drive in Cuba [as was the case before 1959]; fast-speed hovercrafts (similar to the ones in Capri, Italy) from Key West and Miami to Havana; city tourism, capitalizing on the city of Havana and its vast resources and architectural styles” and coincides with the previous references on the potential of eco-tourism opportunities. Weill, for his part, suggests obtaining a major league baseball franchise for Cuba, an effort that was underway in 1958 with the Triple A “Cuban Sugar Kings.”¹⁹

IN CONCLUSION, A PREDICTION

If all these factors fall into place, Cuba could recover as fast as it did in the early 1900s. That recovery demonstrated the potential of the Cuban people to respond to the proper political and economic climate. In 1900, the War of Independence had reduced the population by 20%, sugar production was less than 300,000 MT and the island had only 130,000 heads of cattle. By 1924, sugar production was 4.1 million MT, production was growing at 11% annually, and the cattle herd had grown to 4.6 million heads or by 15% per annum.²⁰ If we take sugar and cattle, with a weight of 60% and 40% respectively, as very simplistic proxies for GDP, the Cuban economy after the ruinous War of Independence recovered at a rate of 12% per year. Thus, there is no reason why today, with the support of the powerful Cuban community abroad, Cuba cannot attain rates closer to that of Bosnia (18.5%) in the last decade.²¹ We will leave for a future article an econometric justification of this optimistic prediction.

14. Emilio Fernández, Managing Director, Pulse Capital LLC. Private correspondence, March 2006.

15. Guillermo Fernández, President and CEO, Colgate-Palmolive of Mexico. Private Correspondence, April 2006.

16. Sagebien and Coto-Ojeda, op. cit.

17. González Falla, op. cit.

18. Art Padilla, “The Tourism Industry in the Caribbean After Castro,” *Cuba in Transition—Volume 13* (Washington: Association for the Study of the Cuban Economy, 2003).

19. Roberto Weill, President, Latin Food. Private correspondence, March 2006.

20. Alberto Luzárraga, “Cuba: Caso Diferente en América,” *Herencia* 12:1 (Winter 2006).

21. *Pocket World in Figures 2006*. The Economist. Profile Books Ltd. London.