

CUBA: THE IMPACT OF VENEZUELA

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Gurus and pundits discussing developments in Venezuela and Cuba since last year have been strongly inclined to establish a new “domino theory,” suggesting that a political defeat of *chavismo* (followers of the deceased President Hugo Chávez) or a major crisis of some sort in Venezuela would cause an immediate collapse of the Cuban economy and with it the much awaited political collapse of Cuba’s government.

The authors of such predictions seem to have a short memory. They should bear in mind that in the second half of the 1980s, the Cuban government was faced with an unprecedented chaotic crisis, as the Soviet Union and its surrogates in Eastern Europe were simply crumbling. Actually, the real “domino theory” was in full swing by 1989. Predictions were that Cuba could not survive the impact of the demise of the Soviet bloc. Hundreds of foreign correspondents were in Havana just waiting for the collapse to take place or the spark that would bring about the much expected outcome. Finally, they got tired of waiting and left. Twenty-five years later, they are still waiting...

It is also important to remember that between the late 1980s and 1999, there was no “savior” or any government “giving away resources” to Cuba by the name of Chávez, and that by early 2002 bilateral trade with Venezuela was roughly \$60 million; it was not until 2003–2004 that bilateral economic ties started to reach the current levels. Any serious re-

searcher today—after digging into the many agreements signed between the two governments—will find that the implementation of a great number of projects is still pending.

Today, after Maduro’s narrow electoral victory, similar predictions are being reformulated in the sense that it is said that the new government in Venezuela is under such economic stress that it will be forced to reduce or do away with its current economic ties with Cuba, causing major havoc to the latter’s financial and political stability.

The current predictions are essentially based on the following analysis:

- Venezuela is “giving away” to its allies around one-third of its oil production at below-market prices;
- energy analysts forecast that the Venezuelan oil sector is unlikely to improve significantly in the near term regardless of the outcome of the political transition; and
- the Venezuelan economy is in serious trouble: inflation is in the high 30% range (while the Latin American average is 7%), the traditional debt is rising, and fiscal deficit is growing.¹

In contrast, various experts tend to coincide that the future of Venezuela’s Cuba program, along with Petrocaribe as a whole, will depend to a considerable extent on oil prices dropping below \$75, something that is nowhere in sight in the foreseeable future. As Professor Bryan reasoned some time ago, “a Presi-

1. See, among many others, the study by expert and consultant Anthony T. Bryan, “Will Petrocaribe survive,” *Trinidad Guardian* (March 21, 2013).

dent Maduro will most likely maintain Petrocaribe. But domestic fiscal constraints will force reducing foreign aid. In this scenario, maintaining aid to Cuba would be a priority since the Castro brothers are strategic allies. A strong relation with the Castro regime is also Maduro's main path to justify his revolutionary credentials in the post-Chávez era."²

A similar view has been offered by Ricardo Lagos, former President of Chile, who stated, "I don't believe that Chávez's successor will proceed to review the political alliances forged with the ALBA states. Realignments will not take place immediately."³

Along the same line, University of Pittsburgh Professor Emeritus Carmelo Mesa-Lago, a world-renown expert on Cuban economics, has cautioned against apocalyptic predictions associated with problems in the Cuba-Venezuela relationship post-Chávez: "the impact would be powerful but not as severe as the crisis of the 1990s." And this extreme scenario would take place only in the case "of a substantial reduction or the ending of Venezuelan aid."⁴

The question, therefore, is: how well prepared is Cuba now or how has Cuba evolved to deal with a possible change in its relations with Venezuela?

HOW DIFFERENT IS CUBA TODAY?

Indeed, Cuba has changed in many ways compared to the late 1980s, when the Soviet Union and the socialist countries collapsed:

1. The old system is fading away and in its place, a socialist market economy is being designed, resulting from a number of major reforms and changes, some already being implemented, others to be adopted in the near future. A growing "non-state" (private) sector comprising more than 40% of the working population is irreversibly in place; some 50% of agricultural production is currently marketed through private chan-

nels at free prices. None of this existed before.

In a recent report on changes occurring in Cuba, Ted Piccone, Brookings Institution Deputy Director, stressed the following: "The trend toward reform in Cuba is evident and suggests that an inflection point is approaching. Now is the time to employ a new paradigm by opening a long overdue direct dialogue with our next-door neighbor."⁵ Such an approach is currently being pursued by key players in the European Union (EU), with several of them already restoring cooperation with Cuba at different levels and agreeing to review the seemingly outdated "Posición Común." Such a reassessment was inconceivable in the aftermath of the Soviet collapse.

2. Economic activities that were almost non-existent in 1989–90 today have become important sources of employment and hard currency, for example the tourist industry (more than 3 million foreign tourists are expected in 2013). Research, production, and exports of biotech products and pharmaceuticals that were then negligible, today represent more than \$2 billion and by 2018 could be well beyond \$5 billion. A similar situation can be found when it comes to Cuban doctors and health technicians sent abroad, from Venezuela to Angola or Qatar.
3. Remittances were extremely small in the late 1980s; today they have increased to several billion dollars (sound estimates are extremely difficult, if not impossible, to measure because of lack of the necessary information) with some 400,000 Cubans living abroad—mostly in the United States—visiting their country of origin in 2012. According to Jorge Duany, Director of the Cuban Research Institute (CRI) at Florida International University, estimates suggest that

2. Bryan, "Will Petrocaribe survive."

3. Interview with Ricardo Lagos by Eva Saiz, "Estamos ante el final de una forma de hacer política," *El País*, March 23, 2013.

4. Carmelo Mesa-Lago, "El posible impacto de la muerte de Chávez en la economía cubana," *Cubaencuentro*, March 12, 2013.

5. Ted Piccone, "Time to Bet on Cuba," Brookings Institution, March 19, 2013, <http://www.brookings.edu/research/opinions/2013/03/18-cuba-piccone>.

- between 10% and 20% of such Cubans are considering going back to Cuba as a “second place of residence,” while the majority of Cubans in the United States would be ready to travel to Cuba “to support its development and economic reconstruction.”⁶ Unthinkable 20 years back!
4. In the early 1990s, Cuba had almost no oil and gas production. Currently, Cuba meets 50% of its oil and gas needs with its local production and further drilling projects—despite three initial setbacks in deep sea drilling—are being conducted by several foreign companies.
 5. Nickel production—one of the lifesavers of the early 1990s—after overcoming some serious technological challenges in the field because of outdated technologies and a big slump in world prices, is now back on its feet and after significant changes and upgrade, the industry is expected to reach an output of 61,700 tons in 2013 and by 2015 to surpass by far its record figure of 74,000 tons in 2010, contingent on the completion by 2014 of a ferronickel plant in the vicinity of Moa, province of Holguín, a major joint venture between Venezuela and Cuba representing an investment of \$700 million, that should produce some 21,000 tons of nickel per year. Nickel has been for many years Cuba’s leading hard currency export, although prices follow a very unstable pattern, which periodically hurts the Cuban economy.
 6. With the pilot project on the city port of Mariel and the coming new investment law, Cuba is getting ready to make a major thrust in attracting foreign investors. The Mariel project is in many ways—as highlighted recently by MINCEX Minister Malmierca—the pattern to be followed in the promotion of the new Zonas Especiales de Desarrollo (ZED).⁷
 7. Cuba’s current trade partners and markets are much more diversified than 20 years back. BRICS countries⁸ are among Cuba’s key trading partners right now, especially China, Russia, and Brazil. Even the United States has become an important market, although just for imports (\$712 million in 2008 and \$465 million in 2012). At the same time, the volume and complexities of Cuba’s foreign debt has been downsized considerably with final arrangements with major creditors such as Russia and Japan, followed by partial payments and rescheduling with other countries, outside the Paris Club. In terms of Cuba’s reserves of foreign exchange and gold, the CIA’s *World Factbook* estimates indicate reserves of some \$4.693 billion at the close of 2012,⁹ quite a different picture from the virtual bankruptcy of the early 1990s.
 8. Cuba’s diplomatic and political reinsertion in the Western Hemisphere and the world at large is entirely different from what it was at the beginning of the 1990s. Normal relations and different levels of trade and cooperation tend to be predominant in Cuba’s bilateral ties along with significant positive accomplishments at the Summits of Salvador de Bahía, Port of Spain, San Pedro Sula, Cartagena, and Santiago de Chile. And this year Cuba is *president pro tempore* of CELAC, the Community of Latin American and Caribbean States. Over the last two to three years, most of the presidents of the Latin American and Caribbean nations have visited Cuba seeking an additional improvement of bilateral relations.

Professor Julio Burdman, expert in international relations at the University of Belgrano (Argentina), provided the following assessment: “In historical terms, the Latin American ‘lefts’—

6. Emilio J. López, “Poca diáspora cubana regresaría a la isla para quedarse, según experto,” *El Nuevo Herald*, March 28, 2013. It should be noted that according to the Cuban media, several thousands have done so in the last three years.

7. “Cuba ofrece acceso a Zona Especial de Mariel a inversión extranjera,” www.contrainjerencia.com, November 5, 2012.

8. The BRICS countries are Brazil, Russia, India, China and South Africa.

9. Central Intelligence Agency, *World Factbook*, <https://www.cia.gov/library/publications/the-world-factbook/geos/cu.html>

because there is not one but many, from *chavismo* to social democrats—are experiencing a good period and have perspectives of continuity,” highlighting the notion that in South America, 8 out of 10 countries are following such a pattern.¹⁰ This is not bad at all for Cuba.

9. Critics of Venezuela’s oil and trade policies within Petrocaribe and with Cuba in particular, tend to characterize relations as Venezuela “giving away resources” to Cuba and/or name them “subsidies.” Again, a very short memory. The United States and the former European colonial empires have resorted to such practices—even in the form of blunt subsidies—in the past and do so today. In the Western Hemisphere, it was agreed by Mexico and Venezuela—not Chávez or Maduro—in the early 1980s to follow such a policy in what was known then as the San José Treaty. Thus, the policies are not wrong; what is wrong is for the *chavistas* to do it. The latter are conducting trade based on policies and terms connected to their domestic and regional goals or national interest, if readers prefer the straight language of *Realpolitik*. Trading oil for doctors is not simply a financial transaction; it includes also social and political values and

considerations. The funny side to this issue is that a highly respected institution such as the CIA does not use such wording as “giving away” or “subsidies,” but a more professional and accurate term: “oil on preferential terms.”

CONCLUSIONS

1. Current developments in Venezuela are not pointing at any debacle or chaotic outcome. Thus, much of the gloomy predictions will have to remain on hold and see what the future will bring about.
2. Should any readjustments be adopted by the current Venezuelan leadership concerning Petrocaribe and Cuba, the latter will continue to enjoy a privileged status.
3. Cuba’s current context—extremely different from the early 1990s as shown above—will prevent the any apocalyptic changes in Venezuela from impacting the Cuban economy and society in the same or similar magnitude and complexity as those of the Soviet collapse.
4. Deeper reforms and changes in Cuba will continue and gain a faster pace to make its economy less vulnerable to any unexpected contingencies that may arise in its relations with Venezuela.

10. Alejandro Rebossio, “La izquierda se afianza en Sudamérica,” *El País*, March 27, 2013.