

THE CUBAN ECONOMY IN 2005–2006: THE END OF THE SPECIAL PERIOD?

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In August 1990, facing an economic crisis prompted by the loss of trade and economic relations with the Socialist community, the Cuban leadership declared that the island had entered a “special period in time of peace,” a period of severe economic austerity. Stripped down to its essentials, the special period was about survival of the regime. In retrospect, the special period was also a time of policy experimentation: with its back against the wall, the Castro regime permitted certain reform measures that ran counter to the leader’s deeply-held ideological preferences.

The purpose of this paper is to review the performance of the Cuban economy during 2005 and 2006. In addition to presenting and discussing the sparse economic data that are available regarding the performance of the domestic economy and of the external sector, the paper also discusses economic policy measures implemented in the last few years. The last section of the paper addresses more directly the question of whether the special period is still continuing or has indeed ended.

RECENT CUBAN ECONOMIC PERFORMANCE¹

In a marathon speech delivered at the 2006 May Day celebration, President Castro reported that the Cuban economy grew at a rate exceeding 12.5% during the first quarter of the year.² For the entire year 2006, Minister of Economics and Planning José Luis Rodríguez forecasted a growth rate exceeding 12%.³ These news, coming on the heels of the stunning report by Minister Rodríguez that the Cuban economy grew by 11.8% in 2005,⁴ meant that Cuba in 2005–2006 probably had one of the highest—if not the highest—economic growth rates in the world.⁵ If these statistics presented a true picture of growth of economic activity and of improvement in the material well being of the Cuban citizenry, it would indeed be a remarkable accomplishment for the nation. There is strong evidence that, to a large extent, they represent a gross manipulation of statistics, designed to obfuscate the truth and to advance domestic and international political objectives.

1. This section draws on Jorge F. Pérez-López, “Cuba 2005: The ‘Alice in Wonderland’ Economy,” *FOCAL Point*, 5:1 (January-February 2006); Carmelo Mesa-Lago, “¿Buenas o malas noticias económicas en 2005?” *Vitral*, no. 71 (enero-febrero 2006); and Oscar Espinosa Chepe, “Cuba: Situación actual y perspectivas para el futuro,” paper prepared for a session organized by the Association for the Study of the Cuban Economy at the Congress of the Latin American Studies Association, Puerto Rico, March 2006.

2. Fidel Castro, “Discurso pronunciado en el acto por el Día Internacional de los Trabajadores, el primero de mayo de 2006,” <http://www.cuba.cu/gobierno/2006/esp010506e.html>.

3. Raisia Pagés, “Gran interés por marcha de la economía cubana,” *Granma* (13 September 2006).

4. José Luis Rodríguez, “Informe sobre los resultados económicos del 2005 y las perspectivas económicas y sociales para el 2006,” <http://www.cubaminrex.cu/Actualidad/2005/Informe%20economico%202005.htm>

5. China has had the fastest growing economy in the last decade. In 2005, the Chinese economy grew at an estimated rate of 9.9%. See Peter S. Goodman, “Too Fast in China?,” *The Washington Post* (January 26, 2006).

Goods-Producing Sectors

The purported stellar economic growth performance in 2005–06 is all the more startling in light of statistics provided by Rodríguez in his report for 2005 or available from other sources.

- Oil and gas production declined by 3.7% in 2005 compared with 2004;
- Nickel output in 2005 was unchanged compared to 2004, although higher world market prices for nickel improved the export performance of the sector (see below);
- Rodríguez made no reference in his report to sugar production, an unthinkable omission a few years ago, but not entirely unexpected since President Castro proclaimed in March 2005 the demise of the sugar era in Cuba. Industry sources have reported that the 2004–05 sugar crop amounted to 1.3 million tons⁶ and the 2005–06 crop to just above 1.2 million tons,⁷ the lowest production level in a century (1.23 million tons were produced in 1906). Since domestic consumption is approximately 700,000 tons, barely 600,000 tons would have been available for export in 2005 and 2006.
- During the first half of 2005, the island was affected by a severe drought that reduced production of milk, grains, vegetables, and *viandas*, resulting in production losses estimated at 1,350 million pesos.
- Cuba was also hit during 2005 by three hurricanes (Dennis in July; Rita in September; and Wilma in October) that wreaked havoc with agricultural production and damaged or destroyed thousands of housing units, electricity distribution lines, tourism facilities, and schools and hospitals. The losses to the economy associated with the three hurricanes have been estimated at 2,311 million pesos, for a total of 3,661 million

pesos in losses in 2005 associated with adverse weather conditions.⁸

Table 1 presents physical production statistics for thirty-three outputs of the manufacturing, mining, and electricity, gas, and water sectors in 2004 and 2005.

- Production in 2005 was higher than in 2004 for 19 of these products, with significant increases in the production of household detergent (40%), concrete blocks and telephone wires (over 29%), and steel (27%).
- For two products (nickel and asbestos roofing tiles) production in 2005 was unchanged with respect to 2004.
- With respect to 12 others, production was lower in 2004; notable among the latter were declines in production of sugar (decline of 48%), pasteurized milk (-45%), lobster tails (-26%), and bathroom fixtures (-25%). Electricity generation was lower by 2.0% in 2005, consistent with the wave of blackouts that affected cities and rural areas.⁹

According to official statistics (see Table 2), output of the manufacturing sector rose by 1.2% in 2005, while that of the electricity, gas, and water sector fell by 1.7%, and of the agriculture, hunting, forestry, and fishing sector fell by 11.6%. Minister Rodríguez stated that food consumption was not adversely affected by the sagging agricultural sector in 2005 because food imports increased significantly (by 43.2%).

Services-Producing Sectors

In contrast with the decidedly poor performance of the goods-producing sectors, official statistics indicated that 2005 was a banner year for the services-producing sectors (Table 2):

- The construction sector grew by 18.9%, boosted by housing construction.

6. Marc Frank, "Cuba finalizó peor cosecha de azúcar (zafra) en un siglo," Reuters (May 31, 2005).

7. Oscar Espinosa Chepe, "Azúcar cubano: de mal en peor," Cubanet (June 13, 2006); Dimas Castellanos, "La peor zafra en 102 años," *Encuentro en la red* (July 27, 2006).

8. Orfilio Peláez, "Enre sequía y ciclones," *Granma* (31 December 2005).

9. See, e.g., Fernando Ravensberg, "En Cuba no hay apagón sino alubrón," BBC Mundo (June 21, 2005).

Table 1. Selected Physical Production Statistics

	1989	2004	2005	Percent Change	
				2005/2004	2005/1989
Electricity (GWh)	15239	15652	15343	-2.0	0.7
Oil (thousand tons)	718	3518	3388 ^a	-3.7	371.9
Natural gas (million cubic m)	34	704	743	5.5	2085.3
Manufactured gas (million cubic m)	130	195	189	-3.1	45.4
Nickel (thousand tons, mineral content)	46.6	76.6	76.6 ^a	0.0	64.4
Steel (thousand tons)	314	193	245	26.9	-22.0
Detergent, household (thousand tons)	13	15	21	40.0	61.5
Soap, laundry (thousand tons)	37	15	13	-13.3	-64.9
Soap, hand (thousand tons)	14	19	20	5.3	42.9
Toothpaste (thousand tons)	6.1	4.5	5.5	22.2	-9.8
Fertilizers, complete (thousand tons)	899	49	43	-12.2	-95.2
Cement, gray (thousand tons)	3759	1401	1587	13.3	-57.8
Asbestos roofing tiles (thousand sq. m)	4891	4335	4332	0.0	-11.4
Concrete blocks (million units)	103	37	48	29.7	-53.4
Telephone wires (thousand km)	11.6	14.4	18.6	29.2	60.3
Bathroom fixtures, ceramic (thousand units)	454	176	132	-25.0	-70.9
Textiles (million square meters)	220	30	25	-16.7	-88.6
Sugar (million tons)	7.3	2.5	1.3 ^b	-48.0	-82.2
Wheat flour (thousand tons)	398	369	402	8.9	1.0
Pasteurized milk (thousand tons)	684	218	121	-44.5	-82.3
Yogurt (thousand tons)	62	147	169	15.0	172.6
Pork (thousand tons)	64	27	29	7.4	-54.7
Canned meat (thousand tons)	68	82	91	11.0	33.8
Pasta (thousand tons)	52	33	28	-15.2	-46.2
Refined vegetable oil (thousand tons)	76	43	50	16.3	-34.2
Bread (thousand tons)	497	512	546	6.6	9.9
Lobster tails (tons)	1224	704	522	-25.6	-57.4
Canned fruits, exc. baby foods (thousand tons)	98	102	84	17.7	-14.3
Alcoholic beverages (thousand hectoliters)	674	798	825	3.4	22.4
Soft drinks (thousand hectoliters)	2391	3232	3187	-1.4	33.3
Cigars (million units)	309	354	404	14.1	30.7
Cigarettes (thousand million units)	16.5	12.8	14.0	9.4	-15.2
Mixed animal feed (thousand tons)	1964	677	736	8.7	-62.5

Source: 1990—Comité Estatal de Estadísticas (CEE), *Anuario estadístico de Cuba 1996*; 2004–05—Oficina Nacional de Estadísticas (ONE), *Estadísticas seleccionadas, Cuba 2005*.

- a. Based on José Luis Rodríguez, “Informe sobre los resultados económicos del 2005 y las perspectivas económicas y sociales para el 2006.”
- b. Marc Frank, “Cuba finalizó peor cosecha de azúcar (zafra) en un siglo,” Reuters (May 31, 2005).

- The communications and informatics sector expanded by 8.2%.
- The commerce, restaurants, and hotels sector grew by 4.8%. Minister Rodríguez reported that the number of foreign visitors grew by 13.2% (to 2.3 million) and income generated by tourism by 10.7%.
- Community, social, and personal services grew by 28.0%, with public health and public welfare services rising by an astonishing 80.6%. This latter category includes not only public health services provided to the population but also those

exported to other nations, principally Venezuela and Pakistan.

Fictitious Macroeconomic Statistics

Since 2002, President Castro has been outspoken about the flaws in the United Nations methodology to estimate the Gross Material Product (GDP) of nations, arguing that it underestimates Cuba’s economic growth. In his report to the National Assembly at the close of 2003, Minister Rodríguez already reported two rates of growth for Cuba, one based on the “conventional” GDP methodology and another one (higher by 46%) based on a “new methodology” that

Table 2. Cuban “Gross Domestic Product” by Major Components (million pesos)^a

Major Components	2004	2005	2005/2004 %
Agriculture, hunting, forestry, and fishing	1925	1700	-11.6
Mining	450	450	0.0
Manufacturing	4809	4865	1.2
Electricity, gas, and water	595	585	-1.7
Construction	1858	2209	18.9
Commerce, restaurants, and hotels	8233	8632	4.8
Transportation, warehousing, and communications	2926	3166	8.2
Finance, real estate, and business services	2208	2229	1.0
Community, social, and personal services	11568	14807	28.0
Education, science, technology	4465	4821	8.0
Public health and social welfare	3310	5976	80.6
Culture and sports	1404	1519	8.2
Import rights	452	529	16.9
Gross domestic product	35024	39172	11.8

Source: Oficina Nacional de Estadísticas (ONE), *Estadísticas seleccionadas, Cuba 2005*.

a. At constant prices of 1997.

adjusted GDP to account for the free services that the Cuban population received.¹⁰ For 2004, Minister Rodríguez announced a growth rate of 5%, stating that the calculation was based on a partial revaluation of services offered to the population, and warned that in the future “the calculations must continue to be perfected ... at the same time that we continue to develop other methods and indicators that will reflect more adequately our social and economic advances.”¹¹

In presenting the whopping 11.8% growth rate for 2005, Minister Rodríguez cryptically explained that “it includes the value added by social services offered to the Cuban population and that have also benefited citizens of other countries.” Osvaldo Martínez, head of the Economic Affairs Commission of the National Assembly and a former Minister of Economics and Planning, was more explicit:

To calculate our GDP in 2004 and in the current year we used a methodology that reduces the disadvantages that the international system—designed to reflect growth of capitalist economies, where market transactions irrespective of their nature and social purpose increase GDP—placed us. The Cuban reality, where important sectors with high levels of employment such as education, public health, culture, sports, are not based on the sale of their output, as is the case in capitalist economies, does not fit within the traditional GDP methodology. ... According to the traditional GDP methodology, their contribution to economic activity should be measured by aggregating expenditures, thereby underestimating the value added by these fundamental services in social and human terms.

Our [new] method has improved the calculation of value added generated by these services, although we are still applying rates well below international standards.¹²

10. See Carmelo Mesa-Lago and Jorge Pérez-López, *Cuba's Aborted Reforms* (Gainesville: University Press of Florida, 2005), p. xv.

11. José Luis Rodríguez, “Informe sobre los resultados económicos del 2004 y el Plan Económico Social para el 2005,” <http://www.cubagob.cu/mapa.htm>. Subsequently, Cuba revised its statistics to show a 5.4% rate of GDP growth for 2004.

12. “Intervención del Diputado Osvaldo Martínez, Presidente de la Comisión de Asuntos Económicos de la Asamblea Nacional, sobre los temas del Plan de la Economía Nacional y el Presupuesto del Estado,” *Juventud Rebelde* (December 23, 2005), <http://www.cubainrex.cu/Actualidad/2005/Intervenci%F3n%20del%20%20Pde%20de%20Asuntos%20Econ%F3micos.htm>

In other words, what Cuba did in 2005—and already had done partially in 2004—was to value social services at some shadow market price¹³ and to include the total in the value of the production of goods and services of the nation. This means that the value of output generated by Cuban statisticians for 2005 is neither comparable with output for previous years nor with output measures produced by other countries that follow the United Nations GDP methodology.

The Economic Commission for Latin America (Comisión Económica para América Latina y el Caribe, CEPAL) did not include the 11.8% growth rate reported by Cuba in its overview of Latin American economic performance in 2005. In a brief analysis of Cuban performance in 2005, CEPAL included the following footnote: “The data on growth of national product included in this Note have been provided by the Cuban Government, which included in its calculation a very high level of exports of social services to various countries, particularly to the Bolivarian Republic of Venezuela. CEPAL is evaluating this calculation in light of the methodology developed by the United Nations, an evaluation that is still ongoing, and therefore CEPAL does not have estimates of its own. In addition, Cuba has begun to apply a new valuation of social services, which is also being analyzed.”¹⁴

The impact of the revaluation of output of the services sectors on the structure of the nation’s economy can be seen in Table 3. The table compares the distribution of gross domestic product by broad economic sector in 1990, the first year for which macroeconomic statistics based on the United Nations System of National Accounts are available,¹⁵ and 2005. In

1990, the four goods-producing sectors—agriculture, hunting, forestry, and fishing; mining; manufacturing; and electricity, gas, and water—accounted for 35.6% of GDP, compared to 19.1% in 2005. The share of GDP accounted for by agriculture and related activities and by manufacturing fell to about half of the previous value. Meanwhile the share of economic activity accounted for by community, personal, and personal services—which includes public health services—nearly doubled, from 20.1% to 37.8%.

THE EXTERNAL SECTOR

The Cuban Government has released relatively few statistics on the performance of the external sector in 2005–06. The most current foreign debt and balance of payments statistics published in the *Anuario estadístico de Cuba* (volume for 2005) refer to 2001. The lack of current balance of payments statistics creates a particularly difficult problem for analyzing the Cuban external sector since statistics on remittances and on services exports—two critical variables in analyzing Cuba’s external sector performance in recent years—are only published within the balance of payments framework and therefore are not available since 2001.

Merchandise Trade

Cuba ran huge deficits in the merchandise trade accounts in 2004 and 2005. In 2005, total merchandise exports amounted to nearly 2 billion pesos, while imports were about 7.5 billion pesos, for a trade deficit of over 5.5 billion pesos. In 2004, the corresponding values were nearly 2.2 billion pesos for exports, just under 5.6 billion pesos for imports, and a trade deficit of under 3.4 billion pesos. According to Foreign Trade Minister de la Nuez, the merchan-

13. Speaking to a Mexican journalist, a Cuban economist explained that the revaluation of services was made as follows: “A certain number of heart operations were conducted in the country during the year. What would they have cost if they had been performed in country X?” Or, “a course to learn English was offered for free via television. What would have been the cost of such a course if it had been offered via cassettes sold to individuals, as it is done in country Y?” See Gerardo Arreola, “Cuba se aparta de la ONU para medir el PIB,” *La Jornada* (10 enero 2005), in *Cubanet* (10 enero 2005), <http://www.cubanet.or/CNews/y06jan05/10o4.htm>.

14. CEPAL, *Balance preliminar de las economías de América Latina y el Caribe 2005* (Santiago, December 2005), p. 169. Although Cuban official statistics report a growth rate of 5.4% in 2004, CEPAL shows it as 3.0%. See *Balance preliminar*, Cuadro A-2.

15. Recall that prior to the 1990s, Cuba’s macroeconomic statistics were compiled according to the Material Product System, the methodology used by socialist nations.

Table 3. Cuban “Gross Domestic Product” by Major Components, 1990 and 2005
(million pesos and percent)

	1990 ^a		2005 ^b	
Agriculture, hunting, forestry, and fishing	1756	9.2%	1700	4.3%
Mining	92	0.5%	450	1.1%
Manufacturing	4640	24.4%	4865	12.4%
Electricity, gas, and water	455	2.4%	585	1.5%
Construction	1508	7.9%	2209	5.6%
Commerce	4936	26.0%	8632	22.0%
Transportation, warehousing, and communications	1202	6.3%	3166	8.1%
Finance, real estate, and business services	603	3.2%	2229	5.7%
Community, social, and personal services	3816	20.1%	14807	37.8%
Import rights			529	1.4%
Gross domestic product	19008	100.0%	39172	100.0%

Source: 1990—Comité Estatal de Estadísticas (CEE), *Anuario estadístico de Cuba 1996*; 2005—Oficina Nacional de Estadísticas (ONE), *Estadísticas seleccionadas, Cuba 2005*.

a. At constant prices of 1981.

b. At constant prices of 1997.

dise trade deficit was offset by a surplus in the services trade account, with services exports in 2005 accounting for 70% of all exports.¹⁶

Table 4 shows the distribution of exports and imports during 2001–05 according to major categories of traded goods. Food exports (primarily sugar) dominated in 2001 and 2002, but in 2003 for the first time raw materials (primarily nickel) took the lead among export categories, a trend that evidently has continued into 2006. Cuba has not published statistics for food exports in 2005. The leading categories of imports during 2001–05 were fuels, machinery and transportation equipment, and food.

Table 5 shows Cuba’s top ten export and import markets in 2001–2005. Cuba’s leading export markets during this period were the Netherlands and Canada; the bulk of exports to these two markets consisted of nickel. Venezuela was the largest provider of merchandise goods to Cuba, providing almost 1.9 billion pesos in 2005, predominantly oil and refined oil products. It is also noteworthy that in 2005, China became Cuba’s second largest merchandise

supplier, providing more than 885 million pesos in goods. Finally, despite the embargo, in 2004 and 2005 the United States was a solid performer in exports to Cuba, providing 444 million pesos and 470 million pesos, respectively, primarily of food products.

Tourism

Minister of Tourism Marrero has reported that Cuba received 2,319,334 foreign visitors in 2005, the highest number of tourists ever received, and 13.2% above 2004.¹⁷ Marrero did not report revenue generated by tourism, but elsewhere Cuban sources have indicated that gross tourism revenue grew by 10.7%, reaching approximately 2.3 million pesos.¹⁸ The official target for visitors in 2006 is 2.5 million.

Other Developments

At the close of 2004, President Castro reported several “good news” regarding the external sector. They related primarily to three key players in the Cuban economy: (1) Venezuela; (2) China; and (3) Canadian corporation Sherritt International.¹⁹

16. Raisa Pagés, “Crecimiento de exportaciones compensa compras en el exterior,” *Granma Internacional Digital* (February 23, 2006), <http://www.granma.cu/espanol/2006/febrero/jueves23/crecimiento.html>.

17. Mariagny Taset Aguilar, “Cuba, país que muchos desean conocer,” *Granma Internacional Digital* (May 10, 2006), <http://www.granma.cu/espanol/2006/mayo/mier10/cuba.html>.

18. Calculated based on tourism gross income of 2113.6 million pesos in 2004 from *Anuario estadístico de Cuba 2005*, table XIII.11.

Table 4. Cuban Merchandise Exports and Imports, by Major Category (in thousand pesos)

	2001	2002	2003	2004	2005
Exports					
Food and live animals	711097	594560	439689	450746	
Beverages and tobacco	232023	162373	238231	243597	251043
Raw materials, inedible, except fuels	485416	463237	655450	1100096	1039275
Fuels and lubricants	24739	5711	27067	11665	
Oils, greases, and waxes	237	216	1807	313	1332
Chemicals	56168	65033	60813	51667	103928
Manufactured products classified chiefly by material	82707	90330	164611	112723	110862
Machinery and transport equipment	20615	29322	49500	51810	95480
Manufactured products not elsewhere classified	8662	10652	32836	146034	104266
Other products and operations	227	224	1627	351	717
Total exports	1621891	1421658	1671631	2188002	1998670
Imports					
Food and live animals	755569	737755	855086	1033460	
Beverages and tobacco	20594	20242	25769	26069	23328
Raw materials, inedible, except fuels	90721	107491	134192	169508	156743
Fuels and lubricants	977267	868869	996272	1310386	
Oils, greases, and waxes	47390	39953	66816	60217	93454
Chemicals	477743	427410	415307	531910	604259
Manufactured products classified chiefly by material	677068	526481	600606	678607	878950
Machinery and transport equipment	1236900	982494	1000474	1196264	1797412
Manufactured products not elsewhere classified	508249	427924	516730	554407	713513
Other products and operations	1734	2148	1346	1204	1585
Total imports	4793235	4140767	4612598	5562032	7528127

Source: *Anuario estadístico de Cuba 2005*.

Venezuela: According to Castro's report, Venezuela: (1) agreed to continue in 2005 a preferential oil delivery program that would address Cuba's imported oil needs; (2) agreed to pay for Cuba's services exports to Venezuela (public health workers, teachers, sports trainers, etc.) under preferential terms so that proceeds from these exports would finance Cuban imports from Venezuela; (3) offered Cuba financing for infrastructure development projects, particularly with regard to oil transportation; (4) continued negotiations to form a joint venture with Cuba to operate the idle Cienfuegos refinery and the oil terminal for supertankers in Matanzas; (5) agreed to use Cuba as the distribution point for Venezuelan oil products in the Caribbean; (6) agreed to discuss with China

the use of Venezuelan coal in a nickel production investment being considered by that country (see below); and (7) proposed the construction—with Canadian company Sherritt International—of a thermoelectric plant at Mariel that would be fueled by Venezuelan coal.

Venezuela has provided Cuba an average of 98,000 barrels per day of oil—valued at a reported \$1.1 billion—pursuant to a long-term energy cooperation agreement, expanded in April 2005 through a bilateral agreement negotiated as part of the Bolivarian Alternative for the Americas (ALBA), the Venezuelan president's response to the Free Trade Area of the Americas.²⁰

19. "Buenas noticias para finalizar el año," *El Economista de Cuba Online*, May 25, 2004, http://eleconomista.cubaweb.cu/2004/nro245/245_699.html.

Table 5. Top Ten Cuban Merchandise Export and Import Markets (in thousand pesos)

	2001	2002	2003	2004	2005
Exports					
Netherlands	333900	296563	419683	647062	599656
Canada	228258	203202	266745	486794	437892
Venezuela	21890	19369	175799	225368	241023
Spain	143545	144478	178336	174205	161161
China	73737	74606	77336	80150	99613
Russia	404691	278364	132104	120825	57554
France	61030	49182	38160	36940	49256
Brazil	8095	6959	20255	46772	39718
Dominican Republic	24976	35089	31065	26408	38744
Mexico	26412	25229	20262	22455	19942
Top 10	1328535	1133041	1359745	1866979	1744559
Total Exports	1621891	1421658	1671631	2188002	1998670
Top 10/Total (%)	81.9	72.7	81.3	85.3	87.3
Imports					
Venezuela	951522	725359	682634	1142713	1858935
China	548494	516912	501603	583010	885394
Spain	693758	564944	581342	633035	653270
United States	4414	173615	327252	443910	470313
Canada	364130	240185	231557	254796	327879
Brazil	156483	110399	107455	176446	312419
Germany	98731	78432	115095	130084	309343
Italy	298007	280721	331448	269089	291855
Mexico	289543	203118	215505	242781	268166
Vietnam	59137	68996	78203	146103	251772
Top 10	3464219	2962681	3172094	4021967	5629346
Total Imports	4793236	4140767	4612598	5562032	7528127
Top 10/Total (%)	72.3	71.5	68.8	72.3	74.8

Source: *Anuario estadístico de Cuba 2005*.

China: Castro announced that China had: (1) donated \$6.1 million to purchase fabric for the manufacture of school uniforms; (2) granted a credit of \$6.1 million to purchase supplies for hospitals and polyclinics and spare parts for medical equipment; (3) deferred for 10 years repayment of loans that Cuba used during 1990–94 to purchase bicycles and electric fans, medical supplies and equipment, and a factory to assemble bicycles and electric fans; (4) through Chinese banks, granted Cuba a credit for \$500 million to establish a joint venture to build a nickel production plant capable of producing 22,500

tons of nickel (mineral content) per annum; (5) agreed to purchase 4,000 tons per annum of Cuban nickel sinter during 2005–2009; (6) agreed to start a feasibility study of a potential investment of \$1.3 billion in a joint venture to build a nickel production plant, capable of producing 50,000 tons of nickel per annum, at San Felipe, Camagüey; (7) granted a credit for Cuba to purchase 1 million Chinese television sets; and (8) agreed in principle to credits to underwrite infrastructure development projects in the island, including ports, railroads, telecommunications, mining, etc. In 2005, China provided Cuba with

20. “El comercio entre Cuba y Venezuela supera los 1.200 millones de dólares,” *Encuentro en la red* (December 29, 2005).

lines of credit to purchase Chinese goods and made important investments in the island.²¹

Sherritt: Castro also announced that Sherritt International, Cuba's joint venture partner since 1994 in the island's largest nickel producing plant, was considering making an investment of \$1 billion to expand the facility, boosting nickel production at the Moa plant to 53,000 tons per annum and overall production to 85,000 tons. In March 2005, Sherritt and Cubaníquel entered into a formal agreement to expand the Moa plant to 49,000 tons; ground was broken on the expansion in April 2006.²² With international nickel prices soaring in 2006, the expansion of the Moa plant appeared to be a sound investment.

Sherritt is also Cuba's largest oil producer by virtue of several arrangements with Cuba's Cupet that have given the Canadian company the right to explore and produce oil in the island and in several off-shore fields. Castro had yet another "good news" regarding Sherritt: he reported that the Canadian company had discovered an offshore field in the area of Santa Cruz, east of La Habana; an exploratory well had turned up medium grade oil with low sulfur content. Considerable additional exploratory work was needed to assess the magnitude of the deposit.

BACK TO CENTRALIZATION

It is worth recalling the dire situation that faced Cuba during the early days of the special period. Thus, between 1989 and 1993:

- The gross domestic product (GDP) contracted by about 35%, probably the sharpest decline in economic activity over a four-year period in Cuban history;
- GDP per capita contracted by about 37%;
- Gross domestic investment fell from 26.7% of GDP to 5.4%;
- The fiscal deficit rose from 7.3% of GDP to 33.5% as losses of state enterprises mushroomed

while the government maintained social services expenditures at close to their previous levels;

- Merchandise exports contracted by 79% and imports by 76%; and
- The hard currency foreign debt increased by nearly 42%.

Further, physical production of all key agricultural and industrial commodities—with the exception of crude oil—fell during this period, translating into sharp declines in consumption and in the standard of living of the population.

Economic Reforms²³

In the depth of the recession, the Cuban leadership began to implement pragmatic, market-oriented policies. These policies were instrumental in halting the economic downturn and bringing about a modest economic recovery. The economic policy measures implemented between 1993 and 1996 included:

- legalization of the holding and circulation of foreign currencies;
- authorization of self-employment in selected occupations;
- transformation of state farms into a new type of agricultural cooperatives;
- enactment of a tax reform package;
- reestablishment of agricultural free markets;
- creation of a "convertible" peso; and
- enactment of a foreign investment law.

According to official data, between 1993 and 2000, GDP recovered by about 30%, while GDP per capita did the same by about 26%.

The beneficial economic impact of the 1993–96 policy reforms was not fully realized, however, as the Cuban government undermined their implementation through bureaucratic means and resisted adopting complementary measures.

21. Frances Robles, "El nuevo y poderoso aliado comercial chino," *El Nuevo Herald* (December 24, 2005).

22. "Empresa mixta con Canadá ampliará producción de níquel a 49 mil toneladas," *Granma Internacional Digital* (April 19, 2006). <http://www.granma.cu/espanol/2006/abril19/17niquel.html>.

23. This section draws from Carmelo Mesa-Lago and Jorge Pérez-López, *Cuba's Aborted Reforms* (Gainesville: University Press of Florida, 2005), especially Chapter 1.

- For example, private home restaurants (*paladares*) were an early success story of the legalization of self-employment. The government prevented their growth through a regulation that set a maximum of 12 seats per restaurant. Moreover, frequent inspections of *paladares*—purportedly for public health reasons but also delving into the origin of products used in food preparation, relationship of workers to the owner, number of customers served—that resulted in severe penalties for violations acted as disincentives to private operators. Similarly, regulations prohibited private taxi drivers from serving the lucrative tourist market and high participation fees and taxes generally discouraged self-employment.
- Policy initiatives that would complement and strengthen the reforms, such as enterprise restructuring, expansion of self-employment, authorization of small businesses, and price liberalization, were discussed by academics and some officials in the mid-1990s. But none of them saw the light of day. No significant market-oriented initiative has been implemented since 1997.

The Return of Ideology²⁴

Despite the lack of government commitment to the pragmatist policy reforms of the first half of the 1990s, the Cuban economy showed positive growth in the second half of the 1990s and into the 2000s. According to official statistics, GDP grew at an average annual rate of about 5% in 1996–2000, slowing down to 3% in 2001, 1.5% in 2002, 2.6% in 2003, 5.4% in 2004,²⁵ and double-digit growth rates in 2005 and 2006. The relative economic improvement has evidently emboldened the Cuban leadership to intensify ideological pursuits.

Particularly since 2003, the Cuban government has actively worked to reverse the 1993–96 policy reforms, recentralizing economic decision making by banning state enterprises from conducting transac-

tions among each other in hard currency, deducting from decentralized enterprises the ability to engage directly in foreign trade and returning that power to the Ministry of Foreign Trade, forcing joint ventures to deposit all receipts with the Cuban Central Bank, extending direct government control over theretofore quasi-independent tourism enterprises, tightening requirements on tourism personnel, canceling permits for certain forms of self-employment, banning the circulation of the U.S. dollar, and imposing a tax on the exchange of U.S. dollars for convertible pesos.²⁶

The pace of anti-market rhetoric and policy actions speeded up in the last quarter of 2005. Under the guise of combating theft, corruption, and illegal economic behavior, since October 2005 the Cuban government:

- suspended all employees of gas stations and replaced them with about 15,000 young social workers, loyal to the regime and without ties to the communities to which they were assigned. According to Castro, corrupt gas station attendants skimmed up to half of the gasoline supply and sold it in the black market;
- designated an army general as director of the port of La Habana, the port that receives over 45% of Cuba's imports. Conventional wisdom has it that port workers regularly "milked" shipping containers and stole merchandise for their own use and for sale in the black market;
- also brought under military control warehouses for imported goods operated by enterprises CIMEX and Cubalse, located in the Berroa free trade zone, and by the enterprise Platino, to root out theft by workers;
- raided agricultural markets, confiscated produce being sold in contravention of state procurement rules, and fined those involved in illegal sales. Also impounded vehicles used to transport illegal

24. This section draws on Jorge F. Pérez-López, "Rectification Redux? Cuban Economic Policy at the End of 2005," *Cuban Affairs*, 1:1 (January 2006).

25. As discussed above, for 2004, Cuban official statistics report a 5.4% growth rate; CEPAL estimates growth in that year at 3%.

26. Carmelo Mesa-Lago, "The Cuban Economy in 2004–2005," *Cuba in Transition—Volume 15* (Washington: Association for the Study of the Cuban Economy, 2005), p. 13.

merchandise destined for agricultural markets; and

- launched a police offensive (“Operation Spider”) in La Habana against owners of parabolic antennas, who received TV signals from Miami and sold them in their neighborhoods.²⁷

In a speech at a gathering of University students in mid-November 2005,²⁸ Castro aggressively led the charge to dismantle what was left of market-oriented reforms. With language chock full of military allusions he proclaimed the start of a “battle” against immoral conduct, misuse of government resources, and theft, which he claimed proliferated during the special period. He admitted that the leadership had committed errors, deluded by the notion that it knew how to build socialism. He criticized “those who thought they could build socialism through capitalist methods,” clearly a slap at those within his government who had favored the 1993–96 reforms, and stated that those reforms had to be wiped out because they had sharpened “old problems”—inequality, corruption, the creation of a rich class—that Cuban socialism had already overcome. Cuba was bound to succeed in returning to its socialist roots, Castro asserted, because its nuclear-weapon-strength morality is invincible. Returning to a familiar slogan, Castro proclaimed that “the battle against ... [economic] deviations is a life or death struggle, a Fatherland or Death struggle.”

While it is clear that Cuba is fully engaged in a new ideological policy cycle, the specific policy instruments that will be pursued are still not fully defined. If history is a guide, the emphasis will be on undoing

market-oriented mechanisms and channeling the fury of activists against selected high-profile escape goats, who will be portrayed as the source of the economic ills, and there will be few if any positive policy initiatives. During the present ideological campaign, the designated culprits seem to be: (1) gas station attendants; (2) wasteful consumers of electricity; (3) government employees who misuse state resources; and (4) black market operators. Castro promised to show no mercy in dealing with these miscreants, warning that the government will adopt measures with the strength of a Category 5 hurricane!²⁹

THE END OF THE SPECIAL PERIOD?

More than 15 years after it was announced, has the special period ended? This is not a straightforward question since a precise definition of the special period, its detailed objectives, or the measures that would indicate that it has ended have not been articulated by the Cuban government. In this section we analyze the special period from two perspectives: (1) as a hiatus until pre-1990 levels of production and consumption were reached; and (2) as a time for policy experimentation and reform.

The Special Period as a Hiatus to Return to Pre-1990 Economic Levels

One way to look at the special period is as an interval until the Cuban economy returned to pre-1990 production and consumption levels. Support for this interpretation of the special period comes from many sources, among them Minister of the Economy and Planning Rodríguez. Speaking to a journalist in November 2002, Minister Rodríguez stated: “The economy grew at an average annual rate of 4.1% between

27. Wilfredo Cancio Isla, “Militarizan la economía cubana,” *El Nuevo Herald* (November 6, 2005); Carlos Batista, “Lanzan ofensiva en Cuba contra los mercados campesinos,” *El Nuevo Herald* (November 14, 2005); Andrea Rodríguez, “Intensifica Cuba sus controles sobre actividad privada,” *El Nuevo Herald* (November 14, 2005); “El gobierno arrecia su campaña contra la iniciativa privada y por el control interno,” *Encuentro de la Cultura Cubana* (November 15, 2005); Wilfredo Cancio Isla, “Castro lanza una ofensiva contra el acceso ilegal a la TV por satélite,” *El Nuevo Herald* (December 1, 2005).

28. Fidel Castro Ruz, “Discurso pronunciado en el acto por el aniversario 60 de su ingreso en la universidad, efectuado en el Aula Magna de la Universidad de la Habana el 17 de noviembre de 2005,” <http://www.cubaminrex.cu/Archivo/Presidente/discursos%20Fidel%202005.htm>. See also María Julia Mayoral and Alberto Núñez Betancourt, “Ratifica Fidel su confianza en que podemos construir la sociedad más justa del mundo,” *Granma* (November 18, 2005); Andrea Rodríguez, “Castro ataca al mercado negro y quiere poner la casa en orden,” *El Nuevo Herald* (November 18, 2005); and Carlos Batista, “Castro llama a sus seguidores a salvar la revolución,” *El Nuevo Herald* (November 19, 2005).

29. Isabel Sánchez, “Castro toma medidas de ‘categoría 5,’” *El Nuevo Herald* (November 24, 2005).

1995 and 2001, faster than the Latin American average. Of course, given the 35% fall in the gross domestic product through 1993, it has not been possible to reach economic activity levels before the special period, but no doubt there has been significant economic recovery in these years...³⁰ In September 2006 Minister Rodríguez told reporters that in 2005, Cuba's gross domestic product had returned to its 1989 level.³¹

In addition to showing physical production levels for 33 products in 2004 and 2005, Table 1 also shows the corresponding production level for 1989, the year before the start of the special period, and compares production levels in 2005 and 1989. Table 6 separates the products into two groups: (1) those for which the 2005 level of production was higher than in 1989 (column 1); and (2) those for which the 2005 level of production was lower than in 1989 (column 2). Within each group, the products are listed in decreasing order of relative change.

Fifteen of the 33 products showed higher production levels in 2005 compared to 1989. The most significant increases were in energy products (natural gas, oil), the result of a national campaign to develop energy resources spurred by arrangements with foreign companies. Nickel production also increased substantially; all nickel production is for export and has been spurred by foreign investment, particularly from Canadian company Sherritt International. Yogurt production also increased significantly, nearly tripling over the period 1989–2005—yogurt is not a staple in Cuban consumption and the rapid increase in its production reflects largely the paternalistic promotion of the product by President Castro. Other items for which production increased include household detergent, telephone wires, canned meat, soft drinks, cigars, alcoholic beverages, and bread. Interestingly, electricity generation—often considered an indicator of real economic growth—barely returned

in 2005 to its pre-crisis production level (electricity generation in 2005 was 0.7% higher than in 1989).

In contrast, 18 of the products listed in Table 6 had production levels in 2005 below their corresponding 1989 levels. Among the sharpest disparities (exceeding 50%) were those for complete fertilizers (-92.5%), textiles (-88.6%), pasteurized milk (-82.3%), sugar (-82.2%), ceramic bathroom fixtures (-70.9%), laundry soap (-64.9%), mixed animal feed (-62.5%), gray cement (-57.8%), lobster tails (-57.4%), pork (-54.7%), and concrete blocks (-53.4%). Other products with production level in 2005 below their corresponding levels in 1989 were pasta, refined vegetable oil, steel, cigarettes, canned fruits, asbestos roofing tiles, and toothpaste.

Table 6. Comparison of Production Levels, 1989 and 2005

2005 production level higher than 1989 level	2005 production level lower than 1989 level
Natural gas (2085%)	Complete fertilizers (-92.5%)
Oil (371.9%)	Textiles (-88.6%)
Yogurt (172.6%)	Pasteurized milk (-82.3%)
Nickel (64.4%)	Sugar (-82.2%)
Household detergent (61.5%)	Ceramic bathroom fixtures (-70.9%)
Telephone wires (60.3%)	Laundry soap (-64.9%)
Manufactured gas (45.4%)	Mixed animal feed (-62.5%)
Hand soap (42.9%)	Cement, gray (-57.8%)
Canned meat (33.8%)	Lobster tails (-57.4%)
Soft drinks (33.3%)	Pork (-54.7%)
Cigars (30.7%)	Concrete blocks (-53.4%)
Alcoholic beverages (22.4%)	Pasta (-46.2%)
Bread (9.9%)	Refined vegetable oil (-34.2%)
Wheat flour (1%)	Steel (-22.2%)
Electricity (0.7%)	Cigarettes (-15.2%)
	Canned fruits (-14.3%)
	Asbestos roofing tiles (-11.4%)
	Toothpaste (-9.8%)

Based on these production data, then, a case could be made that the special period is still ongoing. To be sure, certain sectors of the economy—particularly those favored by foreign investment—have recov-

30. Caridad Carrobello, "Entrevista al Ministro de Economía y Planificación" (November 2002), http://www.cubaminrex.cu/Mirar_Cuba/entrevistas.

31. "Cuba no permitirá pequeñas empresas," *El Nuevo Herald* (September 13, 2006).

ered or even surpassed pre-crisis production levels, but other sectors continue to be depressed.

The Special Period as a Time for Policy Experimentation and Reform

Economic policy making in socialist Cuba has been characterized by swings from idealism to pragmatism and back, from anti-market to somewhat-market-friendly policy cycles. The Cuban political leadership prefers idealist policy cycles, as they epitomize centralization and government control, but reluctantly adopts market-oriented policies when it is essential to generate some economic growth to allow the political system to remain in power.

Pragmatist, market-oriented reforms implemented in the first half of the 1990s (discussed above) were instrumental in overcoming the depth of the depression associated with the special period. But in the second half of the 1990s, the Cuban leadership slowed down, halted, and began to reverse the reforms. The pace of dismantling the reforms picked up since 2003, reaching a crescendo toward the end of 2005 when President Castro personally launched a new campaign purportedly seeking to return Cuban socialism to its real roots.

The fictitious economic growth statistics issued by the Cuban government have had the perverse effect of providing fodder for misguided triumphalism by Cuban government officials, such as statements by Castro that Cuba is on its way to “economic invulnerability” (whatever that means) or by National Assembly Deputy Martínez that they demonstrate “the superiority of Cuba’s social system within Latin America.”³²

Thus, if defined as a time span of policy experimentation and reform, the special period is over. As Min-

ister Rodríguez told journalists in September 2006, the Cuban government has overcome the need for liberalizing reforms and has returned to centralization.

CONCLUDING REMARKS

What can we conclude about Cuban economic performance in 2005 and 2006? Unfortunately, not very much that is based on hard statistical data. Performance of the agricultural and industrial sectors—the sectors that put more food and basic products in the hands of consumers and generate electricity to provide lighting and preserve food—seems to have been lackluster at best. The average Cuban consumer does not benefit from a revaluation of the value of social services or of exports of teachers or physicians to Venezuela.

Minister Rodríguez has forecasted a growth rate of 12% in 2006, a year that promises further centralization of economic decision making and dismantling of what’s left of market-oriented reforms—under the guise of combating theft, corruption, and illegal economic behavior—a new “energy revolution,”³³ a national construction plan that foresees building 150,000 new dwellings,³⁴ and an (unspecified) set of “strategic actions” to combat the problem of droughts.

Cuba is fully engaged in yet another ideological economic policy cycle. History has shown that ideological cycles in Cuban policy making result in economic chaos, more repression, and fewer goods and services to distribute to the population. Generous assistance from Venezuela and high commodity prices can mask some of the problems, but inevitably, bad policies will take their toll on the Cuban economy.

32. “Reafirma Cuba su superioridad económica en América Latina,” *Granma* (January 1, 2006). Journalist Ariel Terrero, “Cambios en la economía cubana,” *Bohemia* (January 6, 2006) cites Cuba’s official growth rate of 11.8% in 2005 and states that it is the highest growth rates in the Americas.

33. The energy revolution started off on bad footing when a national television appearance by President Castro on the topic had to be rescheduled because of a huge electricity blackout in Havana. See Fernando Ravsberg, “Revolución energética a oscuras,” *BBC Mundo* (January 20, 2006) and “Un apagón deja a oscuras a La Habana,” *El Nuevo Herald* (January 20, 2006).

34. The housing construction program has also faced significant problems. In August 2006, the Director of Investments of the National Housing Institute scaled down the number of housing units to be built from 150,000 to about 119,000. Among the reasons given for the shortfall are swings in international oil prices and the priority given to the construction of hospitals, schools, etc. See “Cuba no cumple plan de nuevas viviendas,” *El Nuevo Herald* (August 17, 2006).