

DASHED EXPECTATIONS: RAÚL CASTRO'S MANAGEMENT OF THE CUBAN ECONOMY, 2006–2010

Jorge F. Pérez-López

On February 24, 2008, Cuba's National Assembly of People's Power (ANPP) elected Raúl Castro as the nation's President. The younger Castro (76 years old at the time) had served as interim President since early August 2006, when older brother Fidel (nearly 80 years old at the time) vacated the post because of illness. This transfer of power at the highest level—the first in Cuba in close to five decades—raised expectations in the island and abroad about policy changes, particularly in the economic arena, as Raúl had a reputation of pragmatism and openness to economic reform, in contrast to his more ideological and conservative brother.

Recall that in the throes of the “Special Period in Time of Peace,” it was Raúl who stated publicly that “beans are more important than cannons,” as he supported market-oriented measures that were instrumental in bringing the Cuban economy back from the economic abyss.¹ Further, the Ministry of the Armed Forces (MINFAR), under Raúl's leadership, was the incubator of the Sistema de Perfeccionamiento Empresarial, a management system used by the Cuban state's largest enterprises based on capitalist management techniques. Moreover, MINFAR is

responsible for creating some of the most successful economic enterprises operating in the island and abroad, among them the tourism company Gaviota and GAESA (Grupo de Administración Empresarial, S.A.), a conglomerate of enterprises operated by the Cuban military that behaves as a profit-maximizing multinational enterprise.² Finally, in his July 26, 2007 address to the nation—delivered a year into his interim presidency but nearly 7 months before assuming the Presidency in his own right—Raúl was candid in identifying problem areas and relatively light on rhetoric, raising expectations of changes to come, particularly as he spoke about deep rooted problems that could not be solved overnight and hinted about openness to new ideas.³

This paper selects elements of Raúl Castro's views on key challenges facing the Cuban economy and evaluates efforts to address them roughly four years into his government. It concludes that despite high expectations of change, Raúl's management of the economy has been orthodox and has failed to deliver on key structural reforms that are sorely needed in the island.

1. Quoted in Brian Latell, *After Fidel: The Inside Story of Castro's Regime and Cuba's Next Leader* (New York: Palgrave Macmillan, 2002), p. 233. Raúl recalled this statement in a July 2008 speech before the ANPP. See <http://www.cuba.cu/gobierno/rauldiscursos/2008/esp/r110708e.html>. Latell (p. 226) makes the broader point that Raúl was “widely believed to have been the regime's most persistent advocate of liberalizing economic reforms in the years since the collapse of the Soviet Union.”

2. On GAESA's structure and reach see Sergio Díaz-Briquets and Jorge Pérez-López, *Corruption in Cuba: Castro and Beyond* (Austin: University of Texas Press, 2006), 157–60.

3. Speech is at <http://www.granma.cubaweb.cu/2007/07/27/nacional/artic01.html>.

CUBA'S ECONOMIC PROBLEMS

Unlike his loquacious older brother, it is not Raúl's style to give many or very long speeches and interviews. Thus, a review of his public interventions for the purpose of culling economic priorities is not nearly as difficult an undertaking as it would have been with Fidel. The emphasis here is on views publicly expressed since mid-2006 when Raúl's interim Presidency commenced.

Perhaps the most significant articulation of Raúl Castro's economic priorities and views was embodied in his July 26, 2007 address to the nation. As mentioned above, in that address, Raúl spoke about deep rooted problems afflicting the country's economy that could not be solved overnight and hinted about openness to new ideas. To be sure, an important element—and indeed a common theme in his speeches—is the need for tighter discipline and harder work, but these exhortations are old news and readily discounted by the population. The July 26, 2007 address may have been the high water mark with respect to openness to economic policy experimentation, however, as relatively little new ground has been broken since then.

Among the principal economic problems/policy priorities for Cuba that have been identified by Raúl Castro are:

1. A stagnant agricultural sector, which produces ever declining shares of food requirements and results in rising food imports, despite an abundance of idle cultivable land.
2. A cumbersome and inefficient distribution system for agricultural and non-agricultural products that fails to meet the needs of consumers and wastes energy in unnecessary transportation, coupled with excessive restrictions on Cuban consumers, who are not permitted to purchase a wide range of products or services which are accessible to foreigners.
3. A labor compensation system that fails to reward workers properly for their work, produces wages

that are not sufficient to meet the needs of workers, and results in low productivity.

4. A dearth of domestic investment resources and a need to stimulate foreign direct investment that can also provide technology and access to foreign markets for Cuban products.

ECONOMIC POLICY INITIATIVES

Policy development and implementation around the four topics mentioned above have been uneven and generally speaking quite weak. With respect to one of the four, a stagnant agricultural sector, discrete but tangible steps have been taken. More modest steps have been taken with respect to two others, a cumbersome and inefficient distribution system and the need to rationalize wages. Finally, with regard to stimulation of foreign investment, no tangible progress can be detected to date.

Agricultural Sector

The imperative to increase food production and reduce agricultural imports was a key message of Raúl's July 27, 2007 address. He bemoaned the very high prices of food in international markets and the adverse impact of rising food imports on the balance of payments; he expressed frustration at a stagnant agricultural sector despite ample natural resources to produce more food:

...I am talking about products that I think can be grown here [in Cuba]. It seems to me that there is plenty of land. And we have had good rains last year and this year. As I drove in here I could see that everything around is green and pretty. But what drew my attention the most, what I found prettiest was the *marabú* growing along the road.⁴

Indeed, Cuban analysts concur that many of the island's current food imports could be produced domestically, among them rice, beans, milk, poultry meat, and oils and fats.⁵

The secular decline of Cuba's agricultural sector, and particularly the steep contraction in the last two decades, has been well documented by Cuban economist Nova González.⁶ He has pointed out that as re-

4. <http://www.granma.cubaweb.cu/2007/07/27/nacional/artic01.html>.

5. Armando Nova González, "Importancia económica del sector agropecuario en Cuba," *Cuba Siglo XXI*, no. 91 (November 2008).

cently as 1991, the agricultural sector (including sugar production) was responsible for 83% of the value of the island's total goods exports;⁷ the comparable figure for 2009–2010 was 15–17%. Similarly, while in 1990 agriculture's contribution to GDP was 8.6%,⁸ in 2009 it was 3.7%.⁹ At present, domestic food production provides 40% of calories and 37% of proteins consumed daily by the Cuban population.¹⁰ The gap in food supplies is met by imports, which have been rising rapidly, as shown in Table 1; in 2009, food imports amounted to nearly 1.5 billion pesos and represented about 17% of the value of imports.

Table 1. Cuban Food Imports, 1994–2009 (million pesos and percent)

Year	Value of Food Imports	Food Imports/ Total Imports (%)
1994	467.3	23.2
1995	610.9	21.2
1996	718.2	20.1
1997	724.6	18.2
1998	704.2	16.9
1999	722.4	16.6
2000	671.8	14.0
2001	755.6	15.8
2002	739.4	17.7
2003	857.0	18.3
2004	1034.1	18.4
2005	1316.9	17.3
2006	1259.3	13.3
2007	1548.9	15.4
2008	2205.3	15.5
2009	1494.1	16.8

Source: Oficina Nacional de Estadísticas (ONE), *Anuario Estadístico de Cuba 2000* (2001) and ONE, *Sector Externo en Cifras 2009*, www.one.cu/sectorencifras2009.htm.

In one of his first interventions after becoming interim President, Raúl Castro spoke in strong terms at a December 2006 meeting of the ANPP about “bureaucratic red tape” that resulted in government not making payments to individual farmers and cooperatives responsible for producing 65% of the island's vegetables.¹¹ Accumulated arrears for agricultural products acquired under the *acopio* system, were a heavy economic burden on private farmers and cooperatives. In early 2007, the Cuban government began to settle the arrears, raised *acopio* prices for some products (milk and meats), and took steps to make it easier for farmers to buy agricultural inputs (*machetes*, work gloves, fertilizers) at government stores.

Perhaps the most significant structural economic initiative in a decade was launched in mid-2008 with the passage of Decree-Law No. 259, on transfers of idle land.¹² According to official figures cited by Castro, land under cultivation had declined by 33% between 1998 and 2007.¹³ Pursuant to Decree-Law No. 259: (1) landless individuals could obtain up to 13.42 hectares and existing landholders could bring up their total holding to 40.26 hectares for their use for 10 years, renewable for an additional 10 years; and (2) existing state farms, cooperatives, and other legal entities could apply for the usufruct of unlimited amounts of idle lands for 25 years, renewable for another 25.

Roughly a year after enactment of the legislation, over 110,000 applications for land grants had been filed, of which about 78,000 had been approved, dis-

6. See, e.g., Armando Nova González, *La agricultura en Cuba: Evolución y trayectoria* (La Habana: Editorial de Ciencias Sociales, 2006).

7. Armando Nova González, “El papel estratégico de la agricultura: problemas y medidas,” *Temas* (April 9, 2010).

8. Estimated by Comisión Económica para América Latina y el Caribe (CEPAL), *Cuba: Evolución Económica durante 1998*, LC/MEX/L.392 (August 1999), p. 21.

9. Based on *Anuario Estadístico de Cuba 2009* (2010), www.one.cu/aec2009/20080618index.htm. The very low contribution of agriculture to GDP in 2009 needs to be interpreted with care, as it reflects a revaluation of the output of services sectors that occurred in 2004–2006. The cited figure of agriculture's share of GDP in 2009 is not comparable to the figure for 1990.

10. Armando Nova González, “El papel estratégico de la agricultura: problemas y medidas,” *Temas* (April 9, 2010).

11. Anita Snow, “Raúl Castro speaks about Cuba food woes,” Associated Press (December 23, 2006).

12. Decreto-Ley No. 259 sobre la entrega de tierras ociosas en usufructo, in *Granma* (July 13, 2008), <http://www.granma.cubaweb.cu/2008/07/18/nacional/artic05.html>.

13. <http://www.cuba.cu/gob/rauldiscursos/2008/esp/r110708e.html>.

tributing about 41% of the 1.7 million hectares of the land that had been identified as being idle.¹⁴ By December 2009, over 920,000 hectares had been distributed to over 100,000 beneficiaries, roughly 54% of idle lands.¹⁵

Distribution System

While the distribution of idle land to private farmers, the increase in *acopio* prices, and the enhanced availability of inputs to farmers are all positive steps, the success of the measures in delivering more food production to consumers will depend on many other factors, among them reforming the bureaucratic and inefficient *acopio* system and improving the transportation system. Bottlenecks and failures of these two systems result in the waste or spoilage of a high share of perishable food products.

There is no indication to date of any serious efforts to dismantle or reform substantially the *acopio* system, which has been in place since the early 1960s. Payment of arrears to farmers and increases in *acopio* prices can contribute to making the system less onerous for farmers, but do not remove its intrinsic inefficiencies. Hagelberg and Alvarez have pointed out that in mid-2009, in the city and province of Havana, management of *acopio* was experimentally shifted from the Ministry of Agriculture to the Ministry of Domestic Commerce to emphasize the distribution aspect of the system; however, they see this shift not as a structural change, but rather as a “rearrangement of the furniture,” since bureaucratic decision-making will continue unchanged and an under-equipped transportation system will still need to distribute production to processing sites and to consumers.¹⁶

Cuba's independent farmers coincide with the diagnosis that restrictions on their ability to purchase inputs and the bureaucracy of the *acopio* system are the main impediments to growth of the agricultural sector. Farmers want to buy their own fertilizers and pesticides and other agricultural inputs; the government still supplies nearly everything that farmers need “and it does it badly.”¹⁷ Farmers also want to control the distribution of their output, eliminating the vast government-run system for getting products from farm to consumer, which farmers say “has too many people and inflated payrolls.”¹⁸ Farmers were not shy about criticizing the current agricultural distribution system and suggesting the lifting of restrictions during a national assembly of the National Association of Small Farmer (ANAP) held in May 2010. The response from the government, delivered by Minister of Economics and Planning Murillo, was tepid, recognizing the depressed condition of the industry, but not promising any immediate relief to farmers save for a drive to eliminate “illegal intermediaries”—who buy and resell food at a profit—and pilot projects to promote local sales of food by farmers that by-pass the bureaucracy and transportation costs.¹⁹

Raúl Castro has been outspoken about the inefficiencies of the agricultural distribution system, using the woes in milk production and distribution as a metaphor for red tape, waste, and duplication. In his July 2007 address, he announced a pilot project in six municipalities whereby milk produced within a municipality would be destined to meet local consumption needs. It is worth quoting Raúl's description of the project and analysis of the underlying situation:

14. Ana Margarita González, “Entrega de tierras (I): Realidades y manipulaciones,” *Juventud Rebelde* (July 6, 2009) and “Entrega de tierras (II): Con premura, pero sin chapucerías,” *Juventud Rebelde* (July 13, 2009).

15. <http://www.granma.cubaweb.cu/2009/12/21/nacional/artic01.html>.

16. G.B. Hagelberg and José Alvarez, “Cuban Agriculture: The Return of the *Campesinado*,” *Cuba in Transition—Volume 19* (Washington: Association for the Study of the Cuban Economy, 2009), pp. 238–239.

17. “Hungry for change: The timidity of agricultural reform,” *The Economist* (March 25, 2010).

18. Juan O. Tamayo, “Cuban farmers seek fewer government regulations,” *Miami Herald* (May 18, 2010).

19. Tamayo, “Cuban farmers seek fewer government regulations”; Patricia Grogg, “Nueva estrategia agrícola sin reformas profundas,” *IPS* (May 18, 2010).

... we have eliminated absurd procedures through which this valuable food product [milk] traveled hundreds of miles before reaching a consumer who, quite often, lived a few hundred meters away from the farm where the milk was produced, and with its product losses and fuel expenses. ... What was the situation until four months ago? The closest pasteurizing plant [to the Mantua municipality in Western Cuba] is in Sandino municipality, 40 kilometers away.... Thus in order to deliver milk to that plant, a truck had to travel a minimum of 80 kilometers each day to make the round journey. The milk that children and other consumers in Mantua receive under the rationing system, once pasteurized at the Sandino plant, returned shortly after on a vehicle which, it is logical to assume, had to return to its base of operations after delivering the product. In total it traveled 160 kilometers... The commendable aim of all this crisscrossing was to pasteurize all milk. This measure makes sense and it is necessary in the case of large urban centers—although it is customary in Cuba to boil all milk, whether the milk is pasteurized or not—and all milk to supply cities will thus continue to be stocked and pasteurized, but it is not viable for a truck—or hundreds of trucks—to travel these long distances every day to deliver a few liters of milk to places that produce enough of it to be self-sufficient.²⁰

To be sure, changes to the intricate distribution system of the kind mentioned by Raúl are positive, but why not get rid of *acopio* and of the rationing system altogether, ridding the nation of two inefficient and distortive systems that have been in place for nearly 50 years!

The Cuban government under Raúl has relaxed a number of long-standing restrictions on the consumption of goods and services that discriminated against Cuban citizens and were very negatively perceived by the population. In May 2007, Cuba modified Customs procedures to allow the importation of electronic equipment, engines and motor vehicle parts, video cassette players and recorders, and bicy-

cle parts. Moreover, effective April 1, 2008, Cuba authorized Cuban consumers—using convertible currency (CUC)—to purchase computers, cell phones, video equipment, microwave ovens, toasters, air conditioners, large screen TVs, car alarms, and so on. Cubans were also allowed access (using CUC) to tourism hotels and supermarkets heretofore only accessible to foreigners.²¹

How significant these changes are in practice is questionable, given the very limited purchasing power in convertible currency (CUC) of Cuban citizens. A comment in a U.S. newspaper at the time put it this way: “Cuba is still far from a shopper’s paradise. Nearly everyone holds government jobs, earning an average of \$19.50 a month, although many get U.S. dollars from tourism jobs or relatives abroad. It would take the average Cuban five months to earn enough to buy a low-end DVD player that an American could buy with about two days’ work at the federal minimum wage.”²²

Labor Compensation and Productivity

In his July 27, 2007 address, Raúl Castro spoke very directly with regard to the need to modify the labor compensation system and promised deliberate, concrete steps to do so:

We are also aware that, because of the extreme objective difficulties that we face, wages today are still clearly insufficient to satisfy all needs and have thus ceased to play a role in ensuring the socialist principle that each should contribute according to their capacity and receive according to their work. This has bred forms of social indiscipline and tolerance which, having taken root, prove difficult to eradicate even after the objective causes behind them are eradicated. ... A simple criticism or appeal will not solve these problems, even when uttered in a ceremony like this one.²³

Writing about labor market policies and changes that are required, a Cuban academic economist describes

20. <http://www.granma.cubaweb.cu/2007/07/27/nacional/artic01.html>.

21. Marc Frank, “Cuba’s aging leaders move to shore up revolution,” Reuters (March 26, 2008); Carmelo Mesa-Lago, *La economía cubana en la encrucijada: el legado de Fidel, el debate sobre el cambio y las opciones de Raúl*, Documento de Trabajo No. 19/2007, Real Instituto Elcano, Abril 23, 2008, p. 31.

22. “Castro employing a bit of capitalism to freshen up Cuba,” *The New York Times* (April 3, 2008).

23. <http://www.granma.cubaweb.cu/2007/07/27/nacional/artic01.html>.

the compensation system that prevailed at the time of Raúl's assessment as follows:

The compensation policy of the last decade, in addition to failing to narrow the gap between wages and prices, has been anarchic, short-term oriented, rushed, and without foundation. The compensation system—if such a term could be used to describe it—has a strong egalitarian tendency and does not respond to the principle of pay related to quality or to amount of work performed. The fact that economic constraints do not permit raising the compensation level of all workers at once does not prevent the design of a system, agreed consensually, that is adequate and is applied gradually in a manner that increases productivity. Such system should be designed with maximum consideration given to consensual agreement and broad participation. A high priority to improve efficiency is to eliminate contradictions between, on the one hand, norms/premiums and workers' compensation, and on the other hand, pay based on performance and compensation schemes that treat all workers equally.²⁴

A potentially significant step introducing some flexibility into the labor market was the issuance by the Ministry of Labor and Social Security (MTSS) in June 2008 of Resolution No. 9, which required enterprises to put in place multiple pay systems tied to performance.²⁵ Prior to the issuance of Resolution No. 9, the practice was for the pay of all workers in an enterprise—from line operators to top managers—to be tied to one global indicator of enterprise performance, such as an overall physical production target, or a sales or profit target. Needless to say, such system did not reward individual workers

for their performance. The new resolution recognized the need for there being, within an enterprise, multiple pay systems each related to the nature of the activity carried out by a worker or a group of workers and connected to the quantity and/or quality of goods and services they produced. Enterprises were to come into compliance with the new pay system by August 2008.

Facing opposition from enterprises, the MTSS extended the time period for enterprises to comply with the Resolution and establish pay systems based on performance until December 15, 2008, with implementation to commence in early 2009.²⁶ The almost complete lack of information from government officials on progress in implementing Resolution No. 9 suggests that resistance from enterprises was stronger than anticipated and that implementation of the ballyhooed pay reform will either occur over a long time period or will be scrapped.²⁷ Analysts adduce that the reasons for the slow implementation of pay for performance are: (1) the difficulty in doing so because of excessive regulation of enterprises by the government bureaucracy and the enterprises' lack of autonomy over costs and other factors; and (2) the economic crisis, which has reduced the profitability of enterprises and their ability to finance pay increases.²⁸

One of the statistics that Cuba cites as evidence of the success of its economic model, but defies economic logic, is the unemployment rate. In the context of discussing the very challenging external eco-

24. Lázaro González Rodríguez, "La Revolución exige cambios en la política laboral: Actualidad de la política laboral en Cuba," *Cuba Siglo XXI*, no. 92 (December 2008).

25. Lourdes Pérez Navarro, "Nuevo sistema de pago por resultados," *Granma* (June 11, 2008); "Cuba: Raúl Castro terminará con el igualitarismo salarial," *Infolatam* (June 12, 2008).

26. Lourdes Pérez Navarro, "Implementar el sistema de pago por resultados," *Granma* (October 28, 2008); "El sistema de 'pago por resultados' deberá esperar hasta enero," *Cubaencuentro* (October 28, 2008).

27. An article by a Cuban journalist who writes for *Juventud Rebelde* complaining about pressure from government officials to publicize the pay for performance system contrasted with the absolute silence on its implementation and the refusal of officials to answer journalists' questions about it, was posted in the electronic version of *Juventud Rebelde* on October 16, 2009 and was quickly taken down, although it was captured by a blogger in Europe. The article, by José Alejandro Rodríguez, is titled "Contra los demonios de la información secuestrada." It was posted by blogger Jorge Ferrer in his blog "El tono de la voz," on October 17, 2009. See <http://www.cubaencuentro.com/jorge-ferrer/blogs/el-tono-de-la-voz/juventud-rebelde-y-la-informacion-secuestrada>.

28. CEPAL, *Cuba: Evolución Económica durante 1998*, p. 4, and Pavel Vidal Alejandro, "Los cambios estructurales e institucionales," *Cuba a la Mano*, February 2010, http://cubaalamano.net/sitio/client/_ips.php?id=85

conomic environment faced during 2009, and while reporting a growth rate for the year of 1.4% (compared to a projected growth rate of 6.0%), Minister of Economics and Planning Marino Murillo informed that employment had grown by 2.5% compared to 2008 and the unemployment rate was 1.7%,²⁹ probably one of the lowest, if not the lowest, in the world. The oddness of Cuba's exceedingly low unemployment rate is evident from the statistics in Table 2, culled by CEPAL for Latin American and Caribbean countries. CEPAL estimates the average unemployment rate for the region in 2009 at 8.3%, 4.9 times the reported unemployment rate for Cuba. For the large, diversified economies in the region, the unemployment rates were 8.8% for Argentina, 8.1% for Brazil, 9.8% for Chile, 13.0% for Colombia, and 8.3% for Peru. Even Venezuela, Cuba's closest ally and economic patron, reported an unemployment rate of 8.0% in 2009.

Minister Murillo also indicated that labor productivity had declined by 1.1% in 2009, not surprising given the poor economic performance and extremely high employment rates. Speaking at the closing session of the Union of Communist Youth (UJC) in April 2010, Raúl Castro riled against state paternalism that reduces incentives for individuals to engage in productive work and breed low productivity. He proceeded to shake up the crowd—and the nation as a whole—with his assessment of the magnitude of underemployment and the need to address it. He said:

If we keep inflated payrolls in nearly every sector of national life and pay salaries that are not related to output growth, thus raising the amount of money in circulation, we cannot expect prices to cease to climb constantly or prevent the deterioration of the purchasing power of the population. *We know that the budgeted and entrepreneurial sectors have hundreds of thousands of workers in excess; some analysts estimate that the surplus of workers exceeds one million.* This is

Table 2. Average Annual Unemployment Rates (%)

	2006	2007	2008	2009
Argentina	10.2	8.5	7.9	8.8
Bahamas	7.7	7.9	9.7	12.4
Barbados	8.7	7.4	8.1	10.0
Belize	9.4	8.5	8.2	—
Bolivia	8.0	7.7	6.7	6.8
Brazil	10.0	9.3	7.9	8.1
Chile	7.8	7.1	7.8	9.8
Colombia	13.1	11.4	11.5	13.0
Costa Rica	6.0	4.8	4.8	7.6
Cuba	1.9	1.8	1.6	1.7
Dominican Republic	16.2	15.6	14.1	14.9
Ecuador	8.1	7.4	6.9	8.6
El Salvador	5.7	5.8	5.5	—
Honduras	4.9	4.0	4.1	4.9
Jamaica	10.3	9.8	10.6	11.3
Mexico	4.6	4.8	4.9	6.8
Nicaragua	7.0	6.9	8.0	—
Panama	10.4	7.8	6.5	7.9
Paraguay	8.9	7.2	7.4	—
Peru	8.5	8.4	8.4	8.3
Trinidad and Tobago	6.2	5.6	4.6	5.1
Uruguay	11.4	9.6	7.9	7.7
Venezuela	9.9	8.3	7.4	8.0
Latin America and Caribbean	8.6	7.9	7.4	8.3

Source: CEPALSTAT; for estimate for Cuba in 2009, see text.

an extremely sensitive issue that we should confront firmly and with political common sense. The Revolution will not leave anyone helpless. It will strive to create the necessary conditions for every Cuban to have a dignified job, but this does not mean that the State will be responsible for providing a job to everyone after they have been made several job offers. The citizens themselves should be the ones most interested in finding socially useful work.³⁰ (Emphasis added.)

Considering that total employment in 2009 was roughly 5.07 million workers,³¹ reduction of 1 million jobs would mean the loss of 1 in 5 jobs or 20%. While presumably it may be possible to place some of the retrenched workers in agriculture and construction, it is not clear that these are the jobs that the average state worker wishes to perform.³² Salva-

29. "En el año 2010 debemos trabajar con intensidad y disciplina para lograr el máximo de eficiencia," *Granma* (Diciembre 21, 2009), <http://www.granma.cubaweb.cu/2009/12/21/nacional/artic03.html>.

30. <http://www.cuba.cu/gobierno/rauldiscursos2010/ing/r030410i.html>.

31. Oficina Nacional de Estadísticas, *Anuario estadístico de Cuba 2009*, Table 7.2, www.one.cu.

32. Mauricio Vicent, "Cuba debe despedir a un millón de empleados estatales," *El País* (May 2, 2010).

dor Mesa, Secretary General of the Confederation of Cuban Workers (CTC) in his May Day 2010 address called on all workers to reflect on the content of Raúl's speech to the UJC and to "support a revamping of our economic model, which will require extraordinary efforts and sacrifices, knowing full well that only through dignifying work—as the font of material and spiritual wealth and creator of consciousness—will we be able to guarantee the economic and social development of the nation."³³

In 2010, the government has cautiously lifted restrictions on private activities in certain services sectors perhaps as a trial balloon for scaling back state sector employment. Among these are barber shops and beauty shops, which since April can be rented from the state by workers through payment of a monthly rental fee and payment of taxes on income earned; workers can operate the shops and provide services to customers at whichever price the market will bear.³⁴ In May the state also began to rent mall buses in Havana to private drivers as a way to supplement the public transportation system.³⁵

Foreign Investment

During the 1980s, before the Special Period, the Cuban economy experienced robust investment rates, estimated at 25% of GDP in 1989–1990.³⁶ This flow of investment represented a combination of domestic capital formation plus grants and other forms of assistance from the Soviet Union and countries of the former Council for Mutual Economic Assistance (CMEA). As CMEA members typically did not invest in the economies of each other (except for well-defined multi-country development projects), Cuba

was the recipient of large credits to underwrite the establishment and expansion of productive capacity for a range of industries. With the drying up of trade and financing with the CMEA community in the 1990s, Cuba's gross investment rate fell to as low as under 5.0% of GDP in 1993–1994.³⁷ Among the policy decisions taken by the Cuban government in the throes of the economic crisis of the 1990s was to open up more widely to foreign direct investment (FDI).³⁸

Cuba had some success in attracting FDI during the second half of the 1990s. There are no official statistics on the amount of FDI that flowed to Cuba since the opening to FDI. However, estimates based on investment flows provided by Cuba (as part of balance of payments statistics) and statements by government officials suggest that the amount of FDI that flowed to Cuba from 1993 to about 2003 might have been around \$2 billion.³⁹

The economic recovery that began in the late 1990s, coupled with improvement of economic relations with Venezuela and China, emboldened the Cuban regime to backtrack on the reforms implemented in 1993–1996, including the opening to FDI. Through a combination of more selective criteria for investors, bureaucratic delays in acting on applications, heavier regulation, and failure to deliver on anticipated further economic liberalization, the Cuban government slowed down private investment flows to a trickle. A journalist described the environment for private foreign investors in Cuba in mid-2005 as follows:

Western companies welcomed in Cuba as heroes a decade ago for bucking the U.S. embargo are pack-

33. Salvador Mesa, "La batalla económica, lo sabemos los trabajadores, es como nunca antes tarea vital," *Granma* (May 2, 2010).

34. "Cuba entrega la gestión de barberías y peluquerías a sus empleados," *El Mundo.es* (April 12, 2010), <http://www.elmundo.es/america/2010/04/12/cuba/1271099479.html>.

35. Rosa Tania Valdes, "Cuba letting drivers rent buses, make money," *Reuters* (May 17, 2010).

36. CEPAL, *Cuba: Evolución Económica durante 1998*, p 18.

37. CEPAL, *Cuba: Evolución Económica durante 1998*, p 18.

38. Although Cuba had passed legislation in 1982 that allowed foreign investment in the form of joint ventures, it was not until the early 1990s that the government began aggressively to seek foreign investment, principally in the tourism industry. The opening to FDI was cemented in 1995 with the passage of a comprehensive foreign investment law. See "Ley No. 77—Ley de las inversiones extranjeras," *Gaceta Oficial* (September 6, 1995).

39. For estimates and their sources see Jorge Pérez-López, "The Rise and Fall of Private Foreign Investment in Cuba," *Cuban Affairs*, 3:1 (2008).

ing and leaving as the Communist government rolls back market reforms and squeezes intermediaries. Embittered by the change in attitude, small and medium-sized businesses complained ... that they no longer feel welcome and worried they would not recover money owed them by Cuban partners. President Fidel Castro's government, bolstered by growing economic ties to Venezuela and China, is cutting back the autonomy granted to state-run companies to do business in the 1990s and restoring central control over trade and finance.⁴⁰

Thus, foreign investment since 2004 has been dominated by projects with Venezuela and to a lesser extent China; investments from other countries have been discrete and focused on natural resources or oligopolistic sectors.⁴¹

In his July 26, 2007 address, Raúl Castro indicated a willingness to reconsider foreign investment. He stated:

... we are currently studying the possibility of securing more foreign investment of the kind that can provide us with capital, technology or markets, to avail ourselves of its contribution to the country's development, careful not to repeat the mistakes of the past, owed to naivety or our ignorance about these partnerships, of suing the positive experiences we've had to work with serious entrepreneurs, upon well-defined legal bases which preserve the role of the State and the predominance of socialist property.⁴²

This is not surprising, as Cuban gross capital formation was around 10% in 2007,⁴³ clearly insufficient

to support growth in the ensuing years. FDI could boost investment and also bring new technology and access to markets for Cuban exports.

To date no specific policies or actions have been announced to suggest that Cuba is implementing Raúl's desire to attract foreign investment. In fact, actions by the Cuban government during the current foreign currency crunch to delay or stop payments to foreign companies trading with Cuba and to freeze the accounts of joint ventures are worsening the elusive investment climate and making it less likely that foreign investors will choose to invest in the island. No doubt also affecting the investment climate was the suspicious death in Havana in April 2010 of a Chilean executive who managed a large joint venture company that had run into difficulties with the government and reportedly had not been allowed to leave the island because of an ongoing probe against the company.⁴⁴

CONCLUDING REMARKS

Writing from Cuba on February 24, 2010—the second anniversary of Raúl rise to the Presidency— independent economist Oscar Espinosa Chepe recalled the high expectations of change brought about by Raúl's statements of his willingness to consider “structural and conceptual changes” and to do away with “absurd restrictions” and contrasted them with the paltry and uncoordinated actions taken to date.⁴⁵ Philip Peters' assessment in 2009 that “Raulonom-

40. Marc Frank, “Western businessmen bitter as Cuba closes doors,” Reuters (May 31, 2005).

41. Pérez-López, “The Rise and Fall of Private Foreign Investment in Cuba,” lists publicly announced investments from Venezuela and China from 2004 to 2007; investments from foreign private sources include a cement factory with Spanish capital, the expansion of a nickel production plant with Canadian capital, and modernization of a container port facility with Dubai capital.

42. <http://www.granma.cubaweb.cu/2007/07/27/nacional/artic01.html>.

43. ONE, *Anuario Estadístico de Cuba 2009* (2010), at www.one.cu/aec2009/20080618index.htm.

44. The executive, Roberto Baudrand, was found dead in his apartment in Havana. Baudrand managed the enterprise Alimentos Rio Zaza, a 50–50 joint venture between the Cuban government and Ingelco, a Chilean firm owned by Max Marambio, once upon a time a close friend and protégé of top Cuban authorities. Marambio also had another joint venture with the Cuban government, Sol y Son, active in the tourism sector. The deposed head of the Institute of Civil Aeronautics (which controls the airline Cubana de Aviación), General Rogelio Acevedo, allegedly also had connections with Sol y Son. See José de Córdoba, “Chile Presses Cuba Over Death of an Executive,” *Wall Street Journal* (April 15, 2010); Juan Tamayo, “Muerte de empresario chileno aviva el escándalo de corrupción en Cuba,” *El Nuevo Herald* (April 15, 2010).

45. Oscar Espinosa Chepe, “Raúl Castro, dos años después,” *El Nuevo Herald* (24 de febrero de 2010). For an assessment of Raúl's first year in power, which concluded that other than with respect to agriculture, the rest of economic changes were superficial, see “Raúl A Year Later,” *The Latell Report* (February 2009).

ics” has been strong on diagnosis and weak on prescription remains apt.⁴⁶ Gone by the wayside are rumored changes to allow the creation of private businesses and other liberalizing measures.⁴⁷

The high expectations regarding change and economic liberalization placed on Raúl's leadership have been dashed by orthodoxy and inaction. With hindsight, expectations that Raúl would fly on his own and set a path different from Fidel's were probably misplaced. It is worth recalling how, in his February 2008 speech to the ANPP accepting the Presidency, Raúl described Fidel's role going forward:

... certain that I am expressing the will of our people, I ask this Assembly, the supreme organ of power of the Cuban state, that with respect to decisions of particular importance to the future of the nation— particularly those related to defense, foreign policy, and socioeconomic development— it allow me to continue to consult with the leader of the Revolution, *compañero* Fidel Castro Ruz.⁴⁸

Whether or not consultations have occurred, to date there is little in the form of actions that would differentiate Raúl's management of the Cuban economy from his brother's.

46. Philip Peters, *Raulonomics: Tough Diagnosis and Partial Prescriptions in Raúl Castro's Economic Policies* (Arlington, Virginia: Lexington Institute, July 2009).

47. For speculation on policy reforms see, e.g., David Adams, “Cuba flirts with economic reforms,” *St. Petersburg Times* (March 8, 2008); “Raúl Castro employing a bit of capitalism to freshen up Cuban Communism,” *The New York Times* (April 3, 2008).

48. <http://www.cuba.cu/gobierno/rauldiscursos/2008/esp/r240208e.html>.