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Slow Cuban Economy

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Continuing its slow recovery from the economic collapse of the early 1990s, the Cuban economy grew by 5.5% of GDP in 2000. Government officials are using the growth figure as proof that socialism can survive the US embargo. After the disappearance of Soviet-bloc aid in the early 1990s, the economy shrank by 35% between 1989 and 1993. Average growth since 1995 has been 4.4% per year compared with an average of 3% for Latin America as a whole. But Cuba's growth has not regained the levels registered prior to 1989.

Figures supplied by the UN's Economic Commission for Latin America and the Caribbean (ECLAC) show that per capita GDP rose by 5% last year, the seventh straight year it has improved. But it is still 17% below the 1989 figure. ECLAC also noted considerable sectoral growth: financial services and mining (10%); construction (7.6%); electricity, gas, and water (6.9%); transportation, storage, and communications, (6.4%); manufacturing (4.9%); agriculture (3.1%); and government services (2.9%). Consumer prices dropped in 2000 by 3%, largely as a result of government price-stabilization measures and greater supply in the unregulated markets.

Government figures show that total foreign investment in the small private sector is now around US\$4.5 billion. Most of the capital is invested in tourism and mining, but it is spread out among 390 ventures.

In the oil industry, ECLAC reported increased production of crude (32%) and gas (30%). By year's end, domestic crude supplied 70% of electric-power generation, compared to 41% in 1999. The major gain in the energy field last year was the reduction of periodic power outages as domestic crude-oil supplies increased electricity generation. Cuba spent US\$500 million more last year than in 1999 for oil imports, said Vice President Carlos Lage. And, despite the promise of greater production of crude, the energy bill could go higher in the future because of the reliance on imported derivatives that Cuba is unable to refine in sufficient amounts.

Easing the supply problem, however, is the energy-cooperation agreement Cuba signed with Venezuela last October. Under the agreement, Venezuela will ship 53,000 barrels of crude per day to Cuba for the next five years, with terms of payment very favorable to Cuba (see NotiCen, 2000-11-02). Despite GDP growth and other positive economic indicators, officials admit the economy is far from fully recovered, especially in such areas as consumer goods, energy, and capital formation.

In November, Economy Minister Jose Luis Rodriguez told Prensa Latina that the decline in the value of the European Union (EU) currency the euro had meant "relatively important" losses to Cuba since its adoption as the currency for transactions with the EU in mid-1999. While the euro's slippage reduced Cuba's foreign debt by 0.7%, the remainder of the US\$11 billion debt is still 2.3 times the value of Cuba's exports for last year. Among other negative news, Cuba registered a US

\$924 million trade imbalance last year, and its fiscal deficit increased from 2.2% of GDP in 1999 to 2.6% in 2000.

The government's priorities for 2001 include restructuring the foreign debt and reducing the trade imbalance, which has grown worse because of high oil prices. To reduce the trade gap, economy officials want to restrict unnecessary imports and increase production of sugar, nickel, and other goods for export. Also of critical importance is boosting production of consumer goods and services. At present, about half the nation's basic food supply must be imported despite the agricultural reforms in the 1990s. Sugar production, which has become more efficient but smaller in recent years, is likely to remain relatively small in 2000-2001 because of a prolonged drought during the growing season.

The Sugar Ministry predicts a modest 3.7 metric-ton yield for the harvest currently underway. This is the same tonnage harvested in 1999-2000 and far below the last big harvest of 8.4 MT in 1989-1990.

Growth slows in tourist industry

Tourism is still Cuba's most dynamic sector, attracting 1.8 million visitors in 2000 compared with 1.7 million in 1999. However, after averaging nearly 20% annual growth in gross income in recent years, the rate of increase slowed last year to 10%. Still, with a 46% decline in the cost of inputs for the sector, net income still rose by 19%. To push the growth rate up again, tourism officials are planning to expand hotel capacity this year.

Tourism Minister Ibrahim Ferradaz said in December that the sector would add 4,000 rooms, bringing the total to 35,000. Other plans call for diversifying tourist attractions by constructing golf courses, theme parks, and aquatic facilities. Ferradaz said the slowdown last year was because of the decline in the euro and the increase in aviation-fuel prices, which forced travel costs up. A report by the World Tourism Organization said Cuba moved from 14th to 12th place among 20 leading tourist destinations in the Americas in 2000. When it began redeveloping tourism in 1990, Cuba was in 23rd place. It is now the eighth-highest earner of tourist dollars in the Americas.

Official says situation is better than it appears In his report to the National Assembly in December, Economy Minister Jose Luis Rodriguez argued that the economy was even better off than indicators showed. He said the use of GDP as an indicator of growth undervalues the real advances in the economy because it does not take into account certain costs covered by state programs. "Because our education is free, only the cost of the service provided is calculated when its true contribution to the GDP should be around 6.3%. While the cost of enrollment at a US university like Yale is US\$24,500 per year, and that value is included in the country's GDP, in Cuba, university education is free of charge and thus does not appear in the GDP....The true value that these spheres have for society are thus devalued, since they are not part of commercial transactions associated with high profit levels."

Social inequalities will continue

Government social spending rose last year in education, health, and housing. Social spending was 23% of GDP. Rodriguez said that, despite the gains, "Important limitations are still faced

when it comes to people's daily lives." Alfredo Gonzalez, advisor to the Economy Ministry, said a major challenge is reducing social inequalities that have grown with the legalization of the dollar. While predicting continued recovery, Vice President Lage said economic inequalities would also continue. He said they were "inevitable," and would exist alongside growth for years to come. The slow advance in such public areas as housing, transportation, food, and medicine is particularly noticeable when compared to the growth in tourism and the dollar income derived from it by Cubans associated with tourism.

Promising to alleviate the social stresses caused by continuing shortages and growing income inequalities, Finance and Prices Minister Jose Manuel Millares said the government would spend 62% of the 2001 budget on health, education, and scientific-research programs. That would be the largest such expenditure in 42 years.

Remittances from Cubans living abroad are a crucial stabilizing element in the economy, helping to reduce the current-account deficit and making up for hardships attributed to the US embargo. ECLAC figures show that these unilateral transfers, which are mostly remittances but also include international donations, have ranged from US\$537 million to US\$700 million since 1995.

Other estimates go as high as US\$900 million in some years. In a study of remittances, Pedro Monreal, a researcher at the Centro de Investigaciones de la Economia Internacional at the University of Havana, concluded that these transfers have become the largest source of net hard-currency inflows. Using the conservative figure of US\$500 million in annual remittances, Monreal said the net income equaled 35% of exports, greater than sugar or even tourism. Since, according to official figures, 60% of Cubans received some transfers, the funds are "a decisive factor" in the mitigation of poverty, said Monreal. However, they have also contributed to "the stratification of consumption, segmentation of markets, and social exclusion," he said.

Government promotes "battle of ideas"

The government has kept up the mass rallies and regular televised round-table discussions that began during the Elian Gonzalez affair last year (see NotiCen, 2000-07-13), and has expanded them into what it calls "the battle of ideas." Some foreign observers call the practice a forced cultural revolution. It is designed to shore up support for socialism, opposition to the US embargo, and continued acceptance of state control of the economy. Because of the stratification impact of the dollar the division of Cubans into those with and those without access to dollars Cuba has to balance the advantages of the limited economic opening against the accompanying erosion of popular allegiance to socialist ideals and state controls. In this context, macroeconomic indicators like GDP tend to draw attention away from social goals, such as universal free education and health care, and focus instead on measurements of progress toward free-markets goals.

In a critique of the Cuban model published in The Wall Street Journal, dissident Cuban economist Marta Beatrice Roque argued that growth rates published by the government were greatly exaggerated and that foreign investors were staying away because they "simply don't trust Cuba's economic triumphalism." She said it was doubtful that Cuba was following any economic model at all. Roque's basic premise is that economic decisions in Cuba flow from political imperatives

that stifle investment. "It seems that decisions are being made with other considerations in mind," wrote Roque. "Any initiative regardless of whether it could be financially beneficial to Cubans that could in any way endanger the 'stability of the system,' is eliminated." Roque cites as an example the cancellation last year of the 1994 opening for private real-estate development. The government chose to end the experiment because it would mean a loss of state control over housing, she said.

Reviewing the Cuban economy last year, US economist Sidney Weintraub assumed that Cuba's natural trajectory was toward a market economy and full membership in the global trading system. He speculated on whether movement toward that end would begin before or after the death of President Fidel Castro. Against the assumption that Cuba must first get over its experiment in socialism before it can reach full recovery is Castro's often expressed view that the struggle is about economic models more than growth rates.

During a speech in mid-November, Castro promised that Cuba would survive the US embargo and prosper by avoiding neoliberal economics. "The enemies' dreams have been dashed," he said. "From these difficult times, we are going to build a much better socialism by being more efficient." Castro attributed Cuba's economic survival to state policies that avoided multilateral loans and the consequent forced privatization and cuts in social spending mandated by the International Monetary Fund (IMF). He said privatization had become "dogma" elsewhere in Latin America but not in Cuba, where state policies prevent capital flight and speculation. In a speech in January ratcheting up public resistance to the new administration in Washington, Castro contrasted the dominant free-market model to Cuba's state-planning model.

The speech was short on Marxist vocabulary, concentrating instead on the apocalyptic battle between these models. One model is the economy of "anarchic and chaotic production," said Castro. It ruins the environment and gives way to "hegemonic and unipolar control" and "absurd and unsustainable models of consumption." The other is the Cuban model, "striving to make its modest contribution" in a struggle for "sustainable economic and social development, and for a fair, rational, and solidarity-based world order," Castro said.

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