

CUBA STUDY GROUP 

THE CURRENT
STATE
AND FUTURE
PROSPECTS
OF THE
CUBAN
ECONOMY

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INTRODUCTION

The purpose of this paper is to assess the current condition of the Cuban economy and what needs to be done to place Cuba on the road toward development in the next few years. It is important that necessary policy changes occur quickly enough to allow current generations to participate in and benefit from development's results. This analysis will address the following questions:

1. Where is the Cuban economy today?
2. What changes are needed in the future to strengthen the Cuban economy?
3. What are the financial resources available for the implementation of Cuba's Long Term Plan (2030)?

We must be fair and admit that the U.S. embargo has represented an indisputable obstacle in Cuba's development, something that should have been eliminated a long time ago. That policy has been the cause of many economic and financial difficulties for Cuba. However, we must also recognize that crucial internal changes have proceeded too slowly, and within a decision-making structure that resembles a maze and is marked by the influence of many years of centralization. Before analyzing the steps the Cuban government must follow if it intends to develop the economy—as can be inferred from its recent “National Plan for Economic Development until 2030: Proposal of a vision for the country, coordinates, and strategic sectors”—we must first determine the starting point, that is, the current state of the economy. Confidence in Cuba's intention to develop its economy would require it to follow very different economic and social paths from those of the recent past.

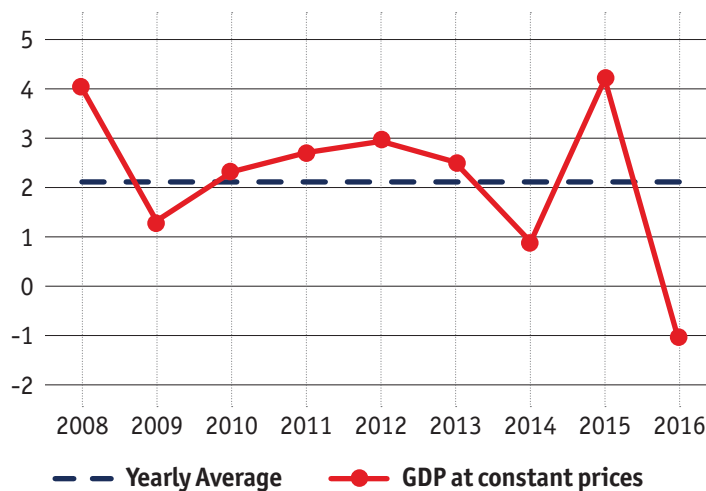
I. STATUS OF THE CUBAN ECONOMY BEFORE 2017.

It is complicated, even risky, to take stock of the Cuban economy in recent years, especially since progress fell short of stated goals. Outstanding issues greatly exceed what is set forth in the guidelines of the Sixth Congress of the Cuban Communist Party in 2011, or their updated terms from the VII Congress of the Party in April 2016. In spite of efforts made, desired structural changes have not been achieved, and the country's international insertion has remained marked by distortions and extensive (rather than intensive) growth. The impact of education and science on structural transformation, productivity, and efficiency has been less than potentially possible, and increases in social spending exceed the production capacity of the country. An

analysis of select economic indicators reveals that the results have not been encouraging.

Results of current economic policy. An analysis of the current economic situation reveals very unfavorable results in indicators such as GDP, with low growth around 2% between 2008 and 2016—below what it could have been given Cuba’s conditions. During 2016, the economy contracted by 0.9%, a decline that the government did not originally anticipate. A program of adjustments and cutbacks was put into effect due to lower international prices for Cuban products such as nickel, a lack of stability in the shipment of Venezuelan oil, and the Brazilian economic crisis. Aggravating the situation, Venezuela reduced payments for Cuban professional services, amounting to a loss of almost \$1 billion in 2015, and Cuba decreased oil imports from Venezuela by close to 500,000 tons.

FIGURE 1: GDP Growth at constant prices for 1997.



SOURCE: ONEI, Anuario Estadístico de Cuba, 2015. Tabla 5.12. Capítulo de Cuentas Nacionales. Havana, 2016. Panorama económico y social. Cuba 2016.

Gross Fixed Capital Formation. Gross Fixed Capital Formation is one of the key variables for promoting future economic growth. In Cuba, this indicator is very depressed. The formation of Gross Fixed Capital in Cuba decreased from a high of 25.6% of GDP in 1989 to 5.4% in 1993 during the Special Period. Although statistics show a subsequent recovery, the average since has hovered around 10%.¹

¹ ONEI. *Anuario Estadístico de Cuba. Capítulo de Cuentas Nacionales. November 2016.*

This figure highlights the country's ineffective investment strategy. Additionally, the fiscal deficit in the country's budget was 7.1% in 2016, and it will exceed 12% in 2017. The government has indicated that the budget deficit will be financed not by the issue of currency, but with public debt bonds, payable in 20 years.

Moreover, in the Cuban case, investments tend to be found in areas of relatively low returns. In other words, they are concentrated not in agriculture, manufacturing, or sugar, but in construction, hotel services, public administration, and infrastructure. For example, in 2015, 6% of total investments in the country went to agriculture and 10% to industry, while business services, real estate, and rentals received 27%.² Though these latter activities are necessary, they absorb limited resources that could produce higher yields in key areas. An increase in labor productivity is also essential for development. Achieving this goal requires investments in areas that multiply workforce efficiency such as high technology, electronics, biotechnology, alternative energy derivatives of the sugar industry, etc.

To confront the process of decapitalization in industry and agriculture, it will be necessary to devote at least 40% of the country's total investment funds to these sectors. This investment must be included by the government in its economic development plans for Cuba. The so-called real sector of the economy, which includes industry and agriculture, has made very limited contributions to GDP growth. (In 2015 agriculture contributed 3.7% and industry contributed 14.2%.)³ Even in the last three years, their performance has stagnated, which is related to the low percentage of investment that the government devotes to these sectors. Cuba is perhaps the only country that has invested so much in human capital and yet generated such limited economic growth, contrary to the experiences of other countries after the 1960s.

Cuba maintains a double currency: the Cuban peso (CUP) and the convertible peso (CUC). While workers' salaries and taxes are paid in CUPs, products bought at hard currency stores are generally purchased in CUCs. Cuban authorities are working on unification proposals, but there is no doubt that the issue is complex. The double exchange rate of the Cuban peso is the primary factor complicating the elimination of

² ONEI. *Anuario Estadístico de Cuba. Capítulo de Construcción e Inversiones. Tabla 12.10. Havana, 2016.*

³ ONEI. *Anuario Estadístico de Cuba. Capítulo de Cuentas Nacionales. Tabla 5.6, Havana, Cuba.*

double currency in the Cuban economy. The main measure that the Central Bank should adopt is to begin devaluing the Cuban peso in the business sector. The duality of currencies and types of exchange has immense costs for the business sector and has had a negative impact on the production of goods and services that are priced in CUPs.

Monetary duality has also weakened the stimulating effect of salaries. Wages are too low for workers to have access to a basic basket of food goods, given the high prices that remain in the open market. The dual currency system has also distorted economic measurements and the decisions derived from them, leading to an inefficient allocation of resources. The two currency system likewise underestimates the economic contribution of exporting companies and artificially reduces the cost of imports, given the official exchange rate of one U.S. dollar to one CUC. Crucially, the system obscures measurement of national accounts, including GDP calculation, thus placing Cuba's economic position artificially high at the global level. Although the Cuban state has declared that there is a program designed to eradicate the dual currency system, actions undertaken so far have been insufficient given the time elapsed since the announcement. Examples of some of these measures include issuing high denomination bills in CUP (an indication that it is the currency that will remain in circulation), allowing CUC stores to accept payments in CUPs, and the lowering of some CUC prices in state-run stores.

Agriculture: The agricultural sector accounts for 20% of Cuba's total employment, while its direct contribution to GDP in 2015 was 3.6%, making it the least productive sector in the country. In 2011, the traditional system of state purchasing from producers was replaced. In the past, producers were forced to sell 80% of their production to a state collection agency. Under a new and more flexible arrangement applicable to 21 agricultural products, contracts could be individually negotiated, and the contracted amount depended on the supply of inputs. In turn, non-contracted excess production could be sold on the free market. At the end of 2015, this decision was reconsidered and new measures were implemented, such as the reemergence of state stockpiling (or *acopio*) requirements in the provinces where they had previously been eliminated (especially Havana), along with the closure of the wholesale market, El Trigal, on the outskirts of the capital.

The amount of idle land assigned to individuals in usufruct (so-called "usufructuarios") reached 1.7 million hectares in December 2015, but there are still 924,800 unproductive hectares pending assignment.⁴ Today, 40%

⁴ ONEI. *Anuario Estadístico de Cuba. Capítulo 9 Agricultura, Silvicultura y Pesca. Tablas 9.2, 9.3, 9.4. Havana, Cuba*

of cultivated land belongs to private workers and credit and service cooperatives. There are 412,615 individuals who are landholders, of which 279,021 are “usufructuarios.” However, production has not increased significantly, and prices remain high. Likewise, since November 2013, experiments allowing farmers to market their goods directly to consumers have been carried out in several provinces in an effort to reduce prices by lowering the margins of trade intermediation. However, these projects have not been replicated in other provinces, nor have they achieved the expected results—namely, sustained production growth and a reduction of agricultural prices. There remain several pending actions that authorities can take. Among these, officials might focus on devising a new agricultural management system, especially through the creation of urgently needed wholesale markets for supplies or inputs. In addition, authorities must make advances in the implementation of second-level cooperatives (which have already been announced); solutions for the transportation of agricultural products; the creation of productive chains; and the imperative need to attract foreign capital in its various forms. If Cuba must attract investments of \$2.5 billion annually, as has been calculated, agriculture should receive no less than 20% of that value, and in combination with all existing forms of production: private, cooperative, and state (García, 2013).

For its part, sugar production reached 1.5 million tons in 2014 but failed to exceed 1.3 million tons in 2016.⁵ Cuba has to take better advantage of its sugar potential and could reach an average of 4 million tons per year. This would allow Cuba to have billions of dollars available to invest in areas such as ethanol production and increase the production of electricity from bagasse and other sugar derivatives. Perhaps over \$1 billion would initially be needed to meet the portfolio of business opportunities in the sector described by the Ministry of Foreign Trade and Investment.⁶ However, coupled with this, changes will be necessary to improve incentives for producers and to incentivize managers and their work teams.

Manufacturing industry. Many countries that have increased competitiveness in recent years. Several Asian states have done so through the decisive contributions of their manufacturing industries, both in the generation of goods and in the number of people employed in the sector. However, in the Cuban case, manufacturing is in a state of absolute stagnation. Not only is investment low (14.2% of GDP in

⁵ *Ibidem anterior. Tabla 9.5*

⁶ *Cartera de Oportunidades para la Inversión Extranjera. 2016/2017.*

2015), but it is also concentrated in areas where the presence of highly qualified labor resources is low. Today, Cuban manufacturing is concentrated in food production and petroleum refining. The production of domestic fuel oil, however, is stagnant, although exports increased based on restrictions in domestic consumption, with corresponding inconveniences to the general population. This represents another short-term constraint: Cuba depends on imported fuel for about 50% of its energy needs.⁷

Tourism. International tourism has been, and remains, the third major source of income for Cuba. In 2016, the number of visitors to Cuba increased by almost 13% over the previous year, totaling more than 4 million. The gross income derived from tourism exceeded 2.8 billion CUCs, representing an annual increase of 11%. Hotel occupancy is still very low at 58.4%, while Cuba's main competitor, the Dominican Republic, has an occupancy rate of 86.7%. Cuba's private sector offers 17,000 rooms for international tourists and 2,500 rental houses.⁸ Half of the rooms are licensed to charge in convertible currency, which allows their owners to rent to international tourists. Last year 25% of tourists stayed in these private facilities.⁹ Among their principal clients were visitors from the United States. These travelers used services provided by 1,700 restaurants ("paladares") and cafeterias, and thousands of rental cars, tour guides, and night clubs. The number of US travelers in 2016 was the highest in recent years: close to 200,000 visitors. Add in visits by Cubans residing abroad (including Cuban-Americans)—390,626 additional visitors—and the total is the equivalent to 16% of all visitors to the island.

However, the average revenue per tourist has declined, a trend that has been accentuated since 2008. On average, tourists that arrived in Cuba spent about 799 convertible pesos in 2010, and 737 pesos in 2015. This indicates that the development of tourism has been based on a model of extensive growth that is showing signs of exhaustion, especially since non-hotel infrastructure is especially weak. In Cuba, the growth of tourism is focused on beach resorts, with most hotels offering all-inclusive packages. Although the occupancy rate of beach resorts is not especially high (sometimes below 50%), and some newly built hotels have an occupancy rate below 30%, hotels are still

⁷ ONEI. *Oficina Nacional de Estadísticas. Capítulo 10. Minería y Energía. Tablas 10.1 a la 10.7. Havana, Cuba*

⁸ Perello, Jose Luis. *Análisis del turismo cubano. Facultad de Turismo. Universidad de Havana. 2016*

⁹ *Prensa Latina, julio 26- Perfecciona el Turismo Cubano Calculo de los Ingresos.*

being built using this model. This highlights the need to concentrate investment in recreational activities for tourists, who currently return to their countries without making any additional expenditures. In other words, the development of non-hotel tourist facilities is vital, since Cuba does not have water parks at beach resorts or theme parks in its cities. It is therefore necessary to change the policy regarding foreign direct investment in tourism, diversifying it and channeling it to new innovative products, even if they are not large hotels.

Foreign Trade and Finance. Regarding foreign trade, it is necessary to emphasize the adverse context in which Cuba operates, since external factors such as the U.S. embargo weigh heavily, as does the deterioration of the terms of trade due to the very structure of both Cuban imports and exports. But structural problems also persist. The trade imbalance of goods typifies the performance of Cuban foreign trade, and this is what causes tensions in the country's balance of payments. For example, in 2015 Cuba exported goods worth 3.4 billion pesos and imported 11.7 billion pesos—a trade deficit of 8.353 billion pesos.¹⁰

The export services sector remains Cuba's main revenue generator since 2004, with a value of 11.4 billion convertible pesos in 2015, out of a total of 14.9 billion pesos in exports. That is, they represent 71% of total exports, with more than 50% corresponding to professional services, especially medical personnel and paramedics. Cuban authorities must stop perceiving this as a budgeted sector, as health workers are self-financing and could demand a significant increase in their incomes. There has been an rise in the volume of exports of pharmaceuticals and biotechnological products such as vaccines and medical equipment, all of them with significant margins. This trade was valued at around 800 million pesos in 2015. However, sugar exports have been impacted by falling prices, with Cuban harvests down 15% compared to prices obtained in the 1990s. The concentration of trade in goods and services with Venezuela, where the exchange of goods has been 44% of the country's total trade, has led to new cutbacks in the middle of 2016.¹¹ For imports, meanwhile, purchases of food, medicines, fuels, and a wide variety of intermediate goods accounted for more than 60% of the total, which required the use of most of the country's foreign exchange earnings.

¹⁰ ONEI. *Anuario Estadístico de Cuba. Año 2015-. Capítulo 8. Sector Externo. Tabla 8.3*

¹¹ ONEI. *Anuario Estadístico de Cuba. Year 2015. Capítulo 8. Sector Externo, Tabla 8.3.*

Cuba's external financial situation requires steps to promote the capture of hard currency by companies and other institutions. The economy still operates under a highly centralized system, and if the rules do not change, or the environment in which the companies operate is not modified, these external imbalances will continue. From 2013 onward, planned debts were honored and a process of renegotiation took place that had a positive impact on Cuba's external credibility. Standing out in this regard were favorable accords with Japan, China, and the official cancellation in 2014 of 90% of Cuba's debt with the former U.S.S.R., which was claimed by Russia. The renegotiation of Cuban debt at the Paris Club, which meant a \$8.5 billion write-off, and then subsequent cancellation, especially with European creditor countries, represented a major source of relief, as it was agreed that the \$2.6 billion outstanding would be paid in annual installments over 18 years. However, these same debt renegotiation processes led to the establishment of payment commitments, which had not been made previously. In other words, interest and principal payments are currently being made under these agreements.

Although Cuba can be considered an "open economy" (exporting economy), the expansion of the internal market is a necessary condition for development, and must therefore occupy a prominent place in any development strategy. Obviously, this component has been absent in Cuba's economic policies. Although it has been identified as a priority in development plans for the updating of the Cuban model, the full potential of average Cubans has not yet been incentivized.

II. HOW SHOULD CUBA CHANGE?

Cuba must first develop the institutional capacity to implement the changes proposed by the Party and the Cuban state in 2016. Planning schemes should be substantially modified to include all forms of property that can contribute to the country's development. If the planning process remains unchanged, the state sector itself will feel the consequences. Instead of ceasing to be a centrally planned economy, Cuba now has a "centrally managed" economy. The government must learn to regulate economic processes using indirect mechanisms. This means a reduced number of administrative regulations and the introduction of more incentive-based policies.¹² A new Enterprise Law must be approved allowing directors and workers to personally accrue financial benefits, and perhaps even legalizing corporate bankruptcy. Direct access of state, cooperative,

¹² Fernández, Oscar (2015) *Hacia un nuevo modelo de planificación en Cuba*.

and private companies to external markets should also be allowed, and the intermediation by small import or export companies in the management of foreign trade should be reduced or eliminated.

A new Constitution of the Republic of Cuba must be made public and approved, one in which the existence of all forms of property that exist today in Cuba is plainly recognized. It should also be as broad as possible, drawing elements from other past Cuban constitutions, the experiences of similar economic models, such as China and Vietnam, and the experiences and rigor of Cuba's political and academic specialists in constitutional matters.

A proposal to further develop Cuba's small and medium enterprises (SMEs) is imperative because only the creation of wealth allows for its distribution. Paragraph 182 of the Conceptualization of the Cuban economic model approved in 2016 describes different types of future companies including "medium, small, and micro enterprises, according to the type of activity and number of workers, to be recognized as legal entities." For this reason, Cuba must reconsider the term "self-employment" (or *trabajo por cuenta propia*), because in spite of the time elapsed during the process of reforms, this type of employment is still in an incipient phase of development. It is difficult to appreciate the actual scope and potential of this sector because the economic units that are operating are already private businesses with the capacity to mobilize productive factors (capital and human resources). The holders of those licenses should therefore be legally recognized as "entrepreneurs" or "business owners" rather than merely "self-employed." Some Cuban light industry could be converted into SMEs, which would help address decapitalization in Cuban industry generally. It is undeniable that these companies would have important advantages in Cuba, such as a highly qualified workforce and markets with much unsatisfied demand. The State Employment Agency, which operates as an interlocutor between foreign institutions and local employees, should be dissolved in the short term, and taxes that employees pay for their wages should be made to a separate entity created for that purpose.

The Cuban banking sector must adapt to new times and future needs. It would be wise to establish a Development Bank or other microfinance institution specialized in serving solely the SME market. The government should also assess the possibility of using international cooperation for this purpose, as is done in the rest of Latin America, where microloans have greatly aided the development of microenterprises. Cuba must also increase mobile banking options through the cellular telephone network and the internet, as very

few institutions have point-of-sale terminals, and they are almost completely absent in the private sector.

More attention must be given to developing the infrastructure of the National Office of Tax Administration (ONAT) so that its officials are made fully aware of their necessary role in the modernization of Cuba's public system. Cuba must stimulate its productive forces in this new era, building on the potential for industrial growth with megaprojects in infrastructure and industry. Investments are a key variable in generating a development process geared toward structural change in any emerging economy. If Cuba intends to further develop, it cannot ignore this indicator. However, it is impossible to invest unless necessary inducements are offered to those involved, such as tax incentives, the simplification of needed approvals, direct contracting of the workforce, and improvement of macroeconomic indicators, such as the elimination of the dual currency. Direct foreign investment is one of the ideal instruments for development, since it contributes to export dynamism, the creation of quality employment, and technology transfer.

The Cuban government must understand that foreign investors seek to maximize benefits. They must be convinced of what Cuba offers in comparison to other countries or regions. None of the benefits of foreign direct investment work well unless supported by the government. Law 118 for Foreign Investment is designed to produce a massive inflow of foreign capital. The National Office for the Development of Foreign Investment must recognize that the mistakes made in the past in attracting foreign investment should not be repeated. In particular, the terms for the approval of a business should not be extended to the point where an investor becomes discouraged, as occurs often. It would be beneficial to include other forms of foreign investment that have not been stimulated, such as franchising, or BOT (Build-Operate-Transfer) contracts. Under Cuba's current conditions franchises can guarantee the presence of products and services of internationally recognized brands in the domestic market and may guarantee stable supply chains without the involvement of the government.

Finally, it would be advisable for Cuban authorities to understand that, despite the reforms undertaken, these measures are still insufficient. In other words, gradualism must give way to accelerated steps. It is time to understand that distrust remains, and if there is no trust, Cuba will find neither the quantity or quality of financing that its economy needs.

III. WHAT ARE THE FINANCIAL RESOURCES THAT CUBA COULD AND SHOULD HAVE AVAILABLE?

To spark development, the least complex and most focused-upon variable is direct foreign investment. However, despite an attractive official discourse, there has not been a significant increase in foreign investment since 2014. FDI could have offset, at least in part, the negative factors that caused an economic contraction of 0.9% in 2016 and the expected low growth rates in the coming years. Concrete steps need to be taken toward international financial integration, which could provide Cuba with greater resources from world capital markets to boost development. The first crucial step should be Cuba's membership in international financial institutions, though this is currently limited by the embargo imposed by the U.S. and, specifically, the Helms-Burton Act. This step would increase the island's capacity to attract foreign capital, reduce investment risk, support increased economic integration, and reduce interest rates in order to obtain international financing. Membership would also guarantee the Cuban government's access to technical assistance and training from international institutions.¹³

Cuba also requires banking reform, with greater financial liberalization that allows banks to become more than just deposit entities, which is the function most of them serve today. This would allow Cuban banks or branches of foreign banks to perform a standout role as a lender for the emerging entrepreneurial class. This is especially important given that, in 2013, the amount of loans issued following the institution of Cuba's new lending policy represented only 10% of the total savings of the population, while in 2014, this only increased to 14%.¹⁴

Cuba should relax its rules on foreign financial institutions operating in the country. When properly managed, such measures can catalyze financial liberalization in a way that does not endanger financial stability. However, it would also be prudent for the U.S. to change its current policy of penalizing financial institutions and foreign banks that conduct business in Cuba. This strategy would allow both the IDB and IMF to provide technical assistance. Moreover, assistance from the IDB would be more politically acceptable to the Cuban government.¹⁵

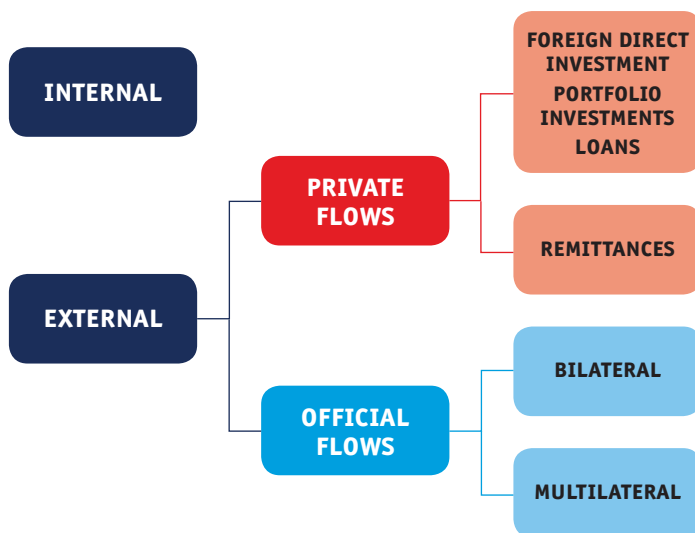
13 *Cinco pasos para que la economía cubana crezca: Propuestas concretas para Cuba y para los EEUU en el último año del Presidente Obama*. Atlantic Council.

14 Sánchez, Marlen; León, Jessica y Pérez, Omar Everlery (2016) "Fuentes de acumulación para la transformación productiva en Cuba". Seminario Anual del CEEC, Havana.

15 *Ibidem*

Cuba should allow international microfinance banks and NGOs, as well as other institutions that provide microfinancing, to establish an active presence in the country. Multiple concrete microfinancing proposals have already been offered by organizations in Latin America and Europe.

Under current conditions, it would be advisable to accept portfolio investments in Cuba. It is also necessary to study the issue of fixed-income securities (bonds) and equities (stocks). Bond issuance is necessary in the search for new sources of internal financing needed to finance the national budget, and it can also provide a source of external financing that provides guarantees to borrowers in line with international standards. Given Cuba's short-term and medium-term liquidity deficits, this option is not far-fetched. Another worthwhile proposal is the creation of a National Lottery operated by the Cuban state, where the resources obtained could be invested in improving existing social projects or building new housing stock by the government. A lottery would only legalize an activity that has already informally increased. In summary, the possible sources of investment and financing needed by the Cuban economy to jumpstart growth are as follows:



SOURCE: Sanchez, Marlen; León, Jessica y Pérez, Omar Everleny (2016) "Fuentes de acumulación para la transformación productiva en Cuba." CEEC, Havana.

GENERAL COMMENTS

For a country to prosper economically, it must be capable of producing wealth. Companies, regardless of the prevailing economic system, are responsible for fulfilling this role. While Cuba maintains restrictions on productive forces, often due to ideological or political rationales, the wealth of the country will take longer to develop and be seen and felt by the population. A country whose economy grows at a very low rate, sometimes below 1%, and with investment rates of less than 10% in relation to GDP, cannot achieve substantial development over the next 15 years. For that to happen, there must be institutional changes, legislative changes, and changes in how national production is structured. In the absence of such changes, the economic and social transformations that Cuba envisioned in its national development plan for 2030 will remain incongruent with the means available to achieve such goals.

In other words, there is currently no logical connection between the dimensions of the proposed structural transformation and the real capacity of investment that should support it. Expressed in simple terms, the resources needed to make Cuba a developed country by 2030 are nowhere in sight. As a final observation, it is worth noting that, after July 8, 2016, it will be irrelevant to continue discussing the prospects of development in Cuba without taking note that the context of the debate has changed very rapidly. The announced economic restrictions make it advisable to have a realistic discussion about the 2030 development plan. It is unreasonable to continue to assume that a series of objectives can be achieved in the next 15 years when it is known in advance that the resources needed for the required structural transformations will not be available.¹⁶

To obtain necessary financial resources, Cuba must undergo a profound transformation. Yet, signals given by the government indicate that it is not prepared to do so at this time. And here we find a paradox: while the international perception of Cuba has changed favorably, especially since the beginning of efforts to normalize relations with the U.S., there appears to be a group of internal factors that create objective and subjective obstacles to the economic growth for which Cubans are waiting.

What has recent economic history taught us? First, it is not possible to ignore the free market. Second, incentives are necessary to increase

¹⁶ Monreal Gonzalez, Pedro (2016)

productivity and economic efficiency. Third, it is incorrect to think that, in order to build a socialist system, everything needs to be state-controlled. Fourth, autonomous companies should exist, not merely state entities that administer resources. Finally, the planning put in place until now has not led Cuba to development.

Finally, in the current state of Cuba's reform process, there are concepts and principles that require special attention:¹⁷

- 1.** The direct allocation of material resources by a central agent is not synonymous with planning, and this is not a principle of socialist economies. Planning should be understood more as a necessity for the strategic and integral management of the system toward the achievement of long and medium-term objectives.
- 2.** A market is not synonymous with private property. The market is an objective institution in the contemporary world. It functions as the coordinating agent of the inevitable interactions that take place among millions of economic actors. The market is not exclusive to capitalist economies, and its expansion does not require or necessarily lead to private control of economic activity.

It is not possible to transform the foundations of Cuban planning without transforming the leadership structures of society—that is, of the political system as a whole—into more participatory schemes.

¹⁷ Fernandez, Oscar (2015) *Hacia un nuevo modelo de planificación en Cuba*. Havana.

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