

## *Cuba: Reformulation of the Economic Model and External Insertion*

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### I. ECONOMIC GROWTH AND DEVELOPMENT IN CUBA: SOME CONCEPTUAL CHALLENGES.

The set of economic and social guidelines adopted at the Sixth Congress of the PCC (Havana, April 2011) cover a wide range of policies, sectors and areas of action. The application of these guidelines will determine substantive changes for the country's economic, social and political life. However, it is convenient to think of an analysis that defines strategic foresight—from the experience gained and the economic and social problems currently facing Cuba, which are the basis of the transformation process—a medium and long term vision for the country that is wanted and can be built. It should consider the restrictions on existing national political space, and the basic political consensus, economic and social rights of the Cuban nation.

Such a medium and long term view, would necessarily have to include in economic terms, the requirement to achieve high and sustainable growth rates in Cuba. This is key to guarantee expanded reproduction, increased living standards and the welfare of the population, a necessary condition, although not exclusive, for development. Considering the growth rate of gross domestic product as an indicator of little relevance in economic terms—as it was believed by some in recent periods in Cuba's economic history—reveals serious limitations in understanding the processes that lead to the development of a country. The development is always a path of sustained growth in the context of the dynamic interaction of capital investment, the accumulation of knowledge applied to production, structural change and institutional development.

Key in this strategic vision—in economic terms—would be the discussion and definition of the spaces needed in that process of change: i) the non-government property sector and within it, the private sector; ii) monetary-commercial relationships and their link to national economic development; iii) decentralization of the management and direction of the national economy, and what degree of autonomy derived from it would be allowed to economic agents; iv) the role of economic stimulus to encourage production and reward the efforts and social contributions of people and the institutions in which they work; and v) the degree of acceptable distributive inequity—and buffer policies—under such a scenario in the medium and long term.

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Obviously, such a strategic vision would include other elements, but the five dimensions outlined above would be central to the understanding and to consistency of the process of transformation of the development model for the country.

Progress in terms of development, also involves in the case of small economies like Cuba, the adoption and implementation of a strategy of specialization relatively concentrated in a limited number of export activities that will ensure the country international insertion and that would be beneficial to sustained expanded reproduction. This is so because small island economies are not able to establish a “closed loop” for operation, since they cannot internally guarantee all conditions that are required for economic growth.

The limited size of the domestic market, the requirements of economies of scale that characterize contemporary technology, and the limitations on labor and financial and productive resources, determine a relatively narrow specialization in the case of small economies like Cuba.

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### II. PROMOTION OF EXPORTS AND SUBSTITUTION OF IMPORTS.

Among the structural obstacles that have recurrently prevented Cuba’s economic progress in recent years, are, among others, the lack of adequate internal links in the production structure, the significant dependence on intermediate and capital goods from abroad to complete the cycle of major productions, technological obsolescence in various branches of production and low economic efficiency and return on capital that do not correspond to the average level of education and qualification of the Cuban workforce.

Tensions in the “external sector” have performed consistently for the national economy, which has been expressed in a chronic deficit in the country’s external trade balance, for most years since the triumph of the Revolution in 1959.

Economic rationing has forced the country to concentrate its productive efforts in a small number of export activities that can generate external income level adequate to access the necessary imports. This in addition to efforts to effectively replace imports. However, in recent years, there have been some changes in the foreign trade of goods and services in the Cuban economy, which although very important, do not represent yet the needed rearticulation required in the external sector to advance on the path of development.

Indeed, starting on 2008/2009 there was a major reduction in the level of Cuban imports due to the worsening of the external financial situation as a result of the global crisis, which led to a reversal in the trend of foreign trade deficit of Cuba between 2009 and 2010. Also, from the middle of the last decade, there has been a change in the structure of foreign commodity trade in Cuba. Nickel is currently the main export item, followed by pharmaceuticals and biotechnology, and in third place are medical equipment and advanced means of diagnosis. Traditional export products, primarily sugar, currently have a marginal share in the Cuban export basket.

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Equally important, since 2004, commercial services have remained the principle external revenue generating sector—offsetting the deficit of commodity trade. In this regard, there are also qualitative changes in the

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services account: international tourism moves into second place as a source of foreign exchange earnings, while the export of professional services is the main item of income in the balance of payments.

There has also been a change in the geographical orientation of external trade, where the main trading partners of Cuba are currently, Venezuela, China, Spain, and Brazil. United States stands as a major provider of food, but in the last two years, and with the increasing restrictions governing sales of U.S. products to Cuba, there has been a decrease in its role as external trading partner

However, the trade imbalance still typifies Cuba's foreign trade, which maintains a high component of imports of goods, which basically focuses on food and intermediate goods. The latter is counterproductive to the necessary increase in fixed capital investment the country needs.

The sustainability of current high levels of exports of professional services (particularly health services), is apparently based on the exceptional opportunities offered by the kind of relationships that the country maintains, primarily within the framework of ALBA (Bolivarian Alliance for the Peoples of our America), especially with Venezuela. Meanwhile, the development and consolidation of the pharmaceutical industry is probably the most successful case of what can be achieved in technological innovation in Cuba, as a driver of a vector-based international reintegration innovation.

To truly achieve the leap required to modify the terms of Cuba's external trade integration in the present global environment, requires the design of mechanisms and incentives to gradually build an economy based on knowledge and innovation. It is essential to improve productivity levels and diversify the production and export structure. This means, the elimination of bureaucratic and administrative obstacles that inhibit the entrepreneurial spirit of productive entities (goods and services) in the country, which should not be limited to state-owned industry.

In the case of selective import substitution, it will should not be controlled with reduced purchases abroad, since usually economies with very high import components—like Cuba—generate recessionary trends. In terms of import substitution, there are unexploited areas in the country—especially in the area of food production, but not limited to this—as long as they are considered as an important part in achieving such purposes to the widest range producers, including the emerging non-state sector of the economy.

Obviously, the design of a coherent strategy of promotion of exports and substitution of imports should effectively be understood as the creation of efficient supply chains with appropriate links “forward” and “backward”, with a growing number of business entities. It should be noted that when we speak of “export sector” we refer not only to the productive or service entities that sell their products directly to foreign markets, but also entities that are part of “clusters” and play a role in the production chain and ensuring services exports, and/or import substitution. Furthermore, it should be remembered that when economically and socially necessary, part of this business structure should be linked to global chains, ensuring a learning process, technology transfer and active involvement in international markets for the national production system.

But for this purpose, it is necessary to decisively confront long standing problems and contradictions that the adverse signals of a valued official exchange rate has on traders, in order to compete in foreign markets or face foreign competition in the domestic market. We should also consider the level of centralization of foreign trade and the virtual exclusion from the activity of non-government Cuban companies, as obstacles to the

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jump into an export role. Similarly, the issue of the country's dual currency system must be addressed, as it distorts relative prices, causing disincentives to production with the ability to modify patterns of international integration of the nation.

Failure to act on these four determinants—exchange rate, degree of centralization of foreign trade, monetary duality and exclusion of non-state economic actors from foreign markets and competition with importers—Cuban exports of goods could continue being marginalized in world markets and would mainly be concentrated in low value-added products and oligopolistic markets that do not facilitate the redistribution of income and social advancement.

### III. INDEPENDENT WORK AND THE EMERGENCY IN THE SECTOR OF SMALL AND MEDIUM-SIZE COMPANIES (SMEs) INTERNATIONALIZED IN THE COUNTRY

As part of the ongoing process of change in Cuba, in the past two years a growing sector of self-employed workers has begun to emerge, this time as “*cuentapropistas*” that in turn, can hire workers. There has also been a major transformation in the agricultural sector, which tends to strengthen and develop the management of cooperatives and non-government entities, and goes back to drive the process of “business improvement” in various institutions of production and government services, which involves new forms of organization and the management of productive entities. Additionally, steps have been taken toward transforming cooperatives into different entities that provide commercial and technical services to the population and that are structured in provincial and municipal enterprises owned by the state, before the end of 2013.

Thus, there are noticeable changes in the productive, entrepreneurial and social development of the country, and as part of that, a network of small and medium enterprises is shaped in the non-government sector of the economy. But such changes are also reflected in the context of a state sector faced with downsizing given requirements for the advancement in terms of economic efficiency and competitiveness.

Therefore, discussion and consensus building is essential among the various institutions to design public policies that support SMEs in Cuba, which represents a major institutional challenge that is particularly relevant at the present time, for the domestic economy and for the international integration of the country. Such a design has to overcome the prevailing dogma that still exists which sees the emerging private sector only organized as the self-employed, which can specialize in production of very low technical complexity, with reduced levels of productivity and innovation, which are not in line with the levels of instruction of the workforce that it employs. This also fails to correspond with the problems of job dissatisfaction of professionals and college graduates, reproduced in an inflated state sector, therefore in conditions of underemployment and consequently with low wage levels.

This challenge incorporates decisively the implementation of policies that directly and indirectly contribute to the efficiency, competitiveness and internationalization of a gradual SMEs sector in Cuba, ensuring simultaneously the maintenance of equity and social inclusion, an inalienable principle of the Cuban model. Given the available human capital, Cuba is in favorable conditions to adopt a relatively more diversified export profile, technologically advanced, and simultaneously implement an effective process of import substitution, central to its development strategy.

So far, the preferred approach has been the re-articulation of Cuba's external trade integration schemes, which favors large-scale exporters of the state or in association with foreign capital. However, for a country like

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Cuba, the available human capital offers the possibility of having a more diversified export profile in the type of activities and with a larger number of exporting companies, in both state and non-state sectors. This would reduce the high concentration of external sales today that are basically made by state enterprises.

This is in line with various approved guidelines for economic and social policy. Among them, number 76 highlights the need to increase and consolidate revenue from exports of goods and services, for which we must solve all the internal problems that today constitute export barriers. Meanwhile, guideline 87 seeks to promote an accelerated effective import substitution mechanisms that encourages and ensures maximum utilization of all capacity available in the country in agriculture, industry, services and human resources.

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Since 1984 he has been professor in several courses at the Universidad de La Habana in “International Economic Relations”, “International Economy”, “Analysis of Economic Issues” and “Politics and Economic Development in Latin America and the Caribbean”. Professor of masters program in International Economics offered by the *Centro de Investigaciones de Economía Internacional* (CIEI) and of the Master in Latin American and Caribbean Social Studies developed by the *Facultad de Filosofía e Historia* of the *Universidad de La Habana* between 1994 and 2002.

He has given conferences, cycles of conferences and graduate courses about international economy; Latin American and Caribbean development and the challenges of the internal reinsertion of the Cuban economy, in universities in Hungary, Argentina, México, Chile, Belgium, Canada, Colombia, United State and Spain.

Between January 1992 and April 2002 held the position of *Director of the Centro de Investigaciones de Economía Internacional* (CIEI) of the Universidad de La Habana. From that time, and until December 2011 he worked as an international officer for the *Secretaría Permanente del Sistema Económico Latinoamericano y del Caribe* (SELA)

He has participated in more than 65 international congresses about the international economic issues, Latin America and the Caribbean and Cuba, 48 of which were held outside of Cuba (USA, Canada, Mexico, Chile, Peru, Spain, Germany, The Netherlands, Denmark, Dominican Republic, Jamaica, Belgium, etc).