CUBA EVOLVES TOWARD A NEW ECONOMIC MODEL

Rafael Betancourt
August 2015
rbetancourt@Havanada.com
Cuba has undertaken three processes of change at the same time:
• a new relationship with the United States
• a generational shift in political power by 2018
• economic reform
What are “normal” relations?
Outstanding issues

• Deep disagreements, opportunities for collaboration
  – US property claims ($7bn) vs. Cuban claims for war, embargo losses ($117 bn)
  – law-enforcement: human smuggling, document fraud, fugitives
  – balance between social-economic rights, and political liberties
  – counternarcotics cooperation and environmental protection
  – Global public health and disaster assistance

• Issues off the table
  – US economic embargo
  – 1966 Cuban Adjustment Act
  – return of Guantanamo Naval Base
  – US covert democracy-promotion / regime change programs

(Leogrande 2015)
Things Obama can do

- Further relax travel, allow regular commercial flights
- Allow purchases of US foodstuffs on credit
- License U.S. banks to handle USD transactions by Cuba, Cuban Banks to allow credit card purchases
- Treat Cuban athletes same as artists & musicians
- License the sale to Cuba of goods for scientific, cultural, ecological, educational and sporting activities
- Fast-track licensing for U.S. pharmaceutical firms to partner with the Cuban biotech industry to bring new drugs to market.

(Leogrande 2015)
Generational change by 2018

- Raul Castro: “this will be my last mandate” (2013-2018)
- VII Congress of the CCP April 2016
- New Electoral Law followed by general election (2017)
- New Constitution will limit terms in office to 2 consecutive 5-yr terms
Economic Reforms

- Personal property: rights to buy/sell
- Internet: Access to all
- Agriculture: The 3rd Reform (back to the family farm)
- Employment: trim State payrolls
  - Sole proprietors vs cooperatives
- Means of production: property vs. management
- SOEs: Total Makeover?
- Foreign Direct Investment (FDI) + Tourism = $$$
- Currency, Exchange Rate unification
• More efficient resource use
• Construction boom
• Limited supply
• Danger of gentrification, povertization
• Private autos vs. Public transport: Is time running out?
Internet Access Grows

• “The State will work to make [internet] available, accessible and affordable to all.” Cuban VP Miguel Diaz-Canel

• 35 new Wi-Fi hotspots opened across the country
More farmers, more food

• Distribution of 4 million acres of idle lands to 190k farmers
  – Lands leased to farmers, State maintains property
  – Farmers join agricultural workers coops
• Today Cuban agriculture is characterized by diversity, SMFs, and the predominance of cooperative forms of production, including associated individual producers (lessees).
• Still import $2 bn in foodstuffs
Employment shift

• Reduced state employment
  – 600,000 less than in 2009. Pace slowed...
  – Goal: 1-1.3m (from 12% to 40% LF).

• Expanding non-state sector

<table>
<thead>
<tr>
<th>Employment</th>
<th>2009</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total (000)</td>
<td>5,072.4</td>
<td>4,918.8</td>
</tr>
<tr>
<td>State (%)</td>
<td>83.7</td>
<td>73.8</td>
</tr>
<tr>
<td>Cooperatives (%)</td>
<td>4.6</td>
<td>4.6</td>
</tr>
<tr>
<td>Private (%)</td>
<td>11.7</td>
<td>21.6</td>
</tr>
</tbody>
</table>
Private Sector (2014)

Total: 483,000 persons (10% LF)

- 65% in La Habana, Matanzas, Villa Clara, Camagüey, Holguín y Santiago de Cuba
- 12% Food production & sales
- 10% Transportation of cargo and passengers
- 6% House rental
- 102,230 (20%) Employees of other TCP

- How many more in the informal economy?
### Agricultural Cooperatives

- **5 land holding forms:**
  - Private farmers: own / lease land individually
  - CCS: own land individually
  - CPA: own land collectively
  - UBPC: lease land from state
  - State farms

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>State</th>
<th>Non-State</th>
<th>UBPC</th>
<th>CPA</th>
<th>CCS &amp; Private</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2007</strong></td>
<td>100</td>
<td>35.8</td>
<td>64.2</td>
<td>36.9</td>
<td>8.8</td>
<td>18.5</td>
</tr>
<tr>
<td><strong>2012</strong></td>
<td>100</td>
<td>17.0</td>
<td>83.0</td>
<td>23.0</td>
<td>9.0</td>
<td>51.0</td>
</tr>
</tbody>
</table>
Industrial/Service workers coops

- 498 approved until March 2104. Operational: 351
- Retail trade (101 farmer’s markets), food & other services (59%); construction (19%) industry (10%)
- 53% in Havana
- 77% “induced” or split off from SOEs
- 23%: associations of TCPs
- Gov’t Commission evaluating 205 requests
10,000 State-owned establishments (food service, personal and household services) will be converted to workers coops in 2015-2016
Greater autonomy for 5,000+ SOEs

• Once State contracts have been filled they may sell surplus in the market
• Keep 50% of after-tax profits, to reinvest, repay loans, R&D and worker bonuses
• Salary increases depend on productivity
• Able to purchases goods & services from non-state sector
• No Export/Import, FDI yet
2014 Foreign Investment Law

- Open to all sectors of the economy except health, education and security
- Ministries create investment portfolios: 246 projects worth $8.7 billion
- Greater guarantees for investors
- Tax exemptions, discounts, customs allowances
- Protect national resources, workers’ rights
- Investors are risk averse – US embargo

Refineria Cuba-PDVSA, Cienfuegos
Tourism Engine Revs Up

- Jan-Jun 2015: Total arrivals ↑ 15%, Americans ↑ 50%  
- COMING SOON: cruise ships, ferry, regular commercial flights, easy travel restrictions

“Clash of consumerist tsunami and revolutionary austerity” Frei Betto

Tourist Arrivals to Cuba 2009-2014

- Total arrivals: 100%
- Canadians: 38%
- Cuban-Am: 9%
- Other Am: 3%
Currency, Exchange Rate unification

(PENDING FOR 2015-16)

- Today 2 currencies, 3 rates – in 2015 only CUP
- Single rate… When?
- Start with Business sector: devaluate SOE rate (1CUP=1USD) to approximate consumer rate (24CUP=1USD)
- Should level off at approx. 10CUP=1USD.
- Will benefit exporters, import substitution
- Will hurt those with hard-currency debts
- Risk of inflation
Cuba: In transition to what?

Market Socialism

Socialism with a market

Social and Solidarity Economy