



Raul Castro and the Cuban Reform Process

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The death of Fidel Castro is being viewed by some policy makers as the opportunity for Cuba under President Raul Castro to push for more reforms and expand on the restructuring that is underway in Cuba. Ten years after President Raul Castro took over power and with the death of his brother the former President of Cuba; it is a good time to highlight the reforms that have been undertaken by the current president and to understand the possible direction of future efforts of reform in Cuba.

When Cuban President Raul Castro first assumed power in 2006, after it was announced that Fidel Castro had fallen ill, many rightly believed that it was a temporary situation. One in which Fidel Castro would assume power once again. As it became apparent that President Raul would continue to hold his position and was formally elected to the position in 2007, it was thought that he would follow his brother and protect Cuban Communism and its structures. He proved the commentators wrong. Internationally, he has not only been able to build an image far from his brother but he improved relations with the United States, which was much needed for the Cuban economy. Under his Presidency Cuba also gained admission into the Organisation of the America States while integrating itself more into the Latin American main stream through organisation such as the Community of Latin American and Caribbean States (CELAC).

These international changes apart he has brought about some fundamental changes/reforms in some of the key sectors of the Cuban economy to ensure that it is able to integrate with the global economy with more benefits for the citizens of Cuba. Under President Raúl Castro, Cuba has edged cautiously towards economic reform when he launched an “open debate” on the shortcomings of the communist economy, saying that it needed “structural and conceptual reforms”.¹

Cuba has undergone reforms in the past. However, they were largely reversed in favour of ideology driven policies. Many of these policies were adopted in the mid-1990s after Cuba's

economy contracted by a third following the collapse of the Soviet Union, its former patron and protector. However, some of these were reversed by Fidel Castro after Cuba acquired new allies. Venezuela's President Hugo Chávez supplied the island with highly subsidised oil while China offered long-term credits. Remittances from Cubans abroad, especially in the United States, help those on the island to make ends meet.² While some would say that past experience show that Cuban government may roll back the reform process, there is optimism that this time it will not happen. It is perhaps the first time that the reforms are being implemented with a vision to ensuring that as the next generation of leaders, born after the revolution take over, they find no hurdles to the reform process. They also point to the fact that President Raul Castro has been critical of past mistakes and has linked the reforms to the goals of the revolution and socialism. He has been criticised by policy makers for the slow pace of reforms but this may be a deliberate attempt by the Cuban government to ensure that change is a gradual process acceptable and inclusive of all citizens.

The Reforms

According to the VIth Cuban Communist Party (CCP) Congress' (2011) outline for the reforms, the goal is not to substantially transform the actual model but to “update it,” keeping the hegemony of State central planning and property over the market and non-State property. That concept allowed for the expansion of the market and non-State property but in an economy largely still driven and determined by state planning and state agencies.³ The Congress approved a program of reforms to transform the Cuban economy to allow the citizens to different forms of property ownership into a device for competition and cooperation, expanding the scope of legal and economic transaction of the citizens, creating new markets for national tourism (Cubans were allowed access to hotels that for almost two decades were reserved for foreigners), buy real estate and private cars and own businesses.

Some of the sectors in which the Cuban government has implemented reforms are:

➤ ***Agricultural Reforms***

In 2009, the Cuban government announced a plan under which it retains ownership over unused land but allows farmers (under “usufruct”) to cultivate it and keep what they produce—either for themselves or to sell. Two laws (from 2008 and 2012) regulate the process; the second, more flexible law expanded the size of the plot, and allowed the building of homes and barns, as well as the planting of forests and orchards (formerly banned). However, the land is granted only for a period of 10 years under a contract. At the end of that period, the State can either reassume control of the land, reimbursing the farmers’ investment based on its assessment, or renew the contract. If the owner of the lease dies, his relatives working on the plot can also inherit the contract. During the contract period, farmers have access to state micro-credit, and can open bank accounts and sell produce to tourism entities, such as hotels and restaurants.⁴

Although the State continues to own the land and regulates the sale of part of the crop it is still a step closer to the market. All agricultural producers, including usufructuaries, are permitted to sell more to the market (47% in 2012) and since 2013 directly to tourist entities

without co-ops intermediation. The reform is not only to increase agricultural output and reduce costly food imports but also to generate self employment.⁵

In addition, the Congress introduced a massive land leasing program in the strategic agricultural sector (more than 63.5 % of agricultural land is today in private or cooperative hands) and greater opportunities for foreign investment, including the creation of a special economic zone in the port of Mariel. The zone is supposed to circumvent bottlenecks and red tape procedures of the traditional command economy and reduce the effect of destabilizing the dual currency system, scheduled to disappear according to a timeline approved in (23 September) 2013.⁶

➤ ***Curtailing the Size of State Employee and Encouraging Non State Sectors***

Cuba's low rates of unemployment are largely due to hidden employment that is created as a result of the State and other government firms employing more workers than required. This results is not just a fiscal loss to the government in the short term but in the long terms it reduced labour productivity and wages. The Cuban Government has recognised this problem and has started to address it by eliminating the surplus labour. This in turn, has made it necessary for the expansion of "non-state" jobs including self-employment, non-agricultural production and services cooperatives, to absorb the extra/laid off workers. These market-oriented policies aim to cut fiscal costs and improve productivity and wages.⁷

The government has been in the process of implementing certain structural changes to government departments. It has reorganised its ministries and departments in order to achieve a more effective and efficient State machinery while at the same time reduce its size. A significant aspect of the structural changes is to reduce dependencies on the Council of State, which had a majority of the State apparatus and functioned parallel to ministries.⁸

Self-employment had been authorized before but not at the current magnitude and speed; the self-employed own their micro-businesses but in the new co-ops (as in usufruct), the state keeps the property and leases it to co-op members who manage the business and keep the profits. Co-op members pay monthly rent to the state, purchase inputs, and freely set prices (the latter also being true for the self-employed). The end result that is expected is that encouraged by the profits they earn, business will improve their locale, offer better services, earn five to six times their previous State salary and raise fiscal income. Co-ops and the self-employed are permitted to buy from, sell and lease to the government and tourist facilities including joint venture hotels, hire employees (not limited to family members), open bank accounts, receive micro-credit, and import household appliances.⁹

This is with a view to generating more revenue for the State and increase the purchasing power of the people. It will also help with distribution of wealth. Cuban's with access to remittances are able to afford a better lifestyle than those who have no connections abroad. While there is still a long way to go for Cuba, self employment is on the rise with the government dismissing more and more state employees.

➤ ***Salary and Wages***

The 2008 salary reform increased the nominal wage and allowed moonlighting (to have a second job) and payment based on productivity. It also removed the previous salary cap, and legalized bonuses in hard currency. At the same time, the government has reduced general public benefits to cut its fiscal deficit. Education and health care are universal and free. Workers did not contribute to pensions. The retirement age was one of the lowest in the region at 55 for women and 60 for men, although Cuba enjoys the region's second-highest life expectancy. Rationed goods are sold below cost, and until the recent reforms meals in workers' cafeterias were subsidized. The reforms are with an aim to reduce the financial un-sustainability of social services, subordinating them to available fiscal resources and reducing them.¹⁰

➤ ***Housing***

In 1960, the government ended house sales and mortgages, prevented the construction of private housing, and stipulated that residents pay rent to the state, whereupon after 20 years they become homeowners. As a result, 95 percent of the population are homeowners today. However, the State's construction of housing never met population growth. This combined with the deterioration and destruction of existing houses due to lack of maintenance and hurricanes, has left Cuban cities with a housing deficit.

A 2011 reform authorized the buying and selling of houses at market prices to Cubans and permanent non-Cuban residents, as well as ownership of a second home for recreation purposes, and granted the right to relatives of Cubans who had permanently left the island to inherit the house left behind. It also allowed dwellings to be sold to change residency or raise capital.¹¹ This reform allows Cubans to buy and sell homes, rather than to swap dwellings of supposedly equal value. The reform helps in reducing corruption that went with such swaps, it also allows them to raise money. This capital is significant and can help in a boom in construction of houses and renovations. The capital can also be freely used for other entrepreneurial ventures. The Cuban government is looking at these reforms to provide it with sources of medium-and long-term financing for the construction of real estate projects as well as for working capital for their operations and for the generation of new employment.¹²

➤ ***Foreign Direct Investment***

The government issued a long-anticipated update to its 1995 regulations governing foreign investment (in 2014). The law extends foreign investment to all sectors except health care, education and armed forces, and exempts foreign investors from personal income tax, labour tax and taxes on select imports. New investors are also granted a grace period of eight years before paying the country's tax on profits and a one-year postponement of sales tax obligations. Investors can open accounts in convertible currency in foreign banks, as well as directly import and export. Decisions on new investment are guaranteed to take no more than 60 days. Under the law, Cuban "legal persons" (presumably Cuban businesses) are permitted to be investors, which can potentially include Cubans living abroad. However, there are some significant drawbacks. The new law maintains the requirement that Cuban workers must be hired by a state agency; hence it

prohibits investors from directly hiring and firing employees and requires companies to submit labour disputes to a state agency for resolution.¹³

Assessment of foreign direct investment into Cuba is difficult as a result of scarcity of available data.

➤ *Unification of the Dual Currency*

Since 1995, there have been two currencies in circulation in Cuba: the national peso (CUP) and the convertible peso (CUC). Neither is traded in the world market, and the CUC is overvalued. The official exchange rate for the population is 25 CUP for one CUC, but in the State enterprise sector the CUP is equal to the CUC. Such monetary duality created serious distortions. For instance, workers are paid their salary in CUP, but part of their expenses is paid in CUC. Currency duality makes it impossible to assess and compare business efficiency, export profitability and competitiveness in the global economy.¹⁴ This duality also adds to the cost to entrepreneurs. It distorts economic measurement and decisions of allocation on resources. The distorted value of the two currencies hides subsidies and may be used to show case artificial growth of an enterprise. It reduces the potential of the internal market, reduces economic linkages and overall is harmful for development.¹⁵ Unifying the two currencies would be an important aspect of the reforms. It would help Cuba attract foreign direct investments. Perhaps keeping this in view, the government announced a broad plan to devalue the CUC and thereafter stop its circulation. However, while the government announced the reform process, it has not announced the timeline under which unification would be achieved. This has meant that investors would not risk investing in Cuba and the local population is susceptible to rumours which can cause panic to exchange currencies leading to further problems.

Conclusion

There are perhaps very few countries in the world which have been so dependent for their development – or the lack of it – on external actors as Cuba. Since its revolution in 1959 the country has been suffering from the impact of international politics inspired by economic or geopolitical reasons. The development of its post-revolutionary society and the survival of its model have basically depended on the support of or its denial by the two cold war superpowers. In the post-cold war period other external actors, principally Venezuela, but to some extent also China and Brazil, have been essential for the continuity of the Cuban model. Additionally the role of the Cuban Diaspora in supporting the economy cannot be neglected.¹⁶ However, with Venezuela in turmoil, Brazil focusing on resolving its internal political turmoil and the Chinese economy experiencing a slow down, Cuba has to transform itself. Close to sixty years to the revolution, Cuba is changing as is the world around it. The government in Cuba has to now build a revolutionary model that is better suited to the current ever changing globalised interconnected world.

Apart from the above mentioned reforms, the government of President Raul Castro has undertaken a number of other structural changes within the government, economy and perhaps also the social structures in Cuba. He has in his various speeches stressed on the need to find

solutions to achieve the economic goals of Cuba while emphasising the need for debate and participation of the citizens in the process. While some would say that this participation is not possible without institutional transparency, still lacking in Cuba, others would point to the fact that the government is taking measured steps in that direction.

It is difficult to assess the impact of the reforms on Cuban citizens as the government has not published much data on the progress made. It would be wrong to say that the reforms have failed in Cuba. Nonetheless, progress appears to have been slow and relatively paltry economic growth rates have been masked by the island economy's dependence on Venezuela. The oil-rich Bolivarian state accounts for 43 percent of Cuban trade, supplies 60 percent of its oil needs and is the leading direct investor. With the Venezuelan economy facing a crisis it is necessary for Cuba to move away from dependency on its neighbours.¹⁷

The cuts in the social sector and the dismissal of workers from the state enterprises has meant that unemployment is higher than before and there is no corresponding rise in self employment or alternative employment routes. However, the government is committed to the reforms. It has promised that it will not leave any of its citizens unprotected under the new welfare schemes. The reforms are complex and will take time to implement. It would not be possible for Cuba to change itself quickly nor should it do so. However, the reforms have insured that after 2018, when President Raul Castro retires, the process of reforms will continue and Cuba will continue to be intergraded into the world economy.

Today, most major actors in Europe, Canada, China, Russia, Latin America and the United States look at the island as a country in transition, not as a remnant of the Cold War. One major achievement for Cuba has been the change in perception the reforms have brought about in Europe and also in the United States, an economically powerful neighbour. The economic reforms are part of the reason that caused Washington policymakers to work towards opening of diplomatic relations with Cuba. Even if the United States continues to impose sanctions it will not achieve much. The political and economic interest that is being shown towards Cuba by nations other than from Latin America and the Caribbean means that the United States would have to reconsider the sanctions at a later date. The actions of President Raul Castro and President Obama have helped increase tourism and contact with the island, which has resulted in more and more exchanges that will inevitably raise questions about the policies that each country applies to the other. As their interests merge it is hoped that relations will strengthen. Among other international actors, Cuba has experienced cooperation toward its economic reforms from the likes of China, Russia, France, Italy, Spain, Mexico and Japan among other important partners. The goal of economic development remains elusive but President Raul Castro's decade in power has left the country better prepared for the inter-generational transition of leadership in 2018.¹⁸

The big question for Cuba's leaders is how to bring the aspirations of the post revolutionary generation, more aware of the world around it, to coincide with the generation that has grown with the benefits of the socialist State and now are unwilling to let it go. They have to bring these two groups together to ensure that reforms after five decades of Cuban-style communism would usher in a new system while maintaining the essence of the old. The Cuban government has been criticised for the slow process of the reforms, however, it has to be kept in

mind that if reforms happen too quickly, it could cause more problems and potentially destabilize the economy and the government. Already bureaucrats who have something to lose under the new system are resisting change. Nonetheless, the danger is that if the pace of change is too slow, then budding entrepreneurs, the middle class and the underemployed/unemployed youth, may leave for better economic opportunities to other countries. This would mean that Cuba would not only lose on its work force that could contribute positively to its economy, it would also lose the educated youth that could have contributed more to the society as well.

The trick for party officials, then, is to demonstrate enough tangible improvements that Cubans will maintain faith in their ability to lead the country even after the Castros leave the scene. This explains the Communist Party's determined effort to intensify popular consultations throughout the island and to keep up the momentum and rhetoric of slow but steady change. "In everything we do," said one official, "we will try to be inclusive."⁹

With the death of Fidel Castro, it is being speculated that President Raul Castro would bring about more reforms; however, this would seem unlikely. He would likely ensure that the current reform process is sustained and produces results rather than announcing more changes that may cause resentment among the older generation of revolutionaries. He has slowly but steadily put Cuba on a path of change while ensuring that the ideological foundations on which the government has been built remains firm. In his retirement in 2018, he has paved the way for the next generation of Cuban leaders to interpret the revolution as they see it fit.

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Disclaimer: Views expressed are of authors and do not reflect the views of the Council.

ENDNOTES

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