

Cuba — on the road to major reforms



**BHASKAR
BALAKRISHNAN**

On the eve of the 52nd anniversary of the Cuban revolution that swept Fidel Castro and his colleagues to power on January 1, 1959, Cuba is set on the path of major economic reforms. Serious challenges, such as the US economic blockade, global economic slowdown and a succession of hurricanes over the past two years have taken a severe toll on its economy. This has made reforms an urgent necessity.

The Cuban revolution had scored some notable successes, bringing education and health to its people, and achieving exemplary levels of indicators such as literacy and infant mortality, comparable with developed countries. However, the collapse of the USSR, Cuba's main support against the US blockade, in the 1990s, dealt a severe shock to the economic system, exposing many of its weaknesses. Cuba was forced to adjust by embarking on a limited economic liberalisation, including partial dollarisation of its economy.

This did not address fundamental weaknesses, however, and led to growing inequalities and continuing drain on the government resources in the form of subsidies. The export sector remained weak, depending on the vagaries of sugar and nickel prices, though offset to some extent by growing tourism, biotech, and

medical services exports. By 2000, Cuba was unable to meet its debt servicing obligations to most creditor countries, including Russia.

In the last decade, Cuba came to rely for economic support on China and Venezuela, with liberal credit facilities from the former, and an oil-for-services arrangement with the latter. Cuba's highly educated and skilled workers remained under-utilised while state-controlled enterprises, which dominated the economy, were unable to perform efficiently. Rigid price controls on goods and services, and heavy taxation on the very limited private small businesses compounded the problems.

Cuba's 10 million population, accustomed to a welfare state that provided virtually free education, housing, guaranteed employment, and subsidised essential requirements, has faced belt-tightening since the 1990s. As the state found it difficult to provide these facilities, these pillars crumbled. Many Cuban families came to depend on remittances from relatives in the US and western countries. Malpractices such as black marketing, corruption, and smuggling began to grow.

REFORM DOCUMENT

Since Raul Castro, 80, took over the Presidency, there has been widespread discussion of reforms and changes. Discussion on economic issues is encouraged, while political liberalisation remains taboo for the moment. However, some political dissidents have been released from prison on humanitarian grounds and allowed to leave the country, a positive step. But Cuba remains firmly



The Cuban President, Mr Raul Castro, addressing the National Assembly in Havana on December 18.

wedded to a one-party system under the Cuban Communist Party. This suggests that discussion of reforms would be tolerated only within the framework of the one-party state.

The ruling Cuban Communist party has failed to hold its quinquennial party conference since the last one in 1997, but now plans to hold it in April 2011. In the run-up, intensive broad-based discussion of reforms is going on, based on a major document circulated by the government entitled "Economic and Social Policy Guidelines for the Party and the Revolution". This is a bold document, acknowledging the weaknesses of the system and calling for changes. The thrust of the change is to give more scope for private business to grow and liberalise the FDI regime. The state-controlled entities would be given more autonomy in managing their operations, including employment. The document

contains some 290 points for action, and the expectation is that the Party Congress in April next would be able to approve a comprehensive reform programme once broad-based consensus is reached.

Cuba recently announced the laying off of some 500,000 state employees in the next year, going up to 1.3 million over three years, amounting to 25 per cent of the state work force, as part of the reform programme. To open up avenues for self-employment and small businesses, some 178 categories of small private businesses have been permitted to be opened. Some 30,000 licences have already been approved. But finding resources will be a formidable problem for a small business start-up.

Cuba does not have access to international financial institutions for loans and credits due to the US blockade, and must depend on bilateral lending from friendly countries. The country has exhausted most of its sources of credit, running up debts amounting to some \$21 billion or about 50 per cent of GDP. Cuba has not been able to service its debts to countries such as Russia, Japan and Spain and has sought debt write-offs from creditor countries.

POTENTIAL FOR GROWTH

There are some suggestions that China, which had been lending liberally to Cuba, has now become concerned over the large accumulated debt, and has urged Cuban authorities to go in for reforms. Cuban leaders have been praising China's economic performance and perhaps see it as a model for pulling Cuba out of its economic difficulties.

Cuba has considerable potential for economic growth. It has a large amount of arable land that is under-utilised and could, with appropriate policies, enable Cuba to be surplus in food. But actually, it imports large amounts of agri-products from the US, under very tough conditions. It has large reserves of nickel, and potential for oil and gas in the north onshore and offshore areas, where a number of companies, including OVL, are prospecting.

India has already written off Cuba's debts and should welcome the reforms, which could provide more opportunities for business with Cuba. India already provides training for Cubans under its multi-sectoral ITEC programme, and collaborates in the biotech, IT and hydrocarbons sectors. Cuba has a well-educated population which could give it an edge in the services sector, especially health, tourism, culture, IT and related services. However, for this to happen, a reasonable degree of business freedom must be given. Given the dire state of the economy, Raul Castro recently told his parliament "we must reform or sink".

Unfortunately, the recent midterm elections in the US have strengthened hardliners who see Cuba's economic problems as a prelude to collapse of the Communist system and possible shift to multi-party democracy. Hence Cuba can expect no softening on the part of the US. This is the challenge before the Cuban leadership, and it will be closely watched to see how the challenge is met.

(The author is a former Ambassador to Cuba and Greece. The views are personal.)