CUBA'S ECONOMY IN THE 1990S: THE EFFECTS OF THE FALL OF THE SOVIET UNION AND US FOREIGN POLICY

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GRACE FRANCES

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Dr. Gillette Hall

Since the fall of the Soviet Union, beginning in 1989, Cuba has found itself in dire economic straits. Between 1989 and 1993 Cuba's economy dropped by 35 percent while imports and exports plummeted by 70 percent, financially devastating the country. Since then the Cuban government has instituted numerous reforms in an attempt to revive the economy. This thesis examines how the end of the Soviet Union's financial support and the tightening of the United States embargo through the 1992 Cuban Democracy Act and the 1996 Helms-Burton Act have contributed to the island's economic crisis in the 1990s.

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CHAPTER I

INTRODUCTION

Cuba today is in a state of transition. The small Caribbean island that has embraced socialist ideals and economic policies for nearly forty years now finds itself staring into the maw of international capitalism. Supported by the Soviet Union since 1960 and internationally isolated by the US embargo since 1962, Cuba has operated mainly outside the global economic system. With the advent of the Soviet Union's collapse, beginning in 1989, the 1990s have brought financial turmoil to the island, forcing Cuba to re-evaluate its economic strategies and take steps towards re-inserting itself into the global economic market.

Losing the economic aid of its largest trading partner and supporter, the Soviet Union, has had a tremendous effect on Cuba. The main reason for the economic downturn was the end of Soviet aid worth approximately $6 billion annually. Between 1989 and 1993, the year marking the lowest point in Cuba's economic decline, the island's imports and exports shrunk by approximately 70 percent. During the same time period, Cuba's gross domestic product deteriorated by about 35 percent. Since this collapse Cuba has been forced to examine its economy and has instituted significant reforms in its different economic sectors in an attempt to boost itself out of recession.

While the island was suffering the effects of the economic crash and attempting to revive its financial sectors, the United States passed two major

pieces of legislation which further tightened the existing embargo against Cuba. More importantly, the 1992 Cuban Democracy Act and the 1996 Helms-Burton Act have gone beyond US-Cuba relations and have sought to inhibit the international community's trade with Cuba.

To better understand the reasons behind the United States' intolerance of Cuba and to comprehend why the Soviet Union played such an important role in Cuba's economy, it is necessary to examine the history of Cuba-US and Cuba-Soviet relations.

History of Cuba-US and Cuba-Soviet Relations

In the 1950s, the era preceding the revolution, the United States maintained a powerful position on the island as it had for over a century. Cuba's president at the time was Fulgencio Batista, a US supported puppet dictator used to protect US economic interests. At that time the United States was heavily invested in the Cuban economy with US companies controlling a significant portion of major industries such as sugar and oil. Americans also made up a large sector of the Cuban tourism industry, and the Batista regime dedicated a notable amount of state money to building expensive urban housing, major hotels and casinos for rich American tourists (Azicri, 1988). Pre-revolutionary Havana was known as the Las Vegas of the Caribbean with US organized crime, protected by Batista's officials, heavily invovled in running the gambling, drug, and prostitution industries. Americans were major investors in all of Cuba's financial sectors--even the underground ones.

Cuba had become firmly entrenched into the larger United States economic system by the 1950's, and the island's apparent high standard of living belied its underlying financial difficulties. In 1957 Cuba enjoyed the

second highest per capita income in South America at $374. The island ranked number one in terms of persons per television (one per 25 inhabitants), and only Mexico and Brazil had a higher radio to people ratio (one for ever 6.5 people). By 1953 Cuba boasted the fourth highest literacy rate in Latin America at 76% (Pérez, 1995).

While Cuba appeared to enjoy a high standard of living compared with the rest of Latin America, in reality it was neither economically nor socially as well off as it seemed. Although Cuba maintained a relatively high income level, the cost of living was much higher than in other parts of Latin America due to the country's high dependence on increasingly expensive US imports. Another problem with the standard of living figures is that they ignore the wide urban/rural distribution disparities. Most of Cuba's rural population lived in poverty and had less access than urban dwellers to everything. In addition, unemployment and underemployment presented a tremendous problem on the island with figures ranging up to 60 percent of the total labor force drifting in and out of un- and underemployment (Pérez, 1995). These problems plaguing Cuba combined with a general feeling of discontent are in part what made the island ripe for revolution in the late 1950s.

On January 1, 1959 Fidel Castro's revolutionary troops toppled the old guard and took control of the government. Dedicated to raising the standard of living of Cuba's poorest, the revolutionaries began making immediate socialist reforms. Within a short period of time hundreds of thousands of Cuba's most well-to-do citizens fled the country. In May of 1959 Castro passed the controversial Agricultural Reform Law, severely limiting the amount of real estate that could be privately owned and expropriating the excess at an non-negotiable compensation rate. Many US families and companies had their land nationalized by the government and loudly took their concerns to Washington.

As Castro continued to implement new policies the United States grew increasingly incensed and threatened to reduce the sugar quota it had promised to buy from the island. Seeing a strategic opportunity to gain a foothold in the Western Hemisphere, the Soviet Union sent a trade mission to Cuba in February 1960. The Soviets agreed to purchase 425.000 tons of sugar immediately and buy an additional one million tons yearly for the next four years (Pérez, 1995). The offer allowed Cuba more flexibility in making its decisions, easing the US economic pressure. In April of that year Cuba accepted a deal with the Soviet Union to buy oil at below market costs. Castro ordered US oil companies to refine the oil, but they refused, instigating the government to nationalize the refineries.

What followed was a back and forth retaliation between the United States and Cuba, quickly terminating any positive relations between the two countries and forging a long-term alignment between the island and the Soviet Union. By January 1961 Washington had cut diplomatic ties with Cuba and nixed all future sugar purchases and by February 1962 had implemented a full-fledged trade embargo, virtually eliminating all trade with the island. The Soviet Union stepped in at that point and took over the United States' portion of Cuba's sugar trade. In 1961 and 1962 the revolution survived both the Bay of Pigs fiasco, in which the United States attempted a Cuban invasion, and the Cuban missile crisis, solidifying the island's polarization with the United States and cementing its relationship with the Soviet Union.

These political and economic exchanges between Cuba and the two global superpowers simply switched the island's dependence from one to the other. The US embargo had a drastic effect on the island, cutting it off from all trade with its former patron. As a result Cuba had no choice but to align itself with the Soviet Union for mere economic survival. This relationship remained

relatively unchanged throughout the following three decades until the USSR's collapse beginning in 1989.

Through this thesis I hope to illustrate two specific points: first, that Cuba's economic downturn between 1989 and 1993 is directly linked to the collapse of the Soviet Union; and second, that the tightening of the US embargo through the Cuban Democracy Act and the Helms-Burton Act has had a comparatively insignificant impact on the Cuban economy in the 1990s. Chapter 2 will discuss Cuba's dependence on the Soviet Union and describe the effect the fall of the USSR had on the Cuban economy, concluding with an analysis of the US' Cuban Democracy Act's impact. Chapter 3 will illustrate the reforms Cuba has implemented in its sugar industry, foreign investment policies, and self-employment economic sector and cover the effects of the 1996 Helms-Burton Act.

CHAPTER II

CUBAN DEPENDENCE ON THE SOVIET UNION AND THE COLLAPSE OF THE CUBAN ECONOMY

In August of 1994 the Cuban government announced that it would no longer interdict the departure of Cubans who wished to leave the island. The statement resulted in an exodus of thousands of islanders who boarded rafts and boats to sail to the United States. The *balseros* (boat people) fled the island for one major reason--to escape the economic crisis brought on by the fall of the Soviet Union. The dissolution of the Soviet Union and the end of Soviet economic subsidies in the early 1990s led to a dramatic downturn in the Cuban economy, affecting all sectors of the country and leaving the island in a state of financial devastation.

Cuban-Soviet Relations in the Post-Revolutionary Period

After the revolution Cuba's political leaders decided to shift away from sugar as the mainstay of the economy and began trying to industrialize the economy and diversify the agricultural sector. The revolutionaries argued that the two would work together to reduce the island's susceptibility to the price fluctuations of sugar on the world market and would reduce its dependence on foreign imports. Cuba would be able to produce more of its own

basic necessities and improve its balance of trade ratio while moving into a promising new exporting future.[1] Cuba's planners were sure that industrialization and agricultural diversification would lead the country into a new, richer future for all Cubans.

By 1965 the island had abandoned the import substitution and diversification strategy, and the country found itself once again relying on sugar as the economic staple. The short-lived diversification strategy had severely harmed the island. Agricultural production plummeted, most notably within the sugar industry. Sugar production dropped from 6.7 million tons in 1961 to 4.8 million in 1962 and 3.8 million in 1963, reaching the lowest level of output in twenty years (Pérez, 1995). In diverting resources traditionally devoted to sugar to other areas that did not immediately pick up, the government set Cuba up for economic disaster. To domestic shortages of both consumer goods and basic food essentials the government responded with an imposition of general food rationing. Contrary to the goals of diversification, Cuba actually became more reliant on foreign imports and the trade imbalance and dependence on sugar exports increased. Sugar increased from 78 to 86 percent of total of international exports between 1961 and 1963 (Pérez, 1995).

This economic disaster resulted in Cuba's continued dependence on sugar production, and increasing reliance on the Soviet Union for financial assistance. After the reorientation of Cuba's economy in 1961 the island incurred huge trade deficits with the Soviet Union, increasing from 237 million pesos in 1962 to 322 million in 1963 to 294 million in 1967 and 451 one year later (Pérez, 1995). In response to the diversification failure Cuba

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[1]This strategy is known as import substitution and industrialization and was followed by countries throughout Latin America during this period.

returned to sugar as its major export product with the Soviet Union promising to purchase 36 to 56 percent of the sugar exports between 1966 and 1970.

Through the 1970s and 1980s the Soviet Union increased both the amount of sugar it bought and the price it paid for it. In 1972 Cuba officially joined the Soviet Bloc's Council for Mutual Economic Assistance (COMECON) (Eckstein, 1994). With its developing country status in the organization Cuba benefited like never before through its trade with the USSR. The Soviet Union agreed to increase the amount it paid for sugar without raising the price of petroleum it sold to the island. In addition the Soviets agreed to cover the balance-of-payment deficit with long-term low-interest financing. In 1974 when sugar prices reached an all-time high on the world market, the USSR both allowed Cuba to increase the amount of sugar it sold to the West and raised the amount it paid for Cuban sugar. By 1977 the market price for sugar was back down but the Soviet Union did not readjust the amount it paid for the sugar, implying a huge subsidy.

While the Soviet Union's support for the Cuban economy through subsidizing the sugar industry shielded the island from the true ravages of the world market system it also resulted in Cuba's increasing dependence on the Soviet Union for trade. The Soviets' sugar subsidies meant that Cuba could not produce any other product as profitably. This further entrenched the island in the production of a single cash crop for its livelihood while other world economies during the same time period were dedicating themselves to diversification. In addition, increased trade with the USSR in itself limited Cuba's trade opportunities as the Soviet ruble was not exchangeable on the world market. Thus the island was increasingly reliant on poorly-made and inefficient imports from the Soviet Union and was unable to buy higher quality Western-made items.

Because Cuba was so intricately linked to the Soviet Union through the favorable terms of trade and because the island could not easily purchase Western products, Cuba became more and more reliant on Soviet inputs. The amount of interaction between Cuba and the Soviet Union, combined with the relative dearth of Western contact, also lead the government to depend more and more on Soviet technology. One prime example of this is Cuba's dependence on Soviet petroleum products and fuel-intensive technology.

Until the early 1990's the oil Cuba imported from the Soviet Union accounted for 90 percent of the island's energy needs (Pérez, 1995). Cuba imported more oil from the Soviet Union than it needed for its own use and was able to re-export a significant amount at a profit. At one point in the 1980's oil re-exportation was the island's main avenue for gaining foreign currency (Eckstein, 1994). Because oil was available in excess in both countries, the Soviet technology exported to Cuba was highly fuel intensive and thus highly input intensive. Cuba bought the vast majority of its motorized vehicles, from public buses to tractors and other farm machinery, from Soviet Bloc countries. The shoddily made machinery kept Cuba dependent on Soviet countries for both the ever-needed spare parts and the oil to run them.

By the end of the 1980's Cuba was more dependent than ever upon the Soviet Bloc, both for trade and aid. In 1989 the Soviet Bloc made up 85 percent of Cuba's total trade, a substantial increase from the 1974 rate of 56 percent of trade (Eckstein, 1997). Sugar maintained its position as Cuba's most important trade commodity, and the island continued to benefit from the inflated price the Soviet Union paid for the product. In 1989 alone the Soviet countries paid three times more per ton than the market economies paid. Cuba received 642 pesos per ton of sugar from COMECON as compared to 214 per ton from Western countries (Pollit, 1997). In addition to the sugar subsidies the Soviet Bloc

helped prop up Cuba's economy through credit and through carrying the island's trade deficit. Cuba received on average $1,463 million in credits from the USSR per year and another $162 million from Eastern Europe (Eckstein, 1994). Between 1985 and 1989 Cuba carried a foreign trade deficit of $2.3 billion, most of which was with the Soviet Union. The USSR carried the deficits for Cuba and continued trading with the island unfettered.

Effects of the Collapse of the Soviet Union

Because Cuba was so dependent on the Soviet Union towards the end of the 1980's, the sudden stop in aid and trade with the Soviet Bloc left Cuba's economy reeling. The Soviet Bloc began its disintegration in 1989 and by the early 1990s Cuba had begun to feel the effects. In 1991 the Soviet countries dissolved COMECON, reducing Cuba's trade with Eastern Europe. While these countries accounted for only 15% of Cuba's total trade, they were key producers of vital products such as buses, trucks, electric generators, centrifuges for sugar mills, and spare parts (Eckstein, 1994). With the end of COMECON many of the countries refused to arrange further long-term trade agreements with Cuba, limiting the island's ability to plan for the future. Some countries even reneged on their current trade agreements, failing to provide previously promised commodities. Cuban export earnings with the Soviet Bloc countries also fell tremendously between the 1989-1991 period. Whereas the 1988-89 sugar exports to Eastern Europe was 469,000 tons (accounting for 15% of Cuba's sugar trade), the 1990-91 sugar exports to the Soviet Bloc countries had dropped to 55,000 tons.

While the decline in trade with the Eastern European countries negatively impacted Cuba, it was nothing compared to the economic

devastation caused by the end of subsidies and aid from the Soviet Union. The general estimated total of aid dispersed to Cuba from the Soviet Union between 1960 and 1990 was $65 billion, or approximately $6 billion per year. The economic assistance came in three forms: credits to cover trade deficits, development loans, and trade subsidies. The first two were repayable loans accounting for about 40 percent of total aid while subsidies were non-repayable aid making up approximately 60 percent (Mesa-Lago, 1993). By 1992 the Soviet Union had cut off all three forms of aid to Cuba completely.

Aid from the Soviet Union began to dwindle in 1990 when Cuba received only $2.2 billion in subsidies and $1.3 billion in trade credit (Cardoso, 1992). In 1991 the Soviet Union vastly reduced its amount of trade with Cuba. In 1988 Soviet exports to Cuba were made up of 48 percent oil and oil products, 17 percent machinery and equipment, 9.8 percent manufactured goods and spare parts, 8.1 percent foodstuffs, and 16.8 percent other products. 1991 brought long delays in the arrival of Soviet import shipments that included little more than oil products when they did arrive. Even then the oil imports from the Soviet Union were substantially reduced and had to be paid for at world market prices, which had a profound impact on the Cuban economy. Because the USSR would no longer sell Cuba oil at a discount, Cuba suffered fuel shortages within the country and was unable to re-export oil at a profit to Western countries.

1992 brought the end of Soviet aid to Cuba. The Soviet Union ended all subsidies to Cuba which had heretofore been the main source of aid. With the dissolution of the Soviet Union in 1991 the former USSR refused to pay above market price for the sugar it bought. This forced Cuba to sell its sugar at one fourth the price the Soviet Union had purchased it for just a few years earlier (Eckstein, 1994). In addition Moscow denied Cuba the traditional extension of trade credit to cover the balance of payment deficit. All told, Cubans estimated

the end of subsidies in 1992 cost the island $5.7 billion in lost trade for that year alone, accounting for nearly one third of the country's $20.3 billion gross domestic product (Eckstein, 1994; Ritter, 1997).

The fall of the Soviet Union and the end of Soviet aid spelled severe financial hardship for Cuba for the first four years of the decade. The economy spiraled downwards until 1994 when the recession finally leveled off. Between 1989 and 1993 Cuba's gross domestic product fell by 35%, one of the most drastic economic declines in the Latin American region. During the same period the island's imports fell by 70% with a roughly equal drop in exports. In 1989 imports to the island were worth $8,139 million while just five years later in 1994 the country received a mere $1,956 million in imports (Carranza Valdés, 1996). Because raw materials and production inputs made up the vast majority of Cuba's imports, industry, and most notably the sugar industry, took the brunt of the import shortages.

Cuba's industry and trade crises were directly linked to the end of Soviet sugar subsidies and the increase in the price of oil which in turn were intricately connected to one another, creating a vicious, destructive economic cycle that persists to this day. The end of the sugar subsidies meant that Cuba lost a huge portion of its traditional income, leaving the country pressed for the hard currency the Soviet Union now demanded for its products. At the same time the increase in the price of oil and other production inputs hindered Cuba's ability to buy the necessary materials to promote industry, namely the sugar industry. Whereas Cuba could formerly barter 1 ton of sugar for 4.5 tons of Soviet crude oil, after 1989 1 ton of sugar only purchased 1.8 tons of crude oil. The lack of petroleum products to fuel machinery combined with the shortage of fertilizers and pesticides caused Cuba's sugar industry to nose-dive. Cuba's sugar production fell from 8, 156 tons in 1989 to 7, 779 the

following year to a serious low of 4,365 tons in 1993. The Soviet markets did not dry up during this time, Cuba simply had less sugar available for sale.

Food shortages dealt another blow to the failing sugar economy, leaving Cuba with even fewer means of gaining hard currency. Because Cuba had imported a significant amount of its foodstuffs from the Soviet Bloc, when imports dried up, food shortages ensued. In an attempt to make the country more self-sufficient in meeting its food needs, the Cuban government instituted the Food Program[2]. Unfortunately, the program diverted scarce resources away from the sugar industry, contributing to the decline in sugar production, and making it even harder for the country to gain foreign currency to buy imports.

Sugar was not the only industry affected by the lack of inputs, but rather one of many industries damaged by shortages. The dearth of inputs affected all sectors of industry on the island. In 1993 one half of the country's factories had either shut down or had reduced production with the entire manufacturing sector operating at only 15% capacity (Eckstein, 1997). The reduction in production left the Cuban government in a difficult position of trying to maintain full employment, a major tenet of the Revolution, while dealing with a growing deficit and debt. In 1993 one third of the Cuban public sector labor force qualified as underemployed. During this same time the government was doling out 867.4 million pesos it could ill afford in unemployment benefits; twice as much as the 1989 total for unemployment compensation (Eckstein, 1997).

The economic hardships incurred by the end of financial assistance from the Soviet Union were not restricted to industry but had a rippling effect

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[2]The Food Program attempts to make the island self-sufficient, increasing land and other resources dedicated to food production. For more information see Susan Eckstein's Back from the Future, pp. 96-97.

throughout the country. The period of economic distress and shortages since the fall of the Soviet Union has come to be know on the island as the Special Period in Time of Peace (*El Período Especial en el Tiempo de Paz*). The austerity that characterizes the Special Period has had a far greater impact on Cubans' lives that the mere number crunching of statistical data demonstrates. The constant shortages have severely affected every day life on the island, specifically during the early 1990s. The 46 percent drop in imported oil between 1989 and 1992 created a severe energy crisis on the island. Whereas Cuba had imported 13.3 million tons of oil in 1989, that number decreased to 8.6 million in 1991 and dropped even lower to 6.1 million tons in 1992 (Pollitt, 1997). Because of the scarcity of fuel Cubans were forced to endure continuous water and electricity shortages. In the agricultural sector oxen and mules have replaced fuel driven tractors. The lack of fuel and the inaccessibility to spare parts caused a dramatic decrease in vehicular transportation. Public transportation has been cut back, and the number of private vehicles in use on the island has fallen. The government has promoted bicycles as means to assuage the transportation crisis.

After the dissolution of the Soviet Union shortages of all varieties of goods became commonplace in Cuba, especially during the first few years of the 1990s. One way the government attempted to deal with the dearth of foodstuffs and consumer goods was to strengthen the existing rationing system. In this way the government hoped to divide the available goods evenly among the population and avoid the skyrocketing of prices that occurs in capitalist nations during a shortage. Unfortunately, the government has had to gradually reduce the official allotments so that today the state rations only cover about two weeks of a family's basic monthly needs (Pérez-López, 1997).

Because of the difficulty in acquiring basic necessities, many Cubans have looked to the "second economy" to satisfy their needs. In his essay "Cuba's Second Economy and the Market Transition" Cuban scholar Jorge Pérez-López defines the second economy as all economic activities carried on outside the first official centrally planned economy (1997). The two sectors of the second economy are made up of legal activities: agricultural production by private farmers and some self-employment, and illegal activities: black market dealings, corruption, theft of state property, and economic crime (1997).

During the late 1980s and early 1990s the most important part of Cuba's second economy was the black market. Although there are no certain statistics on the volume of black market activity, this sector is estimated to have accounted for 6% of the national product and an equivalent share of the labor force during the early to mid 1980's. By the late 1980s this figure is estimated to have jumped to 17%. When the early 1990s saw shortages becoming more plentiful than actual goods, the black market skyrocketed. By 1992 the Institute of Internal Demand assesses the black market to have accounted for 60% of Cuba's economic activity (Pérez-López, 1997). During the same period, money in circulation increased by 47% while goods and services decreased by 30%. By 1993 there was an excess of 12.3 billion pesos in the Cuban economy with nothing for people to buy with them. Thus Cubans had extra money in their pockets, but were still strapped to meet their basic needs.

While there is no denying that the Cuban people have been hard hit by the financial crisis, reports on the actual severity of the situation vary substantially. One scholar reported that Cubans' caloric intake, formerly one of the highest in Latin America, plummeted nearly 30 percent by 1994 to the point where they "are barely eating better than Haitians and Bolivians" (Rosset, 1994). And Cuban journalist Mirta Rodríguez Calderón (1995) writes, "I

hardly know an adult who hasn't lost between eight and 15 pounds (since the Special Period began)." Mona Rosendahl, in *Inside the Revolution* describes how Cuba's lack of food has affected the islanders' morale. In Palmera, the city Rosendahl lived and studied in, food is a symbol of the good life and of generosity (1997). Before the crisis Palmerans prided themselves on the amount of food they shared at parties with friends. During the height of the crisis, however, "It was difficult to be generous when there was nothing to offer, when friends and acquaintances could not be invited to sit down and eat at dinnertime or when parties could not be given" (1997, 173).

Other journalists have taken a different stand on the effect of the economic crisis on Cubans' lives, ranging from saying that the situation was never dire to stating that Cubans live in devastating poverty. In her *Atlantic Monthly* article, journalist Joy Gordon (1997) relates what a friend in Cuba told her in 1992 at the height of the crisis, "We have enough...There's food on the table every day; the kids are going to school. But you want something more once in a while. You want to buy a Coke, or a new dress. You want to sit in a cafe, or go dancing, or just buy a can of something for dinner instead of soaking the beans again and hoping that the cooking gas will come on before two in the morning." So while the economic crisis did create terrible inconveniences for Cubans, Gordon posits that they could still meet their basic needs. Senior policy analyst John Sweeny at the conservative think tank Heritage Foundation views Cuba's conditions differently. His 1996 *World Affairs* article claims that the economic situation is so bad Cubans have taken to eating their pets. While many Cubans still have dogs, states Sweeny, "there are no cats anywhere in the streets of Havana...it's not against the law to eat cats in Cuba" (1996, p. 4). Clearly Cubans have endured great hardships as a result of the economic turmoil as these journalists can attest. As these

diverging accounts suggest, however, without a cohesive study of living standards it is impossible to judge exactly how detrimental the economic situation has actually been for Cubans.

Effects of the 1992 US Cuban Democracy Act

In 1992 the United States passed the Cuban Democracy Act (also known as the Toricelli Act, as it was introduced by New Jersey Representative Robert Toricelli), a policy that both tightened the US embargo and attempted to influence other countries' interactions with Cuba by threatening punishments for countries that trade with Cuba. Although this act has had some effect on the Cuban economy, the results are minimal in comparison with the tumult caused by the collapse of the Soviet Union.

Between 1962 and 1992 the United States embargo on Cuba remained relatively static with only one moderately important change. In 1975 the United States allowed US-owned subsidiaries located in third countries to trade with Cuba. The 1992 passage of the Toricelli Act not only effectively reversed the 1975 policy, legislating an end to US subsidiary trade with Cuba, but also set provisions to interfere with other countries' trade with the island. The Cuban Democracy Act, supported by candidate Bill Clinton and passed by President George Bush during the 1992 Presidential election campaigns, ended 17 years of trade between Cuba and foreign-based US subsidiaries. In addition, the Act prohibited vessels that docked in Cuba from entering US ports for six months. Thirdly, the Cuban Democracy Act forbid the US Government from extending debt forgiveness to any country that granted Cuba any type of preferential trade treatment in the market (Feinsilver, 1994).

On a directly economic level the Toricelli Act officially cut off between $500 and $700 million per year in trade between United States subsidiaries and Cuba (Raplowitz, 1995). In 1991 trade between the subsidiaries and Cuba accounted for 18 percent of the island's total trade (Raplowitz, 1995). The vast majority of this trade arose only after the Soviet Union began to crumble, as United States subsidiaries stepped in to fill in the gaps left by the severe trade reduction between the Soviet Bloc and Cuba. The number of license applications requested by subsidiaries increased dramatically from 50 in 1989 to 321 in 1990. During the same time period the amount of money in goods traded tripled, reaching $705 million in 1990 and up to $718 million in 1991 (Raplowitz, 1995). For the fiscal year of 1992 the amount dropped to $500 million due to the drop in sugar revenue and Cuba's reduced ability to purchase foreign products.

Arguably this trade agreement benefited the US subsidiaries a great deal more than it did Cuba. When US companies jumped into the trade scene after the Soviet Union started pulling out, Cuba's import/export ratio with the subsidiaries leapt from about equal during the 1980s to 76 percent imports/24 percent exports in the early 1990s (Raplowitz, 1995). This trade advantage made Cuba a lucrative trade partner for US subsidiaries. Although the passage of the Cuban Democracy Act did allow some US subsidiaries to fulfill the rest of their two year commodity contracts, the Act abruptly ended the majority of trade between the subsidiaries and Cuba.

While some organizations argue that the Cuban Democracy Act's forced trade halt caused the people of Cuba undue suffering, the United States subsidiaries were probably more negatively affected by the Act. In 1992 91 percent of the trade between the subsidiaries and Cuba consisted of consumable goods (Raplowitz, 1995). These are commodities that the island

could easily purchase from other countries. The organization Let Cuba Live criticizes the US embargo for the excess shipping costs Cuba must pay to get their imports sent from far-away countries while the United States is a mere 90 miles from the island. Even without the Cuban Democracy Act, however, the products bought from US owned subsidiaries would still have to be shipped in from the third countries the companies are located in. On the whole Cuba remained relatively undaunted by the CDA while it was the US companies that lost out on a good trade deal. Even Serena Moc, an official for the Organization of American States admitted that CDA hurts the US subsidiaries much more than the country of Cuba.

On an international level CDA has dampened trade with other countries to some degree, but has for the most part left trade relations between third countries and Cuba unaffected. Within the first two months after the passage of CAD Britain sent 83.5 percent less in exports to Cuba compared with the same period of the previous year, one reason for which could have been fear of US retaliation (Raplowitz, 1995). The 6 months no-docking rule also affected Cuba's international trade. The stipulation raised Cuba's shipping costs because foreign vessels Cuba used to ship its goods out on began charging for the added expenses incurred by the ban from US ports (Pérez, 1995). Other areas of international trade were not impacted by the Cuban Democracy Act. In fact, the island's trade with Latin America actually increased after the Cuban Democracy Act passed.

Perhaps the largest international impact of the Cuban Democracy Act was the opposition to it the US encountered from other countries. In passing the law the United States angered many countries around the world for dictating how the international community could interact with Cuba. In a 1995 resolution the United Nations Assembly voted 117 to 3 with 38 abstentions for

the United States to end the embargo against Cuba. Canada went as far as passing a law forbidding Canadian-based, US-owned subsidiaries from complying with the CDA. In short, the United States' passing the CDA angered the international community while at the same time did not have a dire effect on the Cuban government or economy.

The tightening of the US embargo through the passage of the CDA has had played a very minor role in the Cuban economy as compared to the damage done by the collapse of the Soviet Union and the end of Soviet aid to Cuba. At worst the island lost $500-$700 million per year in trade with the US subsidiaries after the Toricelli bill. The end of Soviet aid, on the other hand, cost Cuba over five billion dollars in 1992 alone. Furthermore, the Cuban Democracy Act could not have instigated the collapse of the Cuban economy, because it only went into effect after the USSR had pulled its subsidies to Cuba. In short, the Cuban Democracy Act was at worst an inconvenience to Cuba after the fact of its economic collapse caused by the end of Soviet aid.

CHAPTER III

REFORM AND ECONOMIC GROWTH

Through the 1980s the Cuban government viewed Socialism as a nearly ideal economic and social system. Surrounded by poor capitalist Latin American countries that were suffering from financial hardships and enduring economic austerity programs imposed by Western financial institutions, it was easy for Cuba to see its own system in a highly positive light. The Soviets' economic support allowed Cuba to enjoy the benefits of socialism, but left the island unprepared for its eventual reinsertion into the international market. The Soviet Bloc's dissolution sent the Cuban economy reeling. With no more Soviet subsidies and aid to prop up the small country Cuba realized that it would have to undergo substantial reforms to pull itself out of its economic devastation. The reforms Cuba has made in restructuring its sugar industry, revamping its foreign investment policies, and amending its self-employment laws have helped set the wheels of recovery in motion. At the same time that Cuba has been instituting these changes the United States has tightened the embargo on the island through the passage of the Helms-Burton Act, which thus far has not had a serious impact on the island's economy.

Thanks in part to Cuba's innovative reforms the island has made some strides towards economic improvement in the past few years. Compared with the devastating economic crash the Cuba endured during the early 1990s, the

island's post-1994 economy has been doing fairly well, growing little by little each year. 1994 signaled a leveling off for Cuba, bringing an end to what had been until that point a four-year decline in the economy. According to Cuba's National Bank, 1995 saw the island's first economic upturn since the collapse of the Soviet Union with a modest growth rate of 2.5 percent (Mesa-Lago. 1996,). In 1996 the economy grew by approximately 7.8 percent and climbed another 2.5 percent in 1997 ("Cuba says Recovery Continues," 1998). While the island still has a long way to go before the economy returns to where it was pre-1989. the modest growth in GDP signals that the worst of Cuba's financial catastrophes may be in the past.

Sugar

The fall in sugar production in the early 1990s has encouraged the Cuban government to restructure the sugar industry in an attempt to raise production and increase efficiency. In 1993 the Cuban Ministry of Sugar instituted one of the island's most important agricultural reforms in history in creating the Basic Units of Cooperative Production(*Unidades Básicas de Producción Cooperativas*, or UBPCs) program. The UBPCs, made up of members rather than mere state employees, replaced the state-run mill-plantation complexes (*Complejos Agro-Industriales*, or CAIs) which had largely monopolized the agriculture industry, controlling 75 percent of Cuba's arable farmland by 1992.

UBPCs are decentralized cooperatives that own the inputs and manage the labor, while the state maintains ownership of the actual land farmed. While the new UBPCs still have some kinks to work out, the Cuban government hopes they will prove more productive and efficient than the CAIs. Sugar

economist Brian Pollitt (1997) found in his fieldwork in Cuba that UBPCs have many potential advantages over the CAIs. He found that UBPC members work more intensively and for longer hours than do workers on the state farms. There are several reasons that may explain this increased productivity. The small size of the cooperatives make them easier to supervise, and disciplinary sanctions that include suspension or expulsion of members with unjustified absenteeism have been effective in curbing the behavior (Pollitt, 1997). Also, the economic hardships due to agricultural input shortages have heightened the need to increase labor productivity by paying closer attention to worker needs. Another way the government attempts to increase sugar productivity is through investing the workers more in production. Being a member of a UBPC in itself has significant benefits in the way of ample canteen meals and increased access to building materials for improved housing, pharmaceutical products, and, most importantly, food supplies. Additionally, the government has promised the distribution of monetary dividends as a percentage of profits, hoping to create an incentive to increase productivity.

Although the Cuban government expects these reforms in sugar production to have a positive effect on the industry later on down the road, they have not been enough to revive it immediately. Shortly after the implementation of UBPCs, the 1994/1995 sugar harvest only equaled 3.3 million tons, making it the worst harvest in 50 years. The following harvest increased to 4.445 million tons but relied heavily on foreign loans. Cuba is estimated to have accepted between US $130-$300, with a mid-point figure of $228 million, in loans from European trading houses to use towards fertilizers, pesticides, and other inputs for the 1995/1996 sugar planting. The most quoted interest

rate for the loans is 14 percent[3] with the condition of full repayment within one year in cash or in sugar stock (Mesa-Lago, 1996).

One major fault in borrowing so much money to put into the sugar industry is that it only allows for a small net increase in sugar export value. Although Cuba's export value increased sizably between 1995 and 1996, the net gain was minimal. The value of the 1994-1995 sugar export is US$730 million with the 1995-1996 figure an estimated US$1000 million, for a net export value increase of US$270 million (Mesa-Lago, 1996). If Cuba must pay back US$228 to its lenders at 14 percent interest, the total debt to be repaid would be US$260, leaving Cuba with a net gain of only US$10 million over the previous harvest. The loan amount is huge compared to the relative increase in profits, and in an industry as unstable as sugar, taking out such enormous loans presents a significant financial risk. In addition, the lasting effects of the loans are almost nil because the money goes towards financing one-use imports such as fuel and chemical inputs, supplies that will produce no benefits for future harvests.

Cuba's subsequent sugar harvests have slumped even lower than the 1995-1996 crop due to poor agricultural practices and bad weather. The 1996-1997 harvest fell to 4.25 million tons, 200,000 tons less than the previous year (Cawthorne, 1998). Cuban scholar Carmelo Mesa-Lago at the University of Pittsburgh blamed the fall in production on 1996's over-harvesting, saying that Cubans "were so desperate (in 1996) to get the biggest harvest possible that they worked into June, which meant they cut cane that was not ripe and delayed the process of cleaning, preparing and sowing the fields. That mortgaged the 1997 harvest" (Rohter, 1997). Juan Varela, a reporter covering the sugar industry, cited another reason for the failure, saying that sugar

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[3]Other estimates put the number as high as 18 percent.

mills were only working at two thirds capacity due to machinery breakdown and labor indiscipline (Rohter, 1997).

Regardless of the cause of the 1996-1997 decline in sugar, the outlook for 1997-1998 appears even more grim. March's torrential rains coupled with technical problems have Cuban economists predicting a sugar harvest of less than 3 million tons; the lowest harvest since the fall of the Soviet Union. Even before the beginning of the current harvest, Cuban officials predicted only a modest yield, stating the need to conserve and expand sugar cane reserves to bring in a healthier harvest in 1998-1999 ("Drier weather," 1998). The harvest failure presents a significant blow to Cuba's economy; the island needs to reap every ton it can to meet shipment obligations to Russia and China and to pay off back loans taken out to finance the sugar industry.

In light of the recent sugar failures it appears that Cuba's honorable attempt to turn the sugar economy around through its institution of the UBPCs has not worked. Obviously the government will have to reassess its entire approach to sugar production if it hopes to revitalize it in the future. While the cooperatives may be an improvement over the antiquated state-operated system it replaced, officials must examine whether the incentives the UBPCs offer are enough to inspire workers sufficiently to combat the input shortages and the poor agricultural practices. In the meantime Cuba must look to other arenas to raise the capital it needs to function and meet its people's basic needs.

Foreign Investment

As Cuba's traditional source of income, the sugar industry, continues to fail, the island is looking to foreign investment as a way to pull itself out of the

economic crisis. The island has a lot of catching up to do on lost trade opportunities. The US embargo coupled with Cuba's advantageous trade with the Soviet Union kept it fairly isolated from the rest of market realities. After the early 1970s Cuba was the socialist country with the lowest level of hard currency trade with the West (Font, 1997), overly relying on its fellow socialist trading partners. With the end of Cuba's exclusive trade contracts with the Soviet Bloc, the island has had to actively seek out foreign investors to ease the country's financial straits.

Since 1990 Cuba has attracted more than 300 international investment deals, most of which have been in the form of joint ventures. Although the enormous surge in the number of joint ventures on the island is a phenomenon particular to the Special Period, Cuba has had its joint venture laws on the books since the early 1980s. The 1982 Decree Law 50 set the legal framework for foreign investment. This decree allowed foreign interests to form joint ventures with Cuban entities for the promotion of the island's economic development (Pérez-López, 1994). At that time the law was restrictive in the amount of control the foreign interest could have over the enterprise and the advantageous allowances and exemptions it could have. The major restriction was that the foreign interest could own no more than 49% of the venture unless otherwise specially authorized by the Executive Committee of the Council of Ministers.

In recent years the Cuban government has gone to great lengths to improve its image and loosen foreign investment laws to attract more international investors. Attempting to court US media and corporate America. in the fall of 1995 Fidel Castro made an appearance in Manhattan wearing a designer suit. Seeing Castro outside of his ubiquitous army fatigues was shocking enough to make international news. Beyond the superficial

international makeover Cuba has also dedicated itself to making real policy changes to invite increased foreign investment. Two major reforms the government has enacted are the 1993 act that allows foreign banks on Cuban soil for foreign investors' transactions and the 1995 law allowing for 100% ownership of any investment.

The government is also trying to lure in international investors through attractive tax policies and a variety of other tempting financial benefits. In many ways Cuba has followed the International Monetary Fund's neo-liberal model for economic reform and has significantly deregulated many sectors of the economy. Except for social security benefits, Cuba offers international corporations flexible tax policies and exempts foreign joint ventures from tariffs, duties, and prior governmental approval on imports and exports (Barquín, 1996). Expanding favorable financial investment opportunities even further, as of 1996 the government has created industrial parks and free trade zones.

Icing the investment cake, Cuba has formulated one more major incentive in allowing for repatriation. Article 8.1 (a) of Cuba's Law on Foreign Investment guarantees investors remittance and repatriation rights, allowing them to send all profits back to their home countries in freely convertible currency (Leiseca, 1996). Through Article 8.1 (b) international investors may also repatriate in freely convertible currency all proceeds acquired through selling their shares of capital stock in their investments (Leiseca, 1996). In addition Cuba has opened nearly all arenas of the economy to foreign investment with the exception of education, health care, and the military. These expanded opportunities for foreign corporations coupled with all the policies and benefits offered by the Cuban government in recent years have gone a long way towards opening the island to foreign investment.

Today the most promising economic sector for international investment is tourism. The tourism industry has become the heart of the economy in the last few years, especially in light of the failing sugar economy. In fact, 1997 marked the first time that tourism has brought in more money than the sugar industry. Cuba's officials recognize the importance tourism holds for the country, and earlier this May Vice President Carlos Lage lauded tourism as Cuba's leading industry. In 1997 alone tourism brought in $1.5 billion in much-needed revenue, six times more than in 1990. Approximately 50 percent of the total tourism income was derived from ancillary spheres such as airlines ($160 million), entertainment and culture ($20 million), and retail sales of nationally-made goods ($155 million). The tourism sector brought in 12 percent more revenue last year than the previous year with the income increasing from 1996's total of $1.35 billion (Calzadilla, 1998).

Not only has the revenue from the industry grown every year, but the number of visitors Cuba receives has also steadily risen, demonstrating Cuba's strong potential for growth and highlighting increased opportunities for investment in the industry. Last year alone the island welcomed 1,171,000 tourists from around the world, which, according to Cuba's official national newspaper *Granma*, represents a 16.5 percent increase over the previous year (Calzadilla, 1998). Cuba strives to raise that number to two million by the year 2000. International investors know that more tourists means the island will need more accommodations, more restaurants, more airlines to fly in on, and more entertainment once on the island. Foreign companies have been clamoring to invest in the industry with practically every country doing business with Cuba staking a claim in tourism. As recently as May of this year Cuba has been negotiating with countries such as France and Italy about investment in tourism. Cuban officials announced May 15th of this year that

the government had signed an agreement with two Italian firms for $18 million to construct tourist accommodations on the island.

While tourism is the single largest investment sector of the country, Cuba has made trade agreements with companies from over 30 countries which have put money into a variety of economic activities. To date foreign investors have pledged more than $5.6 billion in projects on the island, according to statistics compiled by the US-Cuba Trade and Economic Council, Inc. Countries leading investment in the island include Australia, Mexico, Spain, and France, with Canada being the front-runner in two-way trade with Cuba. Canada has continuously increased its trade with the island, reaching a total of $490 million in two-way trade last year up from $483 million in 1996 (Fletcher, 1998).

Cuba's growing trade partnership with Canada culminated earlier this April when Canada's Prime Minister Jean Chrétien flew to Cuba to inaugurate with Castro the new $40 million terminal in Havana's airport, about half of which the Canadian government financed. Around the same time France also sent a business delegation to the island to negotiate future trade transactions and investments. French officials announced that the country would be investing in Cuban tourism, energy, and industry through building hotel chains, establishing a joint venture for industrial boiler production, and starting a PVC manufacturing plant (Fletcher, 1998). The prospective investments will raise Franco-Cuban by 30% for 1998, bringing France's investment total on the island to approximately $100 million.

Cuba's favorable trading relationship with countries around the world translates into good trade investments with international companies. According to the Cuban Government, today there are more than 600 foreign businesses represented in Cuba with over 4000 non-United States companies

doing trade with the government (Barquín, 1996). Some of the largest foreign investment agreements include a $1.5 billion contract with a Mexican telecommunications firm, $500 million pledged by an Australian mining corporation, and another $500 million agreement with a Mexican textiles company (Gordon, 1997).

At this point one of Cuba's most prominent trading partners is the Canadian firm Sherritt International Corp. In the past few years Sherritt has invested in everything from tourism to gas and oil to mining. The company, whose first major investment was buying operating rights for a successful nickel mine in eastern Cuba, has raised $675 million to invest in various sectors of the economy, including Cuba's telecommunications arena (Wells, 1998). At present Sherritt is also the leading investor in Cuba's fledgling oil and gas industry. The corporation has taken full advantage of Cuba's investment opportunities, increasing its profits from $33.3 million Canadian (US$23. 1 million) in 1996 to $37.3 (US$25.9 million) million in 1997 (Simao, 1998). As Sherritt demonstrates investing in Cuba can be a highly profitable enterprise for international corporations, something that the island hopes to capitalize on.

While foreign investment has brought much needed hard currency to Cuba, it is not problem-free. Although tourism, the largest sector for foreign investment, brings in a few thousand new jobs per year, the economic growth and job positions generated are mostly low end in terms of value added, wages, and profitability (Font, 1997). The tourism sector especially is highly input intensive, meaning the net profit turns out to be much less than the gross income. Foreign investment has been a major reason for the economic growth in Cuba over the past few years, but how much of the money reaches the common people and how much lines the pockets of wealthy international

corporations is unclear. At the moment Cuba must do just about anything it can to financially rebuild itself. With the continuous decline in sugar production, the traditional source of Cuba's income, courting foreign investment looms as the quickest way to inject money into the economy. The Cuban government is banking on this economic sector's ability to raise the country out of its economic slump and improve Cubans' quality of life.

Cuba's Second Economy and Market Reforms

While the Cuban government has focused its energy on attracting foreign investment to help rebuild the economy during the Special Period, the Cuban people have looked to the second economy for self-employment and to search out otherwise unavailable goods. In recent years the Government has been forced to recognize the importance of this sector. The black market's incredible growth in the early 1990s required the government to acknowledge that Cubans' needs were not being met and compelled it to take action. Since 1992 the government has instituted reforms to undercut the black market and to facilitate the second economy's growth. The reforms have served to both promote Cubans' access to goods and services and to allow the government to cash in on the rewards.

As stated in Chapter 2 Cuba's illegal black market economic activities grew substantially in the early 1990s, causing an ambivalent reaction from the government. On the one hand the government recognized that the illegal markets filled a gap left by the dearth of goods and services after the drop in trade with the Soviet Union. Cuban scholar Jorge Domínguez interpreted the government to have all but condoned the black market stating:

> Recurrence to illegal markets is commonplace, and the survival of ordinary Cuban families (and even the families of government officials and party

members) has increasingly come to depend on them. It is difficult to live simply on what the regime's ration card allocates, and the black market enables citizens to supplement their diets. It also makes food or other consumer riots less likely. As a result the regime's survival has come to rest on them as well, and these illegal markets are in fact tolerated (Pérez-López, 1995, p. 146).

At the same time the government realized that it could not sit back and leave such a large part of the economic sector completely to itself unregulated and decided to make some reforms. In addition to wanting more control over its citizens' participation in the economic sector of the country, another major reason for the government's intervention into the black market was to reap some of the monetary benefits that had heretofore filtered past it.

The two major reforms the government made regarding Cubans' involvement in the non-statal economy are the institution of farmers' markets and the legalization of self-employment. In 1993 the government instituted farmers' markets, allowing agricultural workers to sell for personal gain anything over the government's production quota. The farmers' markets' value is threefold, giving farmers an opportunity to gain extra income, creating an alternative food market and increasing the food supply on the island, and providing the government an arena to raise revenue through participation fees for market vendors.

The resurgence of farmers markets complimented the September 1993 Law Decree 141 which decriminalized various sectors of self-employment, defining 117 categories of activity for which Cubans could apply for licenses to carry out own-account work (Carranza Valdés, 1996). The decree aimed to decrease unemployment caused by the lack of state-sector jobs, increase the availability of goods and services the government was unable to sufficiently provide, and eventually bring in revenue through taxes. By December of 1995 the government confirmed there to be 208,500 licensed own-account workers

with at least an additional 190,000 unlicensed out of the 4 million person labor force on the island (Alfonso, 1996). This number represents a significant increase over the 1989 figure of 28,600 licensed self-employed.

The jump in own-account workers between 1989 and 1995 suggests that self-employment has become an increasingly necessary part of Cuba's economy as Cubans struggle with rising unemployment in the state sector. In fact, the head of Cuba's Labor and Social Security Ministry, Salvador Valdés, affirmed in 1996 that upwards of 50 percent of those registered as working in the own-account economic arena reported being unemployed at the state level (Alfonso, 1996). Clearly, Cuba's self-employment sector provides work opportunities for Cubans who might otherwise not be able to find a livelihood as subsidies for state-run enterprises dry up, putting more and more Cubans out of work.

The surge of own-account workers also provide an avenue for Cubans to make money necessary to supplement the basic supplies for the half of the month ration cards do not cover. Taxi services, beauty parlors, artisanal studios, mechanic workshops, and *paladares* account for the majority of own-account work areas. *Paladares*, family-run restaurants, that cater mostly to foreigners make up perhaps the largest sector of the self-employed. The *paladares* purchase their inputs from the farmers markets, boosting the local economy while at the same time helping increase the island's food supply.

Apart from legalizing self-employment the other major reform the Cuban government implemented was the decriminalization of hard-currency, namely US dollars. The island's dollar economy had been growing steadily with the influx of foreign investors and with black market dollar dealings becoming a major economic activity. Decree Law 140 in August of 1993 legalized the holding and trading in dollars throughout the country for all

Cuban citizens (Carranza Valdés, 1996). The State hoped to accomplish three things through this: eliminate the hard currency black market, opening its own state-run dollar stores; allow more inflow of hard currency within the economy and encourage remittances from abroad; and stabilize the skyrocketing currency exchange rate.

In its third goal the government has been particularly successful, partially through the establishment of casas *de cambio* (exchange houses). The state created a convertible currency exchangeable nationally in the exchange houses at 25 to 30 pesos to the dollar initially. Since September 1995 the black market peso has maintained a value of approximately 25 pesos to the dollar (Barquín, 1996). This stabilization has come about primarily because of both the legalization of the dollar economy and the opening of the self-employment sector. These reforms have combined to increase access to hard currency and to goods and services, thus lowering excess pesos in circulation.

The reforms have helped to bring in profits from alternative sectors of the economy, prompting the government to establish a taxation system in 1995 that would take effect in 1996. The *Oficina Nacional de Administración Tributaria*, created in June 1995, acts as the tax collection agency for the state, overseeing the revenue generated from the taxation of hard currency earners (10-50 percent) (Barquín, 1996). In the first quarter of 1996 the state brought in 4,325.3 million pesos in taxes and other revenue, only 63 million (or 1.5 percent) of which came from income tax collected from self-employed workers. Still, this number demonstrated a doubling of the amount collected the year before during the same period (Alfonso, 1996).

While many see the opening private sector as a promising new way to raise Cubans' standard of living and get money circulating in the economy, there are also some serious drawbacks to it. One major problem is that the

country's best resources are being diverted to the emerging private dollar economy, leaving the state economy with less and less. Much of the skilled labor force has transferred from the traditional sector into the private sector for the monetary gains. This means that fewer people are willing to enter into fields which benefit the public interest such as the education and health sectors. When a person can make literally fifty times as much as a taxi driver than as a school teacher, the temptation to switch over is powerful regardless of how pro-Revolution he or she might be.

On the same token the dollar economy has created a nearly tangible social division between those with access to hard currency and those without. The rising inequality has fostered resentment among people working in the public service positions (i.e. teachers, doctors, administrators) towards Cubans employed in the dollar economy. There is also a social divide between Cubans with relatives abroad that send remittances home and the Cubans who are not so lucky. People living on pensions and Cubans who are out of the workforce have definitely been hit the hardest in the Special Period as those with access to dollars have a much easier time making ends meet.

Thus far the Cuban government has made many substantial reforms in the past few years liberalizing the private sector and allowing for more self-employment, yet it remains reticent to open the second economy too much. The government would like to avoid what citizens in other former Soviet Bloc countries endured during their transitions to capitalism. Their people had depended on the second economy as a supplement to their state employment income, but with the switch to the market economy system people were left dependent on the second economy for all of their needs. Castro and other Cuban officials are very clear about these second economy reforms being made out of necessity and that the government is still wholly committed to the

social gains brought about by the Revolution. Cuba's Vice President Carlos Lage said this of the country's reforms, rejection of capitalism, and dedication to socialism:

> We will have to improve and perfect socialism, make it efficient but not to destroy it. The illusion that capitalism is going to solve our problems is an absurd and crazy chimera for which the masses will pay dearly. This is another reason why, not only because socialism is more just, more honorable, and more human in every sense, but because is the only system that would provide us with the resources to keep our social conquests (Jatar-Hausmann, 1996, p. 207).

The Effects of the 1996 Helms-Burton Act

While the Cuban government has been fairly successful in its attempts to attract foreign investment and increase the inflow of money to the island in the past few years, the United States has continued its efforts to stifle the country's economic recuperation. In 1996, after the Cuban military shot down two planes piloted by the exile group Brothers to the Rescue that had invaded Cuban air space, the United States responded by passing the Cuban Liberty and Democratic Solidarity Act, commonly known as the Helms-Burton Act, strengthening the embargo against the island. This legislation goes even farther than the Cuban Democracy Act in trying to dissuade and punish foreign countries and international corporations trading with Cuba. While Helms-Burton has succeeded in raising the ire of countries and corporations, it has not had a significant impact on trade or on the Cuban economy.

The provisions of the Helms-Burton Act that have had the most far-reaching affects are Titles III and IV, both of which are aimed at decreasing the international community's economic relations with Cuba. Title IV of the legislation denies visas to shareholders or executives (and their families) of companies doing business in Cuba that involves property confiscated during

the Revolution from US citizens or businesses. To date the US government has singled out three companies under Title IV, Canada's Sherritt International, Grupo Domos of Mexico, and BM Group, an Israeli-owned firm based in Panama, prohibiting entrance to over 15 executives and their families. Recently, however, Grupo Domos stopped its business transactions involving US-claimed property and has been re-granted entrance to the United States.

The potential repercussions of Title III of the Helms-Burton Act has caused the most commotion among the international community. Title III allows for US citizens, including naturalized Cuban-Americans, to sue foreigners for damages in US courts for "trafficking" in property confiscated by Castro's government. This means, for example, that an American could sue a Canadian corporation for monetary damages for running a nickel mine that the Cuban government confiscated from the American owner during the revolution. The language of Title III, however, is so broad that "trafficking" could entail nearly any economic activity however remotely related to formerly US-owned property. Thus far President Clinton has continuously suspended this title, but third countries and international corporations are still adamantly opposed to the legislation.

The sanctions proposed in Helms-Burton against companies trading with Cuba have prompted protests from, among others, the European Community, the United States' two NAFTA partners, Canada and Mexico, the Organization of American States, the Non-Aligned Movement, CARICOM, Japan, and China, demonstrating the international community's disagreement with Washington's approach to Cuba (Kirk and McKenna, 1997). United States allies throughout the world have come together to condemn this law that they deem extraterritorial in nature, both creating their own counter legislation and filing grievances on the international level.

In 1996, the year the US passed the law, various international governmental organizations took a number of actions against the Helms-Burton Act. In November the Ibero-American Summit, made up of leaders from every Latin American country as well as Spain and Portugal, created legislation expressing a "strong rejection" of the Helms-Burton Act and urged the United States to reconsider enforcing the law (Gallardo, 1996). In October the European Union's executive commission drafted legislation that would have allowed Europeans to countersue to recoup damages assessed in US courts (Griffith, 1996). The most powerful challenge to Helms-Burton, however, was the European Union's decision to take the legislation before the World Trade Organization (WTO) to analyze the legality of the act. In November the EU filed a grievance with the WTO regarding the Helms-Burton Act and in early February 1997 the EU requested the WTO establish a review panel. April of 1997, however, brought a negotiated "understanding" between the United States and the EU in which Washington agreed to continue to suspend Title III in turn for the European Union's dropping its grievance.

Washington's Helms-Burton legislation has succeeded marvelously in angering the international community by meddling in other countries' Cuban affairs, but beyond that the law has not had a significant effect on Cuba's economy. Cuba's GDP continues to grow every year with the non-sugar sector accounting for more and more of the incoming revenue. The tourist sector has been growing by leaps and bounds with foreign countries and corporations still anxious to invest in the island. The United States tries to make the argument that its foreign policy has seriously influenced the international sector's investment in the island, but in fact the number of investors has not significantly declined. State Department Coordinator for Cuban Affairs Michael Ranneberger has stated that "19 firms have changed or

canceled their investment plans in Cuba" since 1996. This number represents only about six percent of Cuba's more than 300 investors, suggesting that Helms-Burton did not have the tremendous negative impact on foreign investors Washington would have hoped.

There have, however, been some companies that have canceled their investments, but not to the extent that Washington would have liked. Nervous of being targeted by Washington as "traffickers" two banks that have in the past been important lenders to Cuba's sugar industry, Holland's ING and Spain's Banco Bilbao Vizcaya, pulled their financing in November of 1996 (Marquis, 1996). Although the Cuban government did solicit funding from other sources to finance its sugar crop that year, it may have had to pay higher interest rates because of the short notice. The Helms-Burton law has made some firms re-evaluate their trade relations with the island, causing some minor setbacks, but as the island's continued economic growth demonstrates that on the whole the legislation has not severely financially impacted the country.

From the perspective of Washington's relationship with Cuba, what Helms-Burton has done is create a deadlock between the United States and Castro and alienate the United States' allies. The Cuban Liberty and Democratic Solidarity Act has not so much strengthened its own economic sanctions against Cuba as attempted to inhibit other countries' trade with the island, sending an angry ripple of disapproval through the international community. Now US foreign policy towards the island is even more inflexible than ever before, limiting the United States' ability to respond positively towards any progressive changes Washington might feel the island is making. On the other hand, at this point foreign policy towards Cuba is so harsh that the United States has run out of ammunition if the island does anything

Washington disapproves of. The passage of Helms-Burton has thus neither significantly impacted the Cuban economy nor truly strengthened Washington's international agenda.

CHAPTER IV

CONCLUSION

In 1993 Cuban Vice President and chief economic architect Carlos Lage stated, "We are not an economy in transition, nor are our people or our party in transition towards capitalism. We will make the changes that are necessary, but we will never make a single concession" (Jatar-Hausmann, 1996, p. 207). While the Cuban government may not have declared an official transition to capitalism, the country's economy is certainly undergoing serious changes. In the past several years since the fall of the Soviet Union the island has significantly modified its economic practices, opening itself up to the capitalist nature of the international market.

After the fall of the Soviet Bloc Cuba suffered severe financial hardships marked by a plummeting economy and devastating shortages of goods. Since the island's alignment with the USSR in the 1960s Cuba had been tremendously dependent on the Soviets for aid and subsidized trade. 1992, however, brought the end of all Soviet subsidies and special terms of trade. As a consequence of the discontinuance of economic subsidies, Cuba's income plummeted, inhibiting the island's ability to purchase industry inputs. The lack of inputs in turn not only left Cuba's sugar industry in a state of ruin, but negatively impacted the productivity of industry across the board. The economic disaster spelled personal hardship for the Cuban people who now struggle to meet their basic needs.

The economic crisis has forced the Cuban government to implement major reforms in an attempt to assuage the situation. The three main areas of the economy the government has focused on reforming are the sugar industry, the foreign investment arena, and the self-employment sector. Interestingly, the changes in all three sectors have been capitalist in nature, illustrating the government's increasing shift away from the island's traditional socialism. In the sugar industry the government has converted state-run agricultural lands into cooperatives, offering workers monetary incentives and allowing them to sell for themselves anything above the government quota. While waiting for the sugar industry to improve, the government has shifted its focus to the foreign investment sector, providing tax incentives and creating free trade zones to international corporations to attract hard currency to the island. Lastly, the government has liberalized the self-employment sector, allowing for more involvement than ever in non-statal economic activities. Through these reforms the Cuban government hopes to revive the economy and eventually recoup the losses incurred by the Soviet Union's collapse.

In the meantime the United States government has passed two major pieces of legislation to obstruct Cuba's economic activity, hoping that stricter economic sanctions will eventually topple Castro's regime. The 1992 Cuban Democracy Act reduced Cuba's economic transactions and decreased the island's access to imports while at the same time trying to discourage other countries from trading with Cuba. Helms-Burton, passed in 1996, focuses almost exclusively on hindering third countries' trade transactions with the island. While these US policies have financially hurt Cuba on some level, they have not been inordinately detrimental to Cuba's economy and certainly did not match the blow dealt by the cessation of Soviet support. There are two

main reasons why the US foreign policy did not have a major effect on the economy: first, the embargo was already so restrictive, the new legislation could not tighten it that much more; second, the international community has not reduced its transactions with Cuba to the degree that the US had hoped.

On the whole, however, the United States embargo has severely stunted the Cuban economy over the years. Every year of the embargo has cost the island billions of dollars in lost trade with the United States. The embargo has played a major role in Cuba's ubiquitous shortage of consumer goods since the revolution. Lifting the embargo today would give Cuba access to the United States' nearby markets and would reduce shipping costs. Also the embargo's end would bring billions of dollars in US investments into the island's economy.

Today more than ever United States citizens and businesses together with the international community are calling for Washington to end the embargo. In January of this year New York Times corespondent Tim Weiner reported that more than 600 business groups and 140 religious and human rights organizations have asked President Clinton to ease sanctions against Cuba. Among others involved in the campaign are the US Chamber of Commerce, the National Council of Churches, the National Association of Manufacturers, and the American Friends Committee. The religious and human rights organizations are primarily concerned with increasing Cubans access to basic needs, while the business community wants the embargo lifted because of the potential investment opportunities the island presents.

On the international level there is also significant pressure on the US government to end the trade embargo. Referring to the US embargo, during his January visit to the island the Pope criticized the "restrictive economic measures--unjust and ethically unacceptable--imposed from outside the

country" (Rohter, 1998, p. A1). The international community consistently demonstrates its collective condemnation of the embargo in the UN General Assembly. In its last vote, in November of 1997, the Assembly voted 143 to 3 with 17 abstentions--the highest margin ever-- for Washington to end the embargo.

The ending of the embargo would put Cuba in a curious position. Castro has used the embargo as a rallying point for nearly 40 years. Decrying the ravages of the economic "blockade," as Cubans call it, provides the islanders an enemy to unite against. Saying that the island is still in a state of war, an economic war with the world's superpower, Castro staves off government elections for a "safer" time. At the same time, in bemoaning the economic horrors induced by US foreign policy Castro draws attention away from his own shortcomings in managing the economy. If the embargo were lifted, where politically would this leave Fidel Castro?

Another question the ending of the embargo raises is what it would do to economic stability. If Cuba is already having a difficult time balancing the traditional public sector of the economy with the new second dollar economy, the huge influx of dollars through US investment would really throw the two economies into chaos. Would this create greater inequality between those working in the public sector and those working for themselves and in the new private sector, or would the additional revenue allow the government to pay higher wages to public sector employees? The potentialities presented by the end of the embargo are endless, prompting a million questions about what could happen.

The possibilities and the contentions that have always surrounded Cuba make the island a fascinating country to study. What other Third-World country of Cuba's size and relative economic unimportance has continuously

created so much controversy over the past forty years? Its close ties to both the world's superpowers, the US and the Soviet Union, have granted the island a special position on the world stage.. Today more than ever the international community watches to see what will become of this small Caribbean island.

Carlos Lage makes an interesting claim in positing that Cuba is not in a state of transition towards capitalism. His statement reflects the Cuban government's desire to uphold its socialist ideals while having to insert the island into the free market global economy. Cuba still desperately clings to the socialist gains won through the revolution, yet the reforms the island has instituted to date have been overwhelmingly capitalist in nature. While this may be ideologically contradictory, no feasible alternative exists for Cuba. In today's economic environment participation in the free market remains the only viable option. As the island rejoins the international economy only time will tell how much of its socialist identity Cuba will retain and how much will be lost in the capitalist shuffle of the world market.

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