

CUBAN ECONOMIC REFORM Reforma económica en Cuba

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Abstract

The current Cuban economic and social panorama is characterized by an acute crisis with manifestations of stagflation. The causes of such a situation are linked both to processes and problems of an internal nature, but also to exogenous factors within which the economic sanctions applied by the United States play a relevant role. In this context, several analysts propose that it is essential to accelerate and deepen the process of internal structural transformations.

Keywords: economic reform, GDP, agriculture, foreign investment, international relationships, sanctions.

Resumen

El actual panorama económico y social cubano se caracteriza por una aguda crisis con manifestaciones de estanflación. Las causas de tal situación están vinculadas tanto a procesos y problemas de carácter interno, como a factores exógenos dentro de los cuales juegan un papel relevante las sanciones económicas aplicadas por Estados Unidos. En este contexto, varios analistas proponen que es esencial acelerar y profundizar el proceso de transformaciones estructurales internas.

Palabras clave: reforma económica, PIB, agricultura, inversión extranjera, relaciones internacionales, sanciones

Códigos JEL: P21, F51, O13, O54

Introduction

The Cuban Economy is currently faced with the worst crisis since its special period in the 1990s. This crisis was formed by a number of external events such as the COVID-19 pandemic, increased sanctions by the US government under Donald Trump, and the global economic effects of the Russian attack on Ukraine. Internal structural deficits served to worsen the impact of these developments. Low productivity, dependence on imports, and a lack of capital have created an environment lacking growth and opportunity for economic development. To get a hold of the problems facing the economy, Cuban authorities have adopted a large number of reforms in virtually every sector.

Agriculture and infrastructure, economic complexity, international relations, and foreign direct investment (FDI), as well as internal structural changes such as the emerging private sector and measures of monetary restructuring, belong to the most important areas touched by this transformation. The process of opening the economy internally and externally is based on the socialist principles of a largely state-controlled productive force. Therefore, the process of change currently happening is of a very unique nature, implying a large number of dangers, opportunities, and uncertainties along the way.

Economic Development since 1991

The Cuban economy has been facing many difficulties in the past 35 years, of which the past five years have been especially challenging. The first major shock in that time period can be linked to the collapse of the Soviet Union in 1991. Cuba and the Soviet Union had intense economic ties, with Cuba supplying the Soviet Union with sugar, citrus, and nickel at subsidized prices and the Soviet Union providing manufacturing goods to Cuba (Gunn, 1991).

The political relations between both nations have been possibly even more important than the economic ties and have been inseparably linked to them. In light of the Cold War, the Soviet geopolitical interest in an economically and politically stable Cuba was to benefit the comparatively small island nation but also made it extremely dependent on the former superpower. So much so that 70 percent of Cuban commerce was directly linked to the Soviet Union (Gunn, 1991).

So when the Soviet Union fell apart and subsequently entered a phase of economic and political restructuring, which included the reduction of economic ties between both countries, the Cuban economy went into a deep economic crisis known as the “special period”, which led to the GDP per capita declining by 36.7% between 1989 and 1993 (The World Bank, 2023).

Contrary to many nations that had previously implemented an economic system different from the western mode of capitalism, Cuba did not undergo “shock therapy” (Klein, 2007) after the Eastern Bloc collapsed. Still, economic reforms to

accommodate the new situation were thorough and included shifting some economic responsibilities from state-owned enterprises toward small farmers and self-employed workers (Enriquez, 2003). Additionally, there was sector restructuring, de-industrializing agriculture and enlarging the tourism sector.

Accompanying those structural reforms, possession of U.S. dollars was legalized in 1993, after it had been prohibited since 1979. This not only enabled Cuban individuals to offer goods and services to the incoming dollar-paying tourists but also to receive remittances from their emigrant relatives, many of whom were living in the United States. It can also be viewed as a reaction to the large dollar black market that couldn't be kept under control under prohibition. In either case, a part of the authority over the use and benefits of dollars was transferred from the state to the individuals, privileging individuals with more secure access to dollars more than those without (Yaffe, 2021).

On the other hand, a new source of hard currency for Cuba, namely the tourism sector, was created through this measure. In 1994, the convertible Cuban peso (CUC) was created as an alternative foreign exchange currency. Pegged one-to-one to the U.S. dollar and issued by the Cuban central bank, it gradually replaced the dollar until the dollar's use as legal tender stopped in 2004 as a reaction to legal claims and attacks by U.S. officials (Yaffe, 2021).

Even with those measures in place, it took the Cuban economy twelve years from its lowest point in 1993 until the GDP per capita reached the level it had been in 1989. Since then, the Cuban economy grew until 2018 with an average growth rate of 3.4 percent, which is more than double the average growth rate of Latin America and the Caribbean region in that period (The World Bank, 2023).

When in 2020 COVID-19 caused problems to people's health especially but national economies as well, Cuba was no exception. The Cuban GDP per capita fell by 10.8 percent within one year, almost one-third of the decline recorded during the four-year-long special period decline, setting the Cuban economy approximately eight years back. But recovery set in more quickly than in the early '90s, with 2021 already recording slow growth (The World Bank, 2023). Still, it will take some years until the Cuban economy reaches its 2018 economic performance again, which is especially daunting considering the prolonged crisis Cuba has been in even after the recovery from the special period started.

Reforming the Economy

The Cuban economy is largely dependent on imports to satisfy its domestic demand. This is true not only for the great range of foreign goods that are not manufactured in Cuba but also and especially for basic goods. In order to afford

those imports, the Cuban economy has to rely on revenues obtained through exports and international relationships. Before the collapse of the Soviet Union, sugar exports provided the lion's share of those revenues. With the changed international landscape, this secure source of revenues paying preferential prices for Cuban sugar ceased to exist.

Until 2017, the value of sugar produced in Cuba dropped below a quarter of its size in 1989 (Alvarez, 2020). Instead, tourism and service exports became the main source of external revenue, with nickel and tobacco gaining influence. Still, those exports do not suffice to cover the expenses for the necessary import of goods, therefore generating a negative foreign trade balance. This balance of payments crisis is aggravated by Cuban export prices, vulnerable to fluctuations in the international markets, as well as low access to hard currency, making the already unstable Cuban peso even more exposed to inflation.

The Cuban GDP is growing since the lowest point of the special period in 1993, but it is doing so in a greatly fluctuating way, showing tendencies of stagflation. Also, this growth doesn't suffice to solve the immense problems the Cuban economy is facing. (Figure 1)

Figure 1. Cuban GDP per capita (constant 2015 USD)



Source: The World Bank, 2023

Part of this might be due to its structure. The Cuban productive structure is highly concentrated both in decision-making, goods and services produced, and foreign markets exported to.

Most of Cuba's exports leave towards Russia, China, Venezuela, and Brazil. As for the former relationship with the Soviet Union, those ties often depend on the political situation in the partnering countries and their willingness to pursue an

intensive relationship with Cuba. This is illustrated by the downturn in economic relationships both with Venezuela and Brazil.

In the first case, internal Venezuelan political and economic problems caused its relationship with Cuba to lose strength. In the latter case, Brazil experienced a lack of political will to invest in that relationship when Bolsonaro took office in 2019 (Spadoni, 2023). It remains to be seen how the relationship will change, now that President Lula has taken office again. This concentration on just a few international partners is one cause of the great volatility Cuban exports experience, considering that just one partner reducing its commitment has huge effects on the amount of export revenue the Cuban economy is able to generate.

On the larger scope of international markets, the Cuban economy lacks the ability to properly react to price changes. Even in times when prices for exported goods such as nickel and sugar rise, the Cuban facilities fail to scale up production accordingly. This inability to increase productivity and production not only concerns matching international trends but also ramping up production to suit domestic needs (Spadoni, 2023).

From an organizational point of view, the Cuban system of detailed centralized control over production can be held accountable for this insufficiency. Internally, producers are largely dependent on authorities enabling them access to the necessary inputs, machinery, and labor for production. Adding to that, market prices for goods are largely distorted by either highly subsidized prices, e.g., for groceries, while the low supply of those highly subsidized goods drives prices in formal and informal private markets. The unstable nature of the Cuban peso adds to the distortion of prices. Through this network of obstructions to proper price building, it is almost impossible to extract meaningful information about demand and the specifics of scarcity (Spadoni, 2023).

Externally, the state monopoly on exports prohibits producers from direct contact with foreign customers. This does not only imply yet another obstacle to accurate market data but also, as with the internal supply, elongates the decision-making process by putting a bureaucratic apparatus between producers and consumers.

Agriculture

There is notable progress concerning this issue in recent times, especially with agriculture. The important agrarian sector has in the past failed to supply enough food for Cuba's population.

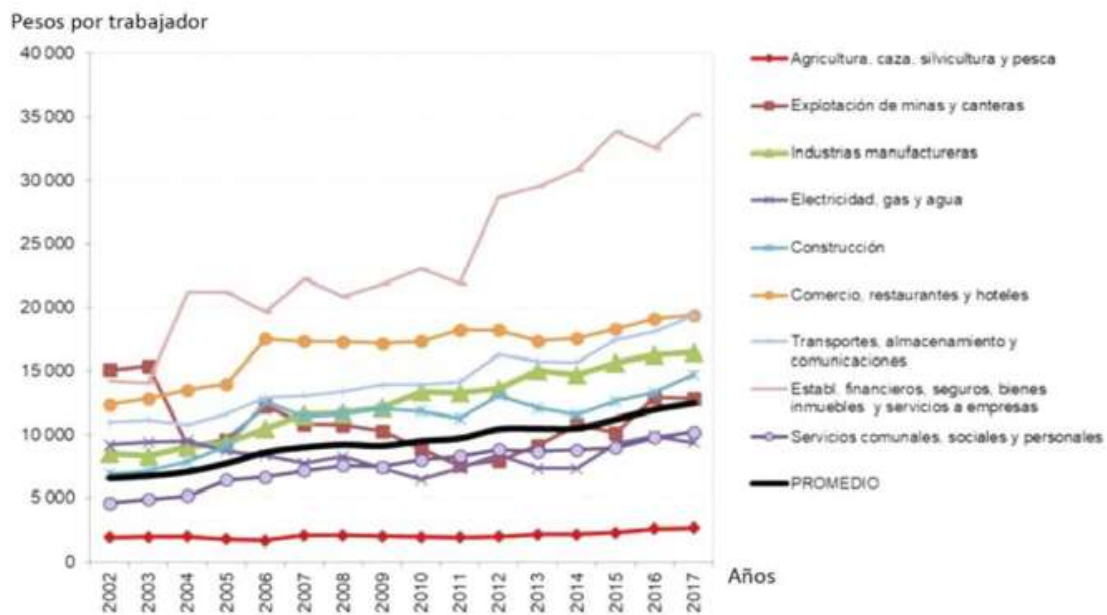
Therefore, since 2007, the Cuban government implemented a number of reforms concerned with prices, government institutions for agriculture, taxes, farmer's autonomy, microcredits, and production expansion (González-Corzo & González, 2019). The reforms concerning farmer's autonomy included increased freedom

to choose the crops planted, obtaining supplies, and contracting labor force as well as the authorization to sell products at roadside kiosks. To expand the production, farmers and cooperatives were granted microcredits, and formerly unused or state controlled land was redistributed to the agricultural operations. But even with those measures in place, the non-sugar agricultural output dropped by almost 30 percent between 2007 and 2021.

To date, Cuba imports more than 60 percent of its food at the cost of approximately 2 billion Dollars per year. We, therefore, have to conclude that the reforms failed to achieve their goals.

This might be explained by the stagnation in productivity in the agricultural sector (Álvarez, 2020) and the poor state of the infrastructure (González-Corzo & González, 2019). (Figure 2) Both of these problems can, for a large part, be attributed to the availability of capital. It seems that this scarcity is not to be overcome domestically.

Figure 2. Labor productivity by sector of economic activity (2002 – 2017)



Source: Álvarez, 2020

Therefore, in order to improve the agricultural sector's ability to feed the population, foreign direct investment must be directed towards this division as well as the overall infrastructure. Additionally, the movements already set in place could be executed more fully, meaning further reducing bureaucratic obstacles and further increasing farmer's autonomy. That being said, there is a limit to these mainly legislative improvements within a socialist economy. Since production, especially of the most elementary goods such as food, is well within the public interest, its objectives and distribution also have to be controlled by the popular institutions.

While the Cuban experience has shown that bureaucratic control of the whole production process can present a hindrance to achieving sufficient productivity, a total lack of guidance might result in an undesirable allocation of goods and income. In the current economic landscape, this prospect seems even more possible, considering the effects of tourism and remittances on the demand and the means to satisfy it (González-Corzo & González, 2019). Regulators are now tasked with the difficult exercise of finding the optimal legislative conditions.

Economic Complexity

Improving the agrarian sector can be deemed especially important not only due to its essential nature and its ability to serve in substituting imports, but also considering its close integration into the Cuban economy, it contributes to it as a whole through spillover and multiplier effects (González-Corzo & González, 2019).

Export-oriented economic endeavors show an alarming lack in this regard. Especially nickel production and the export of medical services have minimal multiplier effects on the remainder of the economy. Sugar, being an agricultural product, and tourism, on the other hand, do have significant spillovers, creating employment and growth in more sectors than only their own (Spadoni, 2023).

The latter two sectors provide opportunities for a lot of value-adding labor. The agricultural sector is labor-intensive in the production of inputs and machinery, the caring for and harvesting of crops as well as their distribution, with the majority of this work being performed domestically. Tourism as a service also adds a lot of value through labor domestically. With exports of medical services, this value-adding labor is performed abroad, therefore not benefiting the Cuban economy through its multiplier effects but only through direct revenue. Referring to this, it is important to note that there are some ties of medical services exports to the biotechnical sector generating spillover effects domestically (Spadoni, 2023). Nickel is extracted domestically, but the value-adding refining processes are performed elsewhere (Romero G., 2016).

These examples serve to illustrate the need for a diverse and complex economy in order to generate sustainable growth. Hoeriyah et al. (2022) show that low-income countries often produce less complex products compared to high-income countries, therefore limiting the value added domestically and increasing the volatility of these products' prices. They find that an important prerequisite for a complex and value-generating economy is a high-quality workforce. The main elements determining the quality of a labor force are health and education—areas in which Cuba performs outstandingly.

Secondly, production and investment capacities have to be increased to support the growth potential. In this regard, the Cuban economy's performance is sub-par. Third, price stability has the potential to reduce inequality effects often

affiliated with growth as well as lower the risk associated with the necessary investments (Hoeriyah et al, 2022).

Currently, the Cuban peso cannot provide this price stability, given its 62 percent inflation rate in 2023 (Miro & Meyer, 2023). While the Cuban economy succeeds in providing the most important basis for a diverse productive landscape inducing growth—a highly qualified labor force—it struggles to fulfill the other requirements. The low investment capabilities can be attributed to the Cuban economy's difficulties gaining access to international capital markets, the price instability can be seen as a result of the overall low and fluctuating demand as well as the restricted access to hard currency, worsening the conditions for capital accumulation even further. Both of these problems are largely caused by the sanctions applied by the United States to Cuba and entities maintaining business relationships to the island nation.

Therefore, although the ground for a growing economy is almost level, the fulfillment of this objective is a matter of circumventing and reducing the impact of the blockade as well as creating an attractive environment for investment, whether foreign or domestic, enabling a complex network of production to emerge.

US Sanctions

As we have seen, Cuba's ability to reach a steady and prosperous growth path depends on obtaining the capital necessary for economic value creation. Since it can be argued that the Cuban economy has been in a state of crisis since the 1990s, the capacities for creating domestic savings to finance investment are, as expected, low (Spadoni, 2023).

To get access to the capital necessary for the structural transformation, Cuba therefore has to rely on partners abroad providing it with foreign direct investments (FDI). The ability to do so is largely impaired by the United States' sanctions. This set of sanctions not only prohibits US companies from most kinds of economic interaction with Cuba; they also serve to expose companies and actors from third countries to the risk of sanctions when performing economic activities with Cuba.

Those measures are widely disapproved of within the international community (Hoffmann & Whitehead, 2022) and have undergone several changes in the past, mostly connected to changes within the US presidential office. Notably, the Obama administration removed Cuba from the list of state sponsors of terrorism in 2015 and eased many restrictions concerned with travel, trade, remittances, and others in the months following. During the Trump administration, those efforts to normalize the US-Cuban relationship were not only taken back but sanctions were increased, culminating in the reappearance of Cuba on the list of state sponsors of terrorism just eight days before Trump left office in 2021 (Miro &

Meyer, 2023). While the Biden administration reviewed a few of those policies, it failed to deliver on its promise of easing most sanctions towards Cuba.

After the protests in July 2021, the US administration condemned the state's reaction towards protesters and instated new targeted sanctions against individuals, including the Cuban Defense Minister (Hoffmann & Whitehead, 2022). In May 2022, the Administration again eased travel restrictions and eliminated limits on sending cash remittances (Miro & Meyer, 2023). In light of these developments and the upcoming race for the US presidential office, great leaps in the US-Cuban relationship are not to be expected (The Economist Intelligence Unit [EIU], 2023).

Cuba's powerful neighbor will, for the foreseeable future, present a hindrance towards Cuban development, with the exception of the inflow of remittances, that is again depended on goodwill in Washington. This establishes the need to look elsewhere for increased support to overcome these obstacles set by the United States.

International Relationships

In doing so, the Cuban economy joined partnerships with China, Russia, Venezuela, Canada, Brazil, and the European Union, to name the most important ones. Cuba's relationship with the European Union is of a torn nature. The European Union has long-standing ties to the Republic of Cuba, especially considering Spain being the former colonial power and to date the third most important economic partner in terms of imports and exports, providing around 10 percent of Cuban imports and receiving just a little bit less of Cuban exports (EIU, 2023). It is therefore also a large source of tourist inflow, exports, and imports. The EU also refuses to subscribe to its aggressive politics towards Cuba (Hoffmann & Whitehead, 2022).

On the other hand, Cuba is the only Latin American country with which the EU does not have a bilateral agreement (Romero, 2016), and goodwill towards the Cuban revolution and its social achievements is fading. This process is only accelerated by the EU's call for sanctions following the July 2021 protests. Cuba, respectively, has shown fairly large interest in a close relationship with the European Union, as it would promise some security for the vulnerable nation as well as a strong counterweight against the US from within the lines of its allies. Not to forget, that the EU is a strong economic power, meaning a strong relationship would certainly benefit the Cuban economy directly (EIU, 2023).

Venezuela has been a long-standing partner for Cuba, providing it not only with subsidized oil but also with desperately needed investment capital (Feinberg, 2017). While still being the main source of Cuban imports, exports to Venezuela fell sharply in recent years when internal and external pressure on Maduro's leadership caused political turmoil and lessened commitment to the Cuban-

Venezuelan partnership (Luis, 2020; EIU, 2023). As a result, hard currency income from Cuban trade with Venezuela decreased as well, being the former main purchaser of Cuban medical services had to reduce its commitment to that role.

This economic relationship is based on a political alliance, rooted in the similar perceptions regarding the need for a socialist alternative and personal friendship between the former state leaders Fidel Castro and Hugo Chávez. Since Venezuela's endowment with oil allowed it to act as stabilizing support for the Cuban economy, some argued this relationship to show similarities to Cuba's former relationship with the Soviet Union (Feinberg, 2018), albeit that the historical circumstances in this affair are drastically different. In line with this, the impact of the internal turmoil in Venezuela is much less disastrous to the Cuban economy than that of the dissolution of the Soviet Union.

The Russian Federation, which emerged from that dissolution, is also one of Cuba's most important partners. The new state didn't support Cuba to the extent the former Soviet Union did. Especially in the first years of the new federation under Yeltsin, political and economic ties were relatively weak (Hoffmann & Whitehead, 2022). But since then, relationships have warmed up again, and Russia has become one of Cuba's most important economic partners concerning investment, exports, and imports, especially of oil, closing the gap left by the decline in trade with Venezuela (EIU, 2023). As a creditor, the Russian Federation has shown to be extremely important, especially by forgiving 90 percent of Cuban debt in 2014 (Spadoni, 2023).

During the Covid-19 pandemic, the inflow of Russian tourists has proven to be an important stabilizer for the hard-hit sector. When Russia attacked Ukraine, this support virtually disappeared. Additionally, the worldwide crisis resulting from this attack left a mark on the Cuban economy.

This illustrates the main risk of the Cuban relationship with Russia. The confrontation between western countries and Russia, culminating in the Russian attack of 2022, serves as one motive for Russian involvement in Cuba (Chaguaceda, 2019) and bears the risk of Cuba getting caught between the lines and thereby being overly affected by the political and economic consequences of this dispute.

China, similar to Russia, perceived as a rival to the US, is possibly an even more important partner for Cuban development. In recent years, China has used its overwhelming amount of resources on building economic cooperation with Cuba and assured interest in a long-term relationship on multiple occasions (Hoffmann & Whitehead, 2022). Building on that, Cuban exchange of goods with China accounts for over a quarter of Cuba's external trade of goods, and China has granted several credits to the island nation, including a debt write-off worth 6 billion dollars in 2011 (Hoffmann & Whitehead, 2022; Spadoni, 2023). Notably,

Chinese initiatives provided funds for several infrastructure projects, especially concerning telecommunication, to Cuba, which is part of the Belt and Road Initiative (Hoffmann & Whitehead, 2022).

Infrastructure

This is especially interesting considering that infrastructure is one of the main departments of the Cuban economy that is suited for and in need of investment. Well-developed infrastructure is crucial to increase international competitiveness (Feinberg, 2017) and a central prerequisite for economic development and a high standard of living (Triana Cordoví & Galeano Zaldívar, 2020).

Meanwhile, the state of the Cuban infrastructure is far below satisfactory, and due to the strong domestic budget constraints, foreign investment is deemed necessary to build a sufficient infrastructure (Triana Cordoví & Galeano Zaldívar, 2020). Triana Cordoví and Galeano Zaldívar (2020) calculate that 5 percent of the gross domestic product needs to be invested annually to provide for the necessary development.

In contrast, the current investment into infrastructural projects amounts to approximately 1.5 percent of the GDP. That includes private and foreign investment, which makes up 45 percent of all infrastructure investment. In certain areas, this share of private engagement in public-private partnerships is even higher, e.g., in the extension of the telecommunication network, where private equity makes up 90 percent of all funds invested.

As described earlier, China takes an outstanding position in this regard, with Chinese companies providing the necessary telecommunication equipment and investing in other forms of infrastructure like harbors in Mariel and Santiago de Cuba (Triana Cordoví & Galeano Zaldívar, 2020).

Although investment still needs to increase to come up to terms with the demand for high-quality infrastructure, it is the sector with the highest cumulative growth in value generation (Torres Pérez, 2020). Foreign investment has many benefits for the creation of infrastructure, such as high productivity and an efficient distribution of responsibilities between the state and the investors. But it also comes with its share of severe risks, like the private ownership of public resources, private interests serving as guidance for public projects, and an overall transfer of power to non-state actors (Triana Cordoví & Galeano Zaldívar, 2020).

Some of these problems could be mitigated if Cuba had access to international financial institutions like the World Bank, the Inter-American Development Bank (IDB), or the International Monetary Fund (IMF). The United States' influence on these institutions prohibits Cuba from being part of them, with Cuban resentment playing a minor role in impeding the process of approaching these institutions (Vidal & Brown, 2015).

Foreign Direct Investment

Therefore, the Cuban economy will be dependent on foreign direct investment for the foreseeable future. In the knowledge of this circumstance, the government has set a goal of receiving 2 - 2.5 billion dollars of foreign investment per year (Spadoni, 2023) and has prepared a portfolio consisting of over 500 projects seeking approximately 12 billion dollars (Yaffe, 2021).

Official numbers state to have secured 1.9 billion dollars in investment commitments in 2019. Since those commitments are for the most part yet to be fulfilled, estimates of 700 billion dollars of actual capital inflow in 2021 seem to depict the situation better, leaving room for improvement (Spadoni, 2023). To attract foreign capital, in 2014 Cuban legislators passed a law concerned with foreign business aimed at making it easier for investment capital to set foot on the island.

This, together with other measures, is creating a couple of facilitations including the possibility to own the majority share in the business, take on partnerships not only with state corporations but private businesses and cooperatives as well, investing in wholesale enterprises, tax reductions, and many more. Further preparing a welcoming environment, a special area was set up around the harbor of Mariel, where special rules, especially further tax reliefs, apply (Romero G., 2016; Spadoni, 2023). These measures serve to attract FDI especially into strategic sectors such as export manufacturing, agriculture, infrastructure, and energy, with an emphasis on a shift towards renewable energy. And they don't seem to fail on delivering on these objectives.

While the officially set goals haven't been met, FDI accounted for 5.4 percent of gross capital formation in 2020, which represents a contribution to 20 percent of goods and services exports and almost 100 percent of goods exports (Spadoni, 2023). In light of this development towards foreign investment concerned with manufacturing, Torres Pérez (2020) warns that manufacturing is overemphasized in that regard. Although the measures taken by the government seem for the most part fruitful, there are still many limitations towards investment possibilities.

Amongst them is the obligation for investors to hire labor through a government agency and a great apparatus of bureaucracy to be dealt with in order to go forth on the respective projects (Spadoni, 2023). These limits to investors' freedom show the Cuban government's will to keep control over the productive capacities and illustrate the complex decisions to be made regarding foreign investment. In the globalized for the most part capitalist world, investment capital is traded in a market environment, in which the Cuban government has to compete.

Thereby, it has to bend to the market rules externally while trying to preserve socialist achievements built on state control over the means of production internally. Therefore, regulators will have to further improve the mixture between

state control and international competitiveness in hopes of getting the best of both worlds.

Private Economy

This split between a centrally organized, state-controlled economy and a decentralized market economy continues into the Cuban domestic economy. In an attempt to tackle problems of productivity and low incomes, internal structural reforms have changed the economic landscape.

While the state sector slowly is becoming more decentralized by handing over management tasks like the setting of prices and salaries to the enterprises (Yaffe, 2021), a private economy is emerging among the mostly state-controlled Cuban system. New legislation allowed the development of a large number of small and medium private businesses next to the promotion of non-agricultural cooperatives.

Similarly, there is an ever-growing number of self-employed Cubans (Spadoni, 2023). Since 2010, cooperatives and private enterprises have created more new jobs than the state sector (Torres Pérez, 2020), up to the point where over 40 percent of the population now have at least one foot in the private economy, providing for approximately 18 percent of the gross domestic income (Feinberg, 2018). Feinberg (2018) argues that by now the private economy is so large that it produces its own demand for the products it creates, thereby having reached a critical mass.

This critical mass of consumers and producers is strengthened by a very large informal economy that dodges the high level of regulation in the private economy. Although there are no official numbers on informal employment, Ritter and Henken (2014) estimate that for every registered self-employed person, there are 4 unregistered self-employed. That implies that over half of the Cuban labor force is self-employed in one way or another (González-Corzo & González, 2019), highlighting the importance of the private sector and the informal private sector in particular.

Thiemann and Mare (2021) even argues the informal sector to be the largest of the economy. Low wages, scarcity of goods, high taxes, and the number of types of self-employment deemed legal lead to many Cubans relying on informal employment and the black market to supplement what they receive from the formal economy (Thiemann & Mare, 2021) (Wilson, 2011). As are formal private businesses, these enterprises are to a large extent financed through remittances, received by over 70 percent of the population and estimated to amount to over 3.6 billion dollars annually, thereby making up a large share of Cuban hard currency inflow (González-Corzo & González, 2019).

Monetary Ordering

Another aspect in favor of the informal economy's evolution was the dual currency system, which has been in place until 2021 (Wilson, 2011). This monetary regime consisted of the national peso (CUP) suited for domestic trade and the convertible peso (CUC) exchangeable against hard currency. It created segmented markets for foreign and domestic trade, thereby diminishing linkages between companies operating in different segments (Spadoni, 2023) and further increasing the lack of spillover effects between both departments.

Additionally, it was severely overvalued at 24 CUC per dollar, which led to artificially low prices for imported goods (Luis, 2020) and served to increase the already uneven Cuban trade balance. Also, the complex nature of this dual currency system constituted dissuasion to potential foreign investors (Spadoni, 2023). To worsen things further, it created a social unbalance, granting those in possession of CUC access to a wider variety of outlets for purchasing goods (Yaffe, 2021). So, in order to address those problems, the Cuban administration united both currencies into one Cuban Peso.

Multiple economic reforms accompanied the monetary restructuring, serving to boost productivity, increase exports, shield the population from the negative impacts of unification, and consolidate public finances (Yaffe, 2021). The unified peso depicts prices and thereby gains and losses of Cuban enterprises more accurately, often leading to price hikes caused by the devaluation of the CUC. To buffer the effect of these price hikes on the Cuban population, state employees' salaries were increased drastically. These increases did not affect all workers equally, since higher wages can now be linked to criteria such a higher educational qualification, in hopes of boosting productivity (Yaffe, 2021).

With a set exchange rate of 24 Pesos per Dollar, the Peso still remained overvalued. Additionally, the reform took place during economic turmoil caused by the pandemic and the consequences of the Trump administration's intensified sanctions. That led to inflationary pressure rising and created the opportunity for a currency black market to emerge, exchanging Peso for multiples of the set exchange rate (Frank, 2022). Despite these current problems, the currency unification helps to remove barriers for foreign investment and, once stabilized, has the potential to benefit exports, steady monetary expectations, and accurately value the Cuban good exchange internally and externally (Luis, 2020).

Conclusions

The monetary ordering process represents one big step among many towards significant structural reforms of the Cuban Economy. The objectives of these

changes are plenty and at times contradicting each other, making it a tightrope act to move forward towards a prosperous future.

Balancing out the Cuban trade deficit might be among the top priorities today. The necessary import substitution and export expansion have to be built upon productivity growth internally, a great acceleration in capital formation, and strong international relationships. Internally, measures of decentralizing the economic superstructure can lead to increased innovation, lowered bureaucratic costs, and a more dynamic business landscape.

While many scholars argue that the creation of competitive markets is the proper way to achieve those benefits, a growing unregulated informal sector and the socialist aspiration to keep social inequalities to a minimum seem to contradict this. Instead, other ways of decentralization, such as Gómez Prieto et al. (2020) proposes for the tourism sector, can help reduce the negative impacts of a true market economy.

A strong focus on strategic sectors, such as agriculture and infrastructure, can support accelerating the internal structural changes, while increased economic complexity can provide sustainable growth. In order to get access to the capital necessary to finance those steps towards a prosperous economy, Cuba will be dependent on foreign capital. Regulatory measures and monetary ordering help to create an inviting environment, where strong international partners can set foot in. Remaining conscious of the level of control over domestic production foreign capital is allowed to have, is as important as diversifying the international network to decrease vulnerability.

The process of structural reforms in Cuba comes with a great amount of opportunities and dangers, that are difficult to navigate given the uniqueness of the Cuban economic development and the scope of objectives to be fulfilled. Therefore, regulators have to be careful in choosing the steps to take, while reacting to the rapid internal and external developments they are faced with.

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Declaración de Intereses

I hereby formally declare that the work submitted is entirely my own and does not involve any additional human assistance. I also confirm that it has not been submitted for credit before, neither as a whole nor in part and neither by myself nor by any other person.

All quotations and paraphrases but also information and ideas that have been taken from sources used are cited appropriately with the corresponding bibliographical references provided. The same is true of all drawings, sketches, pictures and the like that appear in the text, as well as of all Internet resources used.