7

The Impact of the Global Post-2007 Economic Crisis and Subsequent Lethargic Performance on Cuba's Economy

Al Campbell

7.1 Introduction

The intent of this chapter is to consider the impact of the post-2007 global economic crisis and the world economy's subsequent lethargic performance (the global economic crisis)[1] on Cuba's economy. Before indicating exactly which parts of that book-sized task will be specifically discussed in the restricted space available, it is necessary to highlight two considerations without which nothing about any aspect of Cuba's current economic performance can be properly understood: its central economic (and social-political) goal, and its current engagement in a medium-term deep transformation of its economic institutions and practices.

The impact of any external factor (in this case, the global economic crisis) on any given society is not only the result of the nature of that factor itself. Rather, the impact is the result of the interaction of the external factor with the internal conduct of that society, and in particular, the society's reactions to the external factor. It is precisely in regard to two aspects of its internal conduct during the crisis that Cuba differs markedly from most, and in one aspect, essentially all, other countries.

The first essential consideration for understanding Cuba's conduct during, and in response to, the global economic crisis is its overarching goal for all its social policies: the construction of socialism. Notwithstanding that over the last two decades a broad debate has opened in Cuba over exactly what their desired socialism should look like,[2] this commitment generates restrictions on what sorts of policies Cuba is willing to consider for confronting the crisis. Three recent examples illustrate how this central commitment affects the economic policies adopted. When, at the beginning of the 1990s, Cuba entered its deepest economic crisis by far since the beginning of the Revolution in 1959, its output shrank by more than 35% in three years. The standard capitalist response to such a downturn, of course, would be massive layoffs (as in the similar-sized contraction in the Great Depression in the United States), thus effecting the standard capitalist procedure of transferring as much of any economic difficulties as possible onto the workers. Cuba, on the contrary, for years maintained the employment of a large majority of the workers that the crisis had made under- or entirely unproductive, and who could not find alternative employment, at full or near-full pay. Though seldom noted, there exists a meaningful rough estimate of the quantitative extent of this anti-capitalist policy. The Economic Commission for Latin America and the Caribbean estimated that of the roughly 3.5 million workers in the state sector in 1998, about 700,000—or 20%—were surplus[3] (CEPAL, 2000: 253). A second example is that in the face of that same crisis, with its draconian drop in government revenue, Cuba rejected the standard capitalist austerity policies of cutting government spending on fundamental social services To the contrary, the state maintained its defense of social equity on the basis of universality and free basic social services, in the first place in health care and education, and actually marginally increased spending on them. A final example consists of Cuba's shock-project between 2002 and 2004 to improve the productivity in its sugar industry by closing the least productive half of its mills. 100,000 workers were laid off, but contrary to the capitalist approach of leaving these people to their individual ability and luck to find work, regardless of their skills and the condition of the labor market, the Cuban government ensured that every one of them found new employment, supporting them, if necessary, with a year or more of vocational retraining (Pollitt, 2004).

Everyone from Fidel[4] to champions of a restoration of capitalism in Cuba[5] agree that many "capitalist-like" or actual capitalist measures were adopted in Cuba over the 1990s and 2000s. From the first such measures in the early 1990s to today, the government has consistently and frequently declared that despite the potential capitalist nature of these measures, (1) Cuba remains committed to the construction of socialism, just as before, and (2) the operation of these mechanism will be, unlike with their operation in capitalist systems, regulated and restricted in such a way and to such an extent that they will be prevented from imposing the logic of capitalism on the functioning of the economy. The government argues that because of this, the potential of these measures to promote the restoration of capitalism, a danger it explicitly recognizes, will not be realized.

A particularly clear and forceful recent re-expression of this position[6] was made by the current president of Cuba and first secretary of its influential Communist Party, Raúl Castro. Referring to both his election as president in 2008 and to a popular referendum from 2002, he said,

> They did not elect me president to restore capitalism in Cuba nor to surrender the Revolution. I was elected to defend, maintain, and continue perfecting socialism, not destroy it.... In the year 2002... 8,198,237 citizens, almost the entire voting age population, signed a request to this Assembly to promote the constitutional reform that ratified the Constitution of the Republic in all its parts, and declared irrevocable the socialist nature and the political and social system contained within our fundamental law. (Castro, 2009)

It is universally accepted by both advocates and opponents of socialism in Cuba that the present process of economic and social transformation is strongly influenced by (though far from determined by) the ideas of Raúl, so it is appropriate to take such statements by him as important indicators of government policy. However, a more socially direct, and by the nature of the way it was arrived at, socially broader,[7] presentation of the same position can also be seen in the recently adopted “lineamientos” (guidelines). As indicated by their name, these are intended as guidelines for the unfolding economic and social transformation. Here the same central commitment to the construction socialism is forcefully indicated by opening the entire set of guidelines with the phrase “the system of socialist planning will continue being the main way to direct the national economy” (PCC, 2011: 4).

The second consideration that is essential for understanding the impact of the post-2007 global economic crisis on Cuba’s economy is that the country was already engaged in a thoroughgoing process of economic transformation for over 15 years when the crisis broke out.[8]

This will turn out to be very important for economically understanding the empirical results of this investigation. A first empirical result is that the Cuban economy has slowed significantly in the post-2007 period. Given the well-known degree of openness of the Cuban economy, the first expectation would be a causal relation from the world's slowdown to Cuba's. A careful consideration of the main channels by which the world's slowdown would slow Cuba's growth, however, indicates that this is not the case, as will be shown in this chapter. This implies some major internal reasons must have been acting to generate the observed slowdown. Recognition of the sweeping nature of the economic reordering going on in Cuba is necessary in order to understand why its economic growth has significantly slowed at the same time as the world slowdown, without the latter being its cause.

Within a framework in which these two considerations are kept in mind, this chapter will consider the impact of the post-2007 global economic crisis on Cuba's economy. It will first look at three macroeconomic indicators, starting with the standard growth of GDP. Next, while the ability to generate sufficient foreign exchange, which is essential for domestic production as well as consumption, is a constraint on the development of many underdeveloped countries, Cuba's foreign exchange constraint to its post-1990 entire economy is well known to be particularly important and severe.[9] Hence, a second macroeconomic indicator considered will be Cuba's balance of trade. Finally, foreign direct investment (FDI) has the potential to dramatically increase a country's rate of growth and development, if it is constrained to actually benefit the host country, even as it makes profits for the home country and not simply plunder the former, as often is the case. Cuba is currently engaged in major legal and institutional changes to attempt to sharply increase the amount of FDI it attracts. While data on this is necessarily restricted because of the unremitting efforts by the US government to disrupt all Cuba's international economic relations, this third important macroeconomic indicator will be considered to the extent possible.

Following this, the chapter will consider the impact of the post-2007 global economic crisis on (only for reasons of space) two particular sectors of the Cuban economy. Notwithstanding that, this author always stresses that the key to Cuba's future lies with its improvement of its domestic economy; given the topic of this book and this chapter, the sectors considered will be two that are centrally important to Cuba's international economic performance. In particular, and in line with the comments above, they are centrally important to its generation of foreign exchange, and thus are key channels by which the global crisis could affect Cuba's economy. Nickel production and tourism will be considered.

7.2 Macroeconomic Indications of the Impact of the Global Economic Crisis on Cuba's Economy

The most commonly used (and overused) empirical indicator of an economy's performance is the growth of its GDP. In line with the topic of this chapter, most of the data given will only go back to shortly before the onset of the crisis to look for crisis-induced changes. For the GDP, the data given will go back to the beginning of Cuba's "Special Period" in 1990, when its previous economic model, which was thoroughly integrated into the Soviet led Council for Mutual Economic Assistance, crumbled, and a fundamentally new economic model (with both fundamental continuities and fundamental changes) had to be built. This will allow us to avoid the error of considering Cuba's post-2007 performance only in comparison to its immediately previous performance during the mid-2000s, years that were known for being exceptional growth years (notwithstanding bubble-based) for both the world economy[10] and the Third World economies in particular. Rather, we can also compare Cuba's recent performance to its performance over the entire time period that it has been engaged in building its new economic model. See figure 7.1.

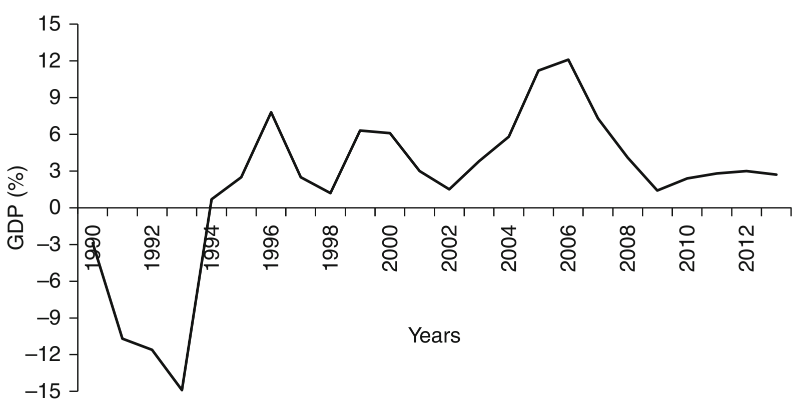

Figure 7.1 Cuba's GDP growth.

Sources: ONEI (2014), ONE (2009, 2003, 1999, 1998).

From the first full year of its recovery in 1995 to 2003, the rate of growth under the newly developing model averaged just under 4%. Over the four boom years immediately preceding the crisis, from 2004 to 2007, growth averaged just over 9%. Hence, while the post-2009 average of just under 3% is not as cataclysmic a deterioration as a comparison to only the years immediately preceding the crisis would imply, Cuba's performance during the post-2009 world-recovery years has to be seen as weak even by comparison with the first 9 years of the newly forming model that preceded the boom years.

Given Cuba's very open economy and its weak performance since 2011, a reasonable first hypothesis would be that the sluggish performance of the world economy since 2011 has been centrally responsible for Cuba's recent weak performance. A careful consideration of the main channels through which such an effect from the world economy would influence the Cuban economy, however, will suggest that, contrary to such expectations, the current world slowdown is having only a minimal effect on Cuba's economy.

In line with Cuba's strong dependence on imported goods, not only for consumption but for its overall economic performance as indicated in the introduction, the next indicator to look at to consider the effects of the post-2007 world economic crisis and subsequent anemic recovery would be its imports. See figure 7.2.

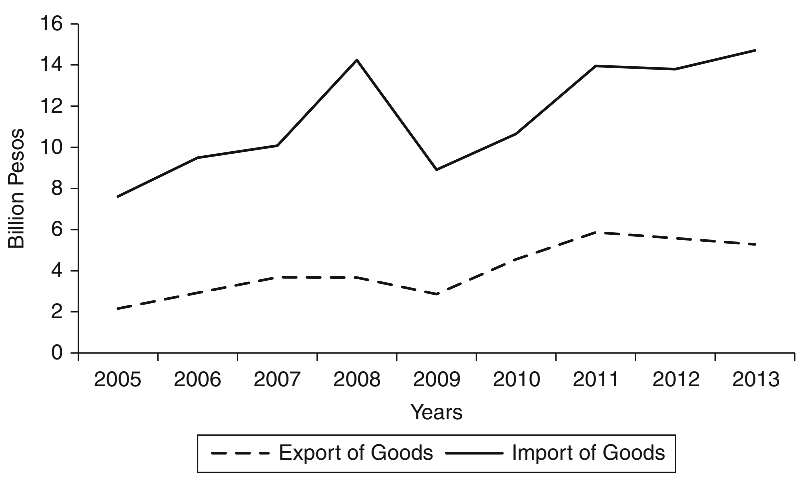

Figure 7.2 Cuba's imports and exports of goods.
Sources: ONEI (2014), ONE (2011).

Comparing figure 7.2 to figure 7.1 gives a first indication that the crisis and subsequent slowdown of the world economy, while not irrelevant, were not central to Cuba's slowed post-2007 economic growth. While the crisis began to unfold in the advance economies in 2008,[11] Cuba in fact was able to achieve a sharp increase in its imports. But contrary to what its economic dependence on imports would suggest, its GDP growth nevertheless continued the slowing that had begun in 2007. From its record 12.1% growth in 2006, it dropped to 7.3% in 2007, and then to 4.1% in 2008.[12] The slowing at that point, however, could be considered essentially only a return to its average growth rate of around 4% from 1995 to 2003 indicated above.

Cuba's imports dropped sharply in the global recession year of 2009 from the previous year. Given that the previous year was an emergency-induced outlier, as just explained in footnote 12, a better measure of the effects of the world-contraction on Cuba's imports would come from comparing 2009 to the years immediately before 2008. 2009 was about 12% below 2007, 6% below 2006, and 17% above 2005. The world-contraction did indeed negatively impact Cuba's imports (this conclusion will be reinforced momentarily by consideration of exports), but much less than its drop of 37% over the previous year would suggest. Cuba's rate of growth continued its fall, down to 1.4% in 2009.

The world economy rebounded from its –2.1% contraction in 2008 to 4.1% growth in 2010,[13] a rate comparable to its strong performance years of the mid-2000s. While not up to the outlier year of 2008, Cuban imports returned to just above the level of 2007, and above the boom years immediately preceding that. As expected, this was reflected in Cuban growth that year, which increased by more than 70% over 2009 to 2.4%. But it was an increase on a low base number: the return in 2010 to import levels of the mid-2000s left the rate of growth of the Cuban economy far below its immediate pre-2007 growth.

After 2010, the link between Cuban imports and its rate of growth became markedly still weaker. Figure 7.2 shows imports jumping in 2011 to the level of the 2008 outlier for imports, and then staying there, and even slightly increasing. Growth did increase, but only marginally, despite the significant import increases, reaching 2.8% and 3.0% in 2011 and 2012, respectively. In 2013, imports increased another 7% to set a new record (for the recent period), but the rate of growth of the economy actually fell back to 2.7%.

The limit on imports in an economic slowdown typically comes from the drop in what a country can export, and hence the money available for importing.[14] Figure 7.2 shows that the lethargic world growth rates of 2.8, 2.4, and 2.2 % from 2011 to 2013 did not slow Cuba's export growth at all in 2011, and after that caused only a marginal reduction. We have already seen that the link of Cuba's imports to its rate of growth, while it did exist, was increasingly weak in the post-2009 world economic recovery. Here we see a second aspect to the weakness of the effect of the current world slowdown on Cuba's economic growth. Its exports of goods, one contribution to its ability to import, was only weakly affected by the sluggish world economy.

Since early in the 1990s, Cuba has been primarily covering the deficit in its trade of goods shown in figure 7.2 with a surplus in its trade in services. Figure 7.3 shows the immediate pre- and post-2007 behavior of these balances.

The limited effect of the post-2007 world economic crisis on Cuba's net export of services is apparent in figure 7.3. Over the nine years graphed from before the crisis to 2013, Cuba almost doubled its net exports of services. While the data shows a clear impact of the world-contraction year of 2009, overall the gains were quite consistent over time. The post-crisis gains in fact occurred at a slightly faster rate

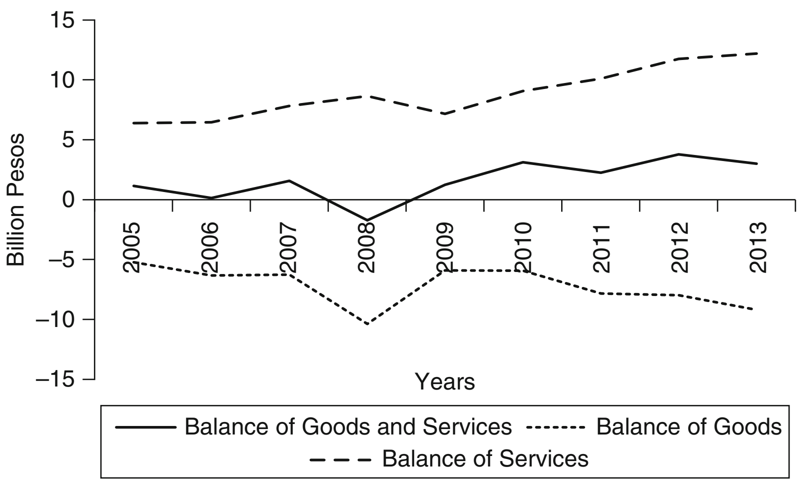

Figure 7.3 Cuba's balances of goods and services.

Sources: ONEI (2014), ONE (2011).

than the pre-crisis gains, though of course a part of that more rapid expansion was simply the recovery from the brief contraction.

Through 2010 then, the growing net export of services allowed Cuba to maintain a net import of about six billion pesos of goods (excepting the jump in the hurricane year of 2008, indicated above). In the last three years, that has climbed to about eight billion pesos in 2011 and 2012, and nine billion pesos in 2013, all while maintaining a positive overall net goods and services trade balance. Current discussions among Cuban academics and in its press suggest that the surplus in the trade of services and the excess in goods imports over goods exports (figure 7.3) might both fall some this year, and possibly also the important level of imports of goods themselves (figure 7.2). The overall pattern of a surplus from trade in services financing a major excess of imports of goods over what Cuba's export of goods would support, however, seems certain to continue to be an important characteristic of the Cuban economy over the near-term future.

Prior to 1990, Cuba's primary sources of foreign support for its growth, development, and capital accumulation were loans on favorable financial terms and development aid from the Soviet Union. In particular, this meant Cuban ownership of what was developed. Following the sudden implosion of the USSR, FDI into Cuba took off from almost nothing, with its initial form shaped by the very specific economic conditions that existed then in Cuba. Subsequent economic changes, both internal and external, then continually reshaped both the conceptualization of FDI's role, and Cuba's policies toward it. The discussion concerning FDI has continued right up to when this chapter is being written in late 2014, debating both the issue of how to treat it, and what role is seen for it in the new Cuban economic model, which is being developed today.

Cuba actually passed its first legislation enabling FDI into Cuba in 1982,[15] though prior to the crisis of the early 1990s, this yielded extremely minimal results. It was important, however, in that it established elements of the frame for considering and allowing FDI that have continued up to today, with parts of that frame currently under social debate. Broadly, the criterion for allowing particular FDI into Cuba was that it would help Cuba's long-term growth and development (and not just provide immediate jobs and perhaps foreign currency earnings). More specifically, the four things Cuba generally considered most important for a an FDI project to be useful was that it would provide improved technology, productive capital, and markets for exports, and/or produce import substitutes. FDI was specifically considered to be something that (only) complemented or supported the essential task for national economic development: the development of the domestic economy. The neoliberal "export promotion" view that tended to see FDI as key for a Third World country's overall economic growth and development, or at a minimum "the motor," was consciously rejected. The conceptual requirements that were developed for considering FDI were not some peripheral exercise, but rather were carefully applied in considering every FDI proposal.[16]

During the implosion of Cuba's economy from 1990 to 1993, economic survival was the key consideration for all its economic policies. While in theory FDI was then still regulated by Decree Law 50 and its concepts, in practice almost any capital inflow that would do much of anything to activate the large stocks of idle physical capital and labor (and was not clearly contrary to Cuba's continuing goal of building socialism) was accepted.

With the economic situation of prolonged recovery that began in earnest in 1995, Cuba made two adjustments to its FDI policies and practices from the first half of the 1990s. First, in September 1995, it replaced Decree Law 50 with a new FDI law, Law 77, and later the accompanying Resolution 5290 of the Executive Committee of the Council of Ministers in 2004. The procedure for FDI was improved, and in particular, the bureaucratic barriers to FDI were reduced, though most international capital still found Cuba's procedures inefficient and slow by international standards. For our concerns, the most important aspect of the new law was that it continued the two central aspects of the previous law: FDI was to be allowed in Cuba only if it fulfilled some clearly specified functions that would promote Cuba's economic growth and development, and every proposal for FDI would be extensively vetted by both economic and political bodies to be sure that it in fact did so. The other major adjustment was more of a change. Now that Cuba no longer so desperately needed any capital inflows it could get, it began to review all existing and newly proposed FDI more rigorously in accord with what the law said it should do. The result of this was that the number of new FDI proposals that were not accepted, and the number of existing FDI projects that were not renewed when their initial contract expired, increased significantly over the second half of the 1990s,[17] as will be mentioned again in the quantitative discussion of FDI.

Given the extraordinary permanent efforts by the US government to disrupt any FDI into Cuba that it can possibly influence, Cuba has never released even standard aggregate FDI figures in its national accounts, not to speak of more disaggregated statistics. In many cases, such statistics could be easily used by the US government to determine who in the world was investing how much into what areas. Even the periodic indications in the press of the amount involved in some large investment agreements (ones that the Cuban feel are relatively safe from US disruption) are largely useless for economic analysis, as they indicate the total projected value of the investments and not the amount actually dispersed in each year. In the absence of this standard data, three quantities have been typically used to give an indication of the amount of FDI into Cuba: the number of international economic associations[18] (IEA), their total sales, and their contribution to Cuba's exports.

From their negligible base in 1990, IEAs exploded to approximately 200 in 1995 and 400 in 2000.[19] Two interacting changes took effect at that point causing the number to fall throughout most of the following decade to about 200 again in 2008. First, as just indicated above, from 1995 onward, Cuba began to review all applications for new or renewed FDI more rigorously, in accord with the existing law, than it had done over the first half of the 1990s. This increased the number of rejected FDI proposals, though the overall number continued to grow rapidly until 2000 because of the continually increasing number of proposals. Second, from the beginning of the 2000s on, Cuba shifted to favoring large FDI projects, which became available then, above all from Venezuela and a bit later from China,[20] over the multitude of small ones.

Data on the post-2010 sales and exports by FDI enterprises in Cuba is unfortunately not readily available, so we cannot consider the effect through those channels of the anemic world recovery on Cuba's weak economic performance in those years. Data on these is available for the beginning of the crisis up to the world-contraction year of 2009. As measured by sales of FDI enterprises, the effect of the crisis years was minimal. Sales from FDI enterprises went up from about 4 billion in 2007 to well over 5 billion in 2008 and only dropped back to about 5 billion in the world-contraction year of 2009. The effect on exports by FDI enterprises of the single world-contraction year of 2009 was stronger. Their exports that year dropped roughly 700 million pesos from about 2 billion in 2007 and 2008 (Quiñones 2013: 95; Pérez 2012: 219). While this is an important contraction, it is broadly consistent with Cuba's overall drop in exports, only indicating FDI enterprise exports were at that time a bit more than twice as sensitive to such a world downturn as Cuba's total exports. With total goods and service exports of about 12.5 billion pesos in 2008, about six times the exports from FDI enterprises, these dropped by about 1.7 billion pesos in 2009, only about two and a half times the FDI enterprise exports contraction. With our interest in these as an indicator of the amount of FDI, and in the absence of detailed post-2009 data, but knowing of increased Chinese FDI and the major FDI project of the port of Mariel in that period, we can reasonably hypothesize that the world economic crisis to date has caused no major decrease in FDI inflows that would be another channel by which it could make important contributions to the current weak performance of the Cuban economy.

I will end this section with a comment on Investment Law 118, adopted March 29, 2014. It has some new aspects, though of course it is far too soon to know how these new aspects will be put into practice, or what their effect will be. The new law maintains the important anti-neoliberal approach of only accepting FDI proposals if they are deemed beneficial to Cuba's development goals. In this regard, it maintains the old criteria indicated above for being considered useful, such as importing new technology, bringing export markets, etc. It continues the process of trying to make FDI into Cuba more attractive,[21] and the process for approving FDI proposals less problematic for foreign capital.[22] It also, however, specifies some new additional goals for FDI involvement, lists two important prohibitions on FDI, and indicates a number of specific branches of the Cuban economy to be prioritized for FDI participation. Building the national industrial infrastructure is a new broad criterion for FDI, as is promoting cooperatives. The law specifically forbids the selling-off of state property to private interests, which played such an important role in the restoration of capitalism in Russia and the East Block,[23] and it specifically maintains (for now) the prohibition on foreign capital directly hiring Cubans by requiring that foreign enterprises hire Cuban workers through a state-run hiring agency. It specifically prioritizes FDI into agriculture, agro-industry, energy, mines, sugar, pharmaceuticals, biotechnology, and tourism. A final major change from previous FDI legislation is that Law 118 specifically allows for foreign joint operations with non-state entities. Given that co-ops are prioritized over private enterprises, one could expect that this might first affect the growing co-op sector. Given the nature of the private sector to find ways to obtain whatever advantages it can, however, one would expect that in time, this will also significantly affect the private sector.

But the biggest change is more amorphous, and at the most fundamental level – how Cuba views FDI. As opposed to being thought of as supportive of domestic economic development, FDI is now officially treated as one integral aspect of Cuba's economic development. Today there is a spectrum of positons on FDI in Cuban academia, think tanks, and government bodies. At the one extreme (leaving aside various very small oppositional groups that are simply for implementing neoliberal capitalism) are those whose focus is entirely on the increased growth and development such FDI could bring, often presented by comparing Cuban FDI and growth to that of places like Vietnam and China. This extreme of the spectrum of Cuban writings on FDI is characterized by an absence of consideration in their writings of how various different types of FDI, or degrees and natures of regulation of FDI, would have potentially different effects on Cuba's central development goal of socialism. At the other extreme are those who start their analysis of various possible types and modes of regulation of FDI, like any other development proposals, from a consideration of how it will serve or harm Cuba's overall development goal of building socialism. Just like the former, the latter hold that increased FDI is essential for raising Cuba's rate of growth and development to an acceptable level. There is almost no economist or politician in Cuba today who does not believe that increased FDI is one essential component of the new economic model being built. People on this latter end of the spectrum, however, are characterized by their continued attention to the need to develop procedures and modalities of FDI to guarantee that its increased role in the Cuban economy will leave Cuba, as opposed to the incoming FDI, in control of the Cuban economy.

7.3 The Impact of the Global Economic Crisis on Cuba's Tourism, Nickel Production and Agricultural Sectors

Section 7.2 began by observing that the most common indicator of aggregate economic performance, GDP growth, suggested that the entire Cuban economy might have been significantly slowed by the post-2007 world economic crisis and subsequent weak recovery. It then went on to consider the two major macroeconomic channels by which such a sluggish world economy could have effected the Cuban economy as a whole: imports of goods (and the related support for that in the exports of goods and services) and FDI. The section found that the decline in these contributions to growth from the sluggish world economy were far weaker than the decline in Cuba's overall economic performance. This implies that the anemic world economy cannot be considered the prime cause of Cuba's recent weak performance. In this section, we will consider the same question by looking at the performance of Cuba's leading goods and leading service foreign exchange earners, nickel and tourism.

Export earnings from Cuba's leading export good, nickel, were sharply impacted by the world-contraction year 2009. They then rebounded with the strong world recovery in 2010, and then increased further in 2011, even as the world recovery became lethargic. Subsequently, however, Cuban nickel earnings have dropped sharply. Cuban national accounts list five specific subcategories of export earnings, with nickel included in (and dominating) "minerals." From 2005 to 2013, the earnings were 994; 1,347; 2,081; 1,434; 839; 1,151; 1,419; 1,011 and 711 million pesos, respectively (ONEI, 2011: Table 8.7 and 2014). To understand further what these numbers reflect concerning the impact of the world crisis on Cuban nickel earnings, it is necessary to look separately at the world price, the world demand, and the levels of Cuba's production of nickel.

After staying between \$2 and \$4 per pound from 1990 to 2002, the early commodity price increases of the mid-2000s first took it up to over \$7 by 2004 and then exploded to a peak of over \$22 in by May 2007. The collapse of this bubble was just as spectacular, losing half its peak value in a year and then continuing to fall to just above \$4 by early 2009. It then rose through the world-contraction year of 2009 and the following two years to over \$12, before dropping back to \$6 at the beginning of 2014 (InvestmentMine, 2014 and International Nickel Study Group, 2014). So the low prices of 2009 certainly did contribute to the dismal earnings that year. In fact, although we will see that the level of production also matters, total nickel export earnings do loosely track the world nickel price.

Cuban nickel production was relatively constant during the price boom of the mid-2000s just discussed, as it was running at capacity (which was in general being slightly expanded, though small problems in one year or another would cause marginal drops). From before the crisis in 2005 to 2012, Cuba produced 3,433; 3,111; 3,333; 3,290; 3,949; 2,511; 2,443 and 2,084 million tons of nickel laterite, respectively (ONEI, 2011: Table 10.1 and 2014). Note that it achieved a production record in the world-contraction low price year of 2009 (because of marginal capacity expansion that year). After that, output problems began to appear. There was a sharp drop in output in the world-rebound year of 2010, and then further slight drops over the following two years, as the world economy, and in particular Cuba's important nickel markets in Europe and China, slowed.

But even the recent slowing of output cannot be convincingly attributed to falling world demand. Despite the overall sluggish world economic performance, the demand for nickel remained relatively strong. With the onset of the crisis in the United States in 2007, world demand dropped slightly to 1.32 million tons, then further to 1.27 in 2008, and 1.24 in 2009. But the world-rebound year of 2010 brought a jump in demand to 1.46, and that continued to rise to 1.57 in 2011, even as the world economy entered its current sluggish phase (International Nickel Study Group, 2014).

Cuba's current weak performance in nickel production[24] is one among many economic problems Cuba faces today. It cannot be convincingly attributed to the world economic crisis or its anemic aftermath. The current low level of nickel output in Cuba must be attributed primarily to internal production problems,[25] not to inadequate world demand or insufficient world prices.

In the last section, we saw that Cuba has financed its deficit in its balance of trade in goods, which it needs to obtain its necessary imports of goods in excess of its inadequate export of goods, through a surplus in its balance of trade in services. Hence, given the way the Cuban economy is structured today, the performance of its export of services is vital to its overall economic performance. Following from this, we next look at the impact of the world economic crisis on Cuba's largest service earner of foreign exchange, tourism.

While the topic of this chapter is the effects of the post-2007 world crisis on Cuba's economy, it will help us consider the latter's effect on Cuba via tourism to here briefly present Cuba's tourist performance from 1990 to the present. Over the decade of the 1990s, the foreign exchange earnings from an explosively growing tourism sector was Cuba's foreign exchange lifeline. In 1990, over 90% of Cuba's exports of goods and services were goods, with tourism making up just over 60% of the small contribution from service exports. By 2000, the percentage of goods in the total had dropped to less than 40, with tourism alone contributing over 45% of total export earnings. From 1998 to 2003, tourism was Cuba's largest source of foreign exchange. Subsequent to that, however, tourism's role as a source of foreign exchange fell from being the lifeline to being, along with a small number of other goods and services, merely important. By 2009, exports of goods were down to less than 30% of total exports. But the explosion of other service[26] exports meant that, while tourism had accounted for almost three quarters of service exports in 2000, it was now only just over one-quarter (Quiñones, 2013: 103).

It would be a reasonable a priori guess that the post-2007 crisis and subsequent sluggish world economy would have significant negative effects on Cuba's tourism, an industry that is known worldwide as being income-sensitive. Figure 7.4 indicates that this reasonable guess would be wrong.

The explosive growth of earnings from international tourism, and the corresponding number of tourists that underlay it, continued from 1990 up to 2004. Its growth in both arrivals and earnings then went flat, two to three years before the world crisis. To be sure, the 2009 world-contraction is visible in the data, superimposed on the flat trend. But then growth in both arrivals and earnings resumed, not only in the world-rebound year of 2010 (which was not so much a rebound in the First World countries, which are the overwhelming source of Cuba's tourists), but also into the weak growth years

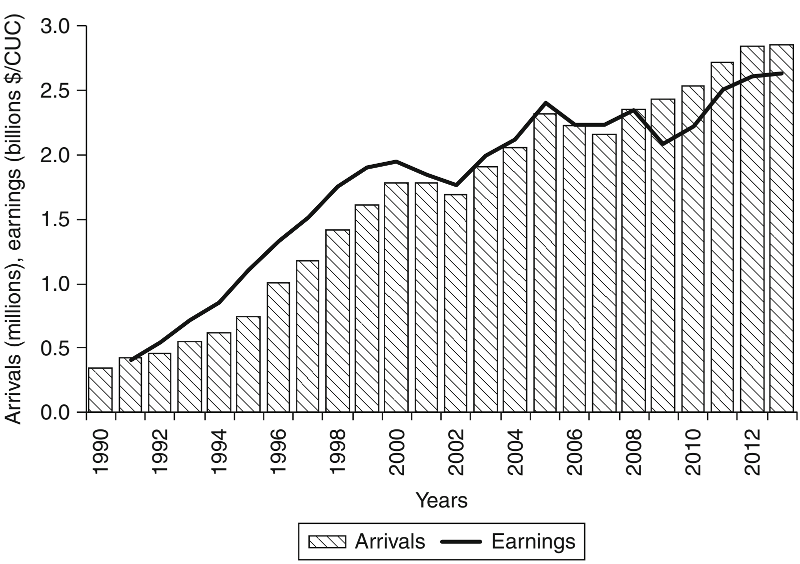

Figure 7.4 Cuba's international tourism, arrivals and earnings.
Sources: ONEI (2014), ONE (2009, 2003, 1998)

of 2011to 2013 that followed. As with the other major export just discussed, nickel, one can see some small indications of the effects of the world crisis and subsequent slowdown on Cuba's tourism. The data is clear, however, that the major changes in performance are not aligned with, and hence cannot be convincingly argued to come from, the crisis and subsequent slowdown.

7.4 Conclusion

Following the 2008—2009 world economic crisis and its one year rebound in 2010, the world economy has been lethargic. In 2009, Cuba had its second worst year of growth since 1995, and its growth since then has been weak in comparison to its own performance since 1995, even excluding the mid-2000s boom years. Given Cuba's known strong import dependency for its overall economic performance, and the need to support these necessary imports with corresponding exports, a reasonable a priori assumption would be that Cuba's current weak performance is a result of the impact on Cuba of the anemic world economic performance. A careful examination of the channels by which the weak world performance would be transmitted to the Cuban economy, the topic of this chapter, makes it clear, however, that notwithstanding some impact, the sluggish world performance is not a prime cause for Cuba's current weak performance.

While they are not the topics of this chapter, the chapter's conclusion of the minimal transmission of the sluggish world economic performance to Cuba immediately poses two related questions: why has the transmission been minimal, and what is the prime cause for Cuba's current weak performance? As a brief closing to this chapter, I will posit answers to both of these related questions, and indicate the empirical work that would be necessary to confirm or deny those hypotheses.

We saw in this chapter that Cuba has been minimally affected by the current lethargic world economy because it has been able to broadly continue, and sometimes even expand, its level of necessary imports and its inward FDI. It is hypothesized that this is so because an important part (though certainly not all) of both its trade and FDI relations are politically negotiated[27] with governments.[28] This partially insolates Cuba from the short-term time horizons of private capital that cause the rapid transmission of world effects to individual economies. Empirical testing of this idea would involve carefully looking at data on exports of goods and services and inflowing FDI (as noted before, this latter is largely not available at present) by country and by type of arrangements, to see if this was indeed an important factor in Cuba's ability to maintain its exports and its inflowing FDI in the face of the world economic slowdown.

As numerous Cuban economists have indicated over recent years, sweeping economic reforms, even those that are both necessary and appropriate to dramatically improve a country's future performance, will necessarily disrupt existing economic practices and institutions, and thereby cause lower aggregate performance in the short term. Consistent with what this chapter demonstrates—that Cuba's very recent weak economic performance is not primarily the result of the anemic world economy—it is hypothesized that the sweeping economic reforms now unfolding are its primary cause. The simplest empirical test of this will be to see if Cuba's economic performance improves and maintains that improvement after several more years of reforms and the accompanying building of new economic institutions and practices. A more sophisticated empirical testing will involve looking at the change in the productivity of labor and the efficiency of the use of capital resources as Cuba's new economy consolidates.

Notes

1. The global economic crisis started in the US in 2007, and that country entered its "Great Recession" in that December. In 2008 the crisis spread first to the rest of the developed world, and subsequently to the underdeveloped world. The US officially ended its Great Recession in June, 2009, but that year registered a negative growth rate for the aggregate world economy. One could either argue that the global economic crisis ended in 2010 followed by a continuing anemic "recovery" or, especially as seen by the poorest quarter to half of the population of many countries, that the crisis has never ended. To avoid awkward and excessively lengthy locutions I will sometimes use the phrase "the global economic crisis" to refer to the crisis proper of 2008–2009 and the post-2009 "recovery" together.
2. The sharpest and socially broadest debates are about what is appropriate to do immediately and in the short-run to rapidly increase the standard of living in those dimensions in which it is (seriously) inadequate (given today's technological possibilities). The measures used to do this, however, must at the same time contribute to the medium- and long-term construction of socialism, and in particular not eventually end up taking the country back to capitalism. Notwithstanding this dominance of the short-term in today's discussions, by the nature of the issues these involve medium- and long-term considerations. One simple but important example to illustrate this point is

the discussion of what role if any is acceptable for private property in the means of production (and in which means of production) in the medium- and long-term construction of socialism, in connection with its current significant, though until now sharply limited, expansion.

3. This is also important for understanding the much commented on current proposal to eliminate 1 million jobs from the state sector, to be discussed below.
4. For a number of such quotes by Fidel see Campbell (2010).
5. See for example any of the many post-1990 books by arguably the best known American cubanologist economist, Carmelo Mesa-Lago. The title of his 1994 monograph reflected the common hope then among opponents of Cuba's project to build socialism, that these measures would go on to coalesce to restore capitalism (perhaps by the Chinese road): *Are Economic Reforms Propelling Cuba to the Market?*
6. This author has repeatedly noted in earlier works this position of the Cuban government which it has maintained throughout its post-1990 reforms, with numerous specific examples from those earlier times. See for example Campbell (2000: 189 – 193, 2008: 14 – 17).
7. The 291 guidelines that were originally proposed by a government commission were then popularly discussed from December 2010 until February 2011 in 163,079 public meetings attended by 8,913,838 participants (a number approximately the same size as Cuba's voting-age population, though the number includes a significant and not measured amount of double counting of individuals). In addition they were discussed in the National Assembly of Popular Power in December, at a joint meeting of the government, the Communist Party and the main mass organizations in March, at pre-congress meetings in all the provinces of congressional delegates and guests, and in the commissions at the Congress itself in April. 94 guidelines were left as originally proposed, 181 were modified, 16 were integrated with others, and 36 new ones were added, giving the final result of 313 guidelines. For a detailed 48 page discussion of every change including the reason for the changes, see PCC (2011).
8. Among not too many others in English, the following four books give what this author considers balanced accounts of aspects of these two decades of deep economic restructuring. By this is meant that they consider errors and shortcoming that occurred during the process, but they also consider what was achieved, and why the policies chosen were selected, including considering their relation to building socialism that as argued above has remained the overarching social goal for all Cuba's policies. See Campbell (2013a), Veltmeyer and Rushton (2012: Part III), Lambie (2010: Chapters 4 and 5) and Carmona Baéz (2004: Chapters 3–5). For a sharply different perspective see two of the most informational of the numerous English language books written from the perspective of, and whose analysis is strongly influenced by, a very strong desire to see a capitalist restoration in Cuba: any of the stream of books over the years by Mesa-Lago, but most recently Mesa-Lago and Pérez-López (2013), and Spandoni (2014).

9. See Campbell (2013b: 11) for references to four articles by Cuban authors that include discussion of this issue. Former Minister of the Economy and Planning José Luis Rodríguez (2013: 52) lists this as the first of "three critical economic imbalances" that, among the many issues that have to be resolved, are particularly important in the short term to improving Cuba's economic performance.
10. The World Bank gives world growth as around 4% from 2004 to 2007. After the world contraction in 2009 it bounced back to that level for one year before dropping to 2.8%, 2.4%, and 2.2% from 2011 to 2013, respectively (World Bank, 2014).
11. Recall that in 2008 a number of commentators in both the First and Third Worlds speculated that because of the nature of the financial trigger to the crisis, and the government spending and trade balance reversals (including building reserve buffers) that many Third World countries had effected after the speculative attacks on them at the end of the 1990s, that this might be the first world crisis to hit the First World hard and nearly bypass the Third World. In 2009 the crisis then spread to the Third World (above all via its trade relations with the First World), leading to negative aggregate global growth that year.
12. One important part of the jump in imports that year was Cuba's response to the massive destruction of three powerful hurricanes. Recall there are contradictory effects from such destruction on a country's economy. The destruction of capital (including especially buildings) does not enter into GDP accounts, and the mobilization of resources and society to replace those losses stimulates GDP growth. On the other hand, the massive direct losses to production, which in the case of Cuba above all involved huge losses in agricultural output, are all direct losses to GDP growth.
13. World Bank (2014).
14. A few Third World countries of course have capital/financial account inflows for some years with which they can finance imports above exports. Cuba's lack of access (or access only at very high costs) to international sources of finance, excepting finance generally tied to specific development project particularly from Venezuela and China, is well known, leaving their import capacity largely determined by their export capability.
15. Decree Law 50.
16. Proposals were first evaluated by economic bodies, and then passed onto be reviewed by political (government) bodies. Again, the overall central consideration was if they would contribute to Cuba's socialist economic growth and development. As one would expect from such a process, it was generally both extremely time consuming and extremely irritating to many potential foreign investors.
17. The majority of the refusals for new proposals and some of the proposed renewals were exactly for not corresponding to Cuba's development needs. The majority of the refusals for renewals, on the other hand, were that they had failed to meet the goals they indicated they would meet, which had been the basis of their previous acceptance as serving Cuba's development needs.

18. Officially called Asociaciones Económicos Internacionales, these are international joint ventures.
19. See Quiñones (2013: 95) and Pérez (2012: 216)
20. While those two sources came to dominate, they were far from exclusive. Two very well-known very large FDI projects are those by Sherritt in nickel (and to a lesser degree some other products) the recent investment from Brazil in the port and special economic development zone of Mariel.
21. For example, by making the tax treatment and property rights for foreigners in joint enterprises both more precise and more favorable.
22. For example, by reducing the number of the types of proposals that are required to go up to the Council of Ministers or Council of State for approval, and can hence rather be decided on by the relevant Ministries.
23. This is in fact to be allowed 'under exceptional circumstances' that promote the country's development and do not affect the political or social fundamentals of the State.
24. Another indicator of the increasingly relatively poor performance of nickel in Cuba's exports are its relative share of Cuba's total export earnings, again not only as the commodity boom ended in the mid-2000s, but of particular concern today. From 2005 to 2013 it earned, respectively, 46, 46, 57, 39, 29, 25, 24 and 18 percent of Cuba's total export earnings (ONEI, 2014 and ONE 2011: Table 8.7).
25. Beyond "problems," normal operating decisions also can cause important limitations. At the end of 2012 Cuba closed the 70 year old René Ramos Latour nickel processing plant out of efficiency considerations. It had an official capacity of 10,000 tons of unrefined nickel and cobalt, while the remaining two plants each had approximately 30,000 ton capacities. In 2014 the Ernesto Che Guevara plant underwent its most extensive maintenance/overhaul in its 28 year history, reducing its output to below 50% of capacity.
26. In the first place medical services.
27. There is no suggestion here of the common conservative fairly-tale that politically negotiated economic relations need be economically irrational, and nothing more than support for political allies. There is strong economic rationality benefitting both sides in all of Cuba's negotiated trade and FDI deals with its two biggest partners in these types of negotiations, Venezuela and China. However, an important difference from the neoliberal trade and investment transactions dominant in the world today, which are known for their generally overly short-term time horizons, is that the economic rationality of politically negotiated relations has the ability to be more medium and long term.
28. Note that such political negotiations with governments can be important even in cases where the final transactions are with private foreign capital, such as for example concerning the special economic zone of Mariel, for establishing procedures, regulations and guarantees that make the trade or investment attractive to foreign private capital.

Bibliography

Campbell, Al (ed.) (2013a) *Cuban Economists on the Cuban Economy.* Gainesville: University Press of Florida.

——— (2013b) "Introduction: Finding a New Road (Again) to a Socialist Economy and Economic Well-Being in Cuba," in *Cuban Economists on the Cuban Economy,* edited by Al Campbell. Gainesville: University Press of Florida, pp. 1–22.

——— (2010) "Cuba: A Project to Build Socialism in a Neoliberal World," in *Confronting Global Neoliberalism*, edited by Richard Westra. Atlanta: Clarity Press, pp. 101–116.

——— (2008) "The Cuban Economy: Data on Today's Performance and Information on Tomorrow's Projected Changes." University of Utah Working Paper. Available at http://economics.utah.edu/publications/2008_08.pdf.

———(2000) "The Cuban Economy has Turned the Corner: The Question now is Where is it Going?" in *Cuban Transitions at the Millennium*, edited by Eloise Linger and John Cotman, Largo, ML: International Development Options, pp. 167–203. The same article appeared previously in *Global Development Studies*, Winter 1998/Spring 1999, 1(3–4), 149–192.

Carmona Baéz, Antonio. (2004). *State Resistance to Globalization in Cuba.* London: Pluto Press.

Castro, Raúl. (2009) "Discurso de Raúl en el Tercer Período Ordinario de Sesiones de la VII Legislatura de la Asamblea Nacional," transcript of Raúl's speech of August 1, 2009 to the National Assembly, accessed in May 2014 in the archives of the newspaper Juventud Rebelde at http://www.juventudrebelde.cu/cuba/2009-08-01/discurso-de-raul-en-el-tercer-periodo-ordinario-de-sesiones-de-la-vii-legislatura-de-la-asamblea-nacional-/.

CEPAL (Comisión Económico para América Latina y el Caribe). (2000) *La economía Cubana: Reformas estructurales y desempeño en los Noventa.* Mexico City: CEPAL.

International Nickel Study Group (2014) About Nickel: Production, usage and prices. Accessed September 30, 2014 at http://www.insg.org/prodnickel.aspx.

InvestemtnMine (2014) Historical Nickel Prices and Price Chart. Accessed September 30, 2014 at http://www.infomine.com/investment/metal-prices/nickel/.

Lambie, George(2010) *The Cuban Revolution in the 21st Century.* London: Pluto Press.

Mesa-Lago, Carmelo (1994) *Are Economic Reforms Propelling Cuba to the Market?* Miami: University of Miami.

Mesa-Lago, Carmelo and Jorge Pérez-López (2013) *Cuba under Raúl Castro.* Boulder: Lynne Rienner Publishers.

ONE (Oficina Nacional de Estadísticas) (1998) *Anuario Estadístico de Cuba 1996*. Havana: ONE.

———(1999) *Anuario Estadístico de Cuba 1998*. Havana: ONE.

———(2003) *Anuario Estadístico de Cuba 2002*. Havana: ONE.

———(2009) *Anuario Estadístico de Cuba 2008*. Havana: ONE.

——— (2011) *Anuario Estadístico de Cuba 2010*. Accessed September 30, 2014 at www.onei.cu.

ONEI (Oficina Nacional de Estadística e Información) (2014) *Anuario Estadístico de Cuba 2013*. Accessed September 30, 2014 at www.onei.cu.

PCC (Partido Comunista de Cuba) (2011) *VI Congreso del Partido Comunista de Cuba. Información sobre el resultado del Debate de los Lineamientos de la Política Económica y Social del Partido y la Revolución*. Accessed September 30, 2014 at http://www.cubadebate.cu/wp-content/uploads/2011/05/tabloide_debate_lineamientos.pdf.

Pérez, Omar (2012) "Foreign Direct Investment in China, Vietnam and Cuba," in *Cuban Economic and Social Development*, edited by Jorge Domínguez. Cambridge: David Rockefeller Center of Latin American Studies, pp. 193–225.

Pollitt, Brian (2004) "Crisis and Reform in Cuba's Sugar Economy," in *The Cuban Economy*, edited by Archibald Ritter. Pittsburgh: University of Pittsburgh Press, pp. 69–105.

Quiñones, Nancy (2013) "Cuba's Insertion in the International Economy since 1990," in *Cuban Economists on the Cuban Economy*, edited by Al Campbell. Gainesville: University Press of Florida, pp. 89–113.

Rodríguez, José Luis (2013) "Fifty Year of Revolution in the Cuban Economy: A Brief Overview," in *Cuban Economists on the Cuban Economy*, edited by Al Campbell. Gainesville: University Press of Florida, pp. 25–61).

Spandoi, Paulo (2014) *Cuba's Socialist Economy Today*. Boulder, CO: Lynne Rienner Publishers.

Veltmeyer, Henry and Mark Rushton (2012) *The Cuban Revolution as Socialist Human Development*. Chicago: Haymarket Books.

World Bank (2014) GDP Growth (annual %). Accessed September 30, 2014 at http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG/countries?display=graph.