1-1-2003

The Slowdown of the Cuban Economy in 2001-2003: External Causes Or Domestic Malaise?

Carmelo Mesa-Lago

Recommended Citation
http://scholarlyrepository.miami.edu/iccaspapers/16

This Article is brought to you for free and open access by the Institute of Cuban and Cuban American Studies at Scholarly Repository. It has been accepted for inclusion in Institute for Cuban & Cuban-American Studies Occasional Papers by an authorized administrator of Scholarly Repository. For more information, please contact repository.library@miami.edu.
THE SLOWDOWN OF THE
CUBAN ECONOMY IN 2001-2003:
External Causes Or Domestic Malaise?*

Carmelo Mesa-Lago

Carmelo Mesa-Lago
ICCAS Occasional Paper Series
March 2003
THE SLOWDOWN OF THE CUBAN ECONOMY IN 2001-2003:
EXTERNAL CAUSES OR DOMESTIC MALAISE?*

Carmelo Mesa-Lago

INTRODUCTION

At the start of the 21st century, the Cuban economy seemed to continue its long, slow recovery after the severe crisis of the 1990s, but in 2001-2003 there was a significant slowdown in the Cuban economy and it is important to analyze its causes. Cuba authorities blamed external factors for the slowdown: (1) the terrorist attacks of September 11, 2001 and the war in Afghanistan provoked a drastic decline in tourism, while the 2001 world recession and the sluggish 2002 recovery also reduced international travel; (2) world prices of nickel fell in 2001 because of the recession and prices of sugar continued their decline in 2001-2002, while world oil prices decreased in 2001 but jumped in 2002; (3) hurricane Michelle hit the island in November 2001 causing damages estimated at 1,866 million pesos (tantamount to 6.6% of GDP), one year later hurricanes Isidore and Lili stroke the western part of Cuba causing damages of 713 million pesos (4% of GDP); (4) Russia shut down its surveillance base in Lourdes and stopped paying an annual fee of $200 million; (5) the political situation in Venezuela deteriorated in 2002-2003 and oil deliveries were halted in April-September and December-January; and (6) mainly because of the deceleration in the Cuban economy and lack of payment to creditors, hard-currency loans became even tighter and costlier. On the other hand, it can be argued that domestic factors, particularly, the virtual paralysis and even regression of the market-oriented reforms since 1996, have been responsible for the slowdown and that the external factors just aggravated existing problems.

Mainly based on Cuban statistics and publications, this essay evaluates Cuban economic and social performance in 2001-2002. The situation in these years is contrasted with that in 1989 (prior to the crisis) and 1993 (the worst point in the crisis). The analysis of socioeconomic performance includes macroeconomic, external sector, physical output, and labor and social indicators. In addition, 1998-2002 goals and 2001 and 2002 targets are contrasted with actual performance, while prospects for 2003 are examined. The question of whether the slowdown has been the exclusive result of external factors is discussed at the end of the essay.

I. ECONOMIC AND SOCIAL PERFORMANCE

This section compiles Cuba’s key socioeconomic indicators based on official statistics from state agencies such as the Oficina Nacional de Estadísticas (ONE), the Banco Central de Cuba (BCC) and various ministries. Other data come from Cuban economists (whose academic output has expanded significantly), the Economic Commission for Latin America and the Caribbean (ECLAC) and other U.N agencies, and newspaper articles mainly published in Cuba.

* The author gratefully acknowledges substantial, valuable comments from Dr. Jorge Pérez-López on a previous version of this essay, as well as data supplied by him, all of which significantly contributed to improve the essay.
1 For antecedents see Mesa-Lago 2001; Pérez-López 2002.
The statistical series start in 1989, the year before the crisis began, show their worst point in 1993, and a recovery in 1994-2002 (for an analysis of recent Cuban statistics see Mesa-Lago 2001b). Comparisons are made between 1989 and 2001-2002, as well as with Latin America whenever possible. A special section deals with Cuba’s revised GDP series and the government criticism of the GDP methodology and proposal to develop a new measure of economic activity.

A. Domestic Macroeconomic Indicators

1. Growth. GDP growth steadily slowed down from 6.2% in 1999 to 5.6% in 2000, 3% in 2001 and 1.1% in 2002 (Table 1). Cuba’s annual growth rate in 1990-2000 averaged –1.2%, the lowest in the region (ECLAC 2000b). In 2001, Cuba’s GDP in constant prices of 1981 was 13% below the level of 1989 and, in per capita terms, was 18% below (see Tables 1 and 2). Citing ECLAC (2002c), the Cuban Minister of Economics and Planning has stated that Latin America lost half a decade of growth in 1997-2002 but Cuba lost 13 years in 1990-2002 (Cuba’s GDP growth rate in 2002 ranked among the lowest nine in the region). Furthermore, at the average growth rate of 1994-2002, it would take four more years to recover the absolute level of GDP in 1989 and seven more years to recover the per capita level.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth rate(^a)</td>
<td>1.2</td>
<td>-14.9</td>
<td>0.7</td>
<td>2.5</td>
<td>7.8</td>
<td>2.5</td>
<td>1.2</td>
<td>6.2</td>
<td>5.6</td>
<td>3.0</td>
<td>1.1</td>
<td>-13</td>
</tr>
<tr>
<td>GDP per capita (pesos)(^a)</td>
<td>1,852</td>
<td>1,172</td>
<td>1,175</td>
<td>1,201</td>
<td>1,290</td>
<td>1,317</td>
<td>1,327</td>
<td>1,405</td>
<td>1,478</td>
<td>1,518</td>
<td>1,531(^d)</td>
<td>-18</td>
</tr>
<tr>
<td>Gross capital /GDP(^a)</td>
<td>26.7</td>
<td>5.4</td>
<td>5.5</td>
<td>7.2</td>
<td>8.2</td>
<td>9.5</td>
<td>9.4</td>
<td>10.3</td>
<td>13.2</td>
<td>13.3</td>
<td>-51</td>
<td></td>
</tr>
<tr>
<td>Inflation rate(^b)</td>
<td>n.a.</td>
<td>19.7</td>
<td>25.7</td>
<td>-11.5</td>
<td>-4.9</td>
<td>1.9</td>
<td>2.9</td>
<td>-2.3</td>
<td>-1.4</td>
<td>-5.0</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>Monetary liquidity/GDP(^c)</td>
<td>21.6</td>
<td>73.2</td>
<td>51.8</td>
<td>42.6</td>
<td>42.0</td>
<td>41.1</td>
<td>40.6</td>
<td>38.8</td>
<td>37.9</td>
<td>41.0</td>
<td>42.5</td>
<td>+90</td>
</tr>
<tr>
<td>Fiscal balance/GDP(^c)</td>
<td>-7.2</td>
<td>-33.5</td>
<td>-7.4</td>
<td>-3.5</td>
<td>-2.5</td>
<td>-2.0</td>
<td>-2.3</td>
<td>-2.4</td>
<td>-2.5</td>
<td>-2.7</td>
<td>-3.1</td>
<td>-62</td>
</tr>
</tbody>
</table>

\(^a\) At constant 1981 prices; in 2001 was shifted to 1997 prices (see text) and the 2002 rate is not comparable.  
\(^b\) Annual variation of the CPI.  
\(^c\) At current prices.  
\(^d\) Author’s estimate based on the GDP and population rates.  
\(^e\) According to ECLAC (2002c) there was a deterioration of 0.9%.  
\(^f\) Most 2002 data are not comparable with previous series.


2. Change in GDP Series and Cuban Criticism of GDP Methodology. Cuba’s GDP series at constant prices since 1985 was based on the structure of prices in 1981, an abnormal year due to its high inflation rate; such base was maintained for 16 years, which prompted criticism from foreign scholars and ignored recommendations on the National Accounts System made by the United Nations. In 2001, the base year was shifted from 1981 to 1997 and the new series was recalculated only to 1996 (BCC 2002). A Cuban economist have noted four significant problems resulting from that shift: (a) comparisons between the 1981 and 1997 series are impossible prior to 1996; (b) the series of current prices is different, but should not be, because current prices did

\(^2\) Cuban economist Espinosa (2003a) analyzed several components of GDP and concluded that it decreased in 2002.  
\(^3\) ECLAC did not publish period averages in its 2001 and 2002 reports (2001b, 2002c).
not change; (c) significant increments in gross capital formation have resulted, as much as 146% in one year; and (d) the series on main components in the national accounts in current prices have been discontinued (Espinosa 2003b).

GDP (absolute and per capita) in the old series (1989-2001) and new series (1996-2001) are given in Table 2, which shows that the new series increased absolute annual values of GDP in 1996-2001 by an average of 60%. The ECLAC (2002b) series for the same period based on 1997 prices (not shown in Table 2) is 11% higher than the corresponding Cuban series, and 18% higher than the Cuban series based on 1981 prices. Because we lack data for 1989-1995, it is impossible to check the accuracy of Cuba’s new GDP series.

<table>
<thead>
<tr>
<th>Year</th>
<th>Million Pesos</th>
<th>Growth Rates (%)</th>
<th>Difference (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1981 Prices</td>
<td>1997 Prices</td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td>19,586</td>
<td>1,852</td>
<td>1.2</td>
</tr>
<tr>
<td>1990</td>
<td>19,008</td>
<td>1,777</td>
<td>-2.9</td>
</tr>
<tr>
<td>1991</td>
<td>16,976</td>
<td>1,573</td>
<td>-10.7</td>
</tr>
<tr>
<td>1992</td>
<td>15,010</td>
<td>1,381</td>
<td>-11.5</td>
</tr>
<tr>
<td>1993</td>
<td>12,776</td>
<td>1,172</td>
<td>-14.9</td>
</tr>
<tr>
<td>1994</td>
<td>12,868</td>
<td>1,175</td>
<td>0.7</td>
</tr>
<tr>
<td>1995</td>
<td>13,184</td>
<td>1,201</td>
<td>2.5</td>
</tr>
<tr>
<td>1996</td>
<td>14,218</td>
<td>1,290</td>
<td>22,819</td>
</tr>
<tr>
<td>1997</td>
<td>14,572</td>
<td>1,317</td>
<td>23,439</td>
</tr>
<tr>
<td>1998</td>
<td>14,754</td>
<td>1,327</td>
<td>23,476</td>
</tr>
<tr>
<td>1999</td>
<td>15,674</td>
<td>1,405</td>
<td>24,956</td>
</tr>
<tr>
<td>2000</td>
<td>16,556</td>
<td>1,478</td>
<td>26,482</td>
</tr>
<tr>
<td>2001</td>
<td>17,053</td>
<td>1,518</td>
<td>27,274</td>
</tr>
<tr>
<td>2002</td>
<td>27,573</td>
<td>2,445</td>
<td>1.1</td>
</tr>
</tbody>
</table>


At the end of 2001, two top Cuban economists (the Minister of Economics and Planning and the President of the Commission of Economic Affairs of the National Assembly), argued that 2002 had been a year of low economic growth but high development and, citing Fidel Castro, openly criticized the GDP methodology developed by the United Nations and used internationally for more than six decades and adopted by Cuba in the early 1990s:

In several occasions comrade Fidel has referred to the deficiencies of GDP to measure development results … an indicator, designed for a market economy, incapable of reflecting the social accomplishments, wealth distribution and social welfare of a given country … [Liberal economies] utilize GDP ignoring those variables and try to impose it as a standard criterion for development [and yet] GDP may grow despite social and economic deterioration and increasing poverty … [Fidel’s criticisms are evident in Cuba] because such international methodology, in addition to GDP intrinsic deficiencies, underestimates our results in comparison with other countries, due to the higher proportion of free and subsidized consumption in Cuba, hence, placing us in a notoriously unequal position … In order to solve some of those deficiencies we
have worked to achieve both a more just international comparison and a proposal to measure services within GDP providing a more realistic vision of our society (Rodríguez 2002, translation by the author).

Rodríguez (2002) added that Cuba’s GDP can be estimated based on the purchasing power of the peso (PPP), compared with other currencies, to buy a given basket of goods (there is no information on how the PPP estimates have been done). According to him, Cuba’s GDP in 2002 was 57.7 billion pesos based on that method instead of 27.6 billion without the PPP (5,200 and 2,445 pesos per capita, respectively). Still, he argued, Cuba’s GDP PPP is underestimated because it does not take into account the value of free social services and consumption subsidies to the population, and reported that the latter will be incorporated in 2003. Actually, Cuba’s GDP PPP in international dollars has been calculated since the late 1980s by the Human Development Index (HDI), which in its latest report gave $4,519 per capita for Cuba in 2000 (UNDP 2002). I have recently demonstrated, however, that such estimations are flawed (Mesa-Lago 2002a). Furthermore, that method already includes imputations for the value of certain services provided free by the government, something that the Cubans will add again to the HDI value. Last but not least, a report elaborated by a Cuban institution with support from the UNDP, criticized the HDI methodology and proposed to replace it with a new Human Development and Equity Index, in which Cuba would rank second among 23 countries of Latin America and the Caribbean (CIEM 2000); this may well be the methodology that Rodríguez made reference to. If previously we had serious problems with Cuban GDP series, if the methodology were changed as intimated by Rodríguez, future measures will be virtually worthless.

3. Capital Formation. Gross capital formation shrunk from 26.7% to 5.4% of GDP in 1989-1993, but rose since 1995 and reached 13.3% in 2001, still 51% below the 1989 level (Table 1). Gross domestic investment averaged 9.5% of GDP in 1997-2001 and declined 0.1% in 2002, the lowest in Latin America (ECLAC 2002b, 2002c). Marquetti (2000) warns that the USSR and other socialist countries contributed to high levels of capital accumulation prior to the 1990s, but there is no possibility to return to those favorable conditions. In addition, new investment has been insufficient to play the key role required for sustained growth and it is impossible to restrict consumption further (as it is very depressed) to shift from consumption to investment, hence the only way out is to increase domestic efficiency and enterprise competitiveness. He concludes that a strong economic recovery would require an investment rate of 25% of GDP, similar to that of 1989. Triana (2001) also acknowledges the current low level of investment and argues that, to increase it, it is necessary to expand GDP more, instead of changing the structure investment/consumption, because the latter can’t be further reduced.

4. Stability. Based on the consumer price index (CPI) inflation peaked at 25.7% in 1994 and according to official data turned into deflation: -2.9% in 1999, -2.3% in 2000 and -1.4% in 2001 (Table 1). But these figures are questionable for five reasons: (a) Cuba has never published information on the basket of goods and services used for the calculation of the CPI; (b) the CPI deflation is opposite to the increase of the GDP deflator: 0.4% in 1999, 2.5% in 2000 and 1.4% in 2001 (ECLAC 2002b); (c) in 2001-2002 there was a significant increase of prices in free agricultural markets and state shops (33% in 37 goods in 2002); and (d) “monetary liquidity” (monetary overhang) was reduced from 11 to 9.2 billion pesos in 1993-1995 (from 73.2% to
42.6% of GDP), but rose again in 1996-2002 to 13.6 billion pesos, three times the level of 1989 (see Table 3). When monetary liquidity increased 6% in 2000, Carranza (2001) warned that the program to fight it (desmonetización) was losing its effectiveness to extract money from circulation because the majority of the population had less money to buy high-priced goods in free markets; the 19% jump in 2001 confirmed his judgment. In 2002, inflation rose 5% (placing Cuba at mid point in Latin America) and the monetary liquidity jumped 8.6% (ECLAC 2002c; Rodriguez 2002). In February 2003, the BCC announced that pesos printed before 1990 would be extracted from circulation starting on June 1st. Those pesos could be used to buy goods in the market, deposits in bank accounts or exchange for “convertible pesos.” Reasons for that action could be the deterioration of the bills and the statement they were convertible, but also the possibility of detecting hoarding by successful illegal operators and confiscating those assets. In March the rate interest on bank deposits was raised 0.5 points as an incentive for savings and extracting part of the excess liquidity.


<table>
<thead>
<tr>
<th>Years</th>
<th>Cumulative Monetary Liquidity</th>
<th>% of GDP</th>
<th>Years</th>
<th>Cumulative Monetary Liquidity</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>4,164</td>
<td>21.6</td>
<td>1996</td>
<td>9,534</td>
<td>42.0</td>
</tr>
<tr>
<td>1990</td>
<td>4,986</td>
<td>25.4</td>
<td>1997</td>
<td>9,441</td>
<td>41.1</td>
</tr>
<tr>
<td>1991</td>
<td>6,564</td>
<td>40.4</td>
<td>1998</td>
<td>9,710</td>
<td>40.6</td>
</tr>
<tr>
<td>1992</td>
<td>8,362</td>
<td>56.1</td>
<td>1999</td>
<td>9,902</td>
<td>38.8</td>
</tr>
<tr>
<td>1993</td>
<td>11,043</td>
<td>73.2</td>
<td>2000</td>
<td>10,490</td>
<td>37.9</td>
</tr>
<tr>
<td>1994</td>
<td>9,944</td>
<td>51.8</td>
<td>2001</td>
<td>12,478</td>
<td>41.0</td>
</tr>
<tr>
<td>1995</td>
<td>9,251</td>
<td>42.6</td>
<td>2002</td>
<td>13,550</td>
<td>45.2</td>
</tr>
</tbody>
</table>

* a Monetary overhang. b BCC 2002 suspended publication of this series; the author has estimated it as the sum of monetary circulation and all bank deposits.


The fiscal deficit as a percentage of GDP was cut from 33.5% to 2% in 1993-1997, but rose to 2.4% in 2000 and 2.5% in 2001 (Table 1), both were slightly below the average for Latin America in those two years: 2.7% and 3.1%, respectively (ECLAC 2001b). The President of the Commission of Economic Affairs of the National Assembly reported an excess of 125 million pesos over the originally budgeted deficit of 875 million pesos in 2002 (Martinez 2002), in spite of printing 2 billion pesos; based on that information I estimate the deficit at 3.1% of GDP (ECLAC 2002c estimates it at 2.9%, the 12th higher in the region).

### B. External Sector

1. Trade Balance. Indicators for the external sector are shown in Table 4. After a fall of 79% in 1989-1993, the value of exports (goods) increased in 1993-1996, but declined/stagnated

---

4 As a percentage of GDP, the monetary overhang was 45.2% in 2002 contrasted with 21.6% in 1989, but Triana (2001) notes that it excludes circulation in dollars, hence, the percentage should be even higher.
thereafter and fell sharply in 2002. Exports were 1.68 billion pesos in 2000 and 1.44 billion in 2002, 74% below their 1989 level. Imports of goods sank 75% in 1989-1993 but steadily rose thereafter reaching 4.8 billion pesos in 2000 and 2001, but declined to 4.16 billion in 2002, 49% less than in 1989. Imports expanded faster than exports and therefore the goods trade balance (deficit) jumped almost four-fold in 1993-2001, reaching the historical record of 3.1 billion pesos both in 2000 and 2001, 15% higher than the 1989 deficit, but declined to 2.72 billion in 2002, the same as in 1989. Says a Cuban economist: “These results confirm the traditional weakness of Cuba’s external sector, which after more than ten years of economic transformations has been unable to substantially change the pattern of external insertion in the world trade of goods” (Triana 2002: 13). Furthermore, there is a major difference between 1989 and 2001: there are no longer automatic Soviet long-term loans to cover the deficit, at very low interest rates and never paid. Now Cuba has to resort to short-term loans from foreign banks and other financial institutions, which charge high interest and demand repayment (see below).

The merchandise trade deficit was partly offset by a substantial surplus from services, mainly tourism, and yet the current account balance was negative: -776 million pesos in 2000 (2.7% of GDP) and -553 million in 2001 (1.9% of GDP); the two highest deficits since the end of the 1980s. The current account deficit was partly offset by “net transfers,” mostly remittances from Cubans abroad; such transfers rose (in million pesos) from zero in 1989 to 740 in 2000 and 813 in 2001.\footnote{Based on a survey on recent Cuban arrivals undertaken by the University of Florida at Gainesville, as well as data on income distribution of Cuban-Americans from the US Census Bureau, Betancourt (2000) concluded that the figure of $800 million in remittances was impossible and suggested that such amount was used to hide income from drug traffic.} But payments of debt principal and interest, combined with profit taking by foreign investors, added to the negative balance (in million pesos): -693 in 2000 and -670 in 2001 (ONE 2002; ECLAC 2002b; for different estimates see BCC 2001, 2002).

### TABLE 4. CUBAN EXTERNAL SECTOR INDICATORS: 1989-2002

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Exports (billion pesos)</td>
<td>5.4</td>
<td>1.1</td>
<td>1.3</td>
<td>1.5</td>
<td>1.9</td>
<td>1.8</td>
<td>1.5</td>
<td>1.4</td>
<td>1.7</td>
<td>1.7</td>
<td>1.4</td>
<td>-74</td>
</tr>
<tr>
<td>Imports (billion pesos)</td>
<td>8.1</td>
<td>2.0</td>
<td>2.1</td>
<td>2.8</td>
<td>3.6</td>
<td>4.1</td>
<td>4.2</td>
<td>4.3</td>
<td>4.8</td>
<td>4.8</td>
<td>4.1</td>
<td>-49</td>
</tr>
<tr>
<td>Trade balance (billion pesos)</td>
<td>-2.7</td>
<td>-0.9</td>
<td>-0.8</td>
<td>-1.3</td>
<td>-1.7</td>
<td>-2.3</td>
<td>-2.7</td>
<td>-2.9</td>
<td>-3.1</td>
<td>-3.1</td>
<td>-2.7</td>
<td>0</td>
</tr>
<tr>
<td>Terms of trade (1989=100)</td>
<td>100.0</td>
<td>54.4</td>
<td>65.9</td>
<td>71.2</td>
<td>65.1</td>
<td>67.0</td>
<td>64.2</td>
<td>53.2</td>
<td>47.4</td>
<td>47.5</td>
<td>d</td>
<td>-52</td>
</tr>
<tr>
<td>External debt (billion $)</td>
<td>6.2</td>
<td>8.8</td>
<td>9.1</td>
<td>10.5</td>
<td>10.5</td>
<td>10.5</td>
<td>11.2</td>
<td>11.1</td>
<td>11.0</td>
<td>10.9</td>
<td>12.2</td>
<td>+97</td>
</tr>
<tr>
<td>Foreign investment (billion $)</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>2.1</td>
<td>n.a.</td>
<td>n.a.</td>
<td>2.2</td>
<td>n.a.</td>
<td>2.2b</td>
<td>2.5b</td>
<td>2.5b</td>
<td>+19c</td>
</tr>
<tr>
<td>Exchange rate (pesos per 1$)</td>
<td>7</td>
<td>78</td>
<td>95</td>
<td>32</td>
<td>19</td>
<td>23</td>
<td>21</td>
<td>20</td>
<td>21</td>
<td>26</td>
<td>26</td>
<td>+271</td>
</tr>
</tbody>
</table>

\footnote{Unofficial rate in CADECA, annual average. \textsuperscript{b} “Disbursed investment” rather than “committed investment” that was $4.3 billion in 2000 and $5 billion in 2001. \textsuperscript{c} Over 1995. \textsuperscript{d} Declined by 9.2% (index not available).}

2. Terms of Trade. The terms of trade deteriorated by 52 percentage points in 1989-2001. In 2000, rising oil prices meant that the same volume of oil imports as in 1999 cost $500 million more, while prices of sugar continued their decline and the significant increase in prices of nickel did not compensate for such adverse prices, leading to a 10.8% deterioration in the terms of trade (22% according to BCC 2001). In 2001, prices of nickel decreased 31% and prices of sugar further decreased, but prices of oil declined, resulting in an improvement in the terms of trade. In 2002 prices of nickel rose but those of oil rose faster and terms of trade deteriorated 9.2% (ECLAC 2002b, 2002c).

In October 2000 Cuba signed a trade agreement with Venezuela’s state oil corporation (PDVSA), which mitigated somewhat the island negative terms of trade—in that year Venezuela became Cuba’s first trade partner: (a) Cuba receives 53,000 barrels of oil daily from Venezuela, equivalent to 3 million tons annually or 35% of domestic needs (8.6 million tons); (b) about 80% of such imports are paid at world prices in 90 days, the remaining 20% in 5 to 20 years based on the average annual price of oil in that period, and one-fifth with Cuban medical, sports assistance and other services; and (c) PDVSA pays insurance and freight of the delivery. Cuba receives a \textit{de facto} 25% price discount and the deal would amount to a $2.6 billion transfer to the island in the 5 years of the contract (which can be extended to 10 years). Moreover, Cuba was reselling Venezuelan oil at market prices earning a sizeable profit, an activity not prohibited in the agreement. Cuba didn’t paid the oil delivered in the last three months of 2001 (a debt of $95 million) and PDVSA suspended deliveries in April, an action that prompted the dismissal of its top officer by President Chávez. The suspension of deliveries ended in September, after Cuba signed a restructuring of the debt and paid $29 million to Venezuela. The general strike of December 2002-January 2003 in Venezuela led to a new suspension of oil supply and provoked widespread blackouts in Havana. In March 2003, the General Auditor of Venezuela ascertained that the Cuban debt until August 2002 was $144 million, while the debt to the end of February 2003 was estimated at $266 million (Montiel Ortega 2001; Rodríguez Castellón 2001; Hoag 2002; “Quiet Deals …” 2002; Uribe 2002; “Cuba adeuda” 2003; Mogollón 2003).

3. Trade Composition. Export concentration on sugar steadily decreased from 73% to 33% of total export value in 1989-2001 due to the fall in sugar export quantum and value. Nickel and tobacco export shares increased in 1992-2001 (from 9% to 28% and from 2% to 16%, respectively) because of three reasons: the sharp decrease in the total value of exports, the decline in the sugar share, and the rise of nickel and tobacco exports in volume and price since 1997. Conversely, the shares (and usually volumes) of fish, citrus and rum diminished. A Cuban economist makes clear this point: “The decline of the sugar share in total exports was the result of the crisis in the sugar industry instead of the growth of other export sectors” (Monreal 2001: 19). Two Cuban economists note that the majority (83%) of Cuban exports (sugar, nickel, tobacco and fish) are traditional primary products typical of underdeveloped countries, while only a tiny minority (7%) are manufactured or semi-manufactured products and have played a very minor role in generating exports, thus resulting in excessive dependency on low-value-added activities, such as processing of natural resources and stagnation in exports with high value added and technological complexity (Carranza 2001; Monreal 2001). The composition of imports showed some important differences in 1989-2001 also: dependency on imported food rose from 13% to 20% (in 2002), as well as dependency on imported manufactures from 14% to 25%. Conversely, the share of imported machinery/transportation decreased from 31% to 25%, and the share of
fuels sank from 32% to 20%—after a peak of 38% in 1994—and rose slightly to 21% in 2002 (CCE 1991; ONE 1999 to 2002; Lage 2003a). Both trends clearly indicate Cuba’s decreasing food self-sufficiency and de-industrialization. In that sense Carranza (2001) has observed that the excessive dependency on imported oil and fuel curtail the import of capital goods essential for economic growth.

4. Trade Partners. In 1989 79% of Cuban total trade was with the USSR and Eastern European countries but, after the collapse of the socialist camp, the island has significantly diversified trade partners. In 2001, the shares of main partners were: Venezuela (15%, an increase from 8% in 1999), Spain (14%), China (10%), Canada (9%), Russia (8%, a decline from 65% with the USSR in 1989), Netherlands (6%) and Mexico, France and Italy (5% each). That order was unaltered in 2002 (ONE 2002; Lage 2003a). Cuba is the only country in Latin America and the Caribbean that has not reached full membership in any of the regional commercial associations (CACM, CAN, CARICOM, MERCOSUR) and has been excluded from FTAA negotiations (Cuba has gained observer status in CARICOM but trade with member countries is minuscule). In 2000 Cuba entered the European Union’s Asian, Caribbean and Pacific group (ACP) and, based on this, could become a member in the Cotonou Accord and receive aid from the EU $13.5 billion fund. And yet Cuba did not comply with the EU conditions on human rights and in 2000, when the EU countries voted against the island at the U.N. Commission on Human Rights, Cuba decided not to sign the Accord. In December 2001 the EU reopened the dialogue with Cuba but the decision was to end humanitarian aid in March 2002 and shift about $13 million to technical assistance provided by European experts for development projects and market-oriented reforms (“La UE …” 2002). In January 2003 Cuba submitted its candidacy to the Cotonou Accord, the UE opened an office in Havana, and Commissioner for Development Poul Nielson visited the island in March and announced an imminent entry. Five days after his departure, 85 dissidents were put in prison, the office was closed and the entry suspended by the EU because of the human rights violations. In 2002 the U.S. embargo on Cuba was mollified allowing the buying of food and medicine in cash; initially the Cuban government rejected this because it wanted to buy on credit, but eventually accepted the offer and, by the end of 2002, had bought $189 million in agricultural goods thus making the United States the 10th trade partner and reducing imports from Canada, Europe and Latin America.

5. External Debt. The hard-currency external debt jumped from $6.2 to $11.2 billion in 1989-1998 (mainly due to accumulation of unpaid interest) and slightly declined to $10.89 billion in 2000 (because of the depreciation of the yen and the mark vis-à-vis de dollar, the two currencies that make up most of Cuba’s debt) but rose again to a record $12.2 billion in 2002 (because of the depreciation of the dollar). About three-fourths of the debt has matured and Cuba is in default because of lack of payment (BCC 2001, 2002). In 1986 Cuba stopped payments of the debt with the main creditor, the Club of Paris, which halted all fresh loans since then; debt negotiations began in 1999 but were suspended in 2001 for lack of an agreement. The debt with Russia, the former socialist countries of Eastern Europe and the CMEA was estimated at $26.7 billion in 1989 (Mesa-Lago 2000: 380-381); such debt has not been paid and Cuba has not reached an agreement on the sums to be reimbursed either, allegedly because “they are not convertible in hard currency … and those countries unilaterally did not fulfill the terms and conditions of that debt” (BCC 2002: 40). In mid 2002, Cuba’s total external debt was estimated
at $42.4 billion (“Cuba’s Foreign Debt…” 2002). In 2001 almost 29% of the hard-currency debt was short term (mainly to finance imports), mostly at one year or less and high interest rates, which impose a heavy burden on the island finances (BCC 2000, 2002). Foreign banks granted one-year loans to finance sugar harvests in 1996-2001, but the proceeds from lower sugar production and low international prices were insufficient to cover the amount of the loan plus its high interest. As sugar output steadily declined, credit increasingly tightened (Triana 2000; Mesa-Lago 2001).

Bilateral negotiations with creditors in Japan, United Kingdom, Belgium and Mexico resulted in debt payment agreements in 1998-2000. Cuba could not pay its debt ($175 million) to its major European financier, the French COFACE at the end of 2000 and was able to postpone it until June 2001, but was unable to pay then either and the credit line was closed. At the end of 2001, after the negotiations with the Club of Paris failed, Vice-President Carlos Lage (2001) acknowledged that the most serious difficulty that Cuba was to face in 2002 was the poor access to hard currency. Defaults followed with Spain, South Africa and Chile. In February 2002, the Cuban Minister of Foreign Trade requested from several foreign creditors, the organization of a consortium to restructure about $150 in loans (“Balance … 2002), a debt that had been partly restructured before. In April 2002 Cuba unilaterally cancelled its debt agreement for $380 million with Mexico and suspended payments. In October, Cuba did not meet the terms of its $750 million debt agreement with Japan, the principal creditor, and requested a restructuring (Frank 2002a). Chances of obtaining new credits—which the Island desperately needs—have significantly decreased. Cuban payments of $189 million in cash to buy U.S. food products in 2002 may be the bait to eventually get credit that will confront the same fate as that of major lenders. Canadian and French officials reportedly complained about Cuba’s defaulting on the credits they had granted for the island to purchase food products and then buying competing products from the United States in cash.

6. Foreign Investment. Cumulative foreign investment since 1990 was officially reported at $2.1 billion in 1995, $2.2 billion in 2000 and $2.5 billion in 2001 and stagnant in 2002 (Table 3; ECLAC 2002c), but was also given as $4.3 billion in 2000, $5 billion in 2001 and $5.9 billion in 2002 (Triana 2001; Granma International, February 3, 2003). The more than two-fold difference may be explainable because the second set may refer to committed rather than disbursed investment. ECLAC (2001a) reported that in 2001 only half of the reported $5 billion investment had been disbursed, that is, $2.5 billion, a slight increase over 2000. Although Cuban publications devote large space to report the number of associations with foreign companies and contracts, virtually no statistics are released on this important item. In 2002, European investors through their embassies in Havana jointly sent a document to the government complaining about: excessive overhead, banking, custom and utility charges; unilateral changes in joint venture agreements in favor of Cuba; payment of salaries in dollars to the state that then pays employees in pesos at the official exchange rate; and need to frequently renew work permits and visas of foreign employees. Possibly because of these problems, foreign direct investment decreased from $448 million in 2000 to $39 million in 2001 and paralyzed in 2002 (“Foreign…” 2002; ONE 2002; ECLAC 2002c).

7. Exchange Rates. The official exchange rate of the peso to the dollar continued to be one to one, but the state exchange houses (CADECA), established in 1995, use a more realistic
exchange rate. The latter, in pesos per one dollar, deteriorated from 7 to 95 in 1989-1994, steadily appreciated reaching 19 in 1996, and deteriorated to 21 in 2000 and 26 in 2001 and 2002 (ECLAC 2002b; Rodriguez 2002). The Central Bank blamed the recent depreciation on a decrease of foreign exchange, which forced an increase in money in circulation to buy dollars needed for imports. A Cuban economist said that the exchange would be 40 pesos or more, if not for the government manipulation on the exchange rate (cited by Frank 2002b). Some Cuban scholars argue that maintaining the artificial parity and the overvaluation of the peso in the official exchange provokes negative incentives for exports and productivity, hence they advocate convertibility based on the market (Carranza 2001; Triana 2000).

8. Tourism. The number of tourists rose from 270,000 in 1989 to 1,773,986 in 2000, but stagnated at 1,774,541 in 2001 and declined 5% to 1,686,162 in 2002 (Rodriguez 2002). Gross revenue jumped ten-fold, from $168 to $1,948 million dollars in 2000, but declined 5% to $1,846 million in 2001 and 3% to $1,794 million in 2002 (BCC 2002; ECLAC 2002c; Lage 2003b). The problem is that data on the cost of imported inputs, which must be deducted from gross revenue to calculate the net revenue in hard currency, are not officially published. Table 5 calculates the cost of imported inputs in 1992-2002 based on rough estimates occasionally given by Cuban scholars. It shows that net revenue increased from 99 to 1,196 million in the period. These estimates are questionable, however, For instance, the 2000 figure is based on a statement from the Central Bank that 61% of inputs for tourism that year were produced domestically, implying that 39% were imported (BCC 2001: 25). And yet, Cuban economist Miguel Figueras explained to Claes Brundenius that the 61% is the gross income from hard currency of tourist entities, and Brundenius estimated that the net revenue was 70%. The Minister of Tourism Ibrahim Ferradaz (2001) stated that, in 2000, “the cost per dollar of revenue [in the tourist industry] was 0.78 cents.” If this is correct, then the cost of imported inputs in 2000 was not 39% but 78%, and net revenue in that year should be 22% or 428 million instead of 1,188. Ferradaz’s quote was clarified by Figueras, in the sense that 78% refers to all costs involved in the tourist industry including salaries, depreciation and inputs (Brundenius 2002b). The cost per dollar in revenue in 2002 was 80% (Lage 2003b).

TABLE 5. ROUGH ESTIMATES OF NET REVENUE FROM TOURISM: 1992-2002
(in million pesos)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross revenue</td>
<td>550</td>
<td>720</td>
<td>850</td>
<td>1,100</td>
<td>1,380</td>
<td>1,515</td>
<td>1,759</td>
<td>1,901</td>
<td>1,948</td>
<td>1,846</td>
<td>1,840</td>
</tr>
<tr>
<td>Cost of imports (%)</td>
<td>82</td>
<td>77</td>
<td>72</td>
<td>67</td>
<td>63</td>
<td>60</td>
<td>55</td>
<td>50</td>
<td>39</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>Net revenue (%)</td>
<td>18</td>
<td>23</td>
<td>28</td>
<td>33</td>
<td>37</td>
<td>40</td>
<td>45</td>
<td>50</td>
<td>61</td>
<td>65</td>
<td>65</td>
</tr>
<tr>
<td>Estimated net revenue</td>
<td>99</td>
<td>165</td>
<td>238</td>
<td>363</td>
<td>510</td>
<td>606</td>
<td>792</td>
<td>950</td>
<td>1,188</td>
<td>1,200</td>
<td>1,196</td>
</tr>
</tbody>
</table>


In any case, Pérez Villanueva (2000) warns that the tourist sector is a grand importer and that the country must produce more of the inputs needed in that industry, otherwise, with the planned expansion, Cuba would have to import $3 billion, equivalent to the 2000 merchandise
trade deficit. Other three problems faced by the industry are: (a) at the end of 2001, 20 hotels out of a total of 225 were closed and one-third of the 38,000 rooms because of the fall in tourism after September 11; (b) although there are contradictory data on the rate of occupancy in international tourist rooms (ECLAC 2000; BCC 2000, 2002; ONE 2001; Lage 2003b), there was decrease from 78% to 69% in 1997-2001, and 50% in 2002 due to the decline in tourists, raising the question of how the added rooms will be filled; and (c) average expenditures, overnight stays at hotels and receipts from visitors have declined since the mid 1990s (Espino 2001). Monreal (2001) considers that tourist services don’t involve industrial upgrading, are typical of underdeveloped countries and are not an indicator of progress toward higher modes of international insertion; therefore, those services don’t necessarily lead to economic development.

C. Physical Output

The performance in terms of physical output of key products in the Cuban economy (exports, energy, food and manufactures) is presented in Table 6. Except for oil, nickel and cigars, production was lower in 2001-2002 than in 1989.

(thousand metric tons, unless specified)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sugar</td>
<td>8,121</td>
<td>4,246</td>
<td>4,016</td>
<td>3,258</td>
<td>4,528</td>
<td>4,252</td>
<td>3,229</td>
<td>3,783</td>
<td>4,059</td>
<td>3,530</td>
<td>3,605</td>
<td>-56</td>
</tr>
<tr>
<td>Nickel</td>
<td>47</td>
<td>30</td>
<td>27</td>
<td>43</td>
<td>54</td>
<td>62</td>
<td>68</td>
<td>66</td>
<td>71</td>
<td>76</td>
<td>75</td>
<td>+61</td>
</tr>
<tr>
<td>Oil</td>
<td>718</td>
<td>1,107</td>
<td>1,299</td>
<td>1,471</td>
<td>1,476</td>
<td>1,438</td>
<td>1,658</td>
<td>2,104</td>
<td>2,621</td>
<td>2,773</td>
<td>3,600</td>
<td>+400</td>
</tr>
<tr>
<td>Electricity</td>
<td>16</td>
<td>11</td>
<td>12</td>
<td>12</td>
<td>13</td>
<td>14</td>
<td>14</td>
<td>14</td>
<td>15</td>
<td>15</td>
<td></td>
<td>-6</td>
</tr>
<tr>
<td>Cement</td>
<td>3,759</td>
<td>1,049</td>
<td>1,085</td>
<td>1,456</td>
<td>1,438</td>
<td>1,701</td>
<td>1,713</td>
<td>1,785</td>
<td>1,633</td>
<td>1,324</td>
<td></td>
<td>-65</td>
</tr>
<tr>
<td>Textiles</td>
<td>220</td>
<td>51</td>
<td>56</td>
<td>45</td>
<td>48</td>
<td>54</td>
<td>54</td>
<td>51</td>
<td>47</td>
<td>47</td>
<td></td>
<td>-78</td>
</tr>
<tr>
<td>Fertilizers</td>
<td>898</td>
<td>94</td>
<td>136</td>
<td>217</td>
<td>241</td>
<td>184</td>
<td>156</td>
<td>138</td>
<td>118</td>
<td>93</td>
<td></td>
<td>-89</td>
</tr>
<tr>
<td>Cigars</td>
<td>308</td>
<td>208</td>
<td>186</td>
<td>192</td>
<td>194</td>
<td>214</td>
<td>264</td>
<td>284</td>
<td>246</td>
<td>339</td>
<td></td>
<td>+7</td>
</tr>
<tr>
<td>Fish catch</td>
<td>192</td>
<td>94</td>
<td>88</td>
<td>102</td>
<td>106</td>
<td>93</td>
<td>98</td>
<td>79</td>
<td>90</td>
<td></td>
<td></td>
<td>-53</td>
</tr>
<tr>
<td>Citrus</td>
<td>1,016</td>
<td>644</td>
<td>540</td>
<td>585</td>
<td>690</td>
<td>835</td>
<td>744</td>
<td>795</td>
<td>998</td>
<td>957</td>
<td></td>
<td>-6</td>
</tr>
<tr>
<td>Rice</td>
<td>532</td>
<td>177</td>
<td>387</td>
<td>396</td>
<td>573</td>
<td>614</td>
<td>441</td>
<td>567</td>
<td>462</td>
<td>n.a.</td>
<td></td>
<td>-13</td>
</tr>
<tr>
<td>Milk (cow)</td>
<td>1,131</td>
<td>585</td>
<td>636</td>
<td>638</td>
<td>640</td>
<td>651</td>
<td>655</td>
<td>618</td>
<td>614</td>
<td>621</td>
<td></td>
<td>-45</td>
</tr>
<tr>
<td>Eggs</td>
<td>2,673</td>
<td>1,512</td>
<td>1,647</td>
<td>1,542</td>
<td>1,412</td>
<td>1,632</td>
<td>1,416</td>
<td>1,753</td>
<td>1,688</td>
<td>1,524</td>
<td></td>
<td>-43</td>
</tr>
</tbody>
</table>

1. **Nickel.** There are three plants in operation: René Ramous Latour (former U.S.-built Nicaro), Pedro Sotto Alba (former U.S.-built Moa, the most technologically advanced) and Ernesto Che Guevara (built with Soviet aid). A fourth plant, Camariocas, has not been completed. In 1989 the installed capacity of the three plants were respectively: 22,500, 24,000 and 30,000 tons, for a total of 76,500 tons. Production in 1989, however, was only 47,000 tons, because the Che Guevara plant was just starting and it consumed too much energy and it needed modernization as did the Ramos Latour plant (Mesa-Lago 2000). Nickel production decreased 43% in 1989-1994 but, with an investment of $350 million from Sherritt International Corporation (mostly in Pedro Sotto), surpassed the previous peak in 1996 and kept rising thereafter. Output in 2001 was 76,529 tons, 62% above the 1989 level, however, world prices of nickel declined by 31% and export value was $210 million less than in 2000. Production in 2000 was as follows: 10,787 tons by Ramos Latour (production capacity was less than half the 1989 level due to difficulties to introduce new technologies), 29,520 tons by Sotto Alba, and 31,055 by Che Guevara, for a total of 71,360 tons. Current production, therefore, is below the reported installed capacity of 1989, in spite of foreign investment. In 2000 the Che Guevara plant used half of the fuel it used in 1990 but still consumed 18 tons of oil per each ton of nickel produced, compared with 12 to 15 tons by the Pedro Sotto plant (BCC 2001; Portal 2001; Marquetti 2002). At the end of 2002 it was reported that the Pedro Sotto plant had established a new output record, but overall output was 75,600 (1.2% less than in 2001), hence, output in the other two plants must have decreased (Martínez 2002).

2. **Oil.** Oil extraction peaked at almost one million tons in 1986, declined by 44% in 1987-1991, rose in 1992-1995, was stagnant in 1996-1997, and rapidly expanded in 1998-2001 to reach a record of 2.77 million tons in the last year, four times that of 1989 and three times that of 1986. Output in 2002 reportedly rose 26% to 3.6 million tons, five times the 1989 output (Rodríguez 2002); however, that figure does not match the downward adjusted series on oil output published by ONE 2002 and that is probably the reason that ECLAC 2002c reported an increase of 20%. The impressive jump in output has been the result of $450 million in foreign investment (Triana 2000). Cuba’s total energy needs are met in 42.3% with domestic production, mainly from bagasse (25%) and crude oil (17%); the contribution of natural gas and hydroelectric power is minimal (0.3%). Imports cover 58.4% of needs of which 46% are oil derivatives and a 12% are crude oil. The contribution of domestic output of crude oil to total crude oil and derivative needs was 22.7% in 1999, up from 11.6% in 1987 (Mesa-Lago 2000; Rodríguez Calderón 2001). The increase in domestic production has reduced foreign energy dependency by half of what it was a decade ago but still was 67% in 2001 (ECLAC 2002b).

3. **Sugar.** Sugar harvests in 1993-2002 averaged 3.9 million tons (Table 6), half the average of the 1980s crops. The tight relationship between sugar and GDP has been shown by Triana 2000, but this vital sector has not recovered: “The sugar industry has gone through a depressive state and its performance decides the rhythm and dimension of the process of economic recovery” (Marquetti 2000:11). After a small increase in the 2000 harvest (4 million tons), output declined to 3.5 million tons in 2001 and was almost stagnant at 3.6 million tons in 2002 (only 75,000 tons more than in 2001). The 2001 and 2002 harvests were the third lowest under the Revolution--the worst were in 1995 and 1998, about 3.2 million each. The target of 5 million tons in 2001 was unfulfilled by 30% and the target of 4 million tons in 2002 was not met.
by 10%. Output in 2002 was 56% below the 1989 level. Several factors contributed to the steady decline in annual average sugar output (in million tons)\(^6\): The total area sown of sugar decreased by 22% in 1990-1999 (from 1.76 to 1.38 million hectares); the irrigated area shrank from 22% to 9% of the total area sown, and the agricultural yield per hectare fell from 60 to 34 in 1989-1999. Weeds cover from 10% to 15% of the sown area and there is a severe scarcity of herbicides. The use of chemical fertilizers has decreased due to the fall in domestic production and imports, and has been partly replaced with natural fertilizer. Because of insufficient fuel, most of the sugar-cane transportation is done with animal traction and that, combined with the lack of spare parts, has cut the number of functioning cane cutters and the capacity of the sugar-cane cleaning centers. Finally, the industrial yield has steadily fallen under the Revolution: from 12.5 in 1961-1965, to 11.0 in 1981-1985, and 10.9 in 1996-2000 (CCE 1991; ONE 1999 to 2001; Mesa-Lago 2000). In 2002, 45% of the sugar mills were shut down due to their poor efficiency and low world sugar prices, affecting 100,000 workers whose salaries were paid while they were being retrained or relocated to other jobs mainly in food production; the remaining workers are expected to maintain output but the chances are that 2003 production will be even lower.

4. **Manufacturing**. Five key manufactured products shown in Table 6 played a key role in Cuba’s industrialization process before the crisis, serving mainly domestic consumption but also for export. For four of the products output drastically shrunk in 1989-1993 and rose thereafter, but output in 2001 was below the 1989 level: -89% in fertilizers, -78% in textiles, -65% in cement and -6% in electricity. For the fifth product, cigars, output increased by 7%. Non-sugar industrial output fell 1% in 2002 (ECLAC 2002c). Several factors have contributed to this negative outcome: scarcity of fuel, lack of spare parts (most Cuban factories were built and equipped by the USSR and other Eastern European countries, which no longer supply those parts), difficulties to acquire the needed inputs abroad, and absence of foreign demand (except for cigars). According to Marquetti (2000), the level of decapitalization and technological obsolescence in various industrial branches is 30%.

5. **Fishing**. One of the major successes of the Revolution, the fishing industry actually confronted problems before the crisis. The catch peaked at 244,000 tons in 1986 and by 1989 had declined to 192,000 tons, the crisis reduced it to 88,000 in 1994, and there was a slow increase to 108,000 in 1997, followed by a decrease to 90,000 in 2001. Output in 2000 was 53% below the 1989 level and 63% below the 1986 peak (ONE 2002 downward adjusted the series since 1995, without explanation). The industry is plagued by serious problems, among them high indebtedness, lack of liquidity both in pesos and dollars, poor credibility among creditors, corruption (the minister was removed in March 2001), and damage inflicted by hurricane Michelle.

6. **Agriculture**. The recovery of the non-sugar agricultural sector (both for domestic consumption and export) has been sluggish and unsteady, thus in 2001 output was below the 1989 level in the following key staples: -45% in milk, -43% in eggs, -13% in rice and –6% in citrus (the latter sunk 50% in 2002; Rodriguez 2002). Similar declines occurred with respect to other fruits and tobacco leaf; production of the latter peaked at 53,696 tons in 1981, declined to 40,949 tons in 1989 and 16,890 tons in 1994, but increased to 37,900 tons in 2001, still 29% lower. Average output (in million tons) decreased as follows: 7.8 in 1981-1985, 7.6 in 1986-1990, 5.2 in 1991-1995, 3.9 in 1996-2000 and 3.5 in 2001-2002 (Table 6).
below the peak and 7% below 1989. Conversely the output of vegetables, tubers, corn and beans increased but, in per capita terms, was either stagnant or lower (CCE 1991; ONE 1999 to 2002; BCC 2002; ECLAC 2000a). The number of cattle heads peaked at 6.8 million in 1967 and sank to 4 million in 2001; in heads per capita the decrease was from 0.83 to 0.36. The decimation of the cattle herd led to a 47% fall in beef output and milk production (Mesa-Lago 2001a; ONE 1999 to 2002). In 2001 there was another decrease in the output of chicken meat and eggs; rationing quotas of the latter were cut in half (from 12 to 6 eggs per person monthly). One egg costs 3 pesos in the black market and eggs have disappeared from the dollar shops except in those for diplomats. An important cause for the falling output in dairy products has been the lack of fodder for cattle and chicken whose imports dropped 52% in 1989-2000 (Espinosa 2002a). Hurricane Michelle caused $317 million losses in agriculture and affected citrus plantations provoking a decline in their output; hurricanes Isidore and Lili harmed tobacco seeds and warehouses and damaged citrus plantations (causing a 50% decrease in output in 2002). Non-sugar agricultural output fell 3.8% in 2002 (ECLAC 2002c).

The third agrarian reform has not solved key agricultural problems such as inefficiency and lack of incentives. The cooperatives established in 1993 (UBPC) are still very large in size and subordinated to the government. In practice, the government directs production and buys virtually all of their output at prices set below the market price, hence, creating serious disincentives. In 1997 the UBPC share of cultivated land was 57.6% but their share of total sales in the free agricultural markets was 3.6%; conversely the private sector shares were respectively 16.9% and 72.7%. In 2000, 37% of the UBPCs suffered a loss and required state subsidies (that took 2.5% of the state budget in 2001), and they operate 74% of sugar cane plantations, which largely explains the failure of this sector (ECLAC 2000a; Nova 2001; ONE 2002). In order to increase output, a law enacted in November 2002 provided slightly more autonomy in planning production as well as higher profit sharing in other types of cooperatives (CPA and CCS) but left untouched the UBPCs, which embrace most agricultural land (Mayoral 2002).

D. Social and Labor Indicators

1. Unemployment. Table 7 shows five key labor and social indicators of performance. Open unemployment was reduced from 7.9% in 1989/1995 to 5.5% in 2000, 4.5% in 2001 (a decline of 43%) and 3.3% in 2002. How this feat was accomplished when in 1995 from 500,000 to 800,000 state workers were identified as redundant to be dismissed, the small private sector is stagnant under increasingly tight regulations and taxes, and 100,000 sugar workers were dismissed in 2002? One explanation is disguised unemployment: the "equivalent unemployment rate" (open unemployment plus displaced workers receiving compensation), estimated by ECLAC (1998, 2000a), peaked at 35.2% in 1993 although decreased to 25.1% in 1998 (no more data was published thereafter). Furthermore, inspections held in 2002 by the Cuban Workers Central (CTC) in works places covering one million workers, found violations of labor contracts in 34.8% of the inspections, mostly because of the hiring of extra personnel to cover absent workers in military mobilizations, international aid missions and so forth (Maseda 2002). Finally, the 3.3% unemployment rate of 2002 was estimated counting as employed 94,000 out of the 100,000 sugar workers dismissed in 2002 who were studying, as well as 320,000 persons raising vegetables part-time in backyards and small urban plots (Martínez 2002). Without counting those two groups as employed, the unemployment rate would be 11.9%. 

15
Some measures taken in 1996-2001 against self-employment and other activities in the private sector are: (a) 300% increase in the cost of licenses and 650% in fees to the self-employed; (b) taxes of $850 monthly for home restaurants (paladares) and $250 for a room rented in tourist areas (fines of $1,000 to $1,800 per guest are imposed for rental violations); (c) halting new licenses for paladares; (d) prohibiting private taxis to take tourists; (e) closing of independent private galleries allowing only state galleries to sell art work; and (f) a tax of 300 pesos to “video saloons” and 800 pesos for rented clothing (Henken 2002). These measures led to a decrease in the number of registered self-employed workers from 208,500 at the end of 1995 to 153,800 in 2001 (ECLAC 1998; ONE 2002). In 2003 inspections, fines and confiscation of goods from self-employed workers worsened. A draft law circulating in 1995, which allowed Cubans to own and operate small business, went into limbo and has not been discussed in the last seven years. Cardenal Ortega, Archbishop of Havana have recently stated in a pastoral letter:

Professionals, employees and workers who do not receive financial aid from relatives and friends living abroad are forced to perform some sort of legal or illegal work activity in addition to their regular job … Those who cannot pay the high taxes to legitimize their limited activities … feel anxiety, fear and disquietude … Isn’t possible to reduce the high rate of taxes so the illegal can be made legal and anxiety may disappear? Why can we give a greater degree of participation to personal and family initiative in a legal manner and conveniently reward the industriousness and creativity of our people in agriculture, in handicrafts, in jobs of various sorts, even allowing groups of people to associate legally in order to earn their sustenance with dignity? (Cardenal Ortega 2003).

TABLE 7. CUBAN LABOR AND SOCIAL INDICATORS: 1989-2002

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Open unemployment a</td>
<td>7.9</td>
<td>6.2</td>
<td>6.7</td>
<td>7.9</td>
<td>7.6</td>
<td>7.0</td>
<td>6.6</td>
<td>6.0</td>
<td>5.5</td>
<td>4.5</td>
<td>3.3</td>
<td>-58</td>
</tr>
<tr>
<td>Social security expenses b</td>
<td>10.1</td>
<td>15.8</td>
<td>13.2</td>
<td>12.3</td>
<td>12.1</td>
<td>12.2</td>
<td>12.4</td>
<td>13.0</td>
<td>13.3</td>
<td>13.7</td>
<td></td>
<td>+35</td>
</tr>
<tr>
<td>Infant mortality c</td>
<td>11.1</td>
<td>9.4</td>
<td>9.9</td>
<td>9.4</td>
<td>9.0</td>
<td>7.2</td>
<td>7.1</td>
<td>6.4</td>
<td>7.2</td>
<td>6.2</td>
<td>6.5</td>
<td>-41</td>
</tr>
<tr>
<td>University enrollment d</td>
<td>242</td>
<td>166</td>
<td>141</td>
<td>122</td>
<td>112</td>
<td>105</td>
<td>102</td>
<td>107</td>
<td>107</td>
<td>116</td>
<td>131</td>
<td>-46</td>
</tr>
</tbody>
</table>

a Percentage of the labor force. b Percentage of GDP. c Per 1,000 born alive. d Thousands.

2. Real Wages. Real wages decreased significantly in 1989-1999: Togores (1999) estimated a decline of 42%, while ECLAC (2000a) calculated a decrease of 39% (for calculations see Mesa-Lago 2001c). Nominal wages rose 5.9% annually in 2000-2001 but did not raise the purchasing power, because of the high prices in dollar shops and agricultural markets (prices in the latter did not change in three years, and rose in 2001). In 2002, the average wage rose 4% but the CPI increased 5% (Espinosa 2002c). There is a disconnect between wages (largely tied to an overvalued peso in the official exchange rate) and prices of goods in free markets (more connected with the unofficial CADECA exchange rate), hence provoking adverse effects: distortions in agricultural production due to differential rent between the price-regulated...
and unregulated sectors, relative stagnation in free markets outside of agriculture, obstacles to reestablish labor as the fundamental source of income, disincentives to labor productivity and to peasants, and obstacles for improvement in the population consumption (Carranza 2001). Labor productivity slowed down from 5.4% in 1999 to 4.6% in 2000 and 2.3% in 2001, in the last two years it was smaller than GDP growth (Triana 2000, 2002).

3. Social Security. The cost of social security (combining pensions, health care and social assistance) has been climbing as a result of several factors: virtual universal free coverage, very low ages of retirement but very high life expectancy, and the rapid aging of the population. In 2001 population growth was 0.2%, the lowest in Latin America and the Caribbean; by 2025, Cuba will have the oldest population of the region and only two persons of productive age for one pensioner. Since 1997 social security expenditures expanded faster than growth accounting for 14% of GDP in 2001 and should continue growing in the future (Table 7). Furthermore, there is an expanding deficit in the pension scheme, which is covered by the state (34% of total expenditures and 2.2% of GDP in 2000) and all health care is financed by the state (6.4% of GDP in 2001). The real average pension declined by 42% in 1989-1998 and the average monthly pension of 104 pesos in 2001 was equivalent to $4. The rationing system only provides food rations for one week per month (for about 25 pesos), all other food and essential consumer goods must be bought with the remaining $3 in dollar shops and the agricultural markets where prices are very high (Mesa-Lago 2003). For several years the government has been studying a pension reform to increase the age of retirement and implement workers’ contributions set in the 1994 tax law (Gutiérrez and Peñate 2000) but it has not been approved due to its potentially adverse sociopolitical effects.

4. Health. The infant mortality rate continued its fall: from 11.1 (per 1,000 born alive) in 1989 to 6.5 in 2002 (it rose to 7.2 in 2000 and declined to 6.2 in 2001), for a decrease of 41% in the period (Table 7). The 2001 rate was the lowest in Latin America (BCC 2002). But rates of seven out of eleven contagious diseases showed increases in 1994-2000 (acute respiratory, chicken pox, hepatitis, scarlet fever, syphilis, tuberculosis and typhoid), while five exhibited continuous non-reported cases (diphtheria, malaria, measles, polio and tetanus; ONE 2001; MINSAP 2000, 2001). In 1970-1997, the daily per capita supply of calories declined by 6%, that of protein by 23.9% and that of fat by 27.7% (UNDP 2000). The proportion of Cuba’s population undernourished increased from the remaining 3% in 1990-1992 to 13% in 1998-2000 and the per capita supply of calories was 2,560; in both indicators Cuba ranked 9th in the region (FAO 2002). In 2002, 61% of the municipalities in Cuba’s five eastern provinces were “very vulnerable on food insecurity,” they consumed less than 80% of the recommended minimum on protein and less than 50% of the recommended minimum on fats (World Food Program 2002, cited by Espinosa 2002b). On the other hand, the number of physicians increased almost two fold in 1989-2000, the highest proportion of physicians in the Western Hemisphere: 58.8 per 10,000 inhabitants (MINSAP 2001; BCC 2002; ECLAC 2002a). Actually there is a surplus of these professionals (many are sent with government contracts to Latin America, the Caribbean and Africa) and thousands of physicians work as taxi drivers, waiters in tourist facilities and other occupations, where they can earn several times the salary paid in their profession.

5. Education. University enrollment steadily diminished in 1989-2000 with a small increase in 2001-2002, for a 46% decrease in the period (Table 7). The percentage of the
population in the cohort age of higher education fell from 21% in 1989-1990 to 12% in 1998-1999, and while in 1993-1994 there were 31,105 graduates at that level, the number dropped to 10,706 in 1998-1999 (ONE 2001; ECLAC 2002a). Two main reasons for these declines are: the lack of incentives for university graduates who are unable to find jobs in the state sector and are prohibited from practicing their professions as self-employed, and the government fixing of reduced quotas for university enrollment.

6. Distribution. A survey on the economic conditions of households in the city of Havana in March 2000 found: (a) the average income per capita was 198 pesos ($9.90 at the unofficial exchange rate); (b) 53% of households had a per capita income between 50 and 150 pesos ($2.50 to $7.50) and 14% less than 50 pesos; (c) 78% of food expenditures were in agricultural and private markets; and (d) 77% declared that their income was insufficient to cover expenditures (Oficina Territorial de Estadísticas de la Ciudad de La Habana, Encuesta sobre la situación económica de los hogares, cited by Pérez Villanueva 2001). The difference between the highest and lowest salary/income in Havana grew from 829 to one in 1995 to 12,500 to one in 2002 (Mesa-Lago 2002b). Rationing has extended to all consumer goods but ceased to be a significant equalizer because the monthly rations cover about one week of the minimum food requirements, the rest has to be bought in state dollar shops or the agricultural and black markets, at very high prices affordable only by those who earn or receive hard currency from abroad. Finally, there is a significant and rising concentration in banking accounts: 3% of such accounts (those with more than 10,000 pesos) had 46% of total deposits, while 66% of the accounts (those with less than 200 pesos) had only 2% of total deposits (Togores 1999).

7. Housing. “Housing is recognized as the gravest social problem affecting the nation ... the accumulated needs [housing deficit] are substantially higher than new housing construction, among other reasons because of the deterioration of the existing stock” (Triana 2000: 10). I have estimated the housing deficit in 2000 at 1.66 million dwellings (Mesa-Lago 2002b). In the city of Havana the situation is particularly difficult: in 1999, out of 575,795 units only 57% were in “good shape” and the remaining 43% were “so-so” (regular) or in “bad shape;” the situation was worse in some poor neighborhoods (for instance, old Havana), where 75% of the dwellings were ranked as so-so or bad. In the survey cited above, 59.3% of the households reported construction problems and, although 98.3% had piped water, only 49.8% received water daily (Pérez Villanueva 2001). Hurricane Michelle damaged 179,814 houses of which 18,243 were totally destroyed, while hurricanes Isidore and Lili damaged 92,291 houses of which 17,841 were destroyed; however, only 35,000 dwellings were built in 2001 and 28,400 in 2002, thus expanding the deficit (BCC 2002; Triana 2002; “Ciclones …” 2002; Martínez 2002).

II. TARGETS AND PERFORMANCE IN 2001 AND 2002, PROSPECTS FOR 2003

This section evaluates the fulfillment of targets set for 1998-2002 and the years 2001 and 2002, as well as the prospects for 2003 (see Table 8).

1998-2002. The V Congress of the Cuban Communist Party, held in October 1997, set very ambitious economic and social targets for 1998-2002, none of which had been achieved by 2002. This section shows the targets and actual results (targets from “Resolución …” 1998; results from Tables 1, 3, 5, and ONE 1999 to 2001, BCC 1999 to 2002, Rodríguez 2002).

### TABLE 8. PLANNED TARGETS AND ACTUAL PERFORMANCE IN CUBA: 1998-2003

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Planned</td>
<td>Actual</td>
<td>Planned</td>
<td>Actual</td>
</tr>
<tr>
<td>GDP growth rate (%)</td>
<td>4 to 6b</td>
<td>3.4b</td>
<td>5.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Investment (%)</td>
<td></td>
<td></td>
<td>14.0c</td>
<td>4.4</td>
</tr>
<tr>
<td>Monetary overhang (%)</td>
<td></td>
<td></td>
<td></td>
<td>0.0g</td>
</tr>
<tr>
<td>Budget deficit/GDP (%)</td>
<td></td>
<td></td>
<td>2.2</td>
<td>2.5</td>
</tr>
<tr>
<td>Sugar output (MT)</td>
<td>7.0</td>
<td>3.6b</td>
<td>4.0</td>
<td>3.5</td>
</tr>
<tr>
<td>Nickel output (%)</td>
<td>100.0</td>
<td>75.6c</td>
<td>75.0</td>
<td>76.5e</td>
</tr>
<tr>
<td>Oil output (%)</td>
<td></td>
<td></td>
<td>3.4</td>
<td>2.9</td>
</tr>
<tr>
<td>Tobacco output (MT)</td>
<td>50.0</td>
<td>37.9d</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cigars (T)</td>
<td></td>
<td></td>
<td>328</td>
<td>339</td>
</tr>
<tr>
<td>Number of tourists (M)</td>
<td>2.0</td>
<td>1.7d</td>
<td>2.0</td>
<td>1.8</td>
</tr>
<tr>
<td>Tourism gross revenue (BS)</td>
<td>2.6</td>
<td>1.8d</td>
<td>2.2</td>
<td>1.8</td>
</tr>
<tr>
<td>Agricultural output (%)</td>
<td></td>
<td></td>
<td>10.0f</td>
<td>2.4</td>
</tr>
<tr>
<td>Industrial output (%)</td>
<td></td>
<td></td>
<td>7.4e</td>
<td>-1.7</td>
</tr>
<tr>
<td>Exports (%)</td>
<td></td>
<td></td>
<td>-20.0f</td>
<td>-1.0</td>
</tr>
<tr>
<td>Imports (%)</td>
<td></td>
<td></td>
<td>-4.0f</td>
<td>-0.8</td>
</tr>
<tr>
<td>Trade balance goods (%)</td>
<td></td>
<td></td>
<td>-4.5f</td>
<td>-1.0</td>
</tr>
<tr>
<td>Open unemployment (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dwellings built (T)</td>
<td>50.0b</td>
<td>38.4b</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

MT = million tons; TT = thousand tons; M = millions; BS = billion dollars

a Non-sugar sector. b Annual average. c Year 2001. d Year 2002. e Increase over previous year. f Decrease below the previous year. g No change in relation to previous year.


1. GDP growth at an annual rate of 4% to 6% (actually an average of 3.4%, 15% below the lower target and 43% below the upper target);

2. Sugar output annual average of 7 million tons (actually averaged 3.6 million in 1998-2002, half of the target);

3. Nickel production rising to 100,000 tons (output in 2001 was 76,529 tons and 75,600 tons in 2002, 24% less than the target);

4. Tobacco leaf output growing to 50,000 tons (output in 2001 was 37,987 tons, lower than that of 2000), and hurricanes Isidore and Lili harmed seeds and warehouses in Pinar del Rio province in 2002 and adversely affected output);
5. Two million tourists and gross revenue of $2.6 billion (there were 1.77 million tourists and $1.84 billion revenue in 2001 and, due to the 5% reduction in the number of tourists in 2002 and stagnation in revenue, the targets were not met by 16% and 29% respectively);

6. Oil needs would be met with increasing domestic production, savings and cuts in consumption (the domestic contribution to total oil supply was 33% in 2001, a significant increase; it is very difficult to reduce consumption further);

7. Reduction of income inequalities through taxes (the income tax law has not been fully implemented and inequalities has expanded significantly); and

8. Construction of 50,000 dwellings annually (the annual average was 38,400 dwellings, 25% below the target).

The VI Congress of the CCP was scheduled for October 2002 but was not held. At the end of February 2003 a date to hold it has not been announced. The significant non-fulfillment of the 1998-2002 targets might have contributed to the postponement of the VI Congress.

2001. Out of 14 economic targets set for the year 2001, 12 were unfulfilled and only two were accomplished. No targets were set on inflation, monetary overhang and social services (targets from Rodriguez 2000, BCC 2001 and Triana 2001; performance from Tables 1, 3 and 5, ONE 2001-2002, BCC 2002, ECLAC 2002b):

1. GDP growth 5% (actual was 3%, 40% below the target);

2. Increase of 14% in investment (actual was 4.4%, one third of the target);

3. Fiscal deficit of 2.2% of GDP (actual was 2.5%, 14% above the target);

4. Four million tons of sugar (actual was 3.5 million tons, 12% less than the target);

5. Production of 75,000 tons of nickel, a 5.7% increase (actual was 76,529, surpassing the target by 2%, but the decline in world market prices led to a decline in export value);

6. Production of 3.4 million tons of oil, for a 26% jump (actual was 2.88 million tons, 15% less than the target);

7. Increase of 36% in cigar output (met);

8. Growth of 7.4% in industrial output (actual was a decrease of 1.7%);

9. A 10% boost in non-sugar agricultural output (actual was 2.4%);

10. Two million tourists and $2.2 billion in gross revenue for a 15% increase (actual was 1.77 million tourists—stagnant—and $1.85 billion in gross revenue—a 5% decrease);
11. A 20% increase in exports (actual was 0.9% decline);
12. Increase of less than 4% in imports (actual was 0.2% decrease);
13. A 4.5% cut in the trade deficit of goods (actual was stagnant); and

14. Full implementation of the new enterprise management system, *perfeccionamiento empresarial* (only 321 out of 3,000 enterprises had the system in operation by mid 2002).


1. GDP growth of 3% (growth was only 1.1%, one-third of the target; a Cuban economist cast a doubt on the official figure and considers that actually there was a decline in GDP due to the decline in sugar and nickel output, tourism, housing construction, investment, etc; Espinosa 2002c);

2. No increase in the monetary overhang (it rose 8.6% in 2002, due to the reasons explained below);

3. Budget deficit of 2.9% of GDP (the deficit surpassed 3% of GDP, in spite of 2 billion pesos printed, due to rising expenditures to maintain the salary of 100,000 dismissed sugar workers, repairs of damage caused by the two hurricanes, and growing pension and health expenditures);

4. Sugar production of 4 million tons (3.6 million were actually produced, 19% less than the target, but world sugar prices rose in 2002 surpassing the 2000 level);

5. Nickel output above the 2001 level (the lack of an specific target indicated a low probability of an increase, due to the limitation of installed capacity; actually there was a decline of 1.2%; the high energy consumption in this industry made the government considered to shut down some of the plants and the increase in output in one of them didn’t compensate for the decline in the other less efficient two plants);

6. Oil production of 4.1 million tons, a jump of 38% (in 2001 the major oil enterprise--CUPET--interrupted production for the first time in eight years due to poor results; in May 2002 the target was reduced to 3.56 million tons and at the end of the year 3.6 million tons were reported; the oil world market price rose 43% in January-October 2002 and kept climbing due to instability in Venezuela, a war with Iraq would boost prices even more);

7. Maintaining the number of tourists and gross income (Minister of Tourism Ferradaz projected 1.7 million tourists, between 3% and 4% fewer than in 2001, but Minister of Economy Rodríguez reported a 5% decline, while Vice-President Lage reported a 3% decrease in revenue);
8. Keeping unemployment at the same level of 2001 (officially a decrease to 3.3% was reported but counting as employed the 94,000 dismissed sugar workers who were studying, as well as 320,000 people raising food in backyards and urban plots); and

9. Construction of 20,000 new houses (28,400 were reported as built, 7,684 less than the 36,084 reportedly destroyed by the three hurricanes since November 2001).

With regards to other industries, is in serious financial trouble and ships were damaged by hurricane Michelle, hence, it will be difficult to increase output. The tobacco crop was affected by the hurricane Lili and citrus production decreased by 50%.

**B. Targets and Prospects for 2003**

The targets set by the Economic and Social Plan for 2003 (Rodríguez 2002; Martínez 2002; Lage 2003b) and performance by March (Lage 2003b; Rosales 2003) were:

1. GDP growth of 1.5% (quite modest vis-à-vis the 3% target and actual 1.1% rate of 2002; furthermore it has been carefully conditioned to the performance of the world economy, world prices of nickel, sugar and oil, and number of tourists);

2. Fiscal deficit of 3.4% of GDP (the deficit was 3% in 2002 and the projected for 2003—the highest since 1995—should be manageable but not easy to accomplish);

3. Nickel output increase of 4.4% (there was a decrease of 1.2% in 2002 and the planned increase is based on expected modernization of current plants that would result in output close to 79,000 tons, very difficult to achieve);

4. Sugar output increase of 4.4% to 3.76 million tons (this would be equivalent to the 1999 harvest but the Minister of Sugar has warned that it will be a very difficult harvest and his job will be in jeopardy if he does not deliver; in March 2003, more than half of the provinces faced problems to meet their targets and the average industrial yield ranged from 10.4% to 10.7%, lower than in 2002, due to unclean sugar cane an unsteady supply of the cut cane to the mills);

5. Oil and gas output increase of 3% (this is a very modest increase in view of the 20 to 26% boost of 2002 and it will probably be fulfilled);

6. Non-sugar industry increase in output of 4.6% (there were decreases of 1.7% in 2001 and 1% in 2002, hence the target is difficult to achieve);

7. Non-sugar agricultural output increase of 3% based on the recovery of production in citrus and plantains (in view of the 3.8% decrease in 2002, this target will be very difficult to accomplish);
8. Number of tourists increase to 1.9 million (11.3% raise over 2002; reportedly tourism was up in January-March 2003 but the war in Iraq might cause a decline); and

9. A further decrease in the unemployment rate (the reported 2002 rate of 3.3% was the lowest since the earliest 1970s and notoriously fabricated, the government may claim whatever it fancies).

III. THE SLOWDOWN, ITS CAUSES AND POTENTIAL POLICIES

A. Summary of the Slowdown

GDP growth in Cuba slowed down from 5.6% in 2000 to 3% in 2001 and 1.1% in 2002; GDP per capita in 2001 was still 18% below the 1989 level; at the average growth rate of 1994-2002, it would take seven more years to recover such level. The new GDP series based on 1997 prices increased values by 60% in 1996-2001 vis-à-vis the previous GDP series in 1981 prices, without any explanation (ECLAC series based on 1997 prices increased GDP even more). Top Cuban economists have criticized the methodology of GDP, estimated a higher GDP PPP, and announced that in 2003 they will add even more to the estimated value of free services, hence making future Cuban GDP virtually worthless and not comparable with that of other countries. Deflation was officially reported in 1999-2001 but the monetary overhang jumped 26%; inflation jumped to 5% and the overhang by 8.6% in 2002. The fiscal deficit rose from 2.4% of GDP in 2000 to 2.5% in 2001 and 3% in 2003. Sugar output averaged 3.5 million tons in 2000-2001, less than half the level of the 1980s; 45% of the sugar mills were shut down in 2002. Output of oil and nickel continued to rise and reached new records, but the sharp decrease in world prices of nickel led to a reduction in its export value in 2001; nickel output fell in 2002. Production of other key industrial and agricultural goods declined or was stagnant in 2000-2001 (cement, textiles, fertilizers, eggs, fish, citrus, rice, milk); only the output of cigars rose; in 10 out of 13 key products, output in 2000-2001 was still below the 1989 level. The number of tourists stagnated in 2001 and declined 5% in 2002 while gross revenue decreased 5% in 2001 and slightly decreased in 2002.

Exports decreased 0.9% in 2001 (because of the fall in both quantum and value of sugar as well as a decline in nickel prices), while imports declined 0.2%, hence, the merchandise trade deficit reached a historical record of $3 billion in 2000 and 2001. Despite increased world market prices of nickel and sugar in 2002, exports further decreased by 13.6% (due to a fall and stagnant output of those products), but imports fell 14% and the merchandise trade deficit declined for the first time since 1994. And yet the $2.7 billion deficit, compound with lack of credit, presents a formidable challenge and, if exports are not increased, Cuba will have to cut imports further provoking a vicious circle in the economy. The trade deficit was partly compensated with tourism earnings, but they decreased in 2001-2002 and the current account deficit rose to 2% of GDP; foreign remittances decreased also. Cuba had to resort to dwindling and costlier short-term loans to cover the difference. Venezuela (now Cuba’s major trade partner) suspended oil deliveries at subsidized prices for five months in 2002 because the island owed $142 million on unpaid deliveries. The external debt in hard currency increased from $10.96 billion in 2000 to a record $12.2 billion in 2002; a slight increase in cumulative foreign investment (disbursed) was
reported in 2001 but a decrease in direct investment in that year, and stagnation in 2002. Cuba stopped payments of the debt to Japan, Mexico and other countries and requested restructuring; debt negotiations with the Club of Paris were broken in 2001. On the other hand, due to a breach in the U.S. embargo, Cuba bought in cash $189 million of food products from the United States, so that the U.S. became the island’s 10th largest trade partner.

Open unemployment fell from 5.5% in 2000 to a reported 3.3% in 2002 by counting as employed 8.6% of the labor force that was either dismissed and studying or working part time raising vegetables; there are no estimates on “equivalent unemployment” since 1998. Nominal wages increased while prices in dollar shops and agricultural markets jumped, which combined with a devaluation of the peso (from 21 to 26 for one dollar) led to a decline in purchasing power. Social security expenditures jumped to 14% of GDP, the highest in Latin America, and will continue to grow as the Cuban population rapidly ages to become the oldest in the region. Infant mortality continued its decline and in 2001 was 41% below the 1989 level (the lowest in the Americas), but other health indicators exhibited deterioration, such as morbidity and nutrition. University enrollment began a modest reversal of the dramatic fall of the 1990s but in 2002 still was 46% below the 1989 level. The housing deficit expanded because more houses were destroyed by three hurricanes than built since November 2001.

All targets set by the V Party Congress for 1998-2002 were unfulfilled. Out of 14 targets set for 2001, 12 were not met. Out of nine targets set for 2002: seven were not fulfilled (GDP growth, inflation, monetary overhang, oil, nickel and sugar output, and number of tourist and revenue), while two were reportedly met (unemployment rate and housing, the former dubious and the latter still below the number of dwellings destroyed). Targets set for 2003 are quite modest compared with those in 2001-2002 and have been carefully conditioned to external factors difficult to predict. Although it is too soon to make accurate forecasts, it seems that some targets are manageable (growth, fiscal deficit, oil output), others are difficult to achieve (sugar and non-sugar industrial output) and others are very difficult (nickel and non-sugar agricultural output).

**B. Causes of the Slowdown**

Cuban government officials and publications maintain that the slowdown of GDP has been the exclusive result of external factors, such as decline in world prices of Cuban major exports (nickel and sugar), increase in world prices of oil, a decrease of tourism after September 11, and three hurricanes. And yet, prior to September 2001, several Cuban economists had indicated that structural problems of the Cuban economy, combined with an incomplete economic reform, were responsible for the GDP slowdown in 1998, and predicted that the recovery would be difficult to sustain (Carranza 2001; Marqueti 2000; Monreal 2001; Pérez Villanueva 2000). The external factors did not cause the slowdown of 2001-2002 but aggravated an already existing problem: the malaise of the domestic economy. This view is also held by some economists abroad: “The disappointing performance of the economy in 2001 can be attributed to the inefficiency of Cuba’s socialist economy [and the paralysis of essential structural reforms], compounded by a severely worsened external economic environment” (Pérez-López 2002: 516-517).
Furthermore, the impact of some external factors has been exaggerated or distorted by Cuban officials. For instance, the world price of nickel declined in 2001 but even so it was at the same level than in 1999 and above the 1998 level; and such price increased in 2002. Sugar prices were falling since 1996 (the year of higher growth in the 1990s) and after a sharper decline in 2001 they rose in 2002. Oil prices increased in 2000, when Cuba had an adequate growth rate, but decreased in 2001 although jumped in 2002 (prices from IMF 2001-2002). Exports decreased by 14% in 2002, despite increases in world prices of nickel and sugar, because of a decline in nickel output and stagnant sugar production. Last but not least, the historical record high in the merchandise trade deficit occurred in 2000, before the negative external factors took place, was virtually stagnant in 2001 and decreased in 2002. On the positive side, dollar remittances from Cubans abroad reportedly rose by 10% in 2001, and the share of fuel imports in total imports fell from 24% to 21% in 2000-2002 due to the deal with Venezuela.

C. Potential Policies to Cope with the Slowdown

In order to reverse the slowdown and infuse new dynamism to the Cuban economy, it is necessary to implement the measures pending since 1996, when the market-oriented reforms were paralyzed, and push them forward: open up the economy further; facilitate the expansion of the private sector; transform the UBPC in real cooperatives, autonomous and with more incentives to increase production and profitability; allow university graduates to practice their professions as self-employed and authorize Cuban individuals and groups of workers to manage small and medium businesses, hence, creating enough jobs in the non-state sector to permit the dismissal of non-needed workers in the state sector; complete the banking reform and implement a comprehensive price reform; create a domestic capital market; allow foreign enterprises and joint ventures to hire, promote and pay their employees directly; establish a truly convertible peso; fully implement a progressive income tax and workers contributions to social security and reform the pension scheme; and design and put in place a social safety net to protect the most vulnerable groups of the population.

In the past Castro has systematically rejected strong market-oriented reforms in China and Viet Nam as inadequate for Cuba. During a visit to China in February 2003, after a seven years hiatus, he publicly expressed his surprise by the impressive development in that country and the improvement in the living standards. Embarrassed by questions about the economic situation in the island, he claimed that it was in excellent shape. Early in March, before Castro returned to Cuba, several deputies in the Ministry of Economics and Planning were dismissed, in the biggest turnover since the timid and vacillating economic reform began in the early 1990s. It is impossible at this point to determine whether those dismissals are connected to Castro' trip to China and would result in changes in Cuba’s economic policies. What is certain, nevertheless, is that, without a strong market-oriented reform, Cuba will be unable to revive its economy and promote steady growth.
REFERENCES


______. 2002b. Correspondence with the author.


Uribe, Juan. 2002.“Se agudiza la escasez de petróleo,” *Carta de Cuba* (La Habana), March 12.