



## Cuba's Economic Reform Process: Challenges and Prospects

Tran Anh Cong

Ph.D. Student in International Relations at Hanoi University of Social Sciences and Humanities, Vietnam

E-mail: konganh1986@gmail.com

<http://dx.doi.org/10.47814/ijssrr.v7i1.1907>

---

### **Abstract**

Initiated in the 1990s, the economic reform process in Cuba represents a significant endeavor within the framework of the nation's socialist ideology. Cuba, operating with a planned mixed economy, is dedicated to economic development guided by socialist principles. The Cuban Government has proactively adapted and restructured the economy in response to evolving developmental goals and the changing dynamics of both domestic and international economic landscapes. Examining the case of Cuba as a socialist exemplar, the author sheds light on the successes achieved during the transformative journey, emphasizing the nuanced implementation of diverse economic reform policies. Moreover, this article critically assesses the challenges and opportunities inherent in the country's ongoing reformative efforts.

**Keywords:** *Cuba; Economic Reform; Embargo; US*

### **1. Introduction**

Located at the gateway to the Caribbean Gulf, opening to North America, Central America, and South America, the Republic of Cuba plays a critical role geographically and politically. With a natural area of 110,860 km<sup>2</sup> and a population of more than 11.2 million people (2022), Cuba has a semi-tropical climate favourable for growing sugarcane, tobacco coffee, and fruit trees. In addition, the country also has mineral resources, including nickel (4th largest production in the world), an essential export item that accounts for more than 15% of Cuba's foreign exchange earnings.

By the early 1900s, the United States had become Cuba's leading business partner, with American citizens owning nearly two-thirds of businesses there. During this period, Cuba ranked seventh in GDP per capita among 47 countries in the Latin American region in the 1950s—however, significant disparities in wealth between classes and race in society, between whites and blacks. Because nearly 80% of Cuba's trade depends on the United States, the country faces the problem of loss of investment capital, making the economic situation unstable (Nations Encyclopedia, 2012). Close cooperation with the United

States has boosted Cuba's sugar industry and economy. For Americans, Cuba is known as an entertainment destination, where they come to gamble, participate in horse races, and play golf. The tourism industry and related economy flourished until the Cuban revolution began.

On July 26, 1953, Fidel Castro led the attack on the Moncada military camp, starting the revolutionary struggle in Cuba against the dictatorial Government of President Fulgencio Batista. Then, on January 1, 1959, the revolutionary army under the leadership of Fidel Castro officially took power, marking the beginning of socialism in Cuba. However, after the successful revolution, the Cuban people had to continue to face invasions and sabotage from the US, especially the victory on Hiron Beach on April 19, 1961. For more than half a century, Cuba has maintained a socialist republican regime in the context of siege and embargo by the US capitalist government.

After the revolution, many private companies in Cuba were nationalised, starting with the International Telephone and Communications Corporation. In the 1960s, Cuba reestablished relations with the Soviet Union. The Soviet Union began importing sugar from Cuba in exchange for oil. However, oil refining companies such as Esso, Shell, and Texaco refused to refine Soviet oil. To meet national needs, Fidel Castro (former President of Cuba from 1959 to 2008) nationalised oil refineries on the island (Tim Padgett, 2006). The consequence of this decision was that the US established an 'embargo,' stopping all import activities from Cuba. This ban began in 1962 and remains in place to this day. When it lost its leading import partner, Cuba switched completely to cooperation with the Soviet Union. The Soviet Union supported Cuba by providing subsidies, loans, debt deferrals, and purchasing Cuban exports at high prices. Cuba's economy grew and stabilised until the collapse of the Soviet Union in 1989. Once again, Cuba lost a trading partner with nearly 85% of its exports (Marc Franc, 2021). After the collapse of the Soviet Union, Cuba's economy shrank by 35% from 1990 to 1993. This led to difficult times that Castro called "a special period in times of peace." During this time, the black market began to develop in Cuba as the Government could not provide enough consumer goods to the people. Economic and societal difficulties require the Cuban Government to introduce economic reforms.

Implemented economic reforms have revived the Cuban economy, especially in the context of the economy being heavily influenced by the embargo policy as well as impacts from internal and external factors that have required government policies. The Cuban government was forced to make adjustments to boost the country's economy. Studying Cuba's economic reform process will help understand how the Cuban government has kept the Cuban economy growing in such a difficult context. The research focuses on analyzing the process of adjusting Cuba's economic reform policies since reform until now and the results achieved. In addition, the study has pointed out the factors affecting Cuba's economic reform process and assessed the challenges and prospects of the Cuban economy.

The study was conducted using analytical, comparative methods to show the economic reform process implemented by the Cuban government. At the same time, analyze the factors affecting the economic reform process of the Cuban government. The author used data from open statistical sources such as the World Bank to analyze the economic results that Cuba has achieved since adjusting its economic policies.

## ***2. Cuba's Economic Reform Process***

Over the past three decades, Cuba has undergone significant economic reforms initiated in the 1990s, resulting in positive transformations towards building a socialist regime and embracing policy innovation. While steadfastly upholding core political values, the country has expanded its economic market, skillfully preserving national culture while flexibly adapting to international changes. This has cultivated a distinctive blend of national identity and global integration.

In the aftermath of the Cold War, particularly after 1991, Cuba confronted a formidable challenge as it lost support from Soviet allies and the Eastern European socialist system, which had previously contributed 80% of the country's exports and supplied crucial resources. In response, since August 1993, under the leadership of Fidel Castro and the Cuban Government, a series of socio-economic reform measures were implemented. These included the restructuring of the government, enhancing the quality of life, agricultural management reforms, the expansion of individual industries, strengthening national finances, and the legalization of foreign currency use. While Cuba retained its planned economic model, it adapted to increase flexibility, practicality, and efficiency. This involved creating favorable conditions for non-socialist forms of ownership and production, maximizing opportunities for consistent adjustments, and introducing new economic balances and macroeconomic tools.

In 2008, Cuba embarked on a formalized socialist reform process, officially updating its economic model in 2012 with new policies such as a focus on production agriculture, private business allowances in service and retail, subsidy reduction, and public service improvement. Subsequently, in 2014, Cuba passed the Foreign Investment Law and established the Mariel Special Economic Development Zone, implementing preferential policies for investment and trade. The Politburo's acceptance of the "Socio-economic development strategy until 2030" further underscored Cuba's commitment to leveraging domestic resources and attracting external investment for economic restoration.

The year 2019 witnessed a significant milestone with the issuance of a new Constitution, replacing the 1976 version. The updated document introduced crucial regulations, including the recognition of private property and free markets, legalization of same-sex marriage, protection of reproductive rights, allowance for multiple nationalities, and establishment of age limits for political office candidacy. These legal changes created a new framework supporting economic development in Cuba.

Amid the challenges posed by the COVID-19 pandemic, Cuba's Council of Ministers announced a socio-economic strategy in July 2020, emphasizing the vital role of the private sector as a driving force. In February 2021, Cuba expanded the status of private companies to 2,000 occupations, facilitating foreign partnerships and reducing state control. The 8th Congress of the Communist Party of Cuba in April 2021 marked a leadership transition from Raul Castro to President Miguel Diaz-Canel. Following the congress, Cuba faced two significant challenges: the COVID-19 pandemic and widespread anti-government protests fueled by shortages and civil rights restrictions. Tens of thousands of Cubans took to the streets, prompting a repressive government response and counter-support rallies in Havana.

### ***3. Results of the Cuban Economy after the Economic Reform Process***

Under the impact of the economic reform process over the past 30 years, the Cuban economy has achieved many positive changes.

According to data from the World Bank, Cuba's GDP reached 107.35 billion USD in 2020, the highest level ever. From 1970-2020, Cuba's average GDP was 38.10 billion USD. Also, according to the World Bank, GDP per capita (calculated at current USD prices) is 9,499 USD (USD/person/year). The GDP growth rate has recovered from -10.9% in 2020 due to the impact of the epidemic and has gradually regained recovery momentum, reaching 1.3% in 2021. Moreover, The Government forecasts the economy will grow by 4% shortly. 4% growth still means Cuba will face shortages of necessary goods and services (Marc Franc, 2021).

Over the past few years, the Government has also cut many jobs to help government-controlled organisations operate efficiently. The Cuban Government currently allows small, privately owned stores such as bed and breakfasts, repair shops, and daily necessities stores (201 different types of private

businesses). Cuba has allowed 580,000 private businesses to operate in 2022, a five-fold increase compared to 2010. The private sector accounts for 29% of the country's workforce. Farmers can sell their products directly on the free market through 'Agropecuario' (farmers' markets) after selling a fixed quota of products to the Government at a fixed price. The Government also enters into 'joint ventures' with foreign investors, and eventually, foreign ownership may increase to 100%.

In the economic structure, the service sector contributes a maximum proportion of 73.51% of GDP, followed by the industrial sector (23.02%) and agriculture (2.76%) (Aaron O' Neill, 2022). The service sector mainly consists of providing well-trained medical professionals to other countries such as Venezuela and tourism.

The Cuban Government has promoted measures to open the economy. Cuba's exports increased to \$590 million in the first quarter of 2022, while imports reached \$2.4 billion. The Government expects the economy to grow 3% in 2023 and projects foreign exchange earnings to 1.037 billion USD, mainly from increased export revenue. Cuba's main imported products are machinery to support industry and food because agricultural products are insufficient to feed the entire population. In addition, Cuba also imports crude oil as fuel for refineries and exports refined oil. Cuba's main exports include cane sugar, pharmaceuticals, fish, and beverages (such as rum). Mining activity is also on the island; therefore, the country also exports Nickel ore. Cuba's leading trading partner is Venezuela, but the country also trades with countries such as Mexico, China, Brazil, Germany, and Italy.

In addition, tourism, transportation, telecommunications, agriculture, and construction are significant contributors to Cuba's GDP. Despite facing travel restrictions due to the embargo policy of US President Donald Trump's administration, Cuba's tourism industry welcomed more than 4.7 million international visitors in 2017, an increase of 16.2%. Compared to 2016. It is expected that Cuba will welcome 3.5 million foreign tourists in 2023. Foreign companies have also increased investment in Cuba, especially in the tourism sector, with 87 investment projects. Moreover, 18 foreign hotel chains operate in Cuba.

#### ***4. Factors Affecting Cuba's Economic Reform***

Several factors directly influence the pace of economic development and the expansion of cooperation in Cuba, encompassing both subjective and objective elements. Subjective factors include adjustments to the political policies of the Communist Party of Cuba, economic policies reflecting the ideals of the new society, while objective factors involve challenges such as the embargo imposed by the United States.

*Firstly*, the adjustment of the political policy of the Cuban Communist Party is characterized by a comprehensive and cautious approach. This process involves a step-by-step evolution, preserving traditions while updating to align with current realities. At the 8th Congress of the Communist Party of Cuba in April 2021, the nation articulated its vision for a sovereign, independent, democratic, prosperous, and sustainable nation. Four strategic pillars were established to realize this vision: strengthening an effective State, developing infrastructure and human resources, promoting human development and social justice, and protecting natural resources and the environment. Notably, Cuba shifted its focus from the goal of "moving towards a communist society" to concentrating on building socialism. The sole and supreme role of the Communist Party of Cuba in the country's leadership, affirmed by the 2019 Cuban Constitution and the 8th Congress in 2021, has provided stability but also generated diversity and challenges in Cuban politics.

*Secondly*, the promulgation of new socio-economic policies has been pivotal. The Communist Party of Cuba introduced the "National Plan for Socio-Economic Development to 2030" since 2011, continually updated through Party Congresses. These policies concentrate on critical goals such as

ensuring ownership of resources by the entire populace, boosting operational efficiency, developing production and services, enhancing competitiveness in economic sectors, and prioritizing agriculture and fisheries for food self-sufficiency. The policies also aim to eliminate prejudices about foreign investment, ensure fairness, improve labor productivity, and strengthen social security systems. This comprehensive approach shapes Cuba's future, emphasizing equality and improving the quality of life for its citizens.

*Thirdly*, the historical context of U.S. intervention remains a significant factor. Since the late 19th century, the U.S. has been involved in Cuban affairs, and despite brief attempts at reconciliation under President Barack Obama, relations soured under President Donald Trump.

## ***5. Challenges and Prospects of the Cuban Economy***

### **• Challenges in the Cuban Economy**

The Cuban economic reform process still faces many difficulties and challenges, which are increasing daily. Although the reforms introduced by the Government are necessary, they have yet to bring many results because internal and external factors still influence them. Cuba's economic reform process is still facing many challenges.

*Firstly*, implementing economic reforms will pose more obstacles than solutions. Inflation and scarcity of goods will become increasingly severe due to monetary unification. This is also likely to affect plans to promote internal production negatively.

*Secondly*, although the Government seeks to promote the private sector, opportunities for private and foreign businesses will need to be improved. Joint partnerships with the State may remain the primary way of doing business in Cuba, but this plan will continue to be affected by existing sanctions.

*Thirdly*, although the appointment of Díaz-Canel as President and First Secretary of the Communist Party of Cuba marks a generational change in leadership, it is unlikely to translate into a radical change for the country. Senior members of the Cuban Communist Party will ensure that the status quo is maintained.

*Fourthly*, Cuba ranked 176th on the economic freedom index. According to The Heritage Foundation, the country has very little economic freedom. There are restrictions on private businesses in sectors such as arms manufacturing, education, and health services.

### **• Prospects of the Cuban Economy**

Although there are still many challenges, the Cuban economy also has development prospects, specifically including:

*Firstly*, there is the possibility of negotiations between the US and Cuba. Negotiations between the Biden and Maduro administrations, fueled by the latter's reestablishment of dialogue with the opposition, have resulted in temporarily easing sanctions on Venezuelan oil exports to the US, which has been on hiatus by Trump since 2019. The US Treasury Department also granted Chevron a six-month license to resume oil production in Venezuela. Profits from this production activity will be allocated to pay off Venezuela's debt to Chevron, amounting to 4.2 billion USD. It is estimated that these measures could gradually increase Venezuela's crude oil production by 1.5 million barrels per day (Wilner & Delgado, 2022). These measures will facilitate economic recovery in Venezuela, making it easier to supply oil to Cuba and increase its potential, which will contribute to easing the crisis energy and power outages on the island. Furthermore, if current negotiations on Cuban migration to the US are successful, this could open a path, albeit challenging, for other sanctions imposed by Trump on Cuba to be suspended by Biden.

Therefore, these two positive factors will largely depend on how the Venezuelan and Cuban governments act.

*Secondly*, when the COVID-19 epidemic is controlled, foreign tourism (the third source of foreign currency revenue) will continue to grow in Cuba. By the end of 2022, 1.6 million tourists have visited Cuba, increasing the industry's total income to \$1.8 billion. If in 2023, the number of tourists increases to 2.7 million, total income will amount to about 3 billion USD (or 1.2 billion USD in net income) (Carmelo Mesa-Lago, 2022). One of the measures proposed by the Government to increase the net income of tourism is to partially replace imports for this industry with increased domestic production (MEP, 2023). However, this will require reforms in the agricultural and manufacturing sectors more drastic than what the Cuban Government has contemplated and will discuss later. In anticipation of tourism growth, the Cuban Government is developing more construction activities in Old Havana to repair hotels, restaurants, and other businesses frequented by tourists. If migration talks are successful, Biden could further ease restrictions on travel to Cuba.

*Thirdly*, focus on critical Cuban products. To take advantage of high sugar and nickel prices on the world market, the Cuban Government needs to invest more in these areas. Regarding nickel, the Cuban Government signed an agreement in October 2022 with the Canadian company Sherritt International (the leading nickel miner) so that within five years, Moa's joint venture in Holguín prioritises dividend payments in the form of finished cobalt for each partner and the corresponding Cuban portion will be assigned to Sherritt to pay off the \$260 million in outstanding debt. Another measure allows foreign investment in private micro, small and medium enterprises (MSMEs). These are essential steps for Cuba to support the operations of domestic businesses.

## **6. Results**

For more than 30 years, the Cuban economy has been influenced by many subjective and objective factors. In that context, the Cuban government has repeatedly introduced economic reform policies suitable for each stage of development.

The general trend of Cuba's economic reform is to increasingly expand the economy, develop a multi-sector economy, and develop export activities of the country's strong products.

Factors that have a strong impact on Cuba's economic adjustment include the change in Cuba's political policy towards more openness, socio-economic policies, and the difficulties caused by the embargo from the US. These factors create both motivation and challenges for the economic reform process, thereby affecting Cuba's economic development.

## **7. Conclusion**

Over the past 30 years, Cuba has continuously made changes and reforms in the economic field to suit its development orientation and domestic and international economic context. In the process of economic reform, Cuba faces many complex challenges. Although greatly influenced by the US embargo and other impacts from within and outside the country, The Cuban government has shown flexibility in adapting economic reform policies to different economic contexts at each stage of development. The Cuban Government has gradually opened the market and created a more positive business environment, creating favourable conditions for developing many types of businesses. Cuba's economic reforms are being adjusted and making an essential contribution to shaping a prosperous future. And full of promise

for this country. Experience and lessons from Cuba's economic reform process can be valuable lessons for other countries in similar contexts and conditions.

### References

- Aaron O'Neill (2022). "Distribution of GDP across sectors in Cuba". *Statista*, <https://www.statista.com/statistics/388566/cuba-gdp-distribution-across-economic-sectors/#:~:text=In%202021%2C%20agriculture%20contributed%20around,percent%20from%20the%20services%20sector> (Accessed 10.11.2023).
- Carmelo Mesa-Lago (2023). Cuba's economy in times of crisis: 2020–2022 and prospects for 2023, *Cuban Research Institute*, Florida International University, <https://cri.fiu.edu/news/2023/cuba-current-economic-crisis/carmelo-mesa-lago-cuba-economic-crisis.pdf> (Accessed 15.11.2023).
- Marc Franc (2021). "Cuba sees slow economic recovery at 4% in 2022". *Reuters*, <https://www.reuters.com/business/cuba-sees-slow-economic-recovery-4-2022-official-2021-12-12/> (Accessed 09.11.2023).
- Nations encyclopedia (2012). "Cuba – Overview of the economy". *Nations encyclopedia*, <https://www.nationsencyclopedia.com/economies/Americas/Cuba-OVERVIEW-OF-ECONOMY.html> (Accessed 09.11.2023).
- Tim Padgett (2006). "Cuba after Castro: Can exiles reclaim their stakes?". *Time*, <https://content.time.com/time/nation/article/0,8599,1223316,00.html> (Accessed 09.11.2023).
- Wilner, Michael, and Antonio M. Delgado (2022). "U.S. Eases Oil Sanctions on Venezuela as Talks Resume between Maduro, Opposition". *Miami Herald*, November 27.

### Copyrights

Copyright for this article is retained by the author(s), with first publication rights granted to the journal.

This is an open-access article distributed under the terms and conditions of the Creative Commons Attribution license (<http://creativecommons.org/licenses/by/4.0/>).