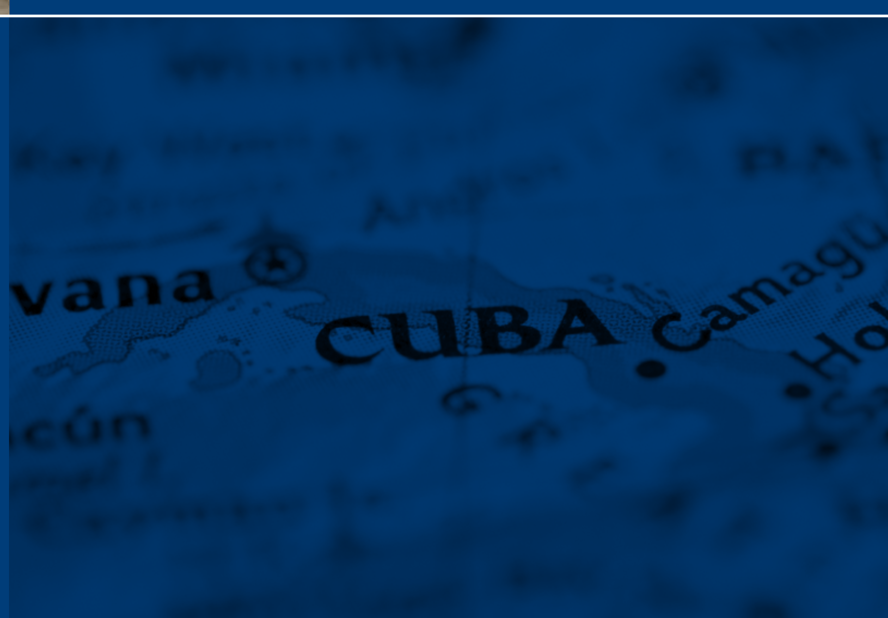
Latin America Initiative
at BROOKINGS

# Reaching Out

## Cuba's New Economy and the International Response

Richard E. Feinberg

NOVEMBER 2011



Latin America Initiative
at BROOKINGS

# Reaching Out

## Cuba's New Economy and the International Response

Richard E. Feinberg

NOVEMBER 2011

# Table of Contents

# Acknowledgements

Many individuals and institutions were extraordinarily generous in lending their assistance to this project. Present and former executives and staff members of the IMF, World Bank, Inter-American Development Bank (IDB), Andean Development Corporation (CAF), and the Organization of American States (OAS) provided off-the-record but indispensable accountings of past and present policies of their multilateral institutions. Officials at the U.S. Treasury Department (where I labored so many years ago) greatly enhanced my understanding of relevant U.S. legislation. The research of the economists of the Center for the Study of the Cuban Economy of the University of Havana provided much of the basis for my analysis of the Cuban economy, and special thanks are due to the Center's director, Omar Everleny Perez Villanueva, and to international economist Jorge Mario Sanchez Egozcue.  Also in Havana, Luana Reale was my knowledgeable guide to the European donor community. Ace journalist Marc Frank remains a constant source of reliable and well-framed information. I would especially like to thank those who read and offered most useful comments on all or portions of draft manuscripts, including Mario Arana, Jaime Biderman, Lowell Blankfort, James Boughton, Juan Alberto Fuentes, Peter Hakim, Homi Kharas, Eric Leenson, Matthew Levin, Edmund Malesky, Robert Pastor, Rafael Romeu, Hernan Rosenberg, and Andrew Wolfe, as well as Brookings' external peer reviewers. The lifetime scholarly commitments of Philip Brenner and Margaret Crahan to Cuban studies have been an important source of inspiration.

The Peterson Institute for International Economics offered me valuable feedback at one of Washington's highest caliber gatherings, its Friday staff luncheons. The 2011 symposium on Cuba organized by the Bildner Center for Western Hemisphere Studies under the leadership of Mauricio Font was a tremendous source of current analysis. I also wish to thank the Brookings Institution, The Christopher Reynolds Foundation, and the Woodrow Wilson International Center for Scholars for their vital financial and institutional support. Especially deserving of my appreciation are Ted Piccone and Emily Alinikoff of Brookings and Cynthia Arnson of the Wilson Center for their vital enthusiasm and warm friendship.

Expert research assistance was provided by Savannah Thomas Arrigo, Ian McMurtry and Diogo Simas.

# Abbreviations

| | |
|---|---|
| **ABC** | Brazilian Cooperation Agency |
| **AECID** | Spanish International Development Cooperation Agency |
| **ALBA** | Bolivarian Alliance for the Americas |
| **Bancomext** | Banco Nacional de Comercio Exterior (Mexico) |
| **BNDES** | Brazilian National Development Bank |
| **CAF** | Andean Development Corporation |
| **CAFTA-DR** | U.S.-Central America Free Trade Agreement |
| **CARTAC** | The Caribbean Regional Technical Assistance Center (IMF) |
| **CEEC** | Center for the Study of the Cuban Economy |
| **CIDA** | Canadian International Development Agency |
| **CNPC** | Chinese National Petroleum Company |
| **CPS** | Country Partnership Strategy |
| **EC** | European Commission |
| **ECF** | Extended Credit Facility |
| **EDC** | Export Development Canada |
| **EMs** | Emerging Markets |
| **EEZ** | Exclusive Economic Zone |
| **FDI** | Foreign Direct Investment |
| **FSLN** | Sandinista Front of National Liberation (Nicaragua) |
| **GAE** | Grupo de Administracion Empresarial |
| **IBGE** | Brazilian Institute of Geography and Statistics |
| **IBRD** | International Bank for Reconstruction and Development |
| **IDA** | International Development Agency (World Bank) |
| **IDB** | Inter-American Development Bank |
| **IMDIL** | Initiative for Municipal and Local Development |
| **IFC** | International Financial Corporation |
| **IFIs** | International Financial Institutions |
| **IMF** | International Monetary Fund |

| | |
|---|---|
| **MDGs** | Millennium Development Goals |
| **MEP** | Ministry of Economy and Planning |
| **MINFAR** | Ministry of the Armed Forces |
| **MINCEX** | Ministry of Foreign Commerce and Investment |
| **MININT** | Ministry of Internal Security |
| **MOUs** | Memoranda of Understanding |
| **NAFTA** | North America Free Trade Agreement |
| **NAM** | Non-Aligned Movement |
| **NOCs** | National Oil Companies |
| **OAS** | Organization of American States |
| **OECD** | Organization of Economic Cooperation and Development |
| **ONE** | National Office of Statistics (Republic of Cuba) |
| **PDVSA** | Petroleos de Venezuela, S.A. |
| **PRGF** | Poverty Reduction and Growth Facility |
| **PRI** | Institutional Revolutionary Party (Mexico) |
| **SEDP** | Socio-Economic Development Plan |
| **SOEs** | State-Owned Enterprises |
| **UNDP** | United Nations Development Program |
| **UNESCO** | United Nations Education, Scientific and Cultural Organization |
| **UNICEF** | United Nations Children's Fund |
| **UNMIK** | United Nations Mission in Kosovo |
| **WBG** | West Bank/Gaza |
| **WFP** | World Food Program (United Nations) |

# Introduction

Five decades after Fidel Castro's "26th of July Movement" marched victoriously into Havana on New Year's Day, 1959, the United States and Cuba, separated by less than 100 miles of choppy waters, remain deeply distrustful neighbors entangled in a web of hostilities. Heated U.S. policy debates over how best to respond to the Cuban Revolution—through legislation in the Congress or executive orders issued by the Executive Branch—implicitly assume that there are only two players in contention: Washington and Havana. Yet, this conceit takes us very far from the realities of Cuba today.

Since the collapse of its former patron, the Soviet Union, a resilient Cuba has dramatically diversified its international economic relations. Initially, Cuba reached out to Europe, Canada, and a widening array of friendly states in Latin America. Over the last decade, Cuba has reached out to forge economic partnerships with major emerging market economies—notably China, Brazil, and Venezuela. Spanish firms manage many of the expanding hotel chains in Cuba that cater to 2.5 million international tourists each year. A Canadian company jointly owns mining operations that ship high-priced nickel to Canada and China. In the next few years, China is poised to spend billions of dollars building a large petrochemical complex at Cienfuegos. A Brazilian firm will modernize the Mariel Port so that it can accommodate very large container ships transiting the newly widened Panama Canal. Petroleum companies from ten or more countries have lined up to explore for deep-sea oil in Cuban waters in the Gulf of Mexico.

Despite these advances, the Cuban economy remains in the doldrums (as described in Section 1). *The main constraint slowing the Cuban economy is not U.S. sanctions (even as they have hit hard). Rather, it is Cuba's own outdated economic model, inherited from the Soviet Union, of central planning*. Cuba's many commercial partners would like to invest more in Cuba and would prefer to purchase more Cuban exports to correct the imbalances in their bilateral trade accounts, but are frustrated by Cuba's scant economic offerings.

Section 2 of this policy paper tells the story of Cuba's outreach to the dynamic emerging market economies, as seen from the perspective of Cuba and also through the eyes of its Chinese, Brazilian, Venezuelan and Mexican partners—examining their motivations as well as their anxieties and frustrations. How does Cuba fit into their international economic and geo-political strategies, and what are the domestic political drivers behind their friendships with Havana? Canadian interests are also explored, as Ottawa has sharply differentiated its Cuba policy from those of its close North American ally.

While comprehensive U.S. sanctions attempt to undermine the Cuban economy, European countries have been sending development assistance, albeit in modest amounts. European aid targets its resources to empower municipalities, private farmers and cooperatives—to strengthen social forces less dominated by Havana's powerful bureaucracies. Section 3 describes these European and Canadian cooperation programs as well as the creative initiatives of the non-governmental organization Oxfam, and draws lessons—pointing out potential pitfalls as well as opportunities—for future international development programs operating in the difficult Cuban context.

One hundred and eighty-seven nations are members of the International Monetary Fund (IMF) and World Bank—virtually equivalent to the universal membership of the United Nations. Cuba's absence from these leading international financial institutions (IFIs) stands out as a stark anomaly. As Section 4 of this paper reveals, Cuban authorities are no longer opposed to engaging with the IFIs. As institutions that pride themselves on their universality, the IFIs ought to reach out to assist Cuba as it strives, however gradually and haltingly, to reform its economic structures. With their deep experience in countries seeking to improve the efficiency and competitiveness of their economies, and to transit to more decentralized modes of economic decision making, the IFIs are natural partners for Cuba today.

This paper recommends a step-by-step approach, beginning with modest confidence-building measures, for bridging the gap between the IFIs and Cuba. It also addresses legal and political constraints on U.S. policy, including restrictive Congressional mandates, and suggests practical strategies for overcoming them. Information gaps in the public debate are corrected; in fact, there are viable mechanisms for gradual rapprochement.

Many Cubans remain suspicious of the IMF and World Bank, viewing them as agents of "capitalist imperialism." Yet, the IFIs have worked successfully in promoting poverty alleviation and economic growth in two of Cuba's closest allies, Vietnam and Nicaragua. To ally Cuban anxieties, Section 5 explores the IFI's new terms of engagement, designed to be more sensitive to the national institutions and policy priorities of borrowing countries. The IFIs today partner successfully with many countries whose stated goals are growth with equity, efficiency with dignity—the very goals embraced by Cuban authorities.

This study (Section 1) opens with a discussion of the accomplishments and shortcomings of the ailing Cuban economy: the paradox of the Cuban revolution is that while it endowed its citizens with abundant human capital it has sadly left them without the tools or incentives to fully employ their acquired talents. The Cuban economy is characterized by sagging industrial and agricultural production, insufficient savings and investment rates, poor export performance and chronic deficits in merchandise trade, and repeated suspensions of service on external debts. The scarcity of consumer necessities, over-crowded housing, and the indifferent quality of services make daily life in Cuba especially challenging, and ambitious Cuban youth are frustrated at the lack of attractive opportunities for productive and well-paid employment.

The Cuban government recognizes these deficiencies and in April 2011 promulgated reform "guidelines" with 311 initiatives aimed at addressing these and other structural flaws. The guidelines are replete with internal contradictions and continue to render homage to central planning; but the pro-reform fractions were strong enough to insert language which, if acted upon, would transform Cuban political culture and social ethics. As this study suggests, in our interdependent world, external agents—such as national economic cooperation agencies and the IFIs—can legitimately transfer ideas and resources that increase the authority of reformers in their internal struggles against the entrenched forces of inertia and resistance. Notwithstanding its centralized leadership, Cuba, like the United States, is hardly a unitary actor.

This policy contribution seeks to reframe the debate, to break it loose from the narrow U.S.-Cuban bilateral optic, to instead appreciate the opportunities offered by Cuba's pro-reform impulses, to grasp the breadth of Cuba's international economic relations, to examine more closely the economic cooperation programs of our allies on the island, and to reconsider U.S. interests in allowing the international financial institutions to perform their proper mission of promoting economic progress in Cuba. Section 6 summarizes key findings and policy recommendations for the international development community, the IFIs, and for the Cuban and U.S. governments.

This paper flows from the traditional notion that it is in the interests of the United States, and the international development community within which the U.S. has long played a leadership role, to promote progressive economic reforms, however gradual and partial, in countries opening to international trade and investment and seeking to enhance market mechanisms and empower a domestic private sector. While there is no automatic, linear relationship between market-oriented economic reform and political liberalization, political theory and recent history suggest that one trend tends to reinforce the other, especially in the Western Hemisphere and in the long run. Moreover, in the absence of direct leverage over a nation's political institutions, promoting economic reform may be the most realistic option for advancing political pluralism. In Cuba today, the opportunity is in economic policy, legitimized by the regime and openly and widely debated by the Cuban public; whereas the government's powerful security apparatus maintains its tight control over political activity and insists on the hegemony of the Cuban Communist Party.

**In Cuba today, the opportunity is in economic policy, legitimized by the regime and openly and widely debated by the Cuban public…**

Some in the United States have long supported severe sanctions intended to starve the Cuban regime of resources and thereby precipitate a political breakdown. Yet, within the national security bureaucracy of the U.S. Executive Branch, notwithstanding occasional presidential rhetoric, there is a strong preference for gradual, peaceful evolution in Cuba. A sudden breakdown, it is feared, would entail substantial risks for U.S. interests, including an immigration crisis right off of our shores, and in the worst case, irresistible pressures for intervention to quell a bloody civil war and halt a mass exodus of refugees.

Furthermore, prolonged efforts to impoverish an economy run counter to long-standing U.S. foreign assistance policies and our fundamental humanitarianism, that favor attention to the basic human needs of the poor majorities in developing countries. The exemptions to the sanctions against Cuba that have been carved out over the years, for example allowing for the sale of some foods and medicines, and more recently, the liberalization of family travel and remittances, speak to these American traditions.

SECTION 1

# The Cuban Economy: Distorted Development and Gradual Reforms

In its early years, the Cuban revolution made great strides toward providing universal access to quality health care and guaranteeing education for all citizens. Although some of these gains have eroded, Cuba continues to score highly in global rankings of social indicators (Table 1.1). Adult literacy is 100 percent and the mean schooling is more than 10 years. Child mortality rates are a low six per 1000 live births and life expectancy at birth is 79 years—strong accomplishments at a par with developed countries. Similar to some post-industrial societies, the well-educated population, at 11.2 million, is trending slightly downward, as Cuban women choose low fertility rates (1.63 children per female).[1] Cuba achieved many of the United Nation's Millennium Development Goals (MDGs) decades ago.

In the social realm, Cuba compares very favorably with the neighboring Dominican Republic where, despite a higher per capita national income, child mortality is 33 per 1000 live births, life expectancy is just 73 years, mean years of schooling is under seven, and 10 percent of the population remains illiterate. Cuba plays in the same premier league ("high human development," in the taxonomy of the UN Development Program, UNDP) as those Latin American nations renowned for their social achievements—Chile, Uruguay, and Costa Rica.

But social standards enjoyed by Cubans today are not sustainable without an increase in labor productivity, international competitiveness, and export capacity. Cuba must correct the extraordinary imbalance between its social progress and the low efficiency of its productive sectors. In many developing economies, the availability and distribution of social services lags behind productive investments in factories and farms—Cuba suffers from the opposite malady.

---

[1] United Nations Development Program (UNDP) (2010), international human development indicators, country profiles. Available at: http://hdr.undp.org/en/data/profiles/

### Table 1.1. Cuba's Human Development Index Ranking

| The Revolution's Pride |
|---|
| *Latin American HDI Rankings (2010)* |
| Chile: 45 |
| Uruguay: 52 |
| **Cuba: 53** |
| Panama: 54 |
| Costa Rica: 62 |
| Jamaica: 80 |
| Dominican Republic: 88 |
| El Salvador: 90 |
| Honduras: 106 |

Source: United Nations Development Program (UNDP) (2010)

The paradox of the Cuban revolution is that it has effectively endowed its citizens with abundant human capital but has sadly left them without the tools or incentives to fully realize their acquired talents. Still predominantly set by government fiat and based on job categories rather than on labor productivity, wage scales are ludicrous. The median salary (salario medio) per month is 448 Cuban pesos—at the official exchange rate of 22 Cuban pesos to one U.S. dollar, that's $20.36 per month![2] It is no wonder there is a frantic search for jobs that offer privileged access to foreign currency. Hence the joke: "A Cuban neurosurgeon recounted a dream, of working as a porter in an international hotel. His friend quipped: No way! You really are an optimist!" The other alternative for those with portable skills is emigration: a still youthful alumnus of the prestigious Lenin High School in Havana calculated that about half of his graduating class was now working overseas.

### Table 1.2. Cuba's Per Capita Income Ranking

| The Revolution's Neglect |
|---|
| *Per Capita Incomes (PPP, US$ thousands)* |
| Mexico: 14 |
| Uruguay: 14 |
| Chile: 14 |
| Costa Rica: 11 |
| Brazil: 11 |
| Dominican Republic: 8 |
| **Cuba: 6** |

Source: World Bank.

[2] Statistics in this section are from the website of the Cuban Office of National Statistics (Oficina Nacional de Estadisticas, ONE) unless otherwise noted. Available at: www.one.cu

The UNDP places Cuban per capita national income (on a purchasing power parity basis) at $5,747. This number is well below the income levels achieved by other Latin American countries with similar social accomplishments: Chile's per capita national income is $13,651, Uruguay $13,808, Costa Rica $10,870. Cuba's per capita income is also well below those of the two largest Latin American populations, Mexico ($13,971) and Brazil ($10,607). (Table 1.2). Government-fixed exchange rates and internal prices are so distorted in socialist Cuba, so far removed from reflecting either the true costs of production or some realistic supply-demand equation, that any measure of Cuba's per capita income can only be a rough estimate.[3] As revealing as uncertain official statistics is a stroll around Havana. The housing stock is shockingly dilapidated and transportation systems are relics of the 1950s (Figure 1.1). In the more densely populated neighborhoods, the assemblages of idle, underemployed youth resemble those all too common in U.S. inner cities (notwithstanding the official Cuban unemployment rate of 2.5 percent). Within most people's apartments, the few visible household durables, such as televisions and blenders, are often badly in need of repairs. And this is in the relatively well-heeled capital. The Eastern provinces are poorer still.

**Figure 1.1. Havana's 1950s Housing Stock and Transportation**


Photo credit: RFeinberg

---

3 A report on the Cuba economy prepared for USAID by Nathan Associates made this comment on data quality and format: "In general, data on Cuba present problems of availability, reliability, timeliness, and transparency….Many gaps exist, and the definitions of the official statistics and the methodology used in deriving the indicators are not always clear. Furthermore, the absence of support to Cuba from the IMF and World Bank make international comparisons difficult…thus, the data and our interpretation of the data should be interpreted with caution." *Cuba: Economic Performance Assessment*, October, 2009. On data problems, also see Carmelo Mesa-Lago, "Social and economic problems in Cuba during the crisis and subsequent recovery," *CEPAL Review 86*, August 2005, pp. 177-199; Gabriel Di Bella and Andrew Wolfe, "Cuba: Economic Growth and International Linkages – Challenges for Measurement and Vulnerabilities in a Bimonetary Economy," in *Cuba in Transition*, Vol. 19, Proceedings of the Association for the Study of the Cuban Economy, ASCE, Miami, 2009); and Rafael Romeu, "Inferring Quarterly Real Gross Domestic Product Growth in Cuba During the Global Financial Crisis," in Rafael Romeu et al., *The Cuban Economy: Recent Trends* (Washington, DC: Woodrow Wilson International Center for Scholars, 2011), pp. 7-29.

4 Youth that neither work nor study have also become a commonplace problem in Latin America. See Mauricio Cardenas et al., *Idle Youth in Latin America: A Persistent Problem in a Decade of Prosperity* (Washington, DC: Brookings Institution, Latin America Initiative, 2011).

## Painful Post-Soviet Adjustments

Through the 1980s, the pervasive inefficiencies in Cuba's productive apparatus were masked by massive subsidies from the Soviet Union, estimated to have averaged more than $4 billion per year between 1986-1990—an enormous 15 percent of Cuba's GDP (if converted at the official rate of one peso per US dollar, and much more if converted at a market exchange rate).[5] In the 1970s, when the Soviets grew tired of the youthful revolution's exuberance and "Che" Guevara's impulsive romanticism, Moscow conditioned its assistance upon Cuba adapting its rational bureaucratic model of central planning. When the Soviet Union collapsed and the subsidies were suddenly withdrawn, the Cuban economy took a steep dive, national income tumbling by some 30-35 percent in the early 1990s.[6] Cuban families suffered serious deprivations, with measurable declines in per capita caloric intake.

In response to this massive external shock, in the 1990s the Cuban authorities instituted some partial reforms to the inherited Soviet system. In a sharp reversal of the revolution's earlier policies of across-the-board nationalizations, a more mature Cuba courted joint venture investments in hotels, mining, energy and communications. Desperate for hard currency, Cuba welcomed internationalism tourism including visits by exiled Cuban-Americans formerly branded as "gusanos" (worms). Other market-oriented reforms included:[7]

- Legalization of self-employment (micro enterprises) and the hiring of relatives in select occupations, notably in small private restaurants and boutique hotels. This opening helped to create jobs and absorb employees fired from unprofitable state enterprises. Self-employment, which had accounted for only 1.6 percent of all workers in 1981, peaked at 4.1 percent in 1999.

- In the agricultural sector, Soviet-style state farms were converted into semi-private cooperatives (although land ownership remained in state hands). Farmers were permitted to sell some of their production, after meeting their obligations to state wholesalers, in "farmers markets" at decontrolled prices. Fresh fruits and vegetables became more avail-

---

[5] Ernesto Hernandez-Cata, *The Fall and Recovery of the Cuban Economy in the 1990s: Mirage or Reality?* IMF Working Paper, International Monetary Fund, December 2000.

[6] Jose Luis Rodriguez, *Notas Sobre Economia Cubana* (Havana: Ruth Casa Editorial, 2011), p.22-23. Rodriguez served as minister of economy and planning from 1995-2009.

[7] On the 1990s reforms, see UN Economic Commission for Latin America and the Caribbean, *The Cuban Economy: Structural Reforms and Economic Performance in the 1990s* (Mexico City: ECLAC, 2nd edition, 2001); Jorge Dominguez et al. (eds.), *The Cuban Economy at the Start of the Twenty-First Century* (Cambridge: Harvard University Press, 2004); and Ernesto Hernandez-Cata, *The Fall and Recovery of the Cuban Economy in the 1990s: Mirage or Reality?* IMF Working Paper, International Monetary Fund, December 2000.

able. Most Cubans no longer had to resort to this black humor: "We Cubans only have three problems: breakfast, lunch, and dinner."

- The possession and use of hard currency was de-criminalized as was the transfer of dollars from Cubans living abroad. Remittances from the Cuban Diaspora reached $700 million by 1999, surpassing revenues earned from traditional sugar exports.

These initial reforms succeeded in halting and partially—but only partially—reversing the post-Soviet downturn and dire austerity: not enough innovation to give Cuba a new economic model or to place it is a sustainable growth path—but sufficient to allow the Cuban government to survive a treacherous political moment. The resilient Cuban regime escaped the fates of the dislodged communist parties of Eastern Europe.

Once its overriding political objectives had been secured by the late 1990s, the Cuban government chose to halt and partially reverse the economic opening. Once again, Fidel Castro shifted the government's ideological posture, denouncing private enterprise and open markets as unacceptably petty bourgeois and prone toward corruption; the revolutionary leader characterized the emerging private sector not as a source of productivity and opportunity but of "parasites" breeding injustice and inequality. A series of onerous taxes and regulations choked the incipient micro-enterprise sector, decreasing the number of independent enterprises. The dollar was withdrawn from general circulation in favor of the "convertible Cuban peso" and a dual currency system. The government recentralized the authorization of foreign exchange, requiring joint ventures to appeal to the authorities in the Central Bank and Ministry of Foreign Trade for approval of international transactions. Overall, the economy remained centralized and socialized, with the state employing most of the work force (over 80 percent), owning most of the means of production, setting most prices, and authorizing most investment and production targets. Government functionaries and communist party officials had again solidified their domination over economic decision making.

As the 1990s wore on, attitudes toward foreign direct investment also became more restrictive. Official statistics on foreign investment are incomplete and inconsistent and it is difficult to distinguish accumulated stocks from annual flows, and early announcements of intention from completed investments. But it appears clear that both new investments and the stock of total investments declined sharply after 2002.[8] The government chose to eliminate smaller firms to concentrate

[8] Omar Everleny Perez Villanueva, *The External Sector of the Cuban Economy* (Washington, DC: Woodrow Wilson International Center for Scholars, Latin American Program Update on the Americas, 2010), figures 2 and 3, p3. See also Emily Morris, "Cuba's new relationship with foreign capital: economic policy-making since 1990," *Journal of Latin American Studies* 40, 769-792.

on larger, strategic joint ventures and, eventually, to focus more attention on state-to-state projects with Venezuela, China and Brazil. There were also a pile of complaints from foreign investors touching on virtually every aspect of business operations, e.g., low profit margins, rigid labor requirements, non-compliance with contracts, delayed access to foreign exchange, and arbitrary, unpredictable actions by government bureaucrats.[9] Intrusive vigilance by the state security apparatus irritated some expatriates unaccustomed to political oversight.

By several key indicators, the Cuban economy continues to underperform:

- The economy has increasingly become a low-productivity service economy. Industrial production has yet to recover its pre-1989 levels. Agricultural output, despite some gains, remains insufficient to feed the population and hefty imports of food staples impose severe pressures on the balance of payments.

- Merchandise exports are a paltry $3-4 billion per year, leaving a chronically large merchandise trade deficit that Cuba struggles to finance, often by accumulating payments arrears.

- Especially debilitating, national savings and investment rates are very low, resulting in the on-going de-capitalization of some sectors, and relegating Cuba to a low-growth trap.

- Cuba's large and rising external debts are a depressive overhang that impedes Cuban access to international capital markets.

By themselves, the economy's more positive developments—in tourism, mining, energy, biotechnology—are insufficient to offset these weaknesses.

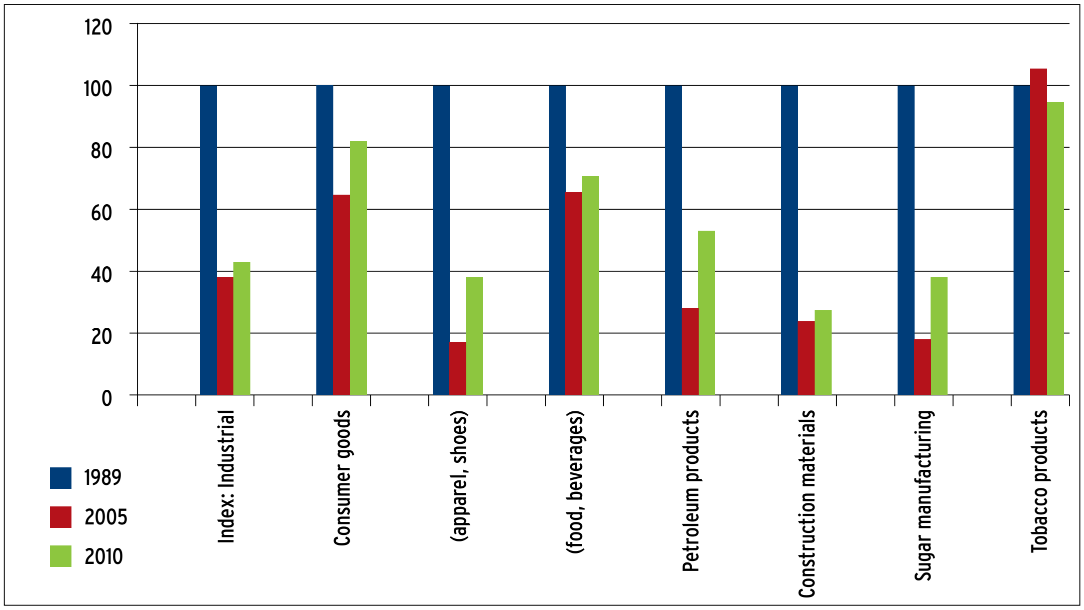
## Lagging Industrial and Agricultural Production

The Soviet-era industrial plant collapsed after the loss of Soviet supplies and markets (Graph 1.1). Despite some recovery from a very deep trough, industrial output stands at only 43 percent of its 1989 levels; food and beverages have rebounded somewhat but apparel and shoe production remain gutted. Industrial employment has fallen proportionately, dropping to 10 percent of today's workforce. Industrial output was stagnant between 2009 and 2010. (There is a silver lining here: Cuba has already absorbed some of the costs of adjustment inherent in industrial restructuring,

[9] Jorge Dominguez, "Cuba's Economic Transition: Successes, Deficiencies, and Challenges," in Dominguez et al. (eds.), *The Cuban Economy at the Start of the Twenty-First Century*. (Cambridge: Harvard University Press, 2004), pp.30-37.

raising hopes that the transition to a more market-oriented system might not have to entail another sharp depression of the sort experienced by some Eastern European economies in the early 1990s.)

## Graph 1.1. Industrial Output, 1989 – 2010




**Source: Oficina Nacional de Estadistica (ONE).**

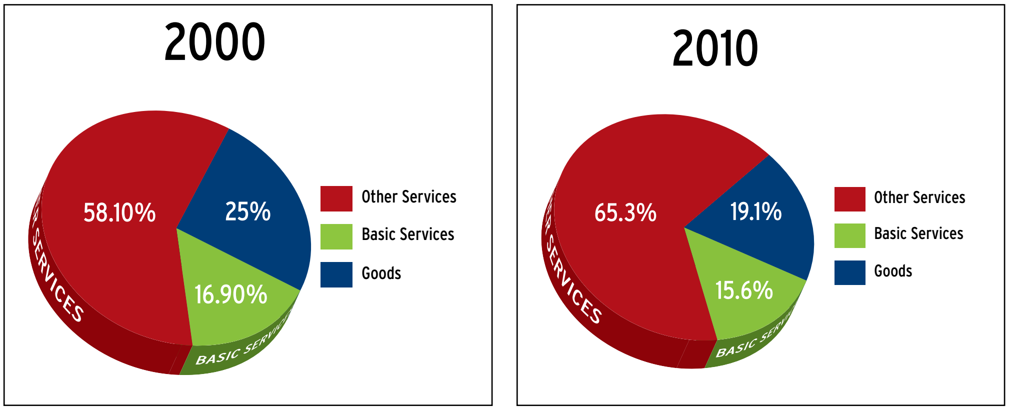
In recent years, agricultural production has been disappointing. By 2010 agricultural output had recovered from mid-decade droughts and hurricanes but only to regain 2000 levels.[10] Distressed farmers complain about shortages of critical inputs such as fertilizers, fuel, and machinery, lack of financial credits, and the repressed prices set by the government for their harvests. Despite government programs to distribute idle lands to farmers, much farmland still lies fallow. As a result of shortfalls in domestic agricultural production, Cuba must allocate scarce foreign exchange to feed the population: in 2008, Cuba imported $2.3 billion in food stuffs including rice ($479 million) and beans ($148 million) and other dietary staples such as powdered milk ($234 million), chicken ($166 million), and fruits and vegetables ($219 million).[11] In response, the government has made increasing agricultural production for domestic consumption a priority.

With industry and agriculture lagging, the goods sector of the economy has shrunk from 25 percent to 19 percent of total production during the last decade (Graph 1.2). In contrast, the service sector has expanded dramatically: basic services (utilities, transportation, communications) plus other services now account for 81 percent of national output. These lopsided proportions might be

[10] Economist Intelligence Unit, *Cuba Country Report*, May 2011, p.14.
[11] ONE, "Imports of selected goods," table 8.13.

appropriate for an advanced economy with high productivity in the service sector. But for Cuba, they are another indicator of a distorted economic development.

### Graph 1.2. The Rise of the Service Sector




**Source: Oficina Nacional de Estadistica (ONE), "Panorama Economica y Social – 2010."**

## Insufficient Investment Rates

Driving these disappointing production results are low national investment rates. The ratio of gross capital formation to GDP averaged about 12.5 percent from 1996-2008, startlingly low by international standards; in a survey of 157 countries, Cuba's investment rate has been consistently below the lowest 10th percentile during the period 1990-2008.[12] Government has fallen short of its own investment targets, realizing only 76 percent of planned investments (2007-2009).[13] Low investment rates are explained by equally low internal savings rates and the limited inflows of foreign capital. In 2009, a biting foreign exchange constraint forced the government to radically squeeze imports, from $14.2 billion in 2008 down to $8.9 billion (Graph 1.3). This harsh shock was engineered by slowing the entire economy: GDP growth during 2009-2010 registered under two percent. The investment/GDP ratio fell to 10 percent in 2009,[14] insufficient to sustain existing plant and equipment no less drive forward economic growth and create quality jobs. Trapped in a vicious cycle, low investment is both a cause and result of this macroeconomic stagnation.

## The Balance of Payments Tourniquet

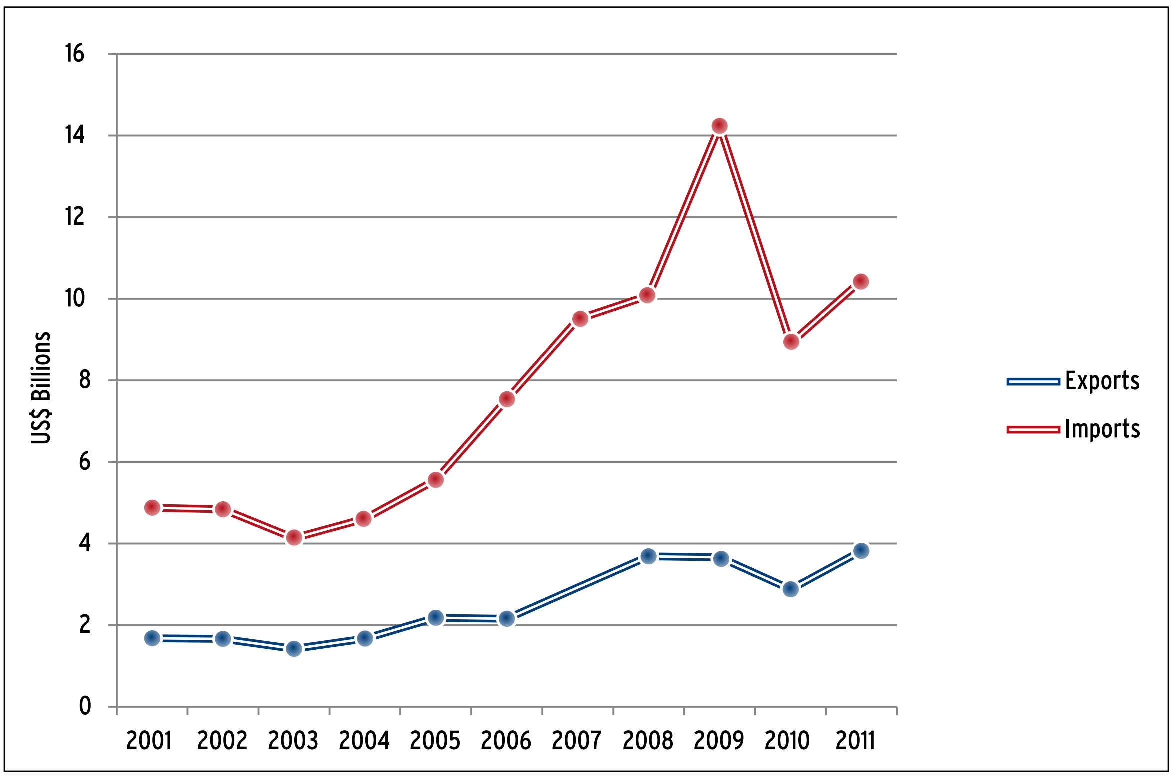
Remarkably, Cuba exports only $3-4 billion per year in merchandise goods, less than ten percent of its annual output. If we factor in reported service exports, which include the heavily inflated value

[12] Di Bella and Wolfe (2009), op.cit.
[13] Omar Everleny Perez Villanueva, "La actualizacion del modelo económico Cubano, " In Mauricio Font (ed.), *Political Economy of Change in Cuba* (New York: Bildner Center for Western Hemisphere Studies, 2011), Figure 1-5.
[14] Oficina Nacional de Estadisticas (ONE), *Anuario Estadistico de Cuba*, national accounts.

attributed to Cuba's transfer of medical and other skilled personnel to its political ally Venezuela, Cuba's ratio of exports of goods and services to gross domestic product would be 20 percent.[15] Even this inflated export ratio is still unacceptably low for a small island economy, reflective of the low international competitiveness of much of Cuba's industrial and agricultural sectors. Compare this vital indicator of competitiveness to the export/GDP performances of Chile (38%), Costa Rica (43%), or Barbados (61%), not to mention Vietnam (68%) or Malaysia (98%).[16]

Cuba's merchandise exports (by volume) have been stagnant since 2000. In its search for foreign exchange, Cuba has become increasingly dependent upon tourism receipts and remittances from Cubans living abroad. As is the case throughout the Caribbean, these sources can be valuable components of a national development strategy, but by themselves they cannot generate sufficient high value-added employment to complement the talents of Cuba's highly developed human resources.

**Graph 1.3. Cuba Merchandise Trade Deficits, 2000-2010**




Source: Economist Intelligence Unit, Cuba Country Report, various

[15] CEPAL, *Cuba: Evolucion Economica Durante 2010*. Cuadro 1: "Cuba: Principales Indicadores Economicos, 2006-2010." Author's calculation based on data for 2007.
[16] World Bank, indicators. http://data.worldbank.org/indicator/NE.EXP.GNFS.ZS.

## External Debt Burdens

An alarming indicator of Cuba's economic status is its external debt picture. Cuba publishes only very partial and delayed statistics on its external debts. According to Cuba's central bank, as of 2007 the "active external debt" totaled $8.9 billion, of which $6.9 billion was medium and long term. In addition, the Central Bank recognizes a "frozen debt" that has not been serviced or restructured since 1986, of $7.6 billion, of which 60 percent is official debt owed mainly to Paris Club creditors.

The European Union office based in Havana has undertaken the yeoman work of pulling together a more complete picture of Cuba's external obligations.[17] The EU paper explains, with regard to this "frozen debt," that negotiations with Cuba's credit group failed in 2001 and Cuba has not made any official contact with the Paris Club since, seeking instead to negotiate bilateral deals. With regard to the "active debt," the EU report notes: "Since January 2009, Cuba no longer honors over the majority of its commitments on active debt and has blocked the transfer of foreign exchange (which amount to over $1 billion). Most creditors are only given the choice between giving up their claim and their assets or restructure the conditions in Cuba." Adding to its poor credit history, the Cuban government does not acknowledge claims by Moscow and other former trading partners in Central and Eastern Europe regarding certain large-scale debts originating in the Soviet era.

The EU paper uncovered $31.6 billion in Cuban external debt, as of 2008, with these major country creditors each owed $1 billion or more: Venezuela ($11.4 billion), Spain ($3.2 billion), China ($3.2 billion), Japan ($2.8 billion), Argentina ($2.0 billion), France ($1.9 billion), Romania ($1.2 billion), and post-Soviet Russia ($1.1 billion).

In short, Cuba is both illiquid and insolvent. Cuba does not publish data on its international reserves, fearing exposure to U.S. sanctions, but it is safe to assume that they are not large, as Cuba has frequently suspended service on international obligations asserting lack of payments capacity. Is it any wonder that Moody's rates Cuba "Caa1," the category where "obligations are judged to be of poor standing and are subject to very high credit risk"?[18] Unable to service or to renegotiate many of its outstanding debts, Cuba is denied access to international capital markets (beyond secured short-term suppliers' credits), compounding the shortages of critical imports and investment capital. Absent recourse to normal commercial credits, Cuba must seek government-to-government official financing for its priority development projects (see Section 2).

---

[17] European Union, *Cuba Country Strategy Paper and National Indicative Programme for the period 2011-2013*. 24 March 2010, "Annex VIII: Debt Sustainability Analysis."

[18] The other two major credit rating agencies, Standard and Poor's and Fitch, do not rate Cuban paper.

## Accomplishments

The reforms of the 1990s did yield some important results. Cuba is gradually regaining its rightful place as a major tourist destination in the Caribbean; by 2010, Cuba was hosting 2.5 million visitors yielding $2.2 billion in gross receipts. Permitting Cuban citizens to receive financial transfers and gift parcels from relatives and friends living abroad has significantly bolstered recipients' purchasing power: remittances, while notoriously difficult to estimate, may total $1.5 billion annually or more.[19] Among the more successful foreign investments, Canadian nickel operations, benefiting from favorable international prices, accounted for the bulk of the $1.4 billion in foreign exchange earnings from mining (2008). Other joint ventures have secured international markets for Cuban tobacco and rum. Exports from the biotechnology pole are beginning to pick up, targeting markets in developing countries.

These are important positive developments and suggest potential bases for future growth. They have not, however, sufficed to place Cuba on a strong sustainable growth path. To overcome the critical problems still confronting the Cuban economy, the government will have to undertake more and deeper policy initiatives.

## Economic Reform "Guidelines": From Distribution to Growth

None of these serious challenges would be news to President Raul Castro. Since Raul, aged 81, assumed presidential powers in 2006 in the wake of the serious illness of his brother Fidel, five years his senior, Cuba has resumed the truncated economic reform process begun during the 1990s. In April 2011 at its Sixth Party Congress, the Cuban Communist Party approved "The Guidelines for the Economic and Social Policies of the Party and the Revolution." A lengthy document, the published guidelines contain 311 points covering a broad range of topics.

Read as a product of an intense bureaucratic process that also entailed broad consultations with academics as well as the general public, the 2011 guidelines are rife with internal contradictions. One can imagine the fierce internal debates between orthodox planners and reform advocates. Single paragraphs contain wording apparently designed to satisfy both parties. Many sectors of the economy are given "priority," and there is a marked absence of sequencing, timelines, or deadlines. The guidelines contain few numbers and no quantitative analyses and are more about goals than

[19] Emilio Morales Dopico, "Envios de Remesas a Cuba: Desarrollo, Evolucion e Impacto." *Cuba in Transition*, Vol. 20. Proceedings of the Association for the Study of the Cuban Economy (ASCE), Miami, 2010. See also Susan Eckstein, "Remittances and Their Unintended Consequences in Cuba," *World Development,* Vol. 38, No. 7, pp. 1047–1055, 2010.

methods, the "what" rather than the "how." Certainly, the guidelines do not constitute a coherent national development model.

In some aspects, the guidelines are reminiscent of the tepid reform documents commonly promulgated during the 1970s and 1980s in socialist Eastern Europe, suggesting that the leadership recognizes that the system is not working, but does not fully grasp the "why"; and the nods in the direction of market mechanisms and non-state management are repeatedly subsumed under genuflections to the hegemony of socialist planning.

Nevertheless, within the 311 points of the Cuban guidelines, reform factions were able to insert language that demands important shifts in thinking which, if acted upon, would transform Cuban political culture and social ethics. The guidelines call for substituting state paternalism in favor of individual responsibility, for shifting from a culture of socialist egalitarianism to "an equality of rights and opportunities," for replacing universal gratuities with targeted subsidies to the most needy, for paying workers according to the quality of their labor—for championing efficiency and growth. And while central planners are repeatedly given the final word, power will be decentralized, to municipalities (metropolitan areas) and to non-state enterprises (self-employed workers, private farmers, franchises, cooperatives of various forms), while state-owned firms will be granted greater managerial autonomy.

The economy's shortcomings discussed earlier are recognized throughout the guidelines:

- The **balance of payments** constraint must be alleviated and exports made more competitive on international markets. (The guidelines discard Fidel's characteristic anti-globalization rhetoric and do not dwell on U.S. economic sanctions.) Tourism policy will offer a range of niche options including golf courses, boat marinas and cruise ships, as well as eco-tourism and health tourism. (Author's note: some of these options would seem to assume a large influx of tourists from the United States.) Other promising export sectors cited include biotechnology and pharmaceuticals, nickel and other minerals, professional services (especially medical but also in sports and culture), a revived citrus and sugar industries, and also free trade zones ("special development zones"). However, no major changes were proposed in the treatment of foreign investment.

- Increases in **agricultural production** will substitute for food imports, through the further distribution of idle state lands and granting management independence to the various forms of cooperatives. Pricing policies should favor production while taking into account the needs of consumers and international prices.

- The **external debt** situation must be normalized to regain access to new financing and new commitments should be "strictly complied with." Firms should also comply with the financial terms of domestic contracts.

- **National savings** must be increased. Subsidies to individuals (e.g., the "libreta" or rations booklet, free meals at the workplace) and to money-losing state-owned firms should be slashed. The tax system should be overhauled.

- **State-owned enterprises** will be granted greater autonomy in labor, investment, and pricing policies. As a rule, state subsidies to firms will be cut and those firms facing repeated losses will be liquidated. (In 2010, state transfers to firms and cooperatives cost 11.2 percent of GDP.[20])

- The **educational system** will become geared to the needs of the economy and updated to yield more graduates in science and technology. Primary education will be rationalized to reflect demographic trends (lower birth rates). Higher education will made more rigorous; in 2010-2011, attendance at universities was reduced by 12.5 percent, in a retreat from Fidel's policies of university education for all.[21]

Especially interesting is the emphasis in the guidelines on decentralizing resources and decisions to the **municipalities**—a process already under way—including in key sectors such as tourism and agriculture. Local firms and cooperatives will pay a tax, to be determined by the central state, to their municipalities. Greater autonomy for non-state enterprises (including cooperatives and private farming) is linked to the gradual strengthening of municipal governments.

However, the precise mechanisms whereby these goals are to be achieved are often left unclear. There is no coherent set of incentives to augment export competitiveness, for example by establishing competitive exchange rates, offering assistance to exporters through affordable trade credits and international marketing networks, enabling competitive cost structures and, more generally, by creating a favorable investment climate for export-oriented firms. Similarly, the aspirations for normalizing external debts are not accompanied by a debt management strategy that would ensure sufficient hard currency and international reserves. Exhortations for agricultural self-sufficiency do not adequately address such key issues as property rights and pricing mechanisms

---

[20] UN Economic Commission for Latin America and the Caribbean (CEPAL), *Cuba: Evolucion Economica Durante 2010* (Mexico City: CEPAL, 2011), table 25, pp.37-38.
[21] ONE, "Panorama Economica y Social 2010," p.16.

(state-run distributors are assured a continuing role in regulating prices).[22] Whether the state will actually refuse credits to money-losing but politically well-connected state-owned firms—that is, impose a hard budget constraint—remains to be tested; precedents from the now defunct socialist regimes of Eastern Europe are not encouraging.

The guidelines set aside other key issues for further study, including the eventual abolition of the dual monetary and exchange-rate systems. The power relations between the state, provincial and municipal authorities remain to be defined. And many reforms are to be implemented "gradually" —a concept invoked repeatedly throughout the guidelines.

The Cuban reform process is a work-in-progress. Some changes are already visible:

- **Self-employment licenses** are being extended to 181 categories of occupations (as of September 2011), and small private firms can hire employees (not just family members, as previously was the case). Commercial districts in Havana are increasingly dotted with new restaurants and small retail outlets, often located within owners' homes. Licenses are being issued for private cabs, barber shops, and beauty salons (Figure 1.2). As of June 2011, the government had issued 330,000 self-employment licenses, 240,000 of which had been issued during the previous 12 months. Some of these activities pre-existed in informal black markets; once legalized, the firms become a source of fiscal revenues.[23] But taxes have been too onerous for some microenterprises that have closed; in response, the government has been revising relevant tax codes.

- Some **state subsidies** are being cut. Items are being deleted from the monthly rations booklets. But the threat to dismiss over 500,000 state employees (10 percent of the national work force) from state payrolls has stalled, due to opposition from unions, public attachment to a paternalistic state, and the obvious shortage of alternative employment opportunities. Apparently, the government had not carefully thought through the sequencing whereby, first, it ought to have created the policy frameworks for enabling self-employment and the formation of small private firms.

---

[22] For an informed critique of the government's agricultural policies, see Armando Nova Gonzalez, "Valoración del impacto de las medidas más recientes en los resultados de la agricultura en Cuba. El Sector Agropecuario y los Lineamientos de la Política Económica Social." (Havana: Center for the Study of the Cuban Economy, June 2011), unpublished paper. See also Armando Nova Gonzalez, "Agricultura," in *Miradas a la Economia Cubana II* (Havana: Editorial Caminos, 2010), pp. 39-85.

[23] Luciana Chamorro, who recently studied at the University of Havana, argues that by legalizing self-employment, the Cuban regime not only increases tax revenues but also co-opts potentially dissident voices. In "The Re-Emergence of Self-Employment in Cuba: The Incorporation of New Practices into the Planned Economy." Undergraduate paper, Princeton University, 2011.

- Some **idle state farmlands** have been distributed. Through April 2011 1.2 million hectares (of a total of 1.9 million hectares) have been distributed to 132,000 beneficiaries, although of these 30 percent have not yet initiated production.[24]

Figure 1.2. Cuban Entrepreneurship: Food Vendor, New Private Restaurant, the Author at a Barber Shop (Havana, June 2011)

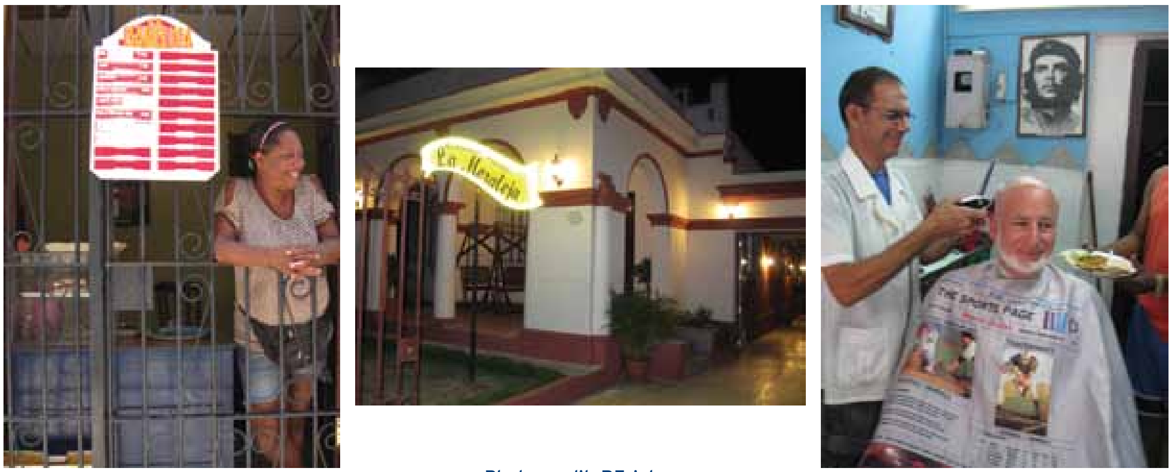


Photo credit: RFeinberg

Other promised changes await the issuance of more detailed laws and regulations. Some may be promulgated at a Communist Party conference scheduled for January 2012. Key reforms to watch for will be:

- **Home ownership**. The 2011 reform guidelines promised new approaches for the leasing, transfer, and renting of real estate as well as for the remodeling and construction of homes. In early November the government issued detailed regulations lifting some but not all of the restrictive rules governing the sale of homes.[24] Not yet fully clear are the conditions under which Cuban-American and foreign investors might be allowed to purchase property. And will financing be made available for home mortgages?

- **Enterprise autonomy**. No issue is more neuralgic for a socialist system than the relations between state and enterprise. Cuban ministries are accustomed to controlling the major decisions governing firm behavior and can be expected to resist genuine decentralization. Will firms be allowed to set wages and prices so as to generate profits and hence become sources of national savings and investment? And will enterprise autonomy include allow-

[24] *Gaceta Oficial de la Republica de Cuba*, November 2, 2011.

ing money-losing firms to go bankrupt—even when managers and workers seek to use their access to influential government and Communist Party officials to protect their interests?

- **Cooperatives**. By one informed estimate based upon government statements, employment in the non-state sector is planned to rise from about 18 percent to 35 percent by 2015.[25] This assumes substantial growth among small and medium-sized private enterprises as well as non-agricultural production cooperatives. Will new regulations provide the requisite policy framework and incentives? For example, might municipalities be empowered to give preferential procurement treatment to local small enterprises and cooperatives?

## The Road Ahead

The guidelines talk little about specific countries that might be the best sources of investment capital for proposed projects or destinations for Cuban exports. In fact, over the last decade Cuba has actively courted commercial relations with nations with whom it shares certain ideological and geopolitical affinities. Cuba's relationships with these emerging market economies (especially Venezuela, China, and Brazil) are the theme of the next section.

The future shape of the Cuban economy will be determined primarily by decisions made by Cubans. But as a small, open economy, the path of Cuban development will inevitably be significantly influenced by external factors. Already international donors have been active in cooperating with Cuban partners in advancing sectors—such as agricultural cooperatives, small farmers, and municipalities—that the guidelines wish to promote. As the guidelines proceed, more opportunities are likely to arise for international cooperation; recent experiences suggest the pitfalls as well as the potential gains awaiting such efforts, as Section 3 will illustrate.

**In an interdependent world, external agents can legitimately provide ideas and resources that lend weight to the reformers in their internal battles to alter the status quo.**

In their ambitions, confusions, and omissions, the guidelines also suggest that there could be important roles for the major international financial institutions (the International Monetary Fund and World Bank, as well as the regional Inter-American Development Bank and the Andean Development Corporation) in assisting the Cuban reform process. In an interdependent world, external

[25] Anicia Garcia Alvarez, Betsy Anaya Cruz y Camila Pineiro Harnecker, "Restructuracion del empleo en Cuba: el papel de las empresas no estatales en la generación de empleo y en la productividad del trabajo." (Havana: Center for the Study of the Cuban Economy, 2011), unpublished paper.

agents can legitimately provide ideas and resources that lend weight to the reformers in their internal battles to alter the status quo.  Furthermore, with their deep financial pockets the international financial institutions have assisted many countries in reducing the costs and hastening the rewards of change. With their accumulated knowledge, the IFIs could also help Cuba to avoid the errors made by others and, with modifications attuned to local circumstances, apply the best practices gleaned from global success stories, as Sections 4 and 5 will suggest.

SECTION 2

# Cuba's Emerging Market Strategy

## The 1990s Opening to the West: Mixed Results

In the 1990s, in the wake of the collapse of its patron, the Soviet Union, Cuba turned to Western Europe and Canada to provide commerce and, most importantly, for direct investments that would bring capital, know-how and access to international markets. Some valuable investments materialized but not in sufficient volume and diversity to place Cuba on a firm growth path. The number of firms investing in Cuba—whether measured by flows or stocks—declined after 2002.[26]

Within Cuba, there are diverse opinions as to why this experiment fell short. More orthodox central planners blame the behavior of international investors. Allegedly, foreigners sought outsized, quick profits, failed to deliver on promised technology and capital, and often engaged in corrupt practices.[27] Some smaller investors, it is said, traveled to the island primarily for "sex tourism." And U.S. economic sanctions, tightened in the 1990s, discouraged firms with major interests in U.S. markets.

More reform-minded Cuban economists argue that, in fact, many of the larger joint ventures have succeeded—notably in tourism and nickel—even as many smaller ones failed. Other investment opportunities were lost for a variety of mistakes made by the Cubans themselves: inexperienced Cuban negotiators failed to adequately understand the workings of specific markets; Cuba failed to maintain orderly payments and access to foreign exchange; and the Cuban government did not

---

[26] Omar Everleny Perez Villannueva, *The External Sector of the Cuban Economy* (Washington, DC: Woodrow Wilson International Center for Scholars – Update on the Americas. October, 2010), figures 2 and 3, p. 3.

[27] Author interviews conducted in Cuba with Cuban officials and economists, and with diplomats, foreign journalists, and international lawyers. June 2011.

take full advantage of the 1995 foreign investment law that allowed, for example, for 100 percent foreign ownership—terms that Cuban bureaucrats, narrowly interpreting "national sovereignty," refused to countenance.

Even among those European and Canadian firms doing business in Cuba, their executives report that the tough bargaining positions of Cuban officials can be time-consuming and tiresome. The Canadian export promotion agency, Export Development Canada (EDC), publicly issues this warning to investors: "The rules for doing business in Cuba continue to be opaque and arbitrary. Cuban bureaucracy is notoriously slow…."[28] Some international investors report that the low profit margins allowed by the Cuban government are tolerable only in light of a long-term corporate strategy, as far-sighted firms seek a toehold in Cuba in anticipation of a brighter future.

Another factor came into play in 2003, when the European Commission, following a political crackdown in Cuba, hardened its "common position" to link future European economic cooperation to an improvement in Cuba's political behavior. This critical diplomatic posture sent a negative signal to potential investors. It also irritated the Cuban government, always sensitive to international criticism, and cooled Havana's interest in doing business with Europe. From the Cuban security perspective, economic relations that carry political conditions are of questionable net value and of uncertain durability. Today, European governments are less "common" in their attitudes toward Cuba, some having softened their posture and re-opened their assistance programs. But European diplomats in general report that a wary Cuban government treats them as "less than friendly"—not as "unfriendly" but not as "friendly" either.

**Even among those European and Canadian firms doing business in Cuba, their executives report that the tough bargaining positions of Cuban officials can be time-consuming and tiresome.**

So the partial economic opening to the West, while not without its fruits, had not been sufficient, by itself, to impart dynamism to the ailing Cuban economy. Political frictions and Cuban attitudes conspired to limit the gains. If Cuba is to compete more successfully for funds, technology, and marketing skills on international capital markets, it will have to create a more favorable investment climate, and one that reflects a more realistic appreciation for the interests and risk tolerance of potential partners.

Cuba continues to court some European and Canadian business partners. But the focus of its attention has turned elsewhere: to the emerging market economies.

---

[28] Export Development Canada, "Cuba," January 2011.

## The South-South Strategy

For decades, Cuba had nursed the vision of South-South economic cooperation among developing countries, as espoused for example by the Non-Aligned Movement (NAM) in which Cuba has been an enthusiastic founder, participant, and host. But that South-South vision was largely an aspirational concept and the NAM was at best a forum for coordinating diplomatic positions and postures. Today, as emerging markets (EMs) have become the world's most potent engines of growth, suddenly the South-South vision has morphed into a tangible reality. From the vantage point of Havana in the 21st century, a strategy that turns to emerging markets looks like a real economic and geopolitical option. Today, approximately 50 percent of Cuban trade (merchandise imports and exports) is with major emerging markets: Venezuela, China, Brazil, Mexico, and Russia (Table 2.1), even as trade remains important with Canada, Spain and other European countries, and with the United States (where exemptions to economic sanctions allow for exports of food and medicine).

### Table 2.1. Cuban Merchandise Trade (Imports and Exports), Leading Partners, 2005-2009

| ($US billion) | **2005** | **2008** | **2009** |
|---|---|---|---|
| **Total** | **9.764** | **17.899** | **11.789** |
| | | | |
| Venezuela | 2.265 | 4.887 | 3.138 |
| China | 0.996 | 2.157 | 1.688 |
| Brazil | 0.352 | 0.641 | 0.578 |
| Mexico | 0.29 | 0.383 | 0.318 |
| Russia | 0.19 | 0.324 | 0.283 |
| | | | |
| **Sub-Total (EM)** | **4.093** | **8.392** | **6.005** |
| | | | |
| Spain | 0.828 | 1.427 | 0.907 |
| Canada | 0.778 | 1.412 | 0.726 |
| US | 0.476 | 0.963 | 0.675 |
| Italy | 0.304 | 0.552 | 0.353 |
| Germany | 0.33 | 0.405 | 0.305 |
| Netherlands | 0.647 | 0.386 | 0.303 |

**Source: Oficina Nacional de Estadísticas (ONE), external sector, table 8.4.**

In contrast to its testy, uneven relations with Europe, the Cuban government is more comfortable with the economic systems and geopolitical postures of its key emerging market partners (except Mexico as we shall discuss). While emerging market economies differ substantially among themselves, they have in common strong state sectors that command ownership of productive units (state-owned enterprises) and that routinely intervene in private markets. Particularly in the case of Cuba's top two EM economic partners, China and Venezuela, official entities play a leading role in orchestrating international economic relations. In the Brazilian case, the national development bank, BNDES, seals the major Cuban transactions with its political weight and concessional credit terms.

While the geopolitical locations and strategies of the major emerging markets are diverse, they tend to share a certain "anti-imperialist" posture and a preference for a multi-polar world where power is more diffuse. Even while they may assiduously nurture good relations with U.S. diplomats and businesses, EMs do not mind poking Washington from time to time; more extreme, Hugo Chavez relishes bashing Uncle Sam. Immersed in their national histories, the EMs share Cuban sensitivities to big power interventionism and harbor strong emotional attachments to the legal and emotive concept of national sovereignty.

Cuba's EM strategy does not exclude on-going economic relations with Europe and Canada, who remain important commercial partners. But the current EM tilt does signal an important shift in Cuba's international economic outlook.

## Venezuela Comes to the Rescue

Like most of the small nations of the Caribbean Basin, Cuba is heavily dependent on energy imports. During the Soviet era, Moscow provided a secure lifeline of petroleum on highly subsidized terms. When the Soviet Union dissolved and Cuba descended into what is euphemistically known as "The Special Period" many Cubans literally went hungry. Then, as a phoenix arising out of a tar pit, Hugo Chavez ascended to power in 1998 and just as petroleum prices began to spike, oil-rich Venezuela extended a fresh lifeline to neighboring Cuba. Chavez idolized Fidel Castro, turning to him repeatedly for political advice and support, while probably hoping that eventually Castro would pass on to him the leadership mantle of the revolutionary left in Latin America. Chavez's approach to governing mirrors that of the Cuban government in a number of important aspects: the primacy of politics and ideology over economic results, the preference for presidential centralism, and the recourse to direct popular consultations and mobilizations.[29]

[29] See Andres Serbin, *Chavez, Venezuela y la Reconfiguracion Politica de America Latina y El Caribe* (Buenos Aires: Siglo XXI, 2011).

**Figure 2.1. Hugo Chavez listens attentively to his mentor Fidel Castro.**


Cuban-Venezuelan trade is politically driven, negotiated as state-to-state deals in the general context of the Bolivarian Alliance for the Americas (ALBA). ALBA deals are non-transparent, but we know, in broad outline, that Venezuela provides its close ally Cuba with subsidized oil and partially offsets these transfers by "purchasing" Cuban medical personnel, teachers and sports trainers and security advisers, involving upwards of 40,000 Cuban professionals (of which perhaps 20,000 are medical professionals).[30] Cuba records these exports of professionals under "services" but does not disaggregate them by type of professional or by country of destination. Venezuela pays the Cuban government which in turn compensates the skilled workers and their families while extracting a large tax.

Cuba today consumes approximately 150,000 barrels of oil per day, 93,000-100,000 of which arrives from Venezuela (the remainder deriving from domestic extraction of crude oil and natural gas production). Under the ALBA agreements, Cuba must pay 60 percent of its Venezuelan oil invoice within 90 days of purchase in the form of bartered goods and services. The remaining 40 percent of the invoice is to be paid in the lapse of 25 years, at an annual interest rate of one percent. According to one estimate, the value of the oil received by Cuba from Venezuela over six years (2003-2009) amounted to more than $14 billion, of which nearly $9 billion has been accounted for in goods and services barter exchanges and over $5 billion in long-term debt.[31] A reasonable estimate for the Venezuelan subsidy implicit in the "doctors for oil" program would be $2–3 billion annually for Cuba—an important sum for a country with annual merchandise exports of $3-4 billion.[32]

---

[30] "Cuba & Global Health Workforce: Health Professionals Abroad." Medical Education Cooperation with Cuba (MEDICC). Available at: http://www.medicc.org/ns/index.php?s=12&p=0

[31] Jose Raul Perales, *The United States and Cuba: Implications of an Economic Relationship* (Washington, DC: Woodrow Wilson International Center for Scholars, Latin American Program, August, 2010); and Jorge R. Pinon and Jonathan Benjamin-Alvarado, "Extracting Cuba's Oil and Gas: Challenges and Opportunities," in J. Benjamin-Alvarado (ed.), *Cuba's Energy Future: Strategic Approaches to Cooperation* (Washington, DC: Brookings Institution,2010), pp. 221-47.

[32] The $2-3 billion estimate is from Center for Democracy in the Americas (CDA), *As Cuba plans to drill in the Gulf of Mexico, U.S. policy poses needless risks to our national interest* (Washington, DC: CDA, 2011), p.13.

Cuba's well-trained professionals work in poor neighborhoods as part of Chavez's programs to expand popular access to social services, and have bolstered his political base and electoral results. The Cuban-backed social programs may have contributed the margin of difference in the critical 2000 presidential contest. In that sense, the swap of Venezuelan oil for Cuban professionals has paid off handsomely for Chavez, if not necessarily for Venezuela.

Cuba also sells pharmaceutical goods to Venezuela, products it has had difficulty marketing elsewhere. Cubans blame U.S. economic sanctions for these commercial shortcomings. Weaknesses in international standardization and marketing may also be factors in limiting Cuban pharmaceutical exports. Cuban lawyers have also been slow to obtain necessary patents in some potential markets such as Mexico. None of these concerns block Cuban trade with Venezuela which imported $164 million in Cuban medicines in 2010.

Venezuelan firms invest in Cuba, primarily in the petroleum sector. Notably, the Venezuelan state-owned petroleum giant PDVSA helped to manage the renovation of the idle Cienfuegos refinery, bringing its capacity to about 50,000 b/pd (Chinese investment promises to triple the capacity, to 150,000 b/pd). According to an authoritative Cuban economist, Omar Everleny Perez Villanueva, Venezuela accounted for 15 percent of the roughly 220 foreign direct investments (FDI) extant in Cuba in 2009 (Spain accounted for another 25% and Canada 14%).[33] The Cuban government does not release data breaking out revenues of FDI by country of origin. We do know that in 2009 of total sales by FDI firms, the petroleum sector accounted for 27 percent, suggesting a significant Venezuelan contribution. PDVSA has been awarded four blocks for exploration in Cuba's Exclusive Economic Zone (EEZ), promising deep-sea oil and gas fields off the island's northwest coast in the Gulf of Mexico (Figure 2.2).

Most recently, Venezuela and Cuba have been negotiating a substantial investment by Venezuelan state-owned enterprises in Cuba's re-emerging sugar industry, according to Cuba's Ministry of Sugar. If these joint venture projects move forward, Cuba hopes they will help to double Cuban sugar exports by 2016 to $400 million. Brazilian private sugar firms have been attempting to negotiate investments for some time, without major success. The Cuban selection of less efficient Venezuelan state firms appears to be driven by favorable financing terms offered by Venezuela and by political criteria.

The Cubans are well aware of the dangers of their dependency on Chavez's largesse. They worry out loud that Chavez will not be in power forever, and even should he win re-election in 2012, as

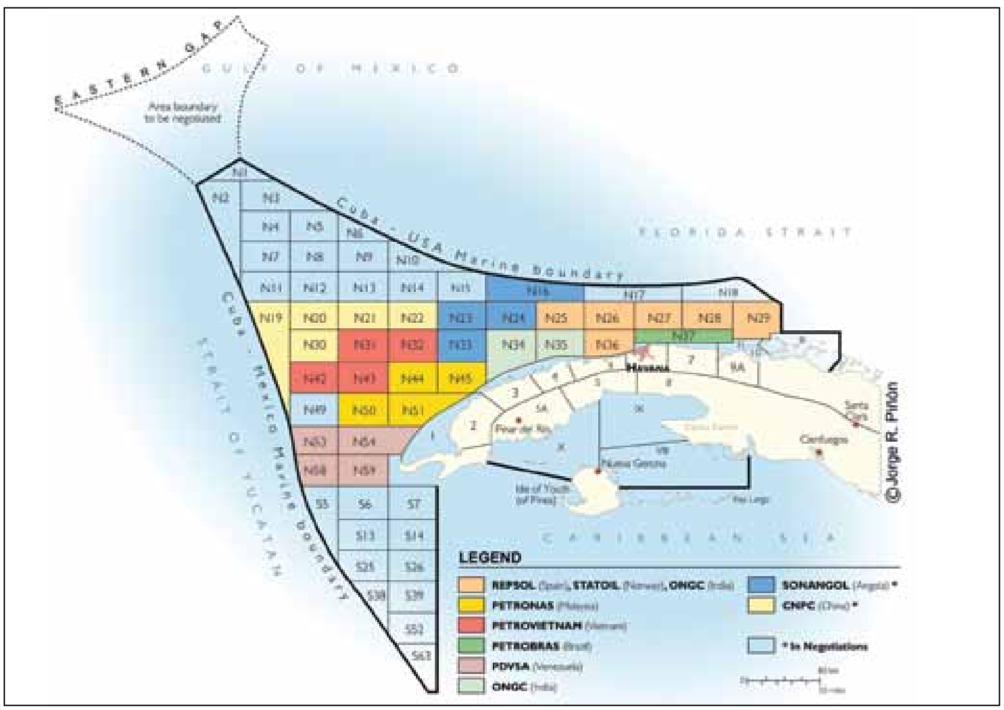
[33] Omar Everleny Perez Villanueva, "La Inversion Extranjera Directa: Experiencias para Cuba." Presentation at the annual conference of the Center for the Study of the Cuban Economy (CEEC), June, 2011, Havana. Perez Villanueva directs the prestigious CEEC, University of La Havana.

appears likely—unless his health seriously deteriorates—Chavez may not be able to afford to continue such generous subsidies.[34] Having suffered severely from the loss of one energy patron, the Cubans do not want to be shocked a second time. Hence, Cuba is seeking to lessen its dependency on imported oil by exploiting its promising off-shore oil reserves and to enhance its food security by increasing domestic agricultural production.

**The Cubans are well aware of the dangers of their dependency on Chavez's largesse. They worry out loud that Chavez will not be in power forever...**

Venezuela is an invaluable partner for Cuba in the short to medium run. In the longer run, Venezuela will remain important if PDVSA is successful in its deep-sea drilling in Cuban waters, and if PDVSA follows through on its schemes to make Cuba a refining and distribution hub for Venezuela's petroleum trade.[35] But Venezuela lacks the economic depth to meet Cuba's many other trade and investment needs in the years ahead. The Cubans are also well aware that Chavez's "21st Century Socialism" brand of big-spending populism is most definitely not applicable in Cuba. Venezuela can be a piece, but only a piece, of Cuba's emerging market strategy. Chavez's Venezuela cannot replace the Soviet Union in one blow.

### Figure 2.2. Concessions for Off-Shore Oil Exploration, Gulf of Mexico




Source: Center for the Study of Democracy in the Americas (2011), p. 17.

---

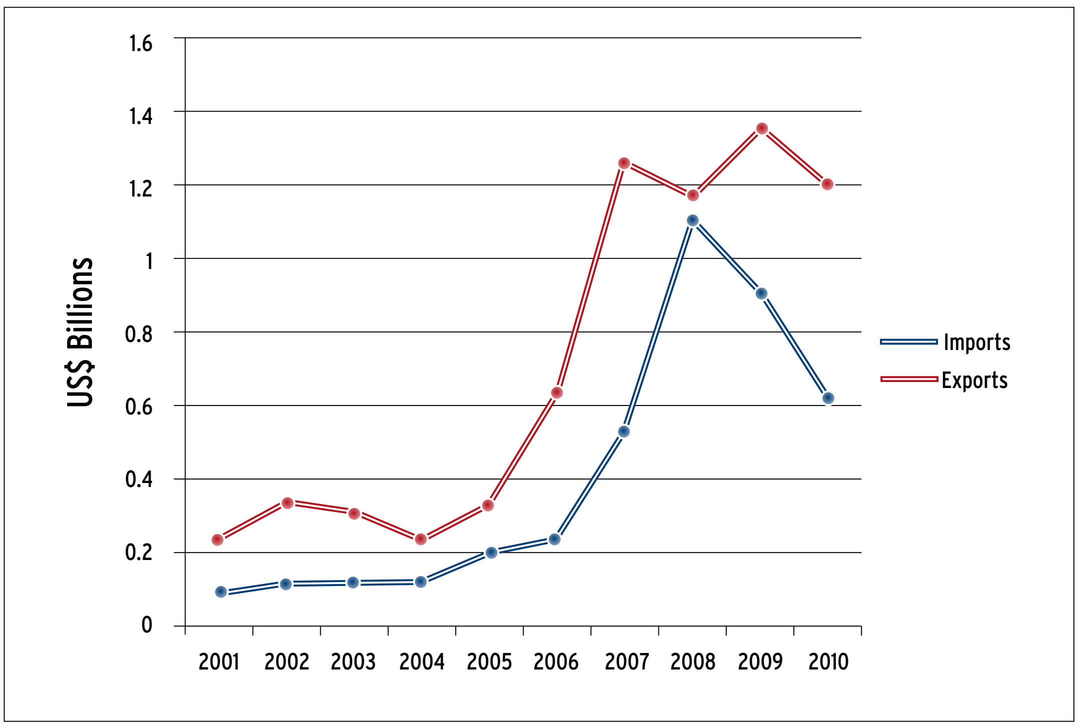
[34] Hugo Chavez admitted to having been operated on in Cuba to remove a malignant tumor in June, 2011. He did not, however, offer details, making it impossible to judge with certainty the severity of the illness. After his operation, Chavez returned to Cuba for chemotherapy treatments.

[35] See Jonathan Benjamin-Alvarado (ed.), *Cuba's Energy Future: Strategic Approaches to Cooperation* (Washington, DC: Brookings Institution, 2010).

## China in the Kingdom of Minerals and Sugar

China has rapidly emerged as Cuba's second most important commercial partner, behind only Venezuela and quickly outpacing Cuba's early post-Soviet leading trading partners, Canada and Spain. In 2010 China sold Cuba just over $1 billion of a wide variety of vehicles, machinery, consumer goods, and industrial inputs. Brightly colored Chinese Yutong buses (despite maintenance problems) are visible throughout the island (Figure 2.3). In return, China imported just under $800 million in goods, primarily nickel and sugar. According to Chinese sources, these sugar purchases are driven less by economic efficiency criteria than by the mutual Chinese-Cuban interest in reducing the bilateral trade imbalance (Table 2.2).

### Graph 2.1. Cuba-China Merchandise Trade, 2000-2010




Source: IMF, Direction of Trade Statistics, various.

Chinese firms have made a number of modest joint venture investments in Cuba. Taiji Farms grows rice for domestic consumption. Other joint ventures produce shoes, bicycles, and home electrical appliances.[36] Red Chinese flags fly over the Chinese National Petroleum Company (CNPC)-Cuban joint venture on-shore oil drilling fields on the north-central coast (Figure 2.4). CNPC investments

---

[36] Author interviews with Chinese diplomats, 2011. Also see Mao Xianglin et al., "China and Cuba: Past, Present, and Future," in Adrian H. Hearn and Jose Luis Leon-Manriquez (eds.), *China Engages Latin America: Tracing the Trajectory* (Boulder: Lynne Rienner, 2011), pp. 187-201.

in five blocks pertaining to the EEZ off-shore oil and gas fields are also under discussion. If these energy investments materialize, China would add petroleum to nickel and sugar as its major commodity imports from Cuba. Chinese-Cuban relations are given a degree of symmetry by Cuban SOE investments in China, in hotels, tourism, pharmaceutical production (of anticancer drugs and interferon), and ophthalmic hospitals.

### Figure 2.3. Yutong Buses in Havana


Photo credit: RFeinberg

### Figure 2.4. CNPC-Cupet Oil Rig, North-Central Coast of Cuba.

Photo credit: RFeinberg

Over time, China has undertaken 70 development assistance projects (separate from joint ventures) in Cuba, a combination of donations and low-interest credits, according to the Chinese embassy in Havana.[37] These have included two hydro-electric projects, agricultural irrigation, a duck farm, blood bank equipment, housing construction, and donations of medicine and school books.

In June, 2011 visiting Chinese Vice President Xi Jinping (and possible future president) and CNPC President Jiang Jiemin signed memoranda of understandings with the Cuban government and national oil company, Cupet, on a wide range of issues including possible large Chinese investments (up to $5 billion according to authoritative Cuban sources) in expanding the Cienfuegos and Matanzas oil and gas refineries. However, Chinese officials privately emphasize that these MOUs were merely general statements of intentions and that the hard details are still to be negotiated. Other MOUs touched on debt restructuring, investment protection, prospective non-interest bearing assistance credits tied to Chinese exports, and future aid donations. Among topics for technical cooperation were university research laboratories, standards for digital television, banking supervision, and economic planning ("Cuba needs assistance in making five-year plans," said one Chinese official privately).

**Chinese officials downplay Chinese interests in Cuba.... In fact, China has long held a diplomatic interest in Cuba.**

Chinese officials downplay Chinese interests in Cuba: "It's just another commercial partner, there is no special relationship," noting that even within commercial terms, the $2 billion in annual two-way commerce is but a small portion of Chinese trade with Latin America and the Caribbean. In fact, China has long held a diplomatic interest in Cuba.[38] In the early days of the revolution, Cuba recognized the People's Republic of China—the first Latin American country to do so. Che Guevara led an economic delegation to China in November 1960. But when Fidel Castro allied with the USSR, relations with China deteriorated. History took another turn with the passing of the Soviet Union. Chinese President Jiang Zemin visited Cuba in November 1993 and Fidel Castro paid a return visit to China in 1995. Raul Castro has visited China twice, in one visit spending 20 days to tour six provinces. Today, Cuba backs Chinese positions on Taiwan and Tibet, and the two nations share similar views on "anti-hegemonism" and "non-intervention" and preferences for a more multi-polar world order.

---

[37] China typically does not release precise numbers on their development assistance. See Carol Lancaster, *The Chinese Aid System* (Washington, DC: Center for Global Development, 2007). See also Congressional Research Service (CRS), *China's Foreign Aid Activities in Africa, Latin America, and Southeast Asia* (Washington, DC, CRS, February 25, 2009). Available at: http://www.fas.org/sgp/crs/row/R40361.pdf. Also, Ken Miller, "Coping with China's Financial Power," *Foreign Affairs,* Vol. 89, No. 4, July/August 2010, pp. 96-109.

[38] Pin Zuo, "A Survey of the Relationship Between Cuba and China: A Chinese Perspective," *Cuba in Transition*, Vol. 20. Proceedings of the Association for the Study of the Cuban Economy (ASCE), Miami, 2010.

For China, a growing presence in Cuba strengthens a friendly regime similarly ruled by a communist party, and fits into a global strategy of expanding Chinese presence throughout the developing world.[39] Chinese officials assure U.S. diplomats that they have no intention of challenging U.S. security interests in the Western Hemisphere, but Chinese trade and investments, *de facto*, soften the impact of U.S. economic sanctions against Cuba. Geopolitically, Beijing would prefer a reduced U.S. presence in its own Asian neighborhood, and may imagine that a Chinese presence in the Caribbean serves as an off-setting asset—one that might, some day, be a useful bargaining chip in a global realignment of forces.

For Cuba, the growing Chinese presence has obvious economic and geopolitical advantages. This will be especially so if Chinese national oil companies (NOCs) are successful in their off-shore explorations and realize big investments in refinery expansion. And China fits squarely into Cuba's emerging market strategy. More subtly, China may help to balance Venezuelan influence and offer a more durable partnership.

Chinese-Cuban relations are not without strains. China is frustrated by the slow place with which Cuba is dismantling its Soviet-era economic centralization: "In a world that is advancing by giant steps, socialist Cuba can catch up and surpass others only by moving rapidly to break out of its intellectual straightjacket and intensifying its reforms."[40] One former Latin American ambassador recounted to the author how his Chinese counterpart "used to tear his hair apart" at the slow pace of Cuban economic reform. The Chinese have been upset when Cuba, more than once, has suspended foreign exchange transfers on credits and investments. According to press reports, Cuba's external debt to China reaches $4 billion.[41] Various joint projects have run into serious problems, and other oft-mentioned joint investment concepts have failed to materialize altogether, such as nickel extraction in Camariocas and a luxury hotel on Havana's Marina Hemingway. For the Chinese-Cuban partnership to fully flower, Cuban economic reform will have to proceed apace. The key constraint slowing Chinese-Cuban exchange is Cuban domestic economic policies.

## Brazil in its Near Abroad[42]

Emergent Brazil's special interest in Cuba obeys several motives. The Brazilian and Cuban economies have salient complementaries—in the sugar industry, off-shore petroleum, pharmaceuticals,

[39] Richard L. Bernal, "The Dragon in the Caribbean: China-CARICOM Economic Relations," *The Round Table*, Vol. 99, No. 408, 281-302, June 2010. See also Richard Feinberg, "China, Latin America, and the United States: Congruent Interests or Tectonic Turbulence?" *Latin American Research Review*, Vol. 46, No. 2, pp. 215-224, 2011.

[40] Mao Xianglin and Mariana Ortega Brena, "Cuban Reform and Economic Opening: Retrospective and Assessment," *Latin American Perspectives*, Vol. 34, No. 6, pp. 93-105, 2007.

[41] Marc Frank, "Nota de Prensa," Reuters, La Habana, December 23, 2010.

[42] This section draws heavily from a memorandum generously provided to the author by the Brazilian Embassy in Washington, DC, "Relacoes Bilaterais Brasil-Cuba," June 2011.

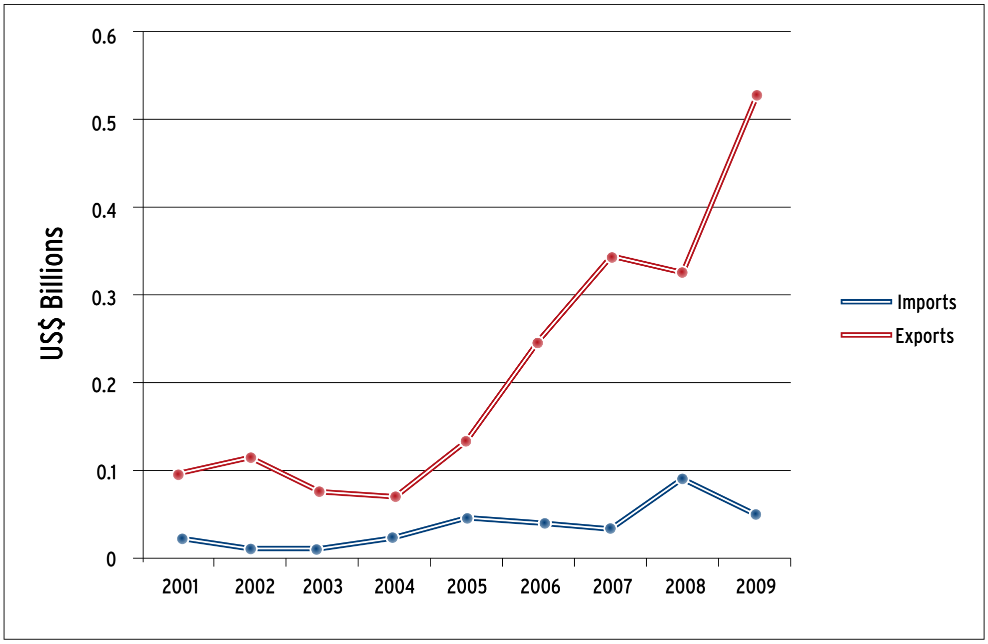
and infrastructure construction—that attract Brazilian exporters and investors. In the diplomatic realm, the accelerating Brazilian drive toward hegemony in Latin America and influence throughout the developing world steers it naturally to Havana Harbor; Cuba is easily the largest of the Caribbean islands, and Cuba retains considerable prestige in certain circles worldwide. Brazil would cherish Cuban support for its overriding ambition to gain a permanent seat on the U.N. Security Council. Although Brazilian diplomats are quick to deny it, there is fierce competition between Brasilia and Caracas for leadership throughout the Americas, and nowhere is this head-to-head rivalry sharper than in Cuba.

There are also matters of ideology and domestic politics that contribute to Brazil's special interest in Cuba. Within Brazilian internal politics, the more left-wing faction of the governing Workers Party has an historic affinity with revolutionary Cuba and wants Brazil positively engaged on the island. More generally, Brazil touts its modern social democratic model of development, in contrast to Chavez's "21$^{st}$ Century Socialism," and if Brazil could nudge Cuba gradually toward its ideological direction, that would be a major diplomatic accomplishment.

The expanding Brazilian economy is spreading its tentacles throughout the Caribbean Basin. Although still modest, Brazilian-Cuban trade has grown in recent years. Two-way merchandise trade hovered around $600 million in 2008-2009 and will approach a projected $800 million in 2011, according to official Brazilian sources. Brazil enjoys a significant trade surplus; in 2010, Brazilian exports reached $415 million as against imports from Cuba of just $73 million (Table 2.2). Brazilian exports spanned a range of agricultural and industrial products, notably petroleum derivatives, soy, and meats, while Brazilian imports were concentrated in Cuban pharmaceutical products and minerals.

Brazilian businesses have shown keen interest in the island. For fifteen years, the small but successful joint venture between Souza Cruz and TabaCuba, 'BrasCuba," has been producing and marketing cigarettes. Petrobras hopes to sign a joint venture with Cupet (51% Cupet, 49% Petrobras) to build an oil lubricants factory for domestic consumption, requiring a $50 million investment by Petrobras.

### Table 2.2. Cuba-Brazil Merchandise Trade 2000-2009




Source: IMF Direction of Trade Statistics, various.

In by far the most impressive Brazilian business deal, the giant Brazilian construction firm, Odebrecht, is the lead firm in a $957 million project, already underway, to expand and modernize the strategic port of Mariel. The Brazilian national development bank, BNDES, which promotes Brazilian exports with relatively long-term, concessional credits, is financing up to $682 million (85% for Brazilian goods and services) in support of Brazilian participation. Ownership of the Mariel port, however, will remain Cuban, in the hands of the Grupo de Administracion Empresarial (GAE) of the Ministry of the Armed Forces (MINFAR).Within ten years, the Mariel port is projected to include a terminal for petroleum coming from deep-water drilling as well as a free trade zone for light manufacturing.[43] (In contrast, Brazil was excluded from participating in the expansion of the Cienfuegos refinery complex, the large project assigned by the Cuban government to China.)

One disappointment has been the off-shore drilling experience of Petrobras. Assigned block N-37 (Figure 2.2), Petrobras recently decided to discontinue prospecting, asserting that the costs of drilling would not be justified based on its geological studies. The increasingly global company claimed to be preoccupied with many other projects. Yet, according to reliable sources, Dilma Rousseff told President Barack Obama during his May 2011 visit to Brazilia that the Petrobras decision

[43] See the promotional video on YouTube, Proyecto Mariel.avi. Interestingly, the MINFAR-produced video asserts that the expanded port will be able to service the container cargo passing through the expanded Panama Canal to the Eastern seaboard of the United States. This would assume amendments to current U.S. law prohibiting ships docking in Cuba on their way to U.S. ports.

was partly motivated by interest in avoiding conflict with the United States over investments in the Cuban petroleum business; that the Petrobras decision was communicated directly to Havana by Marco Aurelio Garcia, the presidential national security advisor and key political-ideological link of the Workers Party to the Cuban Communist Party, was telling. Nevertheless, Petrobras maintains an office in Havana, and could return to the Cuban off-shore fields if economic and political conditions were to become more propitious.

A number of other Brazilian firms are exploring investment opportunities in a variety of products: powdered milk, fruit-based energy drinks, poultry hatcheries, aluminum cans, flat glass, and the development and marketing of high value-added medicines. Investments in sugar and ethanol are also being discussed; Brazilian experts believe that Cuban soil compares favorably to the best lands in Brazil but so far Cubans, sensitive to a return to foreign ownership in the sugar industry, have been proposing not a joint venture but rather a Brazilian management contract. Brazilian diplomats report that discussions are on-going.

Brazil's young foreign assistance agency, the Brazilian Cooperation Agency (ABC), which is lodged within the powerful "Itamaraty" foreign ministry, financed a number of small technical assistance projects during 2006-2008, e.g., short-term consultancies by Brazilian experts in soil analysis, tomato genetics, geo-statistics techniques, water supply and sanitation, soy production, environmental impact assessments in mining, marine pollution, breast-milk banks, and the reciprocal transfer of dentistry technologies and the procedures to register medicines in both countries.[44] Currently, ABC has a dozen small consulting projects in execution, in agriculture, geology, sanitation and health including in HIV/AIDS. In addition, a November 2010 Brazilian team proposed further technical assistance in more controversial areas such as micro credits, capacity-building for small entrepreneurs, and the management of financial institutions—and are awaiting a reply from the Cuban government. In August 2011 the prestigious Brazilian Institute of Geography and Statistics (IBGE) signed a two-year technical cooperation agreement with Cuba's National Office of Statistics (ONE), to assist Cuba in upgrading its national social and economic statistics.

Brazilian diplomats and corporate executives would like to do more business in Cuba but are frustrated by Cuban attitudes that, in their view, prefer political "control" to economic production, the apportionment of projects by political as opposed to price criteria, and by Cuba's restricted export and payment capacities. One skeptical Brazilian diplomat opined that a change in Cuban attitudes toward foreign commerce "would require a change in the narrative that blames all problems on external causes." But one of his colleagues said that "the depth and rhythm and real changes

[44] www.aiddata.org

underway in Cuba are not fully appreciated in Washington. Brazilian companies are keeping an open eye on the island."

## Mexican Divorce

In the early years of the Cuban revolution, Mexico and Cuba were proud of their fraternal relationship, based on shared perspectives of international relations and approaches to political power. In the 1980s and early 1990s, it looked as though these strong diplomatic ties might be complemented with economic exchanges. But in the last decade, Mexico and Cuba have experienced a "difficult divorce."[45] And both "exes" have become less interested in the other, moving on toward other horizons.

In the 1960s, among the Latin American republics only Mexico stood by the young Cuban revolution, voting against the 1962 resolution to suspend Cuban participation in the OAS, and refusing to comply with a 1964 OAS resolution calling upon members to break diplomatic relations with Havana. In those years, Mexican diplomacy was rooted in the principles of non-intervention and national sovereignty and was eternally wary of U.S. coercive power. The governing Institutionalized Revolutionary Party (PRI) still recalled its revolutionary origins, and its own authoritarian governance was not offended by Castro's political style. Pragmatically, the PRI and Castro cut a deal: Mexico would not criticize Cuba, and Castro would not seek to incite the Mexican domestic left against the governing PRI. In retrospect, this mutual non-aggression pact suggested that the Mexican-Cuban marriage was not entirely romantic in nature, and that shifting political currents could cause each partner to re-assess his/her interests.

At least two Mexican presidents found a useful friend in Fidel Castro. President Luis Echeverria visited the island in 1975, as part of his effort to project himself as a left-leaning leader in the Third World. A decade later, President Carlos Salinas welcomed Castro to his 1988 inauguration, pleased at this endorsement following the evident fraud in the presidential balloting. Salinas promoted trade and investment with Cuba; Castro had told the outgoing Mexican president, Miguel de la Madrid, that he favored Mexican investment in Cuba, and Salinas convened a dinner of leading Mexican business executives to meet with Castro.[46]

[45] I am indebted to Professor Ana Covarrubias, El Colegio de Mexico, for this felicitous phrase. Interview in Mexico City, July 29, 2011.
[46] Ana Covarrubias, "Mexico and Cuba: the end of a convenient partnership," in Marifeli Perez-Stable, *The United States and Cuba: Intimate Enemies* (New York. Routledge, 2011), p.200, fn. 19.

Mexican investments began to flow to Cuba, notably in tourism, textiles, telecommunications, and cement making. Mexican merchandise exports jumped from $104 million in 1990 to $432 million in 1995. But rather than these new commercial flows auguring a promising economic partnership to deepen the diplomatic marriage, the mid-1990s turned out to be a high point—after which, relations quickly deteriorated.

For its part, Mexico began to change. The same Carlos Salinas that had courted Fidel Castro decided that Mexico's economic future lay with the United States and in 1990 approached President George Bush to negotiate a bilateral trade opening that become the North American Free Trade Agreement (NAFTA). While Salinas himself adhered to traditional PRI political forms, his economic reforms opened the path to political change. His successor, Ernesto Zedillo, a disciplined economist who insisted upon democratic norms, began to distance Mexico from Cuba. When Zedillo visited Havana in 1999, he spoke out openly in favor of democracy, and his foreign minister, Rosario Green, broke all previous protocol and met with prominent Cuban dissidents. Castro took these new turns as indications that Mexico was abandoning its "independent" positions in favor of a more pro-U.S. and therefore anti-Cuban posture.

If Castro was distrustful of Zedillo, his relations with Zedillo's successor, the more conservative Vicente Fox, occasioned a very public falling out. Fox's feisty foreign minister, Jorge Castaneda (who had himself journeyed from the Marxist left to anti-left social democrat), believed that Mexico could use its new democratic credentials to strengthen its diplomacy. Castaneda seemingly went out of his way to criticize Cuba's human rights policies. And famously, just prior to a 2002 United Nations summit on international development in the city of Monterrey, at the request of the White House, Fox asked Castro to "eat lunch and leave" so as not to be around when President George W. Bush arrived—a phone conversation that an offended Castro made public. By 2004, both countries had recalled their ambassadors—the diplomatic equivalence of a nasty divorce.

Mexican businesses had already become disaffected with Cuban economic management.[47] Firms complained that there were no laws or fixed rules, that Cuban officials felt no compulsion to honor agreements or make timely payments. Some firms felt the heat of what they judged unfair or disloyal competition from state-owned enterprises. Others complained about legal and administrative insecurities, about government regulations that were arbitrarily tightened to squeeze any visible profits, or about sudden government audits intended to intimidate or extort (and about constant wire tapping by Cuban authorities). Some considered that these antagonistic restrictions were po-

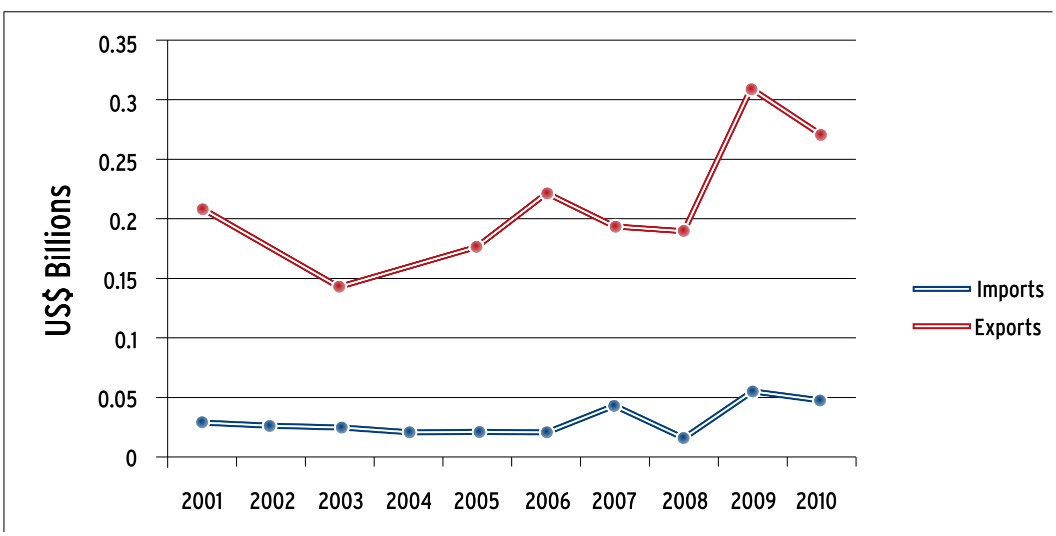
[47] These observations are based on interviews, conducted in Washington, DC and Mexico City in 2011, with informed Mexican business experts, diplomats, academics, and journalists, who preferred to remain anonymous. See also Demetria Tsoutouras and Julia Sabebien, "Mexico-Cuba Commercial Relations in the 1990s," in *Cuba in Transition*, Vol. 8. Proceedings of the annual meeting of the Association for the Study of the Cuban Economy (ASCE), Miami, 1998.

litically motivated—payback for the Mexican government's criticisms of Cuban political practices. Some of the major Mexican investors withdrew; for example, Mexican telecommunications interests sold out to an Italy firm.

Mexican traders and investors also found that Cuban payments in hard currency were irregular. Mexican exporters discovered that letters of credit were not honored and investors were notified that their hard-currency accounts had been frozen; even when deposits for dividend repatriations had been made in Cuban banks, the authorities would not authorize transactions in hard currency. As arrears accumulated, Mexico's semi-autonomous export credit agency, Banco Nacional de Comercio Exterior (Bancomext) agreed to a restructuring of some $400 million in Cuban debts. As part of the deal, Bancomext re-opened a revolving line of trade credits, but in small amounts—indicative of a loss of confidence in both Cuban capacity and willingness to service its external obligations.

At one point when Cuba was behind in payments to the Mexican national oil company, Pemex, it suggested that Pemex consider taking over management of Cuban oil refineries. Pemex declined, lacking confidence that Cuba would honor any agreement. (Moreover, unlike other national oil companies such as Petrobras and PDVSA, Pemex has concentrated its activities at home. Pemex may also have been wary of U.S. legislation imposing sanctions in U.S. markets on firms engaged in certain business transactions in Cuba.)

Table 2.3. Cuba-Mexico Merchandise Trade, 2000-2010




Source: IMF Direction of Trade Statistics, various

In 2010, Mexican merchandise exports were only $307 million—below the 1995 peak (Table 2.3). Mexican sales of chemicals, plastics, fertilizers, and metals reflected Cuban priorities in procuring necessary inputs for agriculture, nickel, tourism and other industries. These modest sales reflect

Cuba's insolvency and the decision by the Mexican authorities not to provide subsidized credits. Mexican officials argue that to do so would contradict Mexico's market-oriented development strategies: "We don't follow the logic of giving away money." Mexicans also feel that trade based on financial subsidies is not sustainable over the long run.

Mexican imports from Cuba are tiny, surpassing $50 million a year only twice since 1990 (Table 2.3). Mexican trade experts explain that the little that Cuba has to export is often assigned to other markets, e.g., cigars to Spain or rum to Europe. "What else do they have—they can't sell Revolution Square!" Cuban pharmaceuticals represent a potential export but Cuban firms have been slow to acquire the necessary patents and other Mexican government permits. Mexico has not shown interest in any large-scale purchase of Cuban medical personnel or other skilled professionals, as Venezuela has done.

Mexican president Calderon has sought to reduce bilateral tensions and has urged his ministries to enhance Mexican-Cuban economic exchange. But Mexican global trade now totals $600 billion, and Cuba's small market has nearly disappeared from view: the romantic moment has passed and Cuba is now a low commercial priority. Arrears are once again accumulating, and no new major Mexican investments appear on the horizon. Mexico is closely watching developments in Cuba but there is some skepticism among experienced observers about the current regime's ability to reform itself. Even one rather sympathetic Mexican official asked: "How far will the reforms go, and how fast—it's all very uncertain."

The 1996 Helms-Burton Act (see Section 4), which threatens sanctions against firms and their executives engaging in certain transactions in Cuba, has inhibited some large Mexican firms, such as Cemex and Pemex, which have big stakes in the U.S. market, from investing in Cuba. (A Mexican law prohibits Mexican firms from cooperating with Helms-Burton, but doesn't alleviate the corporate headache from litigation in US courts. Numerous international companies, including some Mexican ones, have sought to circumvent Helms-Burton sanctions by setting up legally independent entities registered offshore, as in small Caribbean islands.) Many of the Mexican firms doing business with Cuba are small and medium-sized enterprises with little or no exposure in U.S. markets. Observers feel that, in most cases where Mexican firms have decided against doing business in Cuba, factors other than Helms-Burton—country risk, credit risk, small and stagnant markets, political uncertainties—were decisive.

One notable exception to Mexican withdrawal from Cuba is Grupo Altex, whose joint venture wheat flour mill company, IMSA, supplies much of Havana's daily bread consumption. The plant was once the property of Mexico's Grupo Bimbo, but the multinational food company feared that its large exposure in the United States made it vulnerable to Helms-Burton sanctions. Although associated with Bimbo, Grupo Altex is structured as a separate legal entity. As its profitability is assured by cost-plus pricing (sales prices fixed by the Cuban government over the costs of inputs and production), Altex has expanded its operations. But the Altex success story stands in sharp contrast to the wider Mexican disappointment.

Mexicans interested in Cuba recall being especially distraught when Carlos Lage and Felipe Perez Roque, internationally-oriented officials who represented a potential transition generation, were purged without cogent explanation in March 2009. Perhaps these capable Cubans reminded the Mexicans of their own generation of reformers that had moved Mexico forward in the last two decades. Public opinion polls show that younger Mexicans, barely aware of the 1959 revolution, are less interested in Cuba and less sympathetic to the regime in Havana.[48] Mexico, like Cuba, now has other interests.

## Lessons and Limitations

From the perspective of the Cuban government, the new focus on emerging markets is a savvy strategic move. While Cuba and its EM partners differ in important respects, they share critical economic and geopolitical interests. Cuba and its EM partners are comfortable with state-to-state transactions that include subsidized finance and other non-market elements. In particular, their large state-owned firms are accustomed to acting upon political direction and covering losses in politically-driven transactions with cross-subsidies. Furthermore, Cuba and its EM commercial partners share a core geopolitical interest: building a more multi-polar world where U.S. power is diminished. The Venezuela of Hugo Chavez makes that goal the core of its diplomacy. While China and Brazil seek cordial relations with the United States, there should be no illusions but that they also seek a diplomatic environment where their respective power gains at the expense of the United States. The Russia of Vladimir Putin, who has begun to re-engage in Cuba, shares that geopolitical aspiration.

The EM strategy is already yielding important investments. With their stakes in Cuban refineries and on-shore exploration and drilling, Venezuela and China are lessening Cuban energy dependence. If their investments (with other energy companies) in off-shore petroleum explorations and drilling bear fruit, Cuba even could become a net energy exporter. Also significant is Brazil's investment in

---

[48] Centro de Investigaciones y Docencia Economicas (CIDE), "Mexico y el Mundo." Available at: http://mexicoyelmundo.cide.edu/

the modernization and expansion of the Mariel port complex, which could not only return Cuba to its historic role as a transportation and logistics hub in the Caribbean but could also help to make Cuba a cost-effective site for light industry and assembly plants integrated into regional markets. In addition, Brazilian and Venezuelan investments could revitalize Cuba's sugar industry, for use as sweeteners or bio-mass inputs into alternative energy.

Again, these EM transactions are not in opposition to Cuba's continuing relations with Europe (especially with Spanish hotel and tour operators) and Canadian mining and tourism. The new EM partners can co-exist peacefully with the older Western partners.

**Yet, there is a disturbing pattern in Cuba's international economic relationships. With time, Cuba's partnerships seem to sour, whether due to the partner's own ill fate (the Soviet Union and—perhaps—the Venezuela of Hugo Chavez), or due to disenchantment...**

Yet, there is a disturbing pattern in Cuba's international economic relationships. With time, Cuba's partnerships seem to sour, whether due to the partner's own ill fate (the Soviet Union and—perhaps—the Venezuela of Hugo Chavez), or due to disenchantment, as partners find doing business with the Cuban state tiresome and excessively costly. In some cases, the commercial partner has evolved toward a more market-oriented model and has grown impatient with Cuban orthodoxy; Mexico, but also India, once an enthusiast of the Cuban revolution, discovered that they had less and less in common with Cuban central planning. Already one feels that the latest set of new partners, China and Brazil, are dissatisfied with many Cuban commercial practices and attitudes. Time and time again, Cuba delays and defaults on payments on profits and on serving debts, as though sentiments of solidarity should be sufficient to supersede commercial contracts.

In principle, the emerging market strategy could be a viable course of action for Cuba, providing it with a diverse and complementary set of international commercial partners and geopolitical allies. Geography and the complementary strengths of the U.S. economy dictate that exchange with the U.S. mainland would be the most efficient option, yet the South-South vision offers a reasonable second-best solution. But no international economic strategy will work unless Cuba can transform itself into a more efficient and reliable business partner. No set of geopolitical alliances will provide Cuba with the capital and technology it needs unless it creates a more welcoming investment climate. And no international alliances, by themselves, will be sufficient to provide the long-suffering Cuban citizens with the labor productivity and decent employment they deserve. The ball is in the court of the Cuban policymakers.

## Implications for Cuban Economic Reforms

What does the emerging market strategy imply for Cuban economic reform? As compared to the market-oriented liberal democracies of Europe and Canada, countries comfortable with strong interventionist states should be less inclined to pressure Cuba for economic—and political—decentralization. Certainly that would be the case with the Venezuela of Hugo Chavez. But assessing the attitudes of China and Brazil requires more nuance. Cuba irked the Chinese when it suspended foreign exchange payments during a 2008-9 financial crunch. Today, the commercially-minded Chinese press the Cubans for investment deals that meet basic business tests for financial efficiency and secure servicing of debts. According to a Chinese diplomat in Havana, "Chinese banks want business terms, they want to see borrowers' profitability and means of repayment—and they demand Chinese government guarantees."[49] Some observers opine, albeit with some exaggeration, that China has become Cuba's IMF!

The Brazilian posture appears ambivalent. Private Brazilian investors look for commercially viable deals. The Brazilian government has offered Cuba technical assistance that would reflect Brazil's own experiences with a mixed economy Yet the major Brazilian deals, where BNDES or Petrobras is involved, are driven at least in part by Brazilian geo-political goals and non-market considerations. Brazil has not conditioned the Brazilian-Cuban economic partnership on Cuba's political behavior; Brazilian diplomats generally refrain from publicly criticizing Cuba's human rights policies. But it could be argued that, by example, Brazil's vibrant democracy represents an alternative political model to Chavez's more authoritarian style.

Overall, emerging market partners are less likely to push hard for market reforms and are less prone to invasive political postures. However, there are mounting EM pressures for greater economic efficiency—pressures that the pro-reform factions within Cuba may welcome. In the absence of significant economic reforms in Cuba, EMs are likely to limit their risk exposure.

In the realm of global diplomacy, the EMs are gaining market shares not only in international commerce but also within international institutions. The recent reallocation of voting rights in the International Monetary Fund and World Bank benefited China and Brazil. These emerging giants have stakes in the IFIs, even as they may wish to alter their governance structures and some of their policy prescriptions. In recent history, both China and Brazil borrowed heavily from the IFIs and appreciate their value-added in providing financial and technical assistance, particularly in

---

[49] Author interview, June, 2011. Havana.

times of stress. It should not be assumed that these EMs would counsel Cuba to remain outside of the IFIs. On the contrary, they may well prefer to see the IFIs influencing Cuba toward more rational economic policies that would improve the investment climate and make Cuban economic policies more efficient and predictable—and less prone to suspending contractual commitments. As a matter of principle, Brazil has repeatedly urged the IFIs to accept Cuba as a member.

Thus, the impact of Cuba's economic relations with China and Brazil are double-edged and ambiguous: on the one hand, encouraging state-to-state economic relations and a strong state sector, on the other hand pushing for more rational economic policies and, by example, suggesting the value of working with the IFIs.

SECTION 3

# International Development Cooperation: Cuba as Beneficiary

Cuba has been a well-publicized *donor* of international development assistance, sending its skilled medical, sports, and cultural personnel around the developing world. Much less known is Cuba's experience as a *recipient* of foreign assistance. To begin to fill this gap, this chapter examines the Cuban programs of the Organization of Economic Cooperation and Development (OECD) countries and of a leading non-governmental organization, Oxfam. The assessment draws on interviews with donor resident representatives in Cuba.

There are several reasons for the poverty of research on foreign aid in Cuba. The programs are relatively small and the Cuban government chooses not to publicize them. Visiting scholars must receive special 'academic' visas to conduct interviews and field visits, and even officials of foreign governments and aid agencies must formally request permission in advance to visit project sites.

In the United States, the debate over foreign assistance to Cuba is highly politicized. Vocal opponents of the Castro government argue that any resource flows are likely to sustain the regime and therefore are nefarious and counter-productive unless they directly empower the regime's political opponents.[50] However, the dilemma of whether to provide aid in the context of an authoritarian state is not confined to Cuba. The conventional response, imbedded in U.S. foreign assistance legislation, is to maintain flows that directly benefit the poor majority. To deny relief to the poor would serve only to compound their misery, even if a portion of the assistance inevitably leaks to the benefit of the incumbent regime. Moreover, even in an authoritarian context, it may be possible

[50] For USAID's Cuba program, see its website: http://www.usaid.gov/locations/latin_america_caribbean/country/cuba/. For a critical review, see U.S. Government Accountability Office (GAO), "U.S. Democracy Assistance for Cuba Needs Better Management and Oversight," GAO-07-147, November 2006.

to strengthen institutions and civil society organizations, including some not frontally opposed to the government, that in the future could be the seeds of a more democratic polity.

This review of existing donor programs, however preliminary, is suggestive of some of the pitfalls, as well as of the possibilities, that bilateral and multilateral agencies confront in Cuba. These findings could also usefully inform the future work of non-governmental organizations as they take a closer look at Cuba in the light of its economic reform process. In the event that the USAID's Cuba program is reframed to focus more on conventional development assistance, it will want to benefit from the experience of other donors. Various United Nations agencies are already engaged in Cuba. Should the international financial institutions, particularly the IMF and World Bank, begin to work in Cuba—as this paper will advocate—they will want to consult with other donors, bilateral and multilateral, who have garnered practical, on-the-ground experience.

The OECD countries (excluding the United States) committed $144 million in official development assistance to Cuba during 2008-2009 (Table 3.1). Among the bilateral donors, Spain, under a social democratic government, stands out as by far the largest bilateral actor, accounting for $87 million during the biennial. Canada as well as Switzerland, Beligium and Japan were also active. In addition, institutions of the European Commission, following the decision to re-engage in Cuba in 2008, committed $49 million in 2009.  In comparison to the size of the Cuban economy, with a GDP estimated at $45 billion, these are modest authorizations. We should not expect them to have a large, direct impact on overall Cuban economic development. But such projects may affect their local partner institutions and make a difference in the lives of the beneficiaries, and successful pilot projects may be scaled up for more powerful impacts—as we shall see.

**Table 3.1. Donor Commitments to Cuba, 2008-2009 (US$ millions)**

| | 2008 | 2009 |
|---|---|---|
| **DAC Bilateral*** | 74.60 | 69.7 |
| **Spain** | 45.8 | 41.3 |
| **Canada** | 3.7 | 6.0 |
| **EU Institutions** | 0 | 48.9 |
| | | |
| **DAC Total** | 74.6 | 118.6 |

*Excluding the United States

Source: OECD Statistics – Creditor Reporting System.

This section will now assess the Cuban context within which international cooperation agencies must operate; there should be no illusions that Havana is an easy posting. The motivations driving the main OECD donors—Canada, Spain, the European Commission—will then be discussed, followed by a survey of the priorities of each of their development programs. Present in Cuba for over 15 years, Oxfam's initiatives are also touched upon. Looking forward, the section concludes with "lessons learned" for application to future international cooperation endeavors in Cuba.

## Constraints on Cooperation

Uniformly, OECD cooperation experts report that Cuba is an unusually demanding environment within which to work. The constraints are political, procedural, and cultural as well as practical.

**Uniformly, OECD cooperation experts report that Cuba is an unusually demanding environment within which to work. The constraints are political, procedural, and cultural as well as practical.**

Far from instinctively welcoming foreign assistance, many Cuban officials view offers of cooperation from Western donors with suspicion. Is there is a "hidden agenda"? To unravel Cuban socialism and implant Western-style free-market capitalism? To gather information in order to compromise Cuban intelligence? To bolster individual dissidents, non-governmental organizations, and other non-state actors intent on subverting the authority of the Cuban state and the Cuban Communist Party?[51] For decades, the Cuban state has lived under a permanent "high alert" status, and some officials fear that offers of foreign aid are but a Trojan Horse whose real intent is to breach national security. "Many Cuban officials see donors as instruments of the enemy," remarked one senior donor representative.

From its birth, the Cuban revolution elevated politics high above economics. What other government would place an Argentine medical doctor, Ernesto "Che" Guevara, at the head of its central bank and czar of its economy?[52] Fidel Castro (more than his younger brother, Raul) was renowned for making decisions based upon the requisites of political power and ideology rather than economic productivity; it was Fidel who reversed the economic reforms of the 1990s, despite their tangible economic benefits for the population, when he feared they threatened his political project. The architecture of the iconic Plaza de la Revolucion in central Havana is a powerful visualization

[51] In Cuba today, a proto-civil society has emerged with varying degrees of independence, occupying "gray zones of autonomy from the state." See Damian J. Fernandez, "The Good, the Bad, and the Ugly: The Normalization of Cuba's Civil Society in Post-Transition," in Marifeli Perez-Stable, *Looking Forward: Comparative Perspectives on Cuba's Transition* (Notre Dame: University of Notre Dame Press, 2007), pp. 96-118.

[52] Guevara liked to tell a joke about himself that, with variations, ran as follows: Fidel calls the leaders of his movement to a meeting and asks, "Is anybody here an economist?" A hand goes up. It's El Che. He is immediately put at the head of the Cuban economy. Once in office, someone asks him about the specifics of his economic knowledge. "Economist?" Che answers. "I thought Fidel said communist!" As retold in Enrique Krauze, *Redeemers: Ideas and Power in Latin America* (New York: HarperCollins, 2011), p.308.

of regime priorities. At the head of the massive square is a towering column honoring independence hero and martyr, Jose Marti. Surrounding the square are rectangle government buildings housing the ministries of defense, internal security, and communications. Very large outlines of the faces of the guerrilla commanders "Che" Guevara and Camilo Cienfuegos—dramatically lighted at night—are grafted upon two of the otherwise drab state buildings (Figure 3.1). The Cuban Communist Party's powerful politbureau is housed just off the square. Hidden away to the side is the Ministry of Economy and Planning.

### Figure 3.1. Plaza de la Revolucion, Havana

Photo credit: RFeinberg

A regime that has so radically privileged politics above economics, its own state security above firm productivity or consumer welfare, makes for an usually difficult partner for international donors. As one seasoned aid officer offered, "Cuba prefers to forfeit money rather than to lose status or control."

Donors stationed in Cuba speak of the need to work especially hard to build constructive relationships with Cuban officials. This goes beyond the normal confidence-building required in development assistance, where donors and recipients strive to build a degree of mutual respect and to forge a work agenda of shared goals. In Cuba, donors have to first establish that their true purpose is not to undermine and eventually destroy the recipient state! As it is inherently difficult to disprove ulterior motives, this process of overcoming distrust takes time, and remains vulnerable to sudden setbacks should some untoward event appear to re-confirm initial suspicions—or be made to appear to do so. Resident representatives report having to build credibility both for their institutions and themselves—and of having their bone fides repeatedly tested by their Cuban counterparts.

To gain the confidence of Cuban officials, donors must be willing to work within the priorities established by the Cuban state, and in areas that Cuban officials consider "non-sensitive." Under President Raul Castro, a top priority is reducing dependency on agricultural imports; consequently, many donor projects are clustering around food production for local consumption (Table 3.2). Energy efficiency, the environment and climate change, including mitigation and adaptation (in anticipation of rising seas and yet more dangerous hurricanes), have also been open to international collaboration, as have been the restoration of Old Havana (Havana Vieja) and polluted Havana Bay and to promote their conversion into an attractive international tourist destination. Western donors are less present or entirely absent in more sensitive areas such as monetary and exchange-rate policies, fiscal (tax and expenditure) policies, industrial and energy planning, or the telecommunications and transportation sectors—not to mention such governance issues as state-party relations as they intersect with economic policymaking and implementation. Social sectors including health, education, and culture—where Cuba has excelled and donors are often focused—can be open to international cooperation but on a selective case-by-case basis, where the Cuban government carefully vets donor proposals for their fit with national policy guidelines and financial needs. In general terms, the Cuban government, at least to date, has been more comfortable with project-level rather than broader programmatic assistance.

Donors also report frustration with the onerous, time-consuming bureaucratic procedures and mechanisms for project approval and implementation. To begin, projects require identification of an interested local partner, which can be an official agency or a non-governmental organization. Then approval may be required by a number of central ministries, including the Ministry of Foreign Commerce and Investment (MINCEX)—the central national counterpart authority for international cooperation; the Ministry of Economy and Planning (MEP)—to assure consistency with its one-year and five-year plans' allocation of resources; the ministries of the armed forces (FAR) and internal security (MININT)—for security screening; the Ministry of Foreign Affairs (MINREX); the relevant line ministry or ministries, such as agriculture or the environment; and then again with officials at the provincial and municipal levels. Approvals may also be required by relevant policy institutes (generally linked to government agencies) and non-state entities, such as farmers' and women's associations. With so many veto points, approval of projects is far from assured. As projects move into the implementation stage, donors advise taking the initiative in orchestrating collaboration among the various Cuban oversight entities, themselves often suffering from bureaucratic fragmentation.

With some disappointment, donors comment that some Cubans too often appear more interested in the resource transfer aspect than in the knowledge and training components of projects. In a society suffering from acute resource scarcity, not surprisingly communities focus intensely on acquiring equipment and supplies for their productive enterprises and vital social services. As one Cuban official expressed his nation's priorities, only half in jest, "More capital would be very useful—and experience as well." To contain this Cuban preference, the United Nations Development Program (UNDP) has had to specify a limit on the percentage of resources that could be used for equipment (as opposed to technical assistance) without special authorization.

When assessing donor-recipient relations in the Cuban context, it is wise to keep in mind that Cubans have viewed themselves in the international context as *donors* to less developed countries (donors not in the sense of meeting the formal definition of below market priced "official development assistance," as the Cubans sell their services, but rather in the sense of being the benefactor in the transaction).[54] Cuban professionals—medical personnel as well as cultural and athletic experts—are active worldwide in providing direct services to consumers as well as assisting governments in the strategic design of national programs (e.g., of the national health systems in Haiti and Timor-Leste). Cuba's sophisticated and oft-tested disaster response programs are considered state-of-the-art and attract visits by civil defense authorities from other countries.[55] In response to the earthquake in Haiti, Venezuela and Brazil funded Cuban disaster assistance.

Cuba's assistance and exchange programs serve several diplomatic objectives: strengthening bilateral relations, earning foreign exchange, and as mechanisms of "soft diplomacy," demonstrating Cuban technological prowess and international solidarity.[56] Furthermore, many Cubans vividly recall their participation in Cuban expeditionary forces in successfully assisting allied forces in African wars in the 1970s and 1980s. In light of these emotionally charged experiences, being reclassified—downgraded—from "donor" to "recipient" requires a dramatic psychological readjustment for Cubans, making for a difficult emotional environment even for those international development institutions accustomed to routine donor-recipient tensions.

Donors typically characterize Cubans as being enormously "proud"—proud of their national accomplishments (including resisting extraordinarily punishing external pressures), proud of their diversified "rainbow" ethnicity and vibrant cultures, and proud of their socialist egalitarianism,

---

[54] For country-by-country compilations of Cuban international assistance, see Cristina Xalma, *Report on South-South Cooperation in Ibero-America* (Madrid: Ibero-American General Secretariat, SEGIB), annual reports.
[55] Oxfam, *The climate changes, threatens and demands adaptation: A look at the Cuban experience of protection against climate change* (Oxfam International, October, 2010).
[56] See Jorge Dominguez, "Cuba and the Pax Americana," in Philip Brenner et al. (eds.), *A Contemporary Cuba Reader: Reinventing the Revolution* (Rowman and Littlefield Publishers, 2008), pp. 203-211.

however corroded in recent years. Some of this "pride" may be a useful cover for refusing unwelcome advice or intrusions. Some of it reflects the stubbornness of an aging elite and a stifling bureaucracy resistant to change and not wanting to admit the errors of past policies. Donors that fail to take into account Cuban pride—national and personal—do so at their peril.

Finally, donors recount their many problems with gathering the basic physical materials for their projects, whether due to local shortages, delays at customs, or foreign-exchange barriers. If central ministries withhold foreign exchange, project timetables suffer. On the other hand, the Cuban government agencies provide most of the local project staff, generally well prepared and committed to development. Nationals carry the advantages of familiarity with the local terrain, facilitating interactions with the Cuban bureaucracies as well as with the beneficiaries. They also cost considerably less than expatriate staff or international consultants.

## Bilateral and Multilateral Donor Programs

The following survey of the development programs of Canada, Spain, the European Commission, the United Nations agencies, Oxfam, and also Brazil (discussed earlier) illustrates the main thrusts of donor efforts in Cuba. This brief overview will allow us to draw some preliminary conclusions about pitfalls and potential advantages that the Cuban country context presents for internationally-assisted development projects (Project purposes are summarized on Table 3.2).

### Table 3.2. Donor Projects in Cuba by Purpose

| | Agriculture | Local Development | Environment | Humanitarian Relief | Education, Culture | Macro-economic Policy | Other Technical Assistance |
|---|---|---|---|---|---|---|---|
| Spain | ☆ | ☆ | ☆ | ☆ | ☆ | | |
| Canada | ☆ | ☆ | ☆ | ☆ | ☆ | ☆ | ☆ |
| European Commission | ☆ | ☆ | ☆ | ☆ | ☆ | | ☆ |
| Brazil | ☆ | | ☆ | | ☆ | | ☆ |
| Oxfam | ☆ | ☆ | ☆ | ☆ | | | |

### Canada

Canada has made considerable progress, over many years, in building working relations with the Cuban state. Although bilateral relations have had their ups and downs over the decades, Canada and Mexico were the only two countries in the Western Hemisphere that did not break relations with Cuba after the 1959 revolution. For Canadian diplomats, relations with Cuba offer a golden opportunity to differentiate their foreign policy from the United States on an issue that does not upset core bilateral or NATO relations; a differentiation that pleases many Canadian foreign service professionals and citizens on the political left. Canada has paid special attention to Cuba during the rule of the center-left Liberal Party, although during Conservative Party rule Canada has remained engaged; it fell to Tory Prime Minister John Diefenbaker to recognize the post-revolutionary government in Havana.[57]

Canadian policy also obeys commercial motives: to gain an early beachhead that will bear fruit as the Cuban economy gradually grows and opens to international trade and investment. (With a touch of sarcasm, Canadians regularly laud U.S. economic sanctions as inadvertently giving Canada first-mover advantage on the island.) The Canadian energy and mining company, Sherritt International, has gained access to the rich Cuban nickel deposits (confiscated from the Louisiana-based firm Freeport Sulphur in 1960) to supply its smelting operation in Alberta, and has garnered additional concessions in petroleum and gas production and electric power generation.[58] A range of Canadian firms export a modest $500 million in merchandise per year, in products ranging from sulfur, potash and wheat to mining machinery, vehicle parts, and used clothing. Of greater impact, many Canadian wage earners enjoy inexpensive winter escapes to all-inclusive resorts on legendary Varadero Beach; 945,000 Canadians visited Cuba in 2010, making for the largest single national contingent of tourists.

**With a touch of sarcasm, Canadians regularly laud U.S. economic sanctions as inadvertently giving Canada first-mover advantage on the island.**

Canada places priority on its relations with Cuba, as signaled by the appointment of a senior diplomat, Matthew Levin, as ambassador. Levin is a visible presence who engages actively in a variety of Cuban venues, advancing Canadian commercial interests while not fearing to engage the government on issues of human rights and economic reform.

Similarly, the Canadian International Development Agency (CIDA) pushes the envelope in Cuba by seeking to engage in governance issues and even policy dialogue, albeit on less sensitive "second tier" issues. In earlier years, Ottawa's Carlton University partnered with the University of Havana in offering masters degrees in economics (however, roughly half of the Carlton graduates have

---

[57] John Kirk and Peter McKenna, *Canada-Cuba Relations: The Other Good Neighbor Policy* (Gainesville: University Press of Florida, 1997).

[58] Archibald R.M.Ritter, "Canada's Economic Relations with Cuba, 1990 to 2010 and Beyond," *Canadian Foreign Policy,* Vol. 16, No. 1, Spring 2010, 124-126.

emigrated from Cuba while many of the remaining are teachers of economics but few have entered government; one alumnus, Jorge Mario Sanchez Egozcue, is a leading economist at the influential, reform-minded Center for the Study of the Cuban Economy [CEEC], University of Havana). One senior Canadian diplomat asserts that CIDA-supported educational programs have built "networks of engagement and exchange which provide channels for positive influence on policy-making and program design."

Today, CIDA finances vocational training in sectors of interest to Canadian investors, including mining and energy, and has provided modest training in trade facilitation and foreign investment to MINCEX. Notably, CIDA has engaged the Cuban comptroller's office with a training program on modern auditing methods, drawing on both Canadian and Latin American expert consultants, that seeks to promote transparency and accountability of governance systems and that hopes to train up to 6000 auditors.[59] Training on international certification standards on products, including certified-organic produce, will help Cuban enterprises, including private and cooperative farmers, to access international markets. CIDA also supports agricultural modernization and access to water and sanitation in the poorer eastern provinces.

In a comprehensive review of $85 million in Canadian development assistance to Cuba from 1994-2008, Canada's foremost academic expert on the Cuban economy, Archibald Ritter, concluded: "Although difficult to quantify, there have been significant benefits for the Cuba people from CIDA's assistance programs." He cautioned, however, that "projects in support of public administration, the quality of training in economics, and economic policy-making will have important benefits in the long run, although short-term benefits are hard to detect."[60]

## Spain

For reasons of history and culture, Spain enjoys a special relationship with Cuba. Spain devastated the island following the initial "encounter," when the first generation of Conquistadors liquidated the native population, and again as Spanish troops reacted with ferocious brutality during the 19th century independence wars. Nevertheless, Cubans harbor deep respect for their ethnic, linguistic and spiritual heritage, and waves of Spanish migrants continued to reach Cuban shores until the 1959 revolution.[61] The father of Fidel Castro departed Galicia, Spain, as a military conscript as late as the 1890s. As with Canada, Spanish engagement with Cuba has been especially intense when

[59] Information from interviews with Canadian officials, university economists, and the CIDA website: www.acdi-cida.gc.ca.
[60] Ritter (2010), op.cit., 132.
[61] For a recent scholarly treatment, see Margarita Cervantes-Rodriguez, *International Migration in Cuba: Accumulation, Imperial Designs, and Transnational Social Fields* (University Park: The Pennsylvania State University Press, 2010).

center-left Socialist Workers Party has been in power in Madrid and for rather similar reasons: good relations with Cuba is a means to differentiate foreign policy from the United States and please the left within the ruling party without irritating Washington on core issues. The Spanish business community has benefited directly, as Cuba has given Spanish firms preferential access to its growing tourism industry and the Spanish energy company Repsol has been awarded off-shore drilling rights. 130,000 Spanish tourists enjoyed "sol y mar" (sun and surf) in Cuba in 2009, making Spain the island's third biggest source of tourism.

During 2007-2009, Spain committed Đ 57 million spread rather widely: Đ 24.5 million for emergency relief, Đ 9.8 million for agriculture, Đ 4 million for the environment, Đ 3.5 million for culture, Đ 2 million for education and university research, and Đ 1.1 million on health.[62] Interestingly, the Spanish international development cooperation agency (AECID) engages many of its national NGOs as well as provincial governments in its Cuba programs.

As with many donors, Spain focuses its rural development programs on the poorer eastern provinces, and specifically on cooperatives producing for local consumption. AECID seeks engagement with a wide range of stakeholders, including municipalities, the Cuban Women's Federation, and the National Association of Small-scale Farmers (ANAP). AECID's environmental efforts include the promotion of renewable energy in Cuba's southeast in collaboration with CUBASOLAR, a national organization that promotes renewables. At the level of elementary education, AECID supports programs of school building renovation and teacher training. In health care, the Spanish aid agency provides computers and other equipment to the National Health System, and supports educational programs on nutrition and sex education.

A number of Spanish educational institutions, led by the Universidad de Cadiz (the historic city of Spanish colonialism in the Americas), maintain intense relationships with counterpart universities in Cuba. AECID's Program of Inter-University Cooperation (PCI) has authorized 175 projects with a budget of euro 6.6 million since 2007.[63] To build enduring inter-university relationships, Spain finances joint research projects and short-term workshops undertaken by Spanish and Cuban faculty. In addition, Spain brings Cubans to its four training centers in Latin America (in Cartagena, Colombia, Antigua, Guatemala, Montevideo, Uruguay, Santa Cruz, Bolivia) where it offers courses in public administration to Cuban officials working in sectors being served by AECID programs. Between 2007 and 2009, 355 Cubans received this technical training.

---

[62] European Union (2010), op.cit., Annex IV, pp.64-65.
[63] AECID, "Boletin Trimestral de la Cooperacion Espanola en Cuba," April, 2011, p.11.

While Spain has a deep interest in its former colony, its own economy is currently suffering a severe downturn and budget austerity. Should a more conservative government come to power in Madrid in the next general elections, as public opinion polls suggest, it can be expected to take a hard look at its development assistance efforts in Cuba.

## The European Commission

The European Commission (EC) has had a bumpy relationship with Cuba. Between 1993 and 2003 the Commission financed nearly Đ145 million of assistance, mostly humanitarian aid in response to hurricane damage.[64] In response to a Cuban government crack-down and imprisonment of political dissidents in 2003, Europe adopted a "common position" critical of Cuban suppression of human rights and suspended cooperation. However, a joint declaration resuming EC-Cuban cooperation was signed in October, 2008. Within Europe, opinions vary widely with regard to Cuba, with some states, notably former Soviet-bloc countries in Eastern Europe, being highly critical of the regime and less favorable to collaboration, while others advocate positive engagement. Some Europeans perceive the 2011 economic reform guidelines as promising, while others dismiss them as "too little, too late." Well aware of these intra-European divisions, the Cuban government responds reciprocally, with more or less interest, and reportedly even seeks to amplify divisions among donors to reduce their collaboration and leverage. Some countries, such as France, Belgium, and most notably Spain, sustain bilateral programs, while other European states maintain either nominal or no assistance programs at all.

The on-going 2008-2010 EC-Cuban cooperation program has had four pillars: agriculture and food security (Đ $28.2 million), environment including climate change and energy (Đ 6 million plus some regional funds), culture, education and NGO initiatives (Đ 9.4 million), and response to hurricane disaster relief (Đ12 million).[65] Funds are often channeled through European NGOs and UN agencies (notably, the UNDP).[66] These priorities will substantially continue during the projected 2011-2013 program: food security (Đ 10 million), environment and adaptation to climate change (Đ 7 million), and expertise exchanges, training and studies (Đ 3 million).

The centerpiece of the European Commission's cooperation programs in Cuba, implemented through the UNDP, is actually the synergy of two projects: Program of Local Support for the Modernization of Agriculture (Programa de Apoyo Local a la Modernization del Sector Agropecuario,

---

[64] European Union, *Cuba: Country Strategy Paper and National Indicative Programme, 2011-2013*. March 2010, pp.26-31.
[65] European Union, *Country Strategy Paper and National Indicative Programme 2011-2013*. March 2010. Especially Annex III, pp. 60-63; and email communication from Predrag Avramovic, head of the cooperation section, European Union Delegation in Cuba, October 27, 2011.
[66] Ibid. p. 27.

PALMA) and Program for Local Human Development (Programas de Desarrollo Humano Local, PDHL). PALMA seeks to increase the local food production of private farmers, including small-scale urban and suburban plots, and farmer cooperatives, by financing agricultural machinery and other production inputs and providing technical assistance. Begun in 1998, PDHL is an umbrella for a wide range of small projects, like PALMA focused especially in the less developed Eastern provinces, aimed at strengthening the capacity of municipalities, non-governmental organizations, "mass organizations" (notably, the Federation of Cuban Women) and local producers. For the EC and UNDP, the qualitative process of collaborative, grassroots decision-making—of local empowerment—is as important as are the more tangible, quantitative results. Specific projects range from waste recycling and energy-saving irrigation systems to homeopathic medicine, primary school remodeling, and small-farmer reforestation. The training of artisans for the restoration of the colonial-era Old Havana is another objective.[67]

These two donor collaboration programs are aligned with the Cuban government Initiative for Municipal and Local Development (IMDL), itself actually an amalgam of on-going reforms pushing for economic and administrative decentralization and enhanced agricultural production. The Ministry of Economy and Planning (MEP) has created a development fund that transfers capital to municipal financial institutions for on-lending to locally-designed projects. Projects are approved at the municipal level and are discussed at the bimonthly municipal assemblies. However, projects must still be vetted at the provincial and national levels, and must fit within broader national plan guidelines including import substitution, export promotion or social needs. Both the projects and the municipalities retain a portion of project profits—providing incentives for sound project management and reinvestment. These bottom-up procedures constitute a potentially important change from the hierarchical tradition, where municipalities and local producers are accustomed to receiving directives from national and provincial authorities. Disbursement of funds has reportedly been slow, due in part to the lack of local capacity in the designing of business proposals. Effective decentralization requires changes in both culture and capacity—hence, potentially important supporting roles for international donors in advancing reforms.

The UNDP believes that its pilot projects have bolstered the effectiveness of more decentralized decision making and, importantly, have contributed to national decisions, as codified in the 2011 reform guidelines (see Section 1), to push more authority downward, toward municipalities and non-state producers (private farms and cooperatives). An advantage of involving central ministries, including MEP and MINCEX, in project collaboration is that they learn about local successes and

[67] Emanuele Giodana, *Cooperacion e Innovacion: El Program de Desarrollo Humano Local* (La Habana: Programa de las Naciones Unidas parra el Desarrollo, PNUD, 2008).

have the power and resources to scale them up dramatically to the national level. A development practitioner's dream!

Among the European Commission's culture, education and NGO initiatives, Ð 2.2 million was earmarked for reviving and intensifying, in collaboration with the leading Spanish business school ESADE, a substantial program of business administration education. The three-year project seeks to continue the training of around 450 Cuban managers and professors of management who participated in previous training programs, as well as 150 senior Cuban managers from national or joint venture companies and 30 professors of management.

In discussing its 2011-2013 program, the Commission lists several assumptions about the path of government reforms, in line with the 2011 guidelines (see Section 1), in the agricultural sector: authorities will introduce more flexibility in the procurement of inputs and materials and provide access to credit for farmers and cooperatives; and small holders' applications for arable land will increase—implying that the government will permit input and output pricing mechanisms that generate profitability.

As of this writing, the Cuban authorities had not yet approved the EC's proposed 2011-2013 program for expertise exchanges (Similarly, Brazil is awaiting approval of their offer of technical assistance in such areas as financial management and micro-credits). Consisting primarily of short-term training programs, technical assistance areas to be considered include trade facilitation and export promotion, agricultural credit and markets, and decentralization and the roles of local authorities in development, as well as banking systems and stock markets and industrial policy, and various aspects of environment protection through renewable energies.[68]

### United Nations Agencies

Cuban diplomats have been extraordinarily active within the United Nations system, viewing the UN as a favorable venue to advance their international agenda and to defend their national security. For many years, the UN General Assembly has passed a nearly unanimous resolution calling on the United States to end its economic sanctions against Cuba (with only the US and a few others dissenting). Hence, Cuba has welcomed the family of UN agencies and agencies resident in Cuba include the UNDP, Food and Agricultural Organization (FAO), World Food Program (WFP), UN Educational, Scientific and Cultural Organization (UNESCO), UN Children's Fund (UNICEF), and UN-Habitat. The UNDP has been especially active, serving as administrator and coordinator for many other bilateral and multilateral donors working within Cuba.

[68] European Union, op.cit., p.50.

## Non-Governmental Organizations: Oxfam

Finally, it's worth mentioning that a number of non-governmental organizations, mostly from Europe and Canada, run a range of small programs in Cuba. These international NGOs are typically devoted to humanitarian relief and poverty alleviation and often advocate participatory bottom-up development paradigms. Generally they seek to work closely with and to strengthen local counterparts. The international relief and development organization, Oxfam, is particularly active in Cuba. Present in Cuba for more than 15 years, Oxfam's $1-2 million annual budget focuses on local development and citizen participation, food security, disaster-risk reduction, and women's rights. Oxfam leverages its own modest resources by actively engaging in all of its programs with a variety of local stakeholders—state entities and research centers, university departments, "mass organizations" such as the Cuban Women's Federation and the National Association of Small-scale farmers, and other national NGOs. Oxfam often partners with other donors as well. The purposeful engagement of government agencies and other powerful stakeholders, while time-consuming, provides some assurance of sustainability for successful projects.

Oxfam's director in Cuba, Beat Schmid, believes that Oxfam programs have made a difference, in the lives of the direct recipients and more widely through replication and scaling up by organizations with national reach:

- Support for private and cooperative milk producers in the province of Las Tunas resulted in significant increases in milk production per cow and, together with officially-mandated increases in milk and meat prices, sharp increases in farm incomes. In addition to technical assistance, projects helped with the construction of milking barns and the purchase of solar panels and wind mills, as well as the repair of tractors.[69]

- A booklet that registered incidences of violence against women, originally a pilot program in select Homes for Women and Family (Casas de la Mujer y la Familia), has been adopted by such entities located around the country. The statistics on battered women and other findings are aggregated nationally and have been used in policy formulation.

- Working with ANAP and other local stakeholders, small-scale organic farming techniques have spread widely, including in urban and suburban fruit and vegetable truck farms.[70]

---

[69] "Resultados del balance de la intervención de Oxfam en la provincia de Las Tunas." Julio, 2008. Mimeo.
[70] Braulio Machin Sosa et al., *Revolucion Agroecologica: El Movimiento de Campesino a Campesino de la ANAP en Cuba* (La Havana: Oxfam, 2010).

Oxfam is not blind to the many problems that donors confront in Cuba. Its impact assessments call attention to the chronic shortages of machinery and inputs, the need for capacity-building in financial management, administration and marketing in non-state firms, and the on-going battle for more effective and coordinated decision-making at the local level.

## Lessons from Existing Donor Cooperation

In the absence of rigorous, third-party evaluations, one must be cautious in judging development cooperation efforts. Nevertheless, based upon *in situ* interviews with donor experts and reviewing on-line postings and published and internal impact assessments, one can comfortably make the following observations regarding existing donor cooperation programs in Cuba:

- The overall amount of economic assistance is too small to have a macro-impact on economic growth, but at a micro-level, there is evidence that foreign assistance can make a positive difference. Within the Cuban context, despite material shortages and policy complexity, external donors can improve the lives of targeted beneficiaries, both by improving the quality of social services and by raising firms' productivity and incomes.

- Foreign assistance programs have tended to cluster in cooperative and private agriculture and in municipal governance—two priority areas for the Cuban government, as proposed in the 2011 reform guidelines, but also of interest to donors because they engage poorer Cubans and promote more decentralized decision-making and shareholder participation. Donors also show interest in environment and disaster relief, university education, and restoration of Old Havana (of interest to the Cuban government for reasons of historical preservation and future tourism).

- Cubans have been able to participate in a variety of training programs, including those that partner Cuban and foreign experts, take advantage of scholarships for education overseas (e.g., in Canada and Spain), and travel to training centers in third countries.

- Cuban centralization, notwithstanding its drawbacks, facilitates the rapid replication of successful pilot projects. Government ministries and national mass organizations that participate in small-scale projects have the authority and reach to take the "lessons learned" to provincial and national scales.

- The multi-tiered project approval process, however cumbersome, has the advantage of assuring alignment with the national plan and local ownership—key goals of the 2005 *Paris Declaration on Aid Effectiveness* that emphasizes alignment with country priorities.[71]

- Cuba does not need to be pressured to pay attention to issues of wealth and income distribution or to the value of human capital and the inclusive delivery of educational and health services. Cuba had realized many of the Millennium Development Goals (MDGs) before they were formally codified by the international development community.

- Cuban "mass organizations" and other proto-civil society organizations, albeit often subject to top-down direction by the Communist Party, can provide channels for popular participation. For example, citizen inputs amended the widely circulated draft of the 2011 reform guidelines. Unlike in many countries where social disarticulation impedes project implementation and sustainability, Cuba's accumulated social capital can promote economic development.

- Cuba has relatively strong institutions and expertise, often beyond the norm for a middle-income developing country. Once the political will is manifest, there can be capacity for project implementation.

- Gains in human capital formation also facilitate project implementation. For example, high literacy levels and enthusiasm for learning have accelerated the training of rural women in food processing technology.

- Capacity is often lacking, however, in fields important to project success such as project design and analysis, financial budgeting and accounting, input and output pricing, and marketing and sales. These needs suggest future directions for international cooperation.

- A major constraint on project implementation is shortage of financial capital, machinery, raw materials and other vital production inputs.

- The broader policy context can hinder project viability. For example, the fixing of agricultural output prices at levels too low to allow a reasonable rate of return to producers undermines the incentive for future investments. The many accumulated distortions vexing the Cuban economy can quickly swamp the value added of project-level innovations.

---

[71] See also World Bank, *Toward Country-led Development* (Washington, DC: World Bank, 2003).

- As in many settings, coordination among donors is a challenge, and may become more so assuming economic reforms proceed and more donors enter Cuba. Particularly intense in Cuba, despite strong centralized government, is the challenge of coordination among the many influential but often "silo-ed" public entities.

- The Cuban government has, so far, largely eschewed international cooperation on "sensitive" issues, including the many macroeconomic and microeconomic policy choices that, ultimately, determine national development outcomes.

Looking ahead, the 2011 reform guidelines will be of use to donors as they craft programs that fit Cuban priorities. In many cases, the guidelines provide additional legitimacy to projects already underway, particularly those that seek to empower local governments, cooperatives, and private producers, and provide capacity-building to individuals and institutions essential for raising efficiency and productivity. To be effective, international agencies must demonstrate patience and persistence, be conscious of Cuban sensibilities and the government's preference for gradualism, while being alert to new possibilities for assisting progressive reforms. The moment is also ripe for a new stage of international cooperation, as we turn our attention in the next section to the world's leading multilateral financial institutions.

SECTION 4

# The International Financial Institutions: Relations with Non-Members

Public debates regarding the relations between Cuba and the international financial institutions (IFIs) have been laced with serious misconceptions. Contrary to common belief, the United States does not hold veto power over IFI voting procedures on new memberships. And while it may have been true in the past that Cuba was disinterested, this chapter presents fresh evidence that, today, Cuba may be prepared to re-engage with the IFIs (pre-revolutionary Cuba was a member of the IMF and World Bank).

Often, it is assumed that the IFIs cannot engage with non-members. In fact, there are numerous precedents for extending technical assistance and even financial resources to non-member states and entities, for example through the establishment of trust funds administered and financed by third parties. As this section will argue, in the case of Cuba a gradual step-by-step process of confidence-building, through various channels of technical assistance, is feasible and would be most responsive to various political sensitivities.

**Often, it is assumed that the IFIs cannot engage with non-members. In fact, there are numerous precedents for extending technical assistance and even financial resources to non-member states and entities...**

Also contrary to conventional wisdom, Cuba's non-participation in the Organization of American States (OAS) is not a legal obstacle to membership in the Inter-American Development Bank (IDB). Nor is U.S. voting power in the IDB sufficient to defeat a vote on new members. Furthermore, this section will explore another potential option, generally overlooked, for multilateral assistance to Cuba: the Andean Development Corporation (CAF), where the U.S. is not a member.

What, then, accounts for the anomaly of the empty Cuban seat at these international organizations? The principal answer is as simple as it is disturbing: a relatively small but well placed and hard-charging community of Cuban-American exiles. As will be explained toward the end of this section, U.S. legislation mandates the U.S. executive director in the IFIs to oppose the admission of Cuba, and to withhold U.S. payments to the IFIs should they approve assistance to Cuba over U.S. opposition. Moreover, influential congressional representatives stand ready to hold legislation or personnel confirmations of interest to the executive branch hostage to their Cuba-related concerns. To a remarkable degree, the unyielding Cuban-American lobby has bullied the U.S. executive branch and the IFI leadership into submission, even as many of their economists and staff understand that excluding Cuba—or any country, for that matter—on political grounds runs counter to U.S. strategic interests and core IFI norms. In U.S. debates on Cuba policy, there is no equally insistent counter-lobby to balance the hard-line pro-sanctions faction.

Within these political realities, this section argues that there are still viable mechanisms, with well-established precedents, for a gradual rapprochement between the IFIs and Cuba. But Cuba ought not to anticipate a sudden gush of official capital; rather, the IFIs will want to begin with technical assistance (policy dialogue and training), to build mutual confidence and to gain a fuller understanding of the Cuban economy and the interests and intentions of Cuban policy makers. After years of isolation and ideological suspicions, Cuba, too, will most probably prefer a go-slow relationship.

## The IFIs: Toward Universal Membership

The core international financial institutions—the International Monetary Fund and the World Bank—are universal institutions. Their membership of 187 countries, encompassing the planet's full diversity of political and economic systems, is virtually equivalent to that of the United Nations: aside from a few mini-states (Andorra, Monaco, Liechtenstein, Nauru), the only other UN members that are not members of the IMF and World Bank are the Democratic People's Republic of North Korea and Cuba. Most likely, North Korea will one day be re-unified with South Korea and hence will be absorbed into a state that is already a member of the IMF and World Bank. Thus, Cuba's non-membership in the IFIs stands out as a starkly unique case.

The IMF's Articles of Agreement (the Fund's charter or constitution) are drafted so as to facilitate membership. Membership in the IMF is a prerequisite for membership in the World Bank, and therefore is the decisive hurdle to joining both institutions. At the 1944 conference at Bretton Woods, New Hampshire (hence the "Bretton Woods" appellation), the founding fathers contemplated membership for the Soviet Union and the Articles of Agreement were drafted so as to allow for that eventuality.[72] Thus, the Articles do not limit membership to countries that conform to a specific paradigm or set

[72] For the classic work on IMF membership, see Joseph Gold, *Membership and Nonmembership in the International Monetary Fund* (Washington, DC: IMF, 1974).

of economic policies. As former IMF General Counsel, Joseph Gold asserted, when noting the openness to Soviet membership: "The Fund has not regarded an applicant as ineligible for membership because it deviates from the norm contemplated by the provisions of the Articles."[73]

Regarding the admission of new members, the Fund's Articles are very brief: "Membership shall be open to other countries at such times and in accordance with such terms as may be prescribed by the Board of Governors. These terms, including the terms for subscriptions, shall be based on principles consistent with those applied to other countries that are already members." (article II, section 2)

The authoritative voice on IMF membership, Gold reached this unequivocal conclusion: "The Fund's experience can be summarized by saying that it has shown great readiness to accept as wide a membership as possible."[74] Moreover, "the simplicity and flexibility of the Fund's criteria for members have been compatible with a policy of universality even though the Fund's practice does not rest on any announced policy of this kind."[75]

Over the years, the IMF has admitted many new members whose statist economic policies diverged greatly from free-market norms. For example, in the 1990s, the IMF admitted nations from Central Asia, former members of the Soviet Union, which had retained many characteristics of the old Soviet system of central planning. As an institution, the IMF has views on what constitute sound economic policies (even as these views have evolved considerably over time), but does not require that new applicants conform to these views as a condition of admission. Rather, the IMF can be likened to the patient parent, happy to accept new members within the household and tolerant of errant conduct while hoping to gradually persuade the new charges to adopt more sensible behavior—behavior which is judged to be in their own long-term interests.

As Gold noted with regard to the IMF's approach toward members with illiberal economies:

> "The admission of countries with state-controlled economies does not imply that in consultations with them the Fund will refrain from urging that they will benefit from the reduction and eventual elimination of discrimination, bilateralism, multiple rates of exchange and other practices incompatible with the purposes of the Fund. This advice is tempered with patience, and throughout extensive periods the Fund may go on approving practices that are inconsistent with the Articles unless approved."[76]

---

[73] Ibid., p.157.
[74] Ibid., p.160.
[75] Ibid., p.163.
[76] Ibid., p.143.

As an amendment to the Articles in 1978, the second sentence in article II, section was added:[77] "the principles applied to other countries" that have gained membership over the years pointed toward the previous admission of countries with a very wide range of economic and political regimes. Hence, the Articles are now more explicit in tilting in the direction of acting favorably on new applications by interested states. Now more than ever, the "principles applied to countries that are already members" direct the Fund to show great readiness in responding to new applications for membership.

Indicative of the IMF's drive toward universal membership, it accepted the application of the South Pacific island-state, Tuvalu, in 2010. With a population of less than 11,000, on a per capita basis, Tuvalu will be administratively costly for the IMF.[78] Nevertheless, the predisposition to accede to requests for membership prevailed.

With regard to the procedures for handling applications for membership, the IMF's By-laws and rules and regulations are similarly sparse:

(a) Any country may apply for membership in the Fund by filing with the Fund an application, which shall set forth all relevant facts.

(b) The Executive Board shall report on all applications to the Board of Governors. When an application is submitted to the Board of Governors with a recommendation that the applicant country be admitted to membership, the Executive Board after consultation with the applicant country shall recommend to the Board of Governors the amount of the quota, the form of payment of the subscription, and such other conditions as, in the opinion of the Executive Board, the Board of Governors may wish to prescribe.

Based on the author's discussions with IMF staff familiar with the membership process, the IMF maintains a strong interest in the exhortation made in the Articles under "General Obligations of Members," (article IV, section 1), that calls upon each member to "undertake to collaborate with the Fund." The original language refers to collaboration "to assure orderly exchange rates," which has lost its original meaning in a world that abandoned the earlier Bretton Woods system of fixed exchange rates, and is now interpreted, in part, to refer to the sharing of information and data on a member's national economy with IMF staff.  For without basic information, how can IMF staff even

---

[77] Margaret Garritsen De Vries, *The International Monetary Fund, 1972-1978: Cooperation on Trial* (Washington, DC: IMF, 1985), Vol. 3, p.323.
[78] Author interview with an IMF official involved in the Tuvalu membership process. Washington, DC, 2011.

begin to perform their duties of analyzing a member's economy and providing appropriate advice? Yet even here, some governments are more responsive to these "obligations" than are others. Some Fund members are less than forthcoming, and many others simply lack the administrative capacity to collect and format basic economic statistics. Again, IMF staff can be tolerant, merely asking that members show good faith and willingness to consult, in the expectation that, with IMF assistance, a member's national accounts will improve over time. Of course, if a member seeks to borrow IMF resources and thereby place the institution's resources at risk, data requirements become stricter.

## Voting on Membership Applications

Contrary to common opinion, neither the IMF's Articles nor By-laws require a consensus, or a super-majority vote, in taking decisions on applications for membership. On the contrary, a simple majority of (weighted) votes is sufficient. With regard to voting procedures in general, the IMF by-laws specify: "Except as otherwise specifically provided in the Articles of Agreement, all decisions of the Board of Governors shall be made by a majority of the votes cast. At any meeting the Chairman may ascertain the sense of the meeting in lieu of a formal vote but he shall require a formal vote upon the request of any Governor" (section 11). And nowhere do the Articles or the By-laws call for a super majority for membership.

As James M. Boughton, the official IMF historian, communicated to the author: "Approval of an application for membership requires only a simple majority vote of the Board of Directors. Article II of the Articles (author's note: quoted above) provides the general rule, which does not specify a qualified majority. Section 21 of the by-laws (author's note: quoted above) provides more specific guidance, and Rule D of the Rules and Regulations spells out the procedures."[79]

Notably, the UN sets a higher procedural bar for membership. First, as stated explicitly in the UN Charter, an application for membership must receive the votes of at least 60 percent of the 15-member Security Council, and encountering no negative votes by the five permanent members. Then the application must receive a two-thirds majority vote in the General Assembly. (Cuba was a founding member of the UN and North Korea was admitted in 1991.) Thus, the United Nations, itself seeking universal membership, established more demanding voting procedures than has the world's central monetary fund.

---

[79] James M. Boughton to the author, e-mail correspondence, May 15, 2011. See his *Silent Revolution: The International Monetary Fund 1979-1989* (Washington, DC: IMF, 2001). The IMF Articles and By-laws and Rules and Regulations are available on the IMF web site at www.imf.org.

Since the IMF's founding in 1944, members have taken additional steps signaling their interest in a wide membership. Amendments to the Articles of Agreement have made it more difficult to suspend and expel members. When Cuba faced possible expulsion from the IMF in 1964, a simple majority of votes would have sufficed. Today, the Articles (article XXIV), as amended in 1978, require a seventy percent majority of the total voting power in order to suspend the voting rights of a member. If a suspended member persists in its failure to fulfill its obligations, a further decision to expel faces a double voting hurdle: the vote of a majority of the Governors having 85 percent of the total voting power. Moreover, the Articles bend over backward to provide due process: "regulations shall be adopted to ensure that before action is taken against any member…the member shall be informed in reasonable time of the complaint against it and given an adequate opportunity for stating its case, both orally and in writing."

The intent of the amended Articles is clear: the IMF membership prefer that a member state remain within the fold where, over time, it is more likely that its behavior will come into compliance with its "obligations." Indeed, no member has been expelled in recent decades, despite egregious behavior by a number of member states, including prolonged failure to repay loans, failure to provide timely and truthful data, and failure to cooperate and communicate in a timely way. While historical counter-factuals are inevitably hazardous, it seems unlikely, had the current rules and customs been in operation in 1964, that Cuba would have been pressured to withdraw.

## Cuba and IMF Membership

Cuba was an original member of the IMF. However, it withdrew in 1964, one of very few members that have taken such a drastic step in the three-quarters of a century since the institution's founding.[80]

An IMF account of Cuban withdrawal cites these "Cuban failures to fulfill its obligations under the Articles": 1) Cuba owed the IMF $25 million due to borrowing on September 12, 1958 (just a few months before the incumbent regime collapsed as the rebel army marched into Havana); 2) Cuba had consented to an increase in its quota from $50 million to $100 million but had not paid the equivalent subscription; 3) Cuba had not been furnishing the IMF with the monetary, banking, and balance of payments data required by Article VIII, as the minimum information necessary for the effective discharge of the Fund's duties; 4) Cuba had been applying exchange rate practices for which Fund approval was required under Article VIII, but Cuba had not furnished the information that would enable the Fund to make a finding on these practices.[81]

---

[80] The other members that withdrew were Poland (1950), Czechoslovakia (1954), and Indonesia (1965).
[81] Gold, op.cit., pp. 342-344.

The IMF Executive Directors had approved the text of a letter, which was sent by the Managing Director to Cuba inquiring about its intentions, but no reply was received to this letter or to subsequent letters. The Executive Directors were to meet on April 15, 1964, to consider whether Cuba should be declared ineligible (to access Fund resources) under Article XV, Section 2. On April 3, 1964 Cuba pre-empted the board meeting and notified the IMF of its withdrawal from membership, which was effective immediately.

The Cuban pre-emption absolved the IMF from further action. However, had Cuba been declared ineligible to use IMF resources and had continued to fail to fulfill its obligations, the then Board of Governors of that era would most likely have declared Cuba expelled—but it never came to that.

Immediately Cuba and the IMF reached a settlement of accounts. Cuba repaid the outstanding loan and the IMF returned Cuba's quota. Thus, there are no outstanding legal claims or counter-claims between the IMF and Cuba. The slate is clean and the disputatious events of 1964 should not present an obstacle should Cuba seek to be readmitted as a member.[82]

**Thus, there are no outstanding legal claims or counter-claims between the IMF and Cuba. The slate is clean and the disputatious events of 1964 should not present an obstacle should Cuba seek to be readmitted as a member.**

At the closing of the 2009 spring annual meetings of the Bretton Woods agencies, IMF spokesperson David Hawley was asked for his reaction to the suggestion by the Brazilian finance minister that Cuba be admitted to the IMF. Hawley responded: "I am not aware that Cuba has applied for membership of the IMF. Any country may apply for membership." Hawley was correct in that, to initiate the formal membership process, the suitor must take the first step. Cuba has not done so.

When asked by the author for the Cuban position regarding IMF membership, a senior official of the Cuban Ministry of Foreign Affairs responded: "*Cuba has no principled position against relations with the IMF or World Bank*."[83] To the author's knowledge, this is the first such official Cuban statement suggesting an openness to engaging with the Bretton Woods agencies. The use of the term "principled position" is especially meaningful in the Cuban context, as Cuban officials frequently

[82] Similarly, Cuba had been an original member of the World Bank but had never borrowed from it. The decision by revolutionary Cuba to withdraw from the World Bank was received on 14 November, 1960 and became effective immediately. The Bank returned Cuba's capital subscription, clearing all accounts. "Cuba Withdraws from Membership," Joint Press Release by International Finance Corporation and World Bank, 15 November 1960. As cited in Daniel P. Erikson, "Can Cuba Bridge the Gap?: IMF and World Bank Membership for Socialist Countries," in Shahid Javed Burki and Daniel P. Erikson (eds.), *Transforming Socialist Economies: Lessons for Cuba and Beyond* (New York: Palgrave Macmillan, 2005).
[83] Interview with author, June 27, 2011, Havana, Cuba.

cite the importance of acting in ways that are consistent with "revolutionary principles." Unlike in U.S. parlance, where "in principle" can mean ethically sound but not practical, in the Cuban official idiom affirming that a statement is a "principled position" amounts to a straightforward endorsement.

The senior Cuban diplomat went further and noted that Cuba can be a member of an international organization without necessarily agreeing with all of its activities, as is the case with Cuban membership in the United Nations. (As a founding member in 1948 of the Geneva-based General Agreement on Tariffs and Trade, Cuba is also a member of the successor World Trade Organization, where it questions whether U.S. trade sanctions against Cuba violate WTO norms.) The Cuban diplomat went on to remark that the World Bank, with its broad international experiences, might be better able to assess the Cuban experience than would be individual governments that inevitably see things through their own experiences. The Cuban diplomat had been impressed by a World Bank official he had met with broad experience in Syria, Tunisia, and Iran, as well as throughout the Caribbean.

Among Fund staff, the author has found a general willingness—even eagerness, especially among economists from Latin America—to entertain a Cuban expression of interest in technical assistance and eventual membership. Indeed, it is generally noted that Cuban non-membership is a glaring exception to the otherwise universality of membership. Except, that is, among those individuals working in the IMF who are particularly sensitive to US domestic politics, among whom the mere mention of "Cuba," in an official, on-the-record setting, injects an instantaneous chill in the conversation. (Privately, some of these same individuals express regret at the extraordinarily prolonged exclusion of Cuba from the IFIs.) U.S. attitudes weigh heavily because while legally only a majority of (weighted) votes is required for IMF membership, in practice the Fund's executive board hesitates to act counter to strong objections by its major shareholder (more on this later).

Pragmatically, a few IMF and World Bank staff economists keep "desk top" watching briefs on the Cuban economy. They occasionally visit Cuba in an informal capacity, not as part of official missions but rather to attend international economics conferences, and only for a few days at a time. These economists have other full-time responsibilities, so their institutions cannot be accused of expending staff resources on Cuba. Over the years, a few IFI economists have published an occa-

---

[84] For example, Rafael Romeu and Andrew M. Wolfe, *Recession and Policy Transmission to International Tourism: Does Expanded Travel to Cuba Offset Crisis Spillovers?* IMF Working Paper, December, 2010; Gabriel Di Bella and Andy Wolfe, "Cuba: Economic Growth and International Linkages – Challenges for Measurement and Vulnerabilities in a Bimonetary Economy," in *Cuba in Transition*, Vol. 19, Proceedings of the Association for the Study of the Cuban Economy, ASCE, Miami, 2009); and Rafael Romeu, "Inferring Quarterly Real Gross Domestic Product Growth in Cuba During the Global Financial Crisis," in Rafael Romeu et al., *The Cuban Economy: Recent Trends* (Washington, DC: Woodrow Wilson International Center for Scholars, 2011), pp. 7-29; Ernesto Hernandez-Cata, *The Fall and Recovery of the Cuban Economy in the 1990s: Mirage or Reality?* IMF Working Paper, International Monetary Fund, December 2000.

sional article on aspects of the Cuban economy, under their own names and with the appropriate disclaimers that their views are not necessarily those of their institutions.[84]

The IFIs would be negligent if they were not kept appraised of the Cuban economy, for several reasons:

- Cuban economic activity has spillover effects on other economies in the Caribbean region that are members; one obvious example is Cuban tourism, in fact the subject of an article published in 2010 by IMF staff.[85] As part of the IMF's responsibilities for regional surveillance, awareness of the Cuban economy is part of the broader equation.

**It may be premature to talk about full-on Cuban membership in the IFIs. It is overdue, however, to discuss other forms of engagement.**

- Cuba's trade, investment, exchange-rate, and external debt policies—the bread-and-butter issues of the IMF—are of considerable interest to other member states and their business enterprises engaged with the Cuban economy, including both the traditional European powers and the emerging market economies.

- Cuban economic and social policies are topics of some interest to social scientists and policymakers in member states and the Bretton Woods institutions ought to be sufficiently informed so as to be able to provide judgments and advice to members.[86]

- At some point, Cuba will cease to be the lone outlier and will rejoin the Bretton Woods agencies, and staff should be adequately prepared, ready to describe the economy as it is and to prescribe policy options for consideration by Cuban authorities and the IFI's managements and executive boards. Internal analyses found that one reason the IFIs did not perform optimally in Russia in the early 1990s was their admitted failure to have staffed up on time. The Fund and Bank should not make the same serious mistake with Cuba. The current casual watching briefs fall well short of the in-depth professional knowledge that the institutions will need when the day finally arrives.

---

[85] Rafael Romeu and Andrew M. Wolfe, op.cit.

[86] One published example of a study undertaken by World Bank staff is Lavinia Hasperini, *The Cuban Educational System: Lessons and Dilemmas* (Washington, DC: World Bank, Country Studies: Education Reform and Management Publication Series, Vol. 1, No. 5, July, 2000). The preface to the study reads: "This paper was inspired by a study tour of Cuba undertaken by representatives of the Government of Colombia, the Ministry of Education in Cuba and World Bank staff. The seminar was entitled 'Interchange of Experiences on the Education Systems of Colombia and Cuba.' It sought to provide a comparative basis for understanding educational problems and issues across the two systems. The seminar represents a growing dialogue between Cuba and its Latin American neighbors on issues of education. The information presented here was gathered during the study tour and supplemented with other documents. Needless to say, the opinions are those of the author and do not necessarily represent those of the World Bank or any of its affiliated institutions."

It may be premature to talk about full-on Cuban membership in the IFIs. It is overdue, however, to discuss other forms of engagement. History suggests that prior to membership, the IMF may extend technical assistance to interested non-members. In some cases, the World Bank has also been able to extend not only technical assistance but also financial collaboration.

Table 4.1. Membership in the IFIs: The Cuba Case

| | Admission Requirement: Voting | Admission Requirements: Other | Cuban Status | Current Activity |
|---|---|---|---|---|
| **IMF** | Majority Vote | - | Withdrawn (1964) | Informal watching brief |
| **World Bank** | Majority Vote | IMF Membership | Withdrawn (1960) | Informal watching brief |
| **IADB** | Majority Vote | OAS Membership | - | Inactive |

Source: Articles of agreement of the respective institutions; author interviews.

## IFI Engagement with Non-Member States

As Cuba enters its arduous process of economic reform, it could benefit tremendously from the accumulated expertise housed in the international financial institutions. On a wide range of tough issues facing Cuban policymakers, the IMF and World Bank can bring to bear knowledge of past experiences from around the globe as well as their capacity to analyze specific country circumstances in the context of today's global economy.  True, Cuba can turn to individual governments, private consulting firms, and academic economists for advice, and their voices can be valuable additives to enrich policy debates, but none can match the scope and depth of IFI expertise.[87] The IFIs are also well equipped to provide the large-scale training and capacity-building that Cuba sorely requires.

It is not a matter of mechanically applying the Chinese, Vietnamese, Singaporean, South Korean, Brazilian, Chilean or other "models" to Cuba. It is well understand within the economics profession and the IFIs that whatever "lessons" can be culled from history must be carefully adjusted to the peculiar conditions of each country. Every nation has its own history, culture, location, comparative advantages, and governance structures.  For example, Cuba has developed its human capital, through superior education and health programs, gaining its own dynamic comparative advantages such that

[87] In the early days of the revolution, the Cuban government looked to well-known, sympathetic economists of the era for advice, but eventually the Soviet Union and its Eastern European allies took over the role of external technical assistance. See Jose Luis Rodriguez, op.cit.

it is exporting the services of large numbers of skilled professionals. At the same time, debates on the island sometimes exaggerate "Cuban exceptionalism," as though certain widely observed economic rules and relationships do not apply and Cuba has nothing to learn from the rest of the world.[88] Neither a cookie-cutter one-size-fits-all imposition of a foreign model, nor a blind refusal to learn from the successes and failures of other countries, makes good sense.

There are plentiful precedents of the IMF providing technical assistance to non-member states and territories. Recent cases include South Sudan, Kosovo, and West Bank/Gaza, and in earlier decades, the former Soviet Union and its Eastern European allies.[89] Often but not always such assistance has been linked to expectations of future membership. Because IMF policy is to provide technical assistance but not financial resources to non-members, to cover staff and administer costs the Fund sometimes establishes trust funds, financed by third parties and at times managed by another international entity.

For example, the IMF explained its policy toward South Sudan, not yet a member, thusly:

> "In view of South Sudan's application for IMF membership, the IMF intends to seek donor contributions to a special Trust Fund for IMF Capacity Building for South Sudan. This trust fund will provide intense IMF technical assistance to the authorities in critical areas relevant to building the new country's macroeconomic institutions. Harnessing its expertise and infrastructure, the IMF would provide technical assistance in its areas of core expertise to enable the design, implementation and monitoring of sound macroeconomic policies, including by developing a fiscal framework, establishing the central bank and its core activities, building statistical capacity and putting in place the legislative framework required for effective economic and financial management. The trust fund would total US$10.6 million for just under four years and aims to mobilize quickly, given the urgency of needs in South Sudan."[90]

The IMF has even found mechanisms to provide extensive assistance to West Bank/Gaza (WBG), which is neither a member nor even a state, as described in this IMF press release:

---

[88] In reflecting on his own experiences in policy making in the early days of the revolution, Che Guevara criticized this nationalist tendency: "We did not consider statistics or other historical experiences, rather we behaved subjectively… and disdained the experiences of other countries." In "Contra el burocratismo," *Economia y Desarrollo*, No. 7, Havana, 1971, as quoted in Jose Luis Rodriguez, op.cit., p. 76.

[89] See James M. Boughton, *Tearing Down Walls: The International Monetary Fund 1990-1999*, esp. chapter 2, forthcoming. Also, according to Boughton, in 1998, the IMF executive board formally agreed to initiate technical assistance to North Korea and Fund staff had made arrangements to conduct a one-week workshop in Beijing for North Korean officials, to explain about the IMF in more detail. In principle that workshop was to be followed later by a longer training course in economics. But just as the IMF staff was completing the arrangements for the workshop, the North Korean authorities requested that it be postponed. The IMF decision to proceed was taken despite abstention by the US executive director.

[90] IMF press release 11/145, April 20, 2011.

"The office of the IMF Resident Representative for the West Bank and Gaza was established in July 1995, to help fulfill the IMF's mandate to assist the Palestinian Authority (PA) as specified under the Oslo Accords. While the IMF cannot provide financial support to WBG (because it is not a member state), it has been providing policy advice in the macroeconomic, fiscal, and financial areas since 1994. The IMF has also been providing technical assistance to support capacity building in the areas of tax administration, public expenditure management, banking supervision and regulation, and macroeconomic statistics. More recently, IMF staff worked with the PA to develop the Palestinian Reform and Development Plan presented at the Paris Donors' Conference in 2007. The IMF's staff reports since then have reviewed progress in implementing the plan, with a focus on the macroeconomic and fiscal areas. These reports have been taken into account by donors in their disbursement decisions."[91]

The IFIs devised mechanisms for collaboration with Kosovo many years before it became a member in 2009. For example, in 2003, an IMF mission produced a report with a complete set of findings on the Kosovo economy and comprehensive policy recommendations. The IMF report described in detail the division of labor among donors, including the IMF and World Bank.[92] For its part, the World Bank entered into a series of "Transitional Support Strategies" and "Interim Strategy Notes" that dealt with post-conflict reconstruction and then longer-term economic development in Kosovo.[93] In the ten years prior to membership, the Bank devised a number of creative financing mechanisms through which the Bank provided Kosovo about $170 million through 28 grant operations in a broad range of sectors and leveraged an additional $70 million from other external partners. These grants were financed from a variety of sources, principally the Bank's net income, the Trust Fund for Kosovo, the Post-Conflict Fund and the Bank's International Development Agency (IDA).[94]

Interestingly, IDA's Articles of Agreement (Article V, section iic) allow for the provision of IDA resources not only to members but also "to a public international or regional organization." On this authority, IDA provided financial resources to the UN Mission in Kosovo (UNMIK), itself a part of the UN system and hence a public international organization.[95] However, the World Bank may determine, eventually, that Cuba's per capita income is too high for it to qualify for IDA's highly concessionary resources.

Before Angola joined the IFIs in 1989, it received some informal technical assistance from the IMF and the World Bank produced a country economic report with financing through the UN Development Program (UNDP). At the time, the United States was opposing IFI engagement with Angola, so the Bank was careful to use external consultants for in-country work.

---

[91] www.imf.org/wbg.
[92] IMF staff visit to Kosovo. November 5 – 13, 2003.
[93] See World Bank, "Interim Strategy Note for the Republic of Kosovo for the Period FY10-FY11." Report No. 49872-XK.
[94] World Bank. Kosovo-World Bank Partnership, 1999-2009.
[95] The Articles of Agreement of the Inter-American Development Bank contain identical language.

Bank lawyers justify expenditure of Bank resources on non-members with reference to Article III, Section 1 (a) of the Bank's Articles of Agreement: "The resources and facilities of the Bank should be used exclusively for the benefit of members…." The Bank can decide, the Bank's General Counsel has argued, that an activity is for the benefit not only of the country or territory in question but also "for the benefit" of the Bank and the members as a whole.[96] This legal interpretation provides wide leeway in the treatment of non-members.

The IMF is more constrained. Article V, Section 2(a) of the Fund's Articles limits transactions on account of the Fund to transactions for the purposes of supplying a member with general resources of the Fund. Section (b) of the same article allows the Fund to perform technical services that are consistent with the purposes of the Fund. But operations involved in the performance of such financial services shall not be on the account of the Fund. Thus, Bank lawyers have argued, whereas the IMF can provide technical assistance it cannot make loans to non-members.[97]

## IFI Technical Assistance to Cuba: Options

After years of imagining that the IFIs were instruments of the "historic enemy" (i.e, the United States) and the stronghold of pernicious imperialist ideologies, Cuba—both government and people—are not prepared for a sudden embrace. Rather, a gradual process of confidence-building will be required.

Technical assistance, even prior to membership, can take a variety of forms:

- Brief visits by IFI staff for consultations and data-gathering
- IFI staff studies of less controversial topics, such as sector studies of tourism, sugar, nickel, and biotechnology, informed by an awareness of global markets and supply chains
- IFI staff studies that draw upon world-wide experiences with economic reform, on such topics as the reform of state-owned enterprises, the growth of micro and medium-size enterprises, and energy-efficient transportation systems
- Joint studies of a mutually agreed upon research agenda by IFI staff and Cuban economists
- Participation by IFI staff in Cuban academic seminars, possibly complemented with third-country experts

[96] "Assistance to Non-Members." Memorandum from the General Counsel to the Bank President, February 5, 1990.
[97] Ibid.

- Participation by IFI staff and Cuban economists in seminars organized by academic centers or think tanks in other countries (e.g., in Spain, Brazil, Canada, or the United States)

Once sufficient mutual trust has been established, IFI staff could undertake studies in their core areas of expertise, including the more controversial strategic areas of macroeconomic and monetary policies, again incorporating Cuban experts in related research. A comprehensive joint IMF-World Bank country strategy paper could follow, presenting proposals and options for the sequencing of reforms. The strategy paper might be composed within a broad-based process of consultations with Cuban stakeholders; a prominent role in this participatory process and in the elaboration of the report might be assigned to Cuban officials and economists. A jointly elaborated plan for the financing of reforms, including the division of labor among international donors, would be another critical step in propelling reform forward. In considering external sources of funds and expertise, the helping hand of the Cuban Diaspora, in the United States but also in Canada, Europe, and Latin America, should be given full play.

To cover the costs of IFI technical assistance to a non-member, a trust fund with third-party financing could be established. The UNDP, already well established in Cuba (see Section 1), could play a central role, as it has done elsewhere.

In an informal discussion in June 2011 in Havana with the author, a leading Cuban economist suggested ten topics that, among others, would make for interesting IFI studies (not necessarily in order of importance):

- Comparative development strategies including assessing the experiences of Vietnam and Eastern Europe
- Monetary and financial solutions
- Salaries and incentives
- Productivity
- International commerce, exports and supply chains
- The transformation of state-owned enterprises into non-agricultural cooperatives
- Micro-enterprises
- Financing social welfare
- Diasporas and development
- Institutions, laws and regulations.

By responding to such a list, the IFIs could begin a constructive, step-by-step dialogue with leading Cuban economists and policymakers. In a preliminary reaction, World Bank economists familiar with the Cuban economy agreed that these were all important topics.

In addition, training of mid-level technical personnel will be vital to energizing Cuban government institutions at all levels, national, provincial, and municipal. The IMF's regional technical assistance centers for the Caribbean (in Barbados), and for Central America and the Dominican Republic (in Guatemala) could serve as established and well-equipped venues. These centers have resident experts and also draw on expertise from IMF headquarters and the IMF Institute. The Caribbean Regional Technical Assistance Center (CARTAC) focuses its capacity-building technical assistance and policy advice on topics that will be of urgent interest to a reform-minded Cuba: macroeconomic analysis, tax and customs administration, public financial management, economic statistics, and financial sector and capital markets regulation and supervision. Of particular relevance, CARTAC promotes the use of internationally accepted concepts and statistical methodologies, helping countries to develop compilation and dissemination procedures in line with international standards and codes of good practices.[98]

Located in Barbados and Guatemala, these technical assistance centers could be ideal cost-effective and politically neutral venues for offering seminars and workshops to Cubans, avoiding at the outset a visible IMF presence in Havana or a potentially controversial Cuban presence in Washington, DC. Such events could either be exclusive to Cubans or, more discreetly, could be scheduled for regional members while allowing Cuban participation. In the Cuban case, a separate trust fund might be established for the training of Cuban nationals.

Training for new private-sector entrepreneurs empowered by Cuba's economic reforms will also be high on any agenda but this is more the expertise of bilateral donors, non-governmental organizations, and international business schools than of the IMF or IBRD. Further down the road, Cuba could call upon the International Financial Corporation (IFC) of the World Bank and the private-sector arms of the IDB where relevant expertise lies.

## Membership in the Inter-American Development Bank

The Inter-American Development Bank (IDB) is the oldest and largest of the regional development banks. Founded in 1959 just after the Cuban revolution, Cuba has never been a member of the IDB, even as all the other countries of Latin America are members (except for some Caribbean island mini-states who choose not to pay the capital costs). Historically, Cuba played an indirect role in the

---

[98] CARTAC's estimated budget for 2011-2015 is a substantial $62.2 million and is funded with external contributions. Canada has been the major contributor. Other international contributors have been the European Commission, the UK Department of International Development (DFID), the Caribbean Development Bank, and the Inter-American Development Bank (IDB). Source: IMF, *Caribbean Regional Technical Assistance Center (CARTAC), Program Document*, Annex VII: "Expanded Budget by Section," December 2010, p.113. CAPTAC-DR in Guatemala is supported by the European Commission, Spain, Canada, Mexico, Germany, the Central American Bank for Economic Integration, and the Inter-American Development Bank. Source: *IMF, Annual Report 2010*, p.36.

IDB's creation: the U.S. agreed to support a regional development bank in response to the political unrest that was sweeping Latin America in those years, in order to avoid a "second Cuba."

In many ways, the IDB was modeled after the Bretton Woods sisters. The IDB's Articles of Agreement establish that decisions regarding membership of regional countries shall be taken "at such times and in accordance with such terms as the Bank may determine." Again, while it is commonly believed that formal membership decisions require a super majority or even a consensus, in fact only a majority of total voting power votes of the member countries is required.[99]

The IDB Charter contains one other stipulation for membership that has been a cause of some confusion in the Cuba case. "Membership shall be open to other members of the Organization of American States…." (Article II, Section 1(b)). In 1962 the OAS voted "to exclude the Government of Cuba from its participation in the inter-American system."[100] The operative word here is *participation*. The government of Cuba was never *expelled* from the OAS. In the realm of international organizations, there is an established sequence for dealing with errant states: 1) ineligibility for certain programs or funds; 2) exclusion from participation and voting; 3) finally and as a last resort, expulsion. In 1962, the OAS reached for stage two but not stage three. It is worth noting that some major Latin American countries objected to the 1962 resolution, as advanced by the United States, and presumably would have opposed even more strenuously a resolution calling for the ultimate sanction of expulsion.

The IDB would defer to the OAS as to whether a state is an OAS member. In the case of Cuba, the OAS recognizes that there is no question but that Cuba has never ceased to be a member: the wording of the 1962 resolution is clear and simple, the government of Cuba was excluded from participation, Cuba was not expelled from the institution. Hence, Cuba remains on the official OAS letterhead. The Cuban flag is routinely displayed along with the flags of other OAS member states at official OAS gatherings. The OAS continued to employ Cuban nationals into the 1980s, and the OAS can only employ nationals of member states.

At the 2009 OAS General Assembly in San Pedro Sula, Honduras, the ministers of foreign affairs declared that the 1962 resolution "ceases to have effect."[101] In the preamble to this corrective action, the ministers began: "Recognizing the shared interest in the full participation of all the member states," again implying strongly that Cuba is a member state but lacking "full participation."

---

[99] IDB senior official, e-mail communication with the author, May 20, 2011.
[100] Resolution VI, adopted on January 31, 1962, at the Eighth Meeting of Consultation of Ministers of Foreign Affairs.
[101] OAS General Assembly, "Resolution on Cuba," 39th regular session, Resolution 2438, San Pedro Sula, Honduras. June 3, 2009.

Questions remain as to the conditions that will apply to allowing the "full participation" of Cuba in the OAS. The 2009 resolution stated that "the participation of the Republic of Cuba in the OAS will be the result of a process of dialogue initiated at the request of the Government of Cuba, and in accordance with the practices, purposes, and principles of the OAS." Exactly what this might imply with regard to Cuba's adherence to the principles of the 2001 Inter-American Democratic Charter and other democracy-related provisions of OAS decisions remains an issue for future diplomacy. To date, Cuba has displayed no interest in initiating such a dialogue. But this stand-off is not germane to Cuba's potential membership in the Inter-American Development Bank. The IDB Charter contains no qualifying adjectives, such as "participating" or "democratic" in its membership stipulation. It merely requires membership in the OAS, a status which Cuba already enjoys.

## Another Option: The Andean Development Corporation

Established in 1970 by five Andean nations, the Andean Development Corporation (Corporacion Andino de Fomento, known by its Spanish acronym CAF) has expanded to include 18 member countries including two from the Caribbean (Jamaica and the Dominican Republic) and Spain and Portugal. CAF's membership does *not* include the United States. The headquarters is located in Caracas, Venezuela. Since 1991 CAF has been lead by President Enrique Garcia, a Bolivian national and a statesman widely respected for his diplomatic skills and political independence.

CAF has grown into a respected and increasingly active multilateral financial institution. In 2010 CAF approved a record $10.6 billion in loans and investments and disbursed $7.6 billion.[102] The total outstanding portfolio had reached $13.8 billion. In 2009 its membership approved a doubling of paid-in capital, giving CAF the capacities to contribute significantly to regional development in the years ahead.

Unlike the World Bank, CAF is not divided into donors and recipients. Rather, all members contribute as shareholders and all are eligible to benefit from CAF activities. In current parlance, CAF is a premier example of South-South cooperation, an unusually institutionalized manifestation with a business model that has proven to be both politically and financially sustainable.

CAF concentrates on lending to sovereign entities but also provides loans and investments to public-private partnerships and to financial institutions and private firms. CAF activities span a wide variety of development sectors, specializing in infrastructure projects (transportation, energy, communications) that promote regional integration, but also supporting social development and inclusion, export promotion and national competitiveness, capital markets, and small and medium-sized

---

[102] Andean Development Corporation, *Annual Report 2010*.

enterprises and microfinance. In the governance realm, CAF supports political decentralization through capacity-building at the municipal level. A relatively cautious multilateral agency with an excellent repayment record, CAF accesses international capital markets with an "A" credit rating.

CAF also establishes specialized Cooperation Funds, which generally include grants. The financial resources may come from CAF itself or from other countries and entities, to finance programs of interest to the donors and that are in line with CAF policies. According to CAF's annual report (2010), cooperation funds can serve a wide variety of purposes:

> "Cooperation funds are primarily intended to support reforms related to state modernization processes, such as privatization, administrative decentralization and institutional strengthening. They also contribute to export and investment plans, the development and integration of the region's financial and capital markets, technology transfer and adaptation, environmental protection, social development and the promotion of cultural values."

Might CAF establish such a specialized cooperation fund—whether with its own resources, the resources of other countries or entities, or some combination thereof—to engage Cuba, beginning with technical assistance and training and, if progress were made, possibly expanding to project loans and investments? Such activities could be framed as helping to prepare Cuba for eventual membership in CAF. One would imagine that influential CAF shareholders (including Venezuela, Brazil, and Argentina) would be supportive, and would agree that the goals of such a Cuba fund could be made consistent with overall CAF policies. Host Venezuela would presumably be particularly amenable. An informal conversation by the author with a senior CAF official revealed an interest in broaching the idea with the Cuban government. In CAF's assistance to Haiti, there is a precedent for providing resources to a non-member nation.

## U.S. Exceptionalism: Policies toward Cuban Membership in the IFIs

No country that has sought IFI membership has been permanently excluded, and as pointed out above, the Fund's Articles, which the U.S. has ratified, require that the terms applied to membership applications "shall be based on principles consistent with those applied to other countries that are already members."

The U.S. Congress, nevertheless, has passed legislation that conditions U.S. policies toward Cuban admission to, and receipt of resources from, the IFIs. These bills include the Cuban Liberty and Democratic Solidarity Act of 1996 ("Helms-Burton") and legislation concerning international terrorism, expropriation, and trafficking in persons.

The most prominent of these legislative mandates, Helms-Burton, instructs the U.S. executive directors in the IFIs "to oppose the admission of Cuba as a member of such institution until the President submits a determination that a democratically elected government in Cuba is in power." (Public Law 104-114 (1996), Section 104). The bill continues: "If any international financial institution approves a loan or other assistance to the Cuban government over the opposition of the United States, then the Secretary of the Treasury shall withhold from payment to such institution an amount equal to the amount of the loan or other assistance" with respect to either the paid-in or callable portion of the increase in the institution's capital stock.

Historically, the U.S. Treasury has firmly opposed such country-specific restrictions on U.S. contributions to the IFIs, as limiting U.S. flexibility and as contrary to U.S. obligations under the IFI charters. In the 1970s, when some members of Congress had similarly sought to condition U.S. payments to the IFIs, the Treasury successfully persuaded the legislature to drop the initiative. In addition to running counter to U.S. obligations under the Articles, such provisions would have been difficult to implement in practice, and could well have been rejected by the IFIs themselves. If the sanctions were interpreted to apply to previous U.S. contributions, it's unclear how the U.S. could claw back resources. If the legislation were applied to new U.S. contributions, then after the U.S. carried out the sanctions, the United States would fall into arrears on its obligations—which would immediately pose problems for the U.S. position within the IFIs and, as the U.S. is the major shareholder, for the IFIs themselves.

**Historically, the U.S. Treasury has firmly opposed such country-specific restrictions on U.S. contributions to the IFIs, as limiting U.S. flexibility and as contrary to U.S. obligations under the IFI charters.**

Again in 1995-96, when a draft of Helms-Burton was being debated in the Congress, the executive branch expressed its opposition to many of its clauses, including those pertaining to the IFIs (the author was serving on the National Security Council at the time). But when the Cuban air force shot down two civilian aircraft piloted by Cuban-Americans, on the grounds—disputed by the United States and others—that the planes were violating Cuban air space, congressional opinion flowed overwhelmingly in favor of the anti-Cuban legislation and President Bill Clinton, anticipating a congressional override, signed the legislation.

In response to an accumulation of congressional mandates, the Treasury feels bound to instruct its executive directors to use their "voice and vote" to promote a wide range of goals, on issues ranging from trade in palm oil and citrus, the environment and workers' rights, to anti-corruption and the needs of the poor, to nuclear weapons proliferation and anti-terrorism. Treasury considers that continued congressional support for U.S. participation in the IFIs and for their periodic financial replenishments is dependent upon how well Treasury implements these mandates.

Interestingly, Helms-Burton requires the U.S. to oppose the admission of Cuba and to punish the IFIs if they approve loans to Cuba—but it does not explicitly require the U.S. to vote against loans or other assistance to Cuba. One might suppose that this was the intent of the drafters of the legislation, but it is an odd omission in light of the clear voting requirements on loans in other IFI-related legislation.

Further, Helms-Burton speaks of "assistance to the Cuban Government." It does not directly address IFI assistance to non-governmental entities or private enterprises within Cuba, or to regional and international institutions or trust funds.

As discussed earlier, the IFIs have developed mechanisms for engaging with non-members and some of these, for example trust funds managed by third parties such as the UNDP, would not appear to trigger sanctions under Helms-Burton or other restrictive U.S. legislation discussed below.

Today, if Cuba were to suddenly apply to rejoin the IMF, Helms-Burton would mandate the U.S. executive director to vote in the negative. However, the U.S.'s 17 percent voting share would be insufficient to defeat a resolution that requires only a majority vote. Cuban membership would not, by itself, trigger the Helms-Burton sanctions that relate not to mere membership but to assistance to the Cuban government. But in the face of strong U.S. opposition, and fearing that the U.S. Congress might deny future IFI capital replenishments, other member states and senior management might well shy away from bringing the Cuba case forward to a vote.

Realistically, therefore, Cuban engagement with the IFIs must be a three-stage process: 1) technical assistance, perhaps for a prolonged period of time; there are ample precedents for extending technical assistance to non-members, for example through the establishment of third-party trust funds; 2) followed by full membership; 3) followed ultimately by significant financial assistance.

To create more receptive political conditions in the United States, Cuban application for membership assumes progress in implementing those initiatives in the May 2011 reform guidelines that promote wider opportunities for the private sector and more of a market orientation. Formal application for membership also assumes a successful period of mutual confidence-building between the IFIs and Cuba. Upon such circumstances, the White House could submit to Congress that it would be strongly in the interests of the United States, and other IFI members, to assist and promote these reforms, as the IFIs have done in so many other country cases, predicated upon accords between the IFIs and Cuban authorities. Moreover, under such favorable circumstances, it could be argued that it would be folly for the U.S. to seek to withhold U.S. financial obligations to the IFIs and undermine the institutions' governance structure. Especially at a time when strong IFIs are urgently needed to help stabilize a dangerously fragile global economy, the Treasury could declare, the U.S. must bolster, not subvert, the most successful multilateral economic organizations in world history.

As one senior congressional staffer quipped, how could the Congress oppose "Asking the Cubans to enter the Temples of Communist Doom?" Sound Treasury arguments would be "untouchable," she felt, among most members of Congress.

## Other U.S. Congressional Mandates

Several other pieces of U.S. legislation contain mandates relating to the IFIs and Cuba, including laws related to state sponsors of terrorism, expropriation of property, and trafficking in persons. U.S. legislation on international terrorism (22 U.S.C. ⌖ 262p-4q) requires the U.S. to use its "voice and vote" to oppose assistance to countries for which the Secretary of State has made a determination under the Export Administration Act or Foreign Assistance Act, e.g., to oppose assistance to a country on the State Department's list of "designated state sponsors of terrorism." In the State Department's "Country Reports on Terrorism 2010," only four countries—Iran, Syria, the Sudan, and Cuba—warrant that negative designation.[103] In comparison to Iran and Syria, which are accused of multiple acts of supporting Mid-East terrorism, the report's allegations against Cuba are remarkably mild and limited. The brief section on Cuba notes:

> "Designated as a State Sponsor of Terrorism in 1982, the Government of Cuba maintained a public stance against terrorism and terrorist financing in 2010, but there was no evidence that it had severed ties with elements from the Revolutionary Armed Forces of Colombia (FARC) and recent media reports indicate some current and former members of the Basque Fatherland and Liberty (ETA) continue to reside in Cuba. Available information suggested that the Cuban government maintained limited contact with FARC members, but there was no evidence of direct financial or ongoing material support. In March, the Cuban government allowed Spanish Police to travel to Cuba to confirm the presence of suspected ETA members."[104]

The report alleges that Cuba continues providing safe haven to members of groups designated as terrorist organizations. It is interesting to note that the State Department report levels a similar

---

[103] http://www.state.gov/s/ct/rls/crt/2010/170260.htm.

[104] U.S. Department of State, Office of the Coordinator for Counterterrorism, *Country Reports on Terrorism 2010*, August 2011.

charge against Nicaragua: "No known terrorist groups operated openly in Nicaragua; however, both the FARC and the ETA (Basque Fatherland and Liberty) have retired or inactive members residing in Nicaragua." Nicaragua, however, is not a designated sponsor of state terrorism. Moreover, the governments of Colombia and Spain have indicated that they are not concerned by the presence in Cuba of the nationals in question.[105]

With adequate political will, it should not be difficult for the State Department to find valid reasons, perhaps in coordination with the Cuban government (such as its expulsion or extradition of one or more of the alleged terrorists), to remove Cuba from the terrorism list.

The two other mandates potentially applicable to Cuba allow for presidential waivers or other exemptions. Legislation on expropriation (Helms Amendment, 22 U.S.C. ✣ 2370a), not yet applied to Cuba, requires the U.S. to vote against IFI loans to countries that have expropriated the property of a U.S. person without adequate and effective compensation, offered a domestic procedure for doing so, or submitted the dispute to international arbitration. However, the legislation allows for a waiver "if the President determines and so notifies Congress that it is in the national interest to do so." Nor is a negative vote required if "such assistance is directed specifically to programs which serve the basic needs of the citizens of that country."

Similarly, legislation against trafficking in persons (22 U.S.C. ✣ 7107), whereby Cuba has recently been designated by President Obama as an offender despite the Cuban governments' many actions against prostitution, allows for a presidential national interest waiver.

These three mandates (on terrorism, expropriation, and trafficking in persons) do not directly address U.S. votes on a membership application. When legislation mandates the U.S. to oppose IFI loans, as happens with other countries, such as China and Venezuela, who are designated as being in non-compliance with one or more such mandates, the U.S. may vote "no" or abstain but without evident effect as the loans generally garner the necessary majority support within the IFI executive boards. These three mandates, interpreted more objectively (in the cases of terrorism and trafficking) and taking advantage of presidential waivers, do not bind the hands of an executive branch seeking to unshackle relations between the IFIs and Cuba.

For the United States, the various restrictive congressional mandates allow the Executive Branch more flexibility than is generally understood. And negative postures by U.S. executive directors in

---

[105] Their respective ambassadors to Cuba, in conversations with President Jimmy Carter, March 2011, Havana. I am indebted to Robert Pastor, who accompanied Carter, for this information.

their respective IFI boards, as legislation currently requires under certain circumstances, would most likely not prevail, should issues regarding Cuba rise to a vote. To avert such potential conflicts, the White House should initiate a review of congressional mandates that condition U.S. policies toward Cuban engagement with the IFIs, with the aim of allowing a more flexible U.S. response to Cuban economic reforms and any Cuban expressions of interest in working with the international financial institutions.

SECTION 5

# Updating Cuban Perceptions: Vietnam and Nicaragua in the Global Economy

In Cuban government and academic circles, as we have seen, there is some interest to engage with the multilateral financial institutions. But there is also much suspicion about institutions long vilified by the Cuban government. This distrust must be overcome if an IFI-Cuban dialogue is to prosper.

Among many Cubans, there is strong stigma associated with the IFIs. Many believe that the IFIs deprive nations of their sovereignty such that no self-respecting government could work successfully with them; that the IFIs rigidly demand the dismantling of the state in favor of private enterprise and other "neo-liberal" reforms; and that the IFIs insist that these reforms be instituted immediately in a shocking "big bang." There is also the fear that despite its multilateral make-up, the IMF is simply a mask for U.S. power. In fact, today, none of these fears are well founded.

## The New IFIs and Cuba's 2011 Reform Guidelines

The IMF and World Bank have radically evolved since the heyday of market fundamentalism in the 1980s. Today, on their web sites and in official statements and publications, the Bretton Woods sisters humbly recognize past errors not only of judgment but of dogma. The IMF states frankly that it seeks to overcome "the perceived stigma" attached to drawing on its resources.[106] To improve its accountability and results, the World Bank has strengthened its internal and external review procedures. To erase the image of being elite private clubs, both institutions have vastly expanded their web sites and now promptly release detailed loan documents that until recently were closely guarded and labeled "classified." Consultations with civil society organizations, at headquarters and in-country, are now routine practices.

---

[106] Camilla Andersen, "New Rules for Engagement for IMF Loans," *IMF Survey online*. Available at: http://www.imf.org/external/pubs/ft/survey/so/2009/POL041309A.htm

Why this humility and openness? The evident mistakes made in response to the Asian financial crisis of the late 1990s opened a chink in the IMF armor. Even more serious, the failure to anticipate the global financial crises of 2008-2009, and the apparent tendency of poorly regulated global financial markets to engender crisis after crisis, further undercut official IFI verities. As important, in the mid-2000s the IFIs were losing business, crowded out by burgeoning private capital markets and the accumulation of international reserves by many former client states; lacking customers, the IMF downsized its staff. Facing declining demand for their resources, the IFIs had to review their own business models and give more weight to client perspectives. At the structural level, the IFIs responded to shifts in global power by paying more heed to the views of emerging market economies; reflective of this new multi-polar world, IMF and World Bank personnel, at all levels, are drawn from increasingly diverse national backgrounds. Leadership also played a role, as certain skilled senior managers sought to make their institutions more responsive to the altered international landscape.[107]

In a 2005 comprehensive review of conditionality, the World Bank reached a number of important findings and policy recommendations, many of which coincided with the long-held views of critics in academia and in developing countries:[108]

- "There is no single model of development." (p.10). "The lessons of the 1990s show that generalized policy prescriptions often fail." Programs need to be custom-tailed to country conditions and be time-specific.[109]

- Country ownership of programs is vital to their success. "To ensure country ownership of Bank-supported programs, the Bank is systematically aligning its Country Assistance Strategies with countries' own development strategies." (p.23) (See Table 5.1).

- Policy conditions that are overly complex and intrusive should be avoided. The 2005 review found that, in fact, the average number of conditions per operation had fallen from 35 in the late 1980s to about 12 in FY2005. (p.v) "Conditions should be confined to those actions that are critical for implementing the country's program to achieve the expected results." (p.7)

---

[107] For an account of the stewardship of James Wolfensohn, World Bank president from 1995 to 2005, see Sebastian Mallaby, *The World's Banker* (New Haven: Yale University Press, 2004).

[108] World Bank, *Review of World Bank Conditionality* (Washington, DC: World Bank, Operations Policy and Country Services, 2005).

[109] On tailoring strategies to country conditions, see the World Bank-supported Commission on Growth and Development, *The Growth Report: Strategies for Sustained Growth and Inclusive Development* (Washington, DC: The World Bank, 2008).

- The prior emphasis on privatization had already declined markedly since the 1990s. Instead, the Bank should focus on improving business environments. "In noncompetitive sectors, independent of the ownership structure, the institutional framework has become central to the design of reforms." (p.12)[110]

- In a retreat from past practices of urging that even poor people should pay for social services, the Bank argued that in many circumstances the provision of free education and basic health services is warranted. Where fiscal constraints make that infeasible, targeted subsidies can protect the most vulnerable populations. Where price increases for electricity and water are required, price adjustments should be implemented gradually and a social safety net should be provided for low-income consumers.

**Table 5.1. World Bank: Good Practice Principles for Conditionality**

| |
|---|
| **Ownership**: Reinforce country ownership. |
| **Harmonization**: Agree up-front with the government and other financial partners on a coordinated accountability framework. |
| **Customization**: Customize the accountability framework and modalities of Bank support to country circumstances. |
| **Criticality**: Choose only actions critical for achieving results as conditions for disbursement. |
| **Transparency and predictability**: Conduct transparent progress reviews conducive to predictable and performance-based financial support. |

Source: World Bank (2005)

Following suit, in 2009 the IMF announced a wide-ranging reform of its own lending practices.[111] An earlier study by the Fund's internal evaluation office had found that "a significant number of

[110] A Bank study prepared for the larger 2005 conditionality review made this comment on privatization: "Today, it is increasingly clear that privatization is not a purely technical exercise but rather one that encompasses complex political economy issues. Particularly in noncompetitive industries, privatization is not only a matter of design but a matter of power, as one of the key issues is the distribution of monopoly rents." *Content of Conditionality in World Bank Policy-Based Operations: Public Sector Governance, Privatization, User Fees, and Trade*, Background Paper 4, Poverty Reduction and Economic Management (PREM) Group, World Bank, in World Bank (2005).

[111] Camilla Andersen, "New Rules for Engagement for IMF Loans," *IMF Survey online*. Available at: http://www.imf.org/external/pubs/ft/survey/so/2009/POL041309A.htm.

structural conditions are very detailed, and often felt to be intrusive and to undermine domestic ownership of programs." To encourage countries to borrow Fund resources, "structural issues" —such as reform of the tax system, improving fiscal transparency, and strengthening banking supervision—would no longer be conditions for disbursements. Hard performance criteria would be narrowed and focus on macroeconomic conditions, such as budget deficits, public debt, and central bank reserves.

These policy adjustments position the IFIs to view with somewhat greater sympathy the spirit of the reform guidelines approved in April 2011 by the Cuban Communist Party:

- The IFIs are now more disposed to listen sympathetically to the Cuban government's preference for gradualism, for carefully modulated step-by-step reforms, intended in part to minimize the costs of transition and their impacts on the most vulnerable sectors of the population.

- The Cuban government does not plan large-scale privatizations of state-owned enterprises, rather it will allow the private sector to expand outside of the central plan, but the guidelines recognize the need to construct a policy environment conducive to enhancing firm efficiency and productivity.

- The guidelines want to protect the gains of the revolution in social services, which accepting that fiscal constraints will force some cutbacks and require more careful targeting of subsidies.

- The Cuban government will also be more receptive to external institutions that strive to understand the uniqueness of each country circumstance and that are respectful of country priorities.

To be sure, implementation by the IFIs of their new directions is mixed, depending upon the inclinations and talents of assigned staff, the receptivity of borrowing governments, and trade-offs among goals in environments with stringent resource constraints.[112] Yet, in two country cases particularly pertinent to Cuba—Nicaragua and Vietnam—the IMF and World Bank have been successfully implementing their new approaches to development lending.

[112] For a critical review, see Jubilee USA Network, "Unmasking the IMF: The Post-Financial Crisis Imperative for Reform," October 2010.

## National Sovereignty and Borrower Bargaining Power: Nicaragua and Vietnam

The Nicaragua case is pertinent to Cuba because Nicaraguan President Daniel Ortega has long been a close ally of the Cuban government, and his substantial economic relations with Venezuela closely mirror the Cuban-Venezuelan connections—raising tough questions for the IFIs. Vietnam is pertinent because from the Cuban vantage point, despite obvious differences between the two economies, Vietnam is considered an interesting precedent for gradual economic reform within the context of a stable one-party political system.

## Nicaragua: Poster Child for IMF Political Pluralism

Daniel Ortega regained the Nicaraguan presidency in internationally supervised elections in 2006. As leader of the Frente Sandinista de Liberacion Nacional (Sandinista Front of National Liberation, FSLN) and president of Nicaragua during the 1980s following the FSLN's military destruction of the Somoza dynasty, Ortega has deep, long-standing ties to the Cuban leadership, and has continued to travel regularly to Havana (according to rumors, including for medical treatments). Ortega has also established warm relations with Venezuelan President Hugo Chavez. During his inauguration, Ortega delayed the ceremonies for two full hours, compelling the assembled dignitaries to wait in the hot, tropical sun for Chavez's delayed arrival. The next day, Ortega announced Nicaraguan entry into the Venezuelan-led ALBA (Bolivarian Alliance for the Americas). During Ortega's presidency, commercial relations with Venezuela have flowered. Furthermore, Ortega has not hidden his negative feelings toward U.S. foreign policy; at the 2009 Summit of the Americas in Trinidad and Tobago, he violated his allotted ten minutes by a substantial multiple to deliver a lengthy tirade against past U.S. actions in Latin America.

Nevertheless, all three major multilateral financial institutions active in the region—the IMF, World Bank, and IDB—have maintained their long-standing working relations with Nicaragua, continuing to disburse on pre-existing loans and grants, signing new agreements, and extending technical assistance. As if to make it absolutely clear that it was committed to Nicaragua for the long-term, notwithstanding the vicissitudes of local politics, the IDB in 2011 opened a large national headquarters in Managua.

This IFI continuity in Nicaragua has several explanations: the inertia commonplace in large bureaucracies; political sympathy for the FSLN and its social goals among some member countries and IFI staff; FSLN pursuit of some programs consistent with core IFI policies; the enhanced flexibility—the new look—of IFI programming; and the desire, particularly within the IMF, to demonstrate that it can do business with governments of many political stripes—making Nicaragua a poster child of the IMF's political pluralism.[113]

[113] Author interviews with IMF staff, 2011.

Notwithstanding his anti-imperialist rhetoric, Ortega quickly demonstrated that he had learned from the grave errors in economic management that had contributed to his 1990 electoral defeat: unsustainable fiscal deficits, lax monetary policy and hyper-inflation, and massive expropriations of private property had caused economic contraction and political backlash. This time, Ortega selected a moderate economic team, adhered to sound fiscal and monetary policies, and after a rocky start developed good working relations with the Nicaraguan and international private sectors. Ultimately, many Nicaraguan business leaders would support his re-election bid in November 2011.[114] And despite his anti-U.S. rhetorical outbursts, Ortega kept Nicaragua firmly within the U.S.-Central America Free Trade Agreement (CAFTA-DR) and continued to welcome foreign investment in the assembly "maquila" factories that supplied the U.S. garment markets.

The "neo-liberal" government that preceded Ortega had worked closely with the IMF. Shortly after taking office, Ortega's government negotiated a multi-year Extended Credit Facility (ECF, formerly known as the Poverty Reduction and Growth Facility, PRGF) with the IMF for SDR 71.5 million. Throughout the Ortega presidency, the IMF has continued its routine consultations, reviews, and disbursements. To ensure continuity during the 2011 election cycle, the IMF extended the ECF arrangement through December 4, 2011.

Consistent with its new rules for engagement, the IMF limited its hard requirements—the quantitative performance criteria—to just six variables (fiscal balance, social security budget balance, monetary expansion, net international reserves, external debt and external arrears).[115] While these are important policy instruments and outcomes, the IMF allowed Nicaragua considerable leeway in choices as to how to reach these targets, e.g., by raising revenues or cutting expenditures. In this regard, it is interesting to note that during this period, government expenditures as a percentage of GDP remained steady at 24 percent. Far from seeking to shrink government or serving as a shill for corporate interests, the IMF supported "further elimination of the still extensive tax exemptions, e.g., on corporate incomes taxes and the VAT."[116]

The IMF reported in May 2011 that "All quantitative performance criteria through end-December 2010 were met with margins."[117] Again, on September 13—less than two months prior to the presidential contest—an IMF mission gave Nicaragua a seal of approval.[118] This positive appraisal

[114] Richard Feinberg, "Sandinista Survivor," ForeignAffairs.com, November, 2011.
[115] IMF, "Nicaragua: Sixth Review Under the Extended Credit Facility," May 2011. Available at: http://www.imf.org/external/pubs/ft/scr/2011/cr11118.pdf.
[116] Ibid., pp. 12, 28.
[117] Ibid., p. 1.
[118] IMF, "IMF Mission Visits Nicaragua to Conduct Seventh and Last Review of the Extended Credit Facility," press release No. 11/331, September 13, 2011.

amounted to a strong, public endorsement of the Nicaraguan government's economic management. The IMF's public praise must have been welcome news for Ortega's re-election team.

In accordance with new IMF practices, the IMF program has included "structural measures," but compliance is not a requirement for disbursements. Of the four such structural benchmarks in the 2010-2011 Nicaragua program, one was simply to complete a study (to assess the scope for productivity gains and for rationalizing government employment practices), and another was submission to the national legislature of a supplementary budget, with which the government complied. A third benchmark called for approval by the legislature of a regulatory framework for microfinance institutions. The most controversial, however, was the structural benchmark calling for publication of a report with "fuller discloser on uses of aid flows"—an allusion to the Nicaraguan-Venezuelan economic partnership.

For the IMF, it's all about the numbers: without reliable and timely data, staff economists cannot credibly assess an economy's performance and its compliance with program targets. The massive inflows of off-budget, non-transparent financial resources from Venezuela made it impossible for IMF staff to get a full picture of Nicaragua's fiscal and monetary policies. So the IMF staff began to press for more information, while showing considerable patience. While staff-government negotiations dragged on for years, Nicaragua gradually released more data, and the IMF continued to disburse against the successful performance on the key macroeconomic performance criteria.

Nicaragua now releases significant if still incomplete data on its Venezuelan commercial connection.[119] In 2010, Venezuelan cooperation reached $511 million (a whopping 7.6 percent of GDP), of which $337 million was attributed to subsidized oil sales and $163 million to bilateral grants. Published information further disaggregated these totals among a number of Nicaraguan government programs, including key Sandinista political projects (subsidies to public transportation and energy consumption, a wage bonus to public sector employees, and social programs to reduce malnutrition and to build local roads). But many questions about the Venezuelan-funded programs remain unanswered: for example, just how these various programs are contracted, targeted, distributed, monitored, and evaluated. Casual observations suggest that the FSLN uses many of the funds for its partisan political purposes. There are also allegations that some unaccounted for funds are being used to purchase assets for FSLN-related entities or persons. The IMF, while pleased with progress to

[119] Banco Central de Nicaragua, *Informe de Cooperacion Externa 2010*, esp. pp. 14-16. Available at: http://www.bcn.gob.ni/publicaciones/eventuales/informes_especiales/ICOE_2010.pdf. The constructive IMF dialogue with Nicaragua contrasts with the breakdown in IMF communications with Venezuela, whose last Article IV consultations was in 2004. Nevertheless, the IMF has not sanctioned Venezuela.

date, is now seeking the release of externally audited financial statements of ALBA-related entities. IMF reviews of the Nicaraguan economy are replete with exhortations suggesting a wide range of additional reforms that would, gradually, align Nicaraguan practice with IMF and international standards. But these notations are not hard requirements, rather, are considered suggestions. The Nicaraguan authorities can listen and learn, or can listen and ignore, according to their views of their own national interest. Meanwhile, the IMF has continued to disburse and even more importantly, provide Nicaragua with the IMF seal of approval that enhances the FSLN government's reputation with the local private sector and greatly facilitates access to other international sources of capital.

This Nicaraguan experience with the IMF, and the IFIs more generally, suggests several lessons relevant to the Cuban case:

1. It is feasible simultaneously to maintain good relations with the IFIs and Hugo Chavez's Venezuela. Nicaragua has successfully maneuvered a balanced policy of knitting South-South cooperation with integration into global and U.S. markets.

2. The IMF is not inherently anti-public sector. Pursuing its core interest in fiscal balance and debt management, the Fund often favors tax measures to increase revenues. Today's IMF, in close coordination with the World Bank, also tracks and seeks to protect social expenditures targeted to the most vulnerable populations.

3. The IMF will press for statistical transparency and provide technical assistance toward that end but does not demand nor expect perfection over night. As a permanent bureaucracy, the IMF is playing the long game.

4. Sound IFI-backed policies can bring political rewards, for example in improving relations with the private sector.

5. Although influential, the U.S. government does not necessarily dominate. After government-manipulated electoral fraud in 2008 municipal elections, the U.S. sharply cut back on its bilateral assistance to Nicaragua, but IFI programs continued unabated.

## The Socialist Republic of Vietnam: A World Bank Success Story

A Vietnamese economist began his presentation on his country's economic reforms at a conference of Cuban economists in Havana in 2011 with the incantation: "First, we defeated the U.S. military." With that simple declaration, he reminded his audience of the long-standing ties between

Vietnam and Cuba in their shared struggles against imperialism. There was no question as to his bona fides—setting the stage for his description of Vietnam's turn toward market socialism, normalization of relations with the United States, and intense engagement with the international financial institutions.

Vietnamese economic reform has been a dramatic success, with per capita income doubling and doubling again from 1985 to 2010 and social indicators improving markedly.[120] Vietnam has joined the World Trade Organization (2007), diversified its economic partnerships, and become a magnet for foreign investments. From the perspective of the ruling Vietnamese Communist Party, the *Doi Moi* (renovation) reforms initiated in 1986 have served the intended purposes of preserving one-party rule and a strong if diminished state sector (state-owned enterprises remain politically and economically powerful) while improving the living standards of the people. For its part, the World Bank considers Vietnam to be one of its major success stories, as Vietnam moves into middle-income status and begins to transit from the highly concessional loan window to make use of more market-rate resources.

In the case of Vietnam, there was no problem of IFI membership. The Socialist Republic of Vietnam simply assumed the seat of The Republic of Vietnam, which had joined the IFIs in 1956. Relations with the IFIs, however, were disrupted for more than a decade by Western objections to Vietnam's 1978 invasion of Cambodia. The Vietnamese withdrawal from Cambodia in 1989 and Vietnam's settlement of arrears ($221 million) with the IMF re-opened the doors to greater IFI engagement. In the interim, the IFIs had been preparing studies of the Vietnamese economy, including a comprehensive World Bank report, *Vietnam: Stabilization and Structural Reforms* (April, 1990) and a series of sector reports on energy, transport, health and finance. These studies were reportedly well received by the Vietnamese and had some impact on the subsequent round of reforms.[121] The research also helped prepare World Bank staff as they began to design projects and programs for lending.

Vietnamese relations with the IFIs have not always been smooth. At times the Vietnamese have balked at what they have deemed excessive intrusiveness and overweening conditionality, as the quantity of required performance criteria multiplied. In 2004 the Vietnamese broke off borrowing

---

[120] This section relies heavily on World Bank, *Country Partnership Strategy Progress Report with the Socialist Republic of Vietnam for the Period FY07-FY11* (Washington, DC: World Bank, November 24, 2009); Mark Baird, "Vietnam and the World Bank: A Strong and Enduring Partnership," March 11, 2011 (revised draft); and the insights of Brookings senior scholar Homi Kharas, whose previous World Bank responsibilities included Vietnam. See also Edmund Malesky, Regina Abrami, and Yu Zheng, "Institutions and Inequality in Single-Party Regimes: A Comparative Analysis of Vietnam and China," *Comparative Politics*, July 2011, pp. 401-419.

[121] Mark Baird, op.cit., p. 11.

from the IMF over transparency and other issues (although the IMF maintains a representative office and Vietnam continues annual Article IV consultations and receives IMF technical assistance). Despite the spat with the IMF, after sharp internal debates and despite voting abstentions by the United States executive director, the World Bank maintained and even increased its exposure in Vietnam. World Bank commitments to Vietnam rose from $325 million in FY1994 to $706 million in FY2004 to an average of $1.5 billion per year from FY2008-FY2010. By FY2010, the Bank was running a portfolio of 46 projects with net commitments of $6.3 billion! Vietnam became the second largest recipient, after India, of the International Development Agency (IDA, the soft-loan window of the World Bank). Today, the Bank office in Hanoi has a staff of 130, including 28 international staff. In addition, the International Finance Corporation (IFC), the Bank's private sector arm, has been extremely active in Vietnam, where it employs a staff of approximately 60 people working in investment and advisory services.[122]

Table 5.2, "World Bank Commitments to Vietnam FY2007-FY2009," gives a sense of the size and diversity of World Bank support for the Vietnamese economy. Hardly a stone seems unturned. The large Development Policy Operations (DPOs) seek to facilitate removal of structural bottlenecks in areas such as higher education, power generation, and public investment. Additional lending for social protection and disaster mitigation had been programmed but was not realized during this timeframe.

### Table 5.2. World Bank Commitments to Vietnam, FY2007-2009 (US$millions)

| | FY07 | FY08 | FY09 | Total |
|---|---|---|---|---|
| Development Policy Operations | 225.0 | 150.0 | 500.0 | 875.0 |
| Rural Development | 20.0 | 275.0 | 59.8 | 354.8 |
| Education | 59.4 | | 127.0 | 186.4 |
| Urban Development | 174.7 | 152.4 | | 327.1 |
| Transport | 232.7 | 325.2 | | 557.9 |
| Public Admin. | | 80.0 | | 80.0 |
| Financial Sector | | | 60.0 | 60.0 |
| Health | | 60.0 | | 60.0 |
| Energy | | 150.0 | 402.0 | 552.0 |
| Social Protection | | | | - |
| Disaster Mitigation | | | | - |
| Total | 711.8 | 1,192.60 | 1,148.80 | 3,053.20 |

Source: World Bank

[122] Baird (2011), pp. 12, 14.

Experience taught the IFIs that local stakeholders must be persuaded of the value of externally-financed projects and advice. Otherwise, governments may sign loan documents but when it comes to compliance will shirk those conditions with which they disagree. To ensure "country ownership," the World Bank has closely aligned its lending programs with Vietnamese priorities. The Bank's FY2007-FY2011 Country Partnership Strategy (CPS) was designed to support Vietnam's own Five-Year Socio-Economic Development Plan (SEDP) 2006-2010.[123] In addition, the Bank's annual Vietnam Development Reports were organized around SEDP-CPS themes, such as poverty alleviation and social protection, governance and modern institutions, and improving the business climate.

The Bank ran an active program of technical assistance (in Bank terminology, "analytical and advisory activities"), closely aligned with SEDP-CPS goals.[124] These research projects were conducted in collaboration with local research institutes and think tanks. The preparation of core diagnostics was entrusted to Vietnamese counterparts, a method for gaining local buy-in and, the Bank believes, one that influenced the development of information systems and policy choices.[125]

Furthermore, the World Bank has administered a number of multi-donor trust funds, for example the Trust Fund for Public Financial Management Modernization. The Bank also chairs the large donor consultative group intended to improve coordination among the many bilateral and multilateral (including the Asian Development Bank) agencies operating in Vietnam.

The Bank is proud of its Vietnam program: "The Vietnam program's development outcomes record remains unsurpassed in the Bank. Based on (internal) evaluations of 34 completed projects, Vietnam has maintained its record of 100 percent of projects having been rated satisfactory."[126] An external consultant's review of Bank programs in Vietnam added this comment on the Bank's analytic contribution: "Officials want to talk with people who have world-class expertise and relevant experience from other countries. They value the Bank's knowledge embedded in projects as well as free-standing policy work."[127]

Arguably, influence has moved in both directions: Vietnam has had an impact upon the design of the worldwide programs of the Bank. The Vietnamese pushed hard for: 1) fewer onerous condi-

---

[123] World Bank, *Country Partnership Strategy Progress Report with the Socialist Republic of Vietnam for the Period FY07-FY11* (Washington, DC: World Bank, November 24, 2009).
[124] The AAA program was organized around six clusters: Infrastructure and Regulatory Reform, Agriculture and Rural Development, Regional Development and Urbanization, Prioritizing Climate Change Investments, Social and Land Conflict Management, and Policy for Financing Infrastructure PPPs. World Bank (2009), p.13.
[125] World Bank (2009), p.3.
[126] Ibid., p.7.
[127] Mark Baird, op.cit., p.32.

tions, 2) the foregoing of ambitions to accomplish too much all at once in favor of a more realistic sequencing of reforms, and, 3) recognizing the value of the longer-term perspective. These criteria are now World Bank dogma. The Vietnamese also insisted on having Bank programs conform to their national priorities—a preference that the Bank now accepts under the aegis of "country ownership."

**After its long, bloody battles for national independence, if proud and assertive Vietnam can embrace the global economy and work successfully with the IFIs, why not Cuba?**

Of course there are large differences between the Vietnamese and Cuban economies. Vietnam began *Doi Moi* as a largely rural peasant society in contrast to Cuba's educated urbanity. But the two economies share these central common challenges: how to transit from a centralized planned economy to a more market-oriented society open to global commerce and to do so at minimum costs to the population and without engendering political instability. A number of Cuban economists recognize these similarities and have been carefully studying the Vietnamese case.

The Vietnam case suggests that the international development community can offer significant financial resources and valuable technical advice that facilitate economic transition and mitigate the inevitable resource trade-offs. After its long, bloody battles for national independence, if proud and assertive Vietnam can embrace the global economy and work successfully with the IFIs, why not Cuba?

SECTION 6

# Key Findings and Recommendations: Nudging History Forward

The preceding sections offer a number of key findings that can help illuminate potential future directions for the international community in reaching out to Cuba to promote its economic renewal. They also suggest policy recommendations for the international development community, the IMF/World Bank, the Cuban government, and the United States.

**Key findings include:**

1. *Cuban resilience*: Since the dissolution of the Soviet Union, Cuba has demonstrated the capacity to adapt to shifting global circumstances—not in optimal fashion but with sufficient dexterity to extract important gains from its participation in the global economy. Cuba's resilience should not be underestimated by the international community.

2. *Gradualism*: Gradualism in economic reform—as opposed to an Eastern European-style sudden regime collapse—appears to be the most likely scenario that Cuba will follow. As a result of economic reforms, albeit halting and partial, Cuba today is different from the Cuba of 1989. In 2011, Cuba's current leadership, however aging and proud, promulgated reform guidelines that recognize the imperative of change and that empower the pro-reform factions. Moreover, as suggested by successful Asian experiences (Vietnam, Malaysia, Singapore, China), where political leadership provides stability and continuity, gradualism can be a feasible—indeed it may well be the only realistic—option. Gradualism must not, however, be an excuse for policy paralysis or a smoke-screen for maintenance of the status quo.

3. *The reform imperative*: Cuba's smart strategy of integrating with the dynamic emerging market economies is already yielding rewards—but must be complemented by economic reform on the island. Otherwise, there will be another cycle of disappointment and recrimination. The

major emerging-market states (aside from Hugo Chavez's Venezuela) will limit their portfolio risks in Cuba unless the investment climate improves and financial obligations are honored.

4. *Achievable results*: International development cooperation can achieve results in Cuba. Notwithstanding the many constraints imposed by Cuban authorities, external donors can improve the lives of targeted beneficiaries and can place their resources behind programs that advance structural change. Cuba brings important strengths to development partnerships: relatively strong public institutions, abundant technical expertise, and the bureaucratic capacity to rapidly scale up successful pilot projects—valuable attributes often lacking in developing countries.[128] International donors can also provide capacity-building in fields where Cuba is lacking, such as project analysis and financial accounting. But it is also true that Cuba must address the many policy-driven distortions that can swamp the value-added of project-level innovations.

5. *IFI assets and Cuban needs*: The major international (IMF, World Bank) and regional (IDB, CAF) financial institutions house a wealth of accumulated knowledge and expertise, and massive financial resources, which fit well with Cuba's needs. In recent years, the IMF and World Bank have learned a great deal about how to promote efficient growth and poverty reduction in the context of strong states. The IFIs have also become more attuned to clients' political sensitivities and more flexible in adjusting requirements to local circumstances, as evident in their successful relationships with Vietnam and Nicaragua. IFI staff economists and sector specialists are chomping at the bit to engage in Cuba—they should be allowed and encouraged to do so.

6. *Pro-reform coalitions*: In Cuba, the pro-reform factions mustered sufficient power to insert their values and goals into the 2011 reform guidelines. But the guidelines, with their many internal contradictions, also show that orthodox planners remain entrenched in still-powerful ministries and the conservative factions inside the Communist Party. The strategic thrust of the international development community should be simple: lend their leverage to, and take their cues from, the pro-reform fractions in Cuba. (Such cross-border activity, which forms the essence of international cooperation in an interdependent world, is not an infringement on national sovereignty, when invited in by the host authorities.)

Specific recommendations for the international development community, the Cuban government, and the United States are as follows:

---

[128] On the alarming weaknesses of Central American public institutions, see Kevin Casas-Zamora, *The Travails of Development and Democratic Governance in Central America* (Washington, DC: Brookings Institution, Policy Paper 28, 2011).

**For the international development community:**

- *Now is the time for the international development community to engage in Cuba, to support the incipient economic reform process.* Donors already supporting food production by the non-state sector (private farmers and cooperatives), the empowerment of municipalities, and local human development have been remarkably prescient. Now that the Cuban government, as enshrined in the 2011 guidelines, has declared its alignment with these goals, donors ought to scale up their investments.

- *Donor coordination is especially vital in the Cuban context*. In Cuba, information is scarce and the government seeks to maximize its own leverage by dealing with governments on a bilateral basis. Donors should share success stories among themselves—and seek to persuade their Cuban partners to replicate them.[129] With its comprehensive expertise and deep pockets, the World Bank often takes a leadership role in international donor coordination exercises.

**For the IMF and World Bank:**

- *It is time for the IFIs to complete their historical goal of full universality by bringing Cuba in from the cold.* Such final inclusion is in the interests of the IFIs as institutions and of their member states. While IFI membership does not presuppose any particular economic regime, Cuba's economic reform process—which poses so many opportunities for IFI contributions—offers a compelling moment to move forward.

- *IFI engagement with Cuba must be managed with great care and flexibility, beginning with small confidence-building measures.* The IFIs can recall numerous precedents of providing technical assistance and even financial resources to non-member states, possibly facilitated by trust funds, financed by third parties and managed by another international entity such as the experienced UN Development Program (UNDP). Existing IMF regional technical assistance centers can train Cuban government economists to align their practices, including statistical presentations, with international standards. In addition, IFI staff and Cuban economists might fruitfully participate in seminars organized by academic centers or think tanks in other countries.

- *The IFIs should immediately beef up their expertise on Cuba.* The current casual watching briefs maintained by IMF and World Bank staff fall far short of the knowledge that the international agencies will need to responsibly engage with Cuba, as it gradually moves toward membership.

[129] On the importance of donor coordination, see Homi Kharas et al. (eds.), *Catalyzing Development: A New Vision for Aid* (Washington, DC: Brookings Institution, 2011.)

**For Cuba:**

- *Cuba must rebalance its economic and social goals.* As many Cubans have remarked and as the 2011 reform guidelines concede, it will not be possible to preserve their impressive social gains unless the skilled labor force is given the tools with which to productively employ their talents and until the full economy—industry, agriculture, and services—becomes much more competitive. Cuba will have to significantly increase its national savings and investment rates, and as a small island economy, complement these domestic efforts with weightier inflows of external capital, technology, and marketing expertise.

- *Cuba can complement its South-South strategy with renewed engagement with Europe and Canada.* If Daniel Ortega's Nicaragua can successfully orchestrate such an international balancing act, why can't Cuba? But as the Nicaraguan precedent suggests, international relations cannot be divorced from domestic economic policies: the road to more productive relations with Europe and Canada—as well as with the emerging market economies—runs through domestic economic progress. Promoting a domestic private sector and a more welcoming investment climate will promote Cuba's integration into the global economy.

- *Cuba should act with all deliberate speed on its 2011 reform guidelines that contain more than a sufficient number of forward-looking initiatives.* In light of limited resources, goals will have to be prioritized, policies will have to be intelligently sequenced, and implementation strategies spelled out in detail. The reform process is a work in progress, and Cuba will have to continue to demonstrate strategic skill and tactical flexibility, as it turns crises into opportunities for accelerating change. But none of these challenges should be excuses for inertia or backsliding.

- *Cuba should not be afraid to engage with the IFIs.* Under their own new guidelines, the IFIs are capable of working within Cuban national priorities while they contribute their unique bundle of knowledge and capital. Cuba should take the initiative, and propose comfortable modalities and topics, moving forward one step at a time. To prompt a welcoming response, Cuba can energize its many friends on the IFI governing bodies: the increasingly influential emerging market economies (including China and Brazil) are also interested in promoting a more efficient and reliable Cuban economy.

**For the United States:**

- *U.S. policies toward Cuba should pay more attention to the evolution of Cuban domestic and international economic policies.* The U.S. will remain interested in Cuban politics but the crafting of effective and realistic U.S. policies requires a better understanding of Cuba's new and changing economy. The U.S. Interests Section in Havana should devote more resources to economic reporting.

- *The U.S. should not politicize nor stand in the way of Cuba's re-admission to the IFIs.* The U.S. Treasury understands full well that it is in the U.S. national interest for the IFIs to promote market-oriented economic reforms in Cuba. Enhancing the inclusive universality and non-political integrity of the international financial institutions also serves vital U.S. interests. The White House should initiate a review of Congressional mandates that condition U.S. policies toward Cuban engagement with the IFIs, with the aim of allowing a more flexible U.S. response to Cuban expressions of interest in working with the international financial institutions.

- *U.S. policies should encourage progressive economic reforms in Cuba, for example by enabling private U.S. citizens (including but not limited to Cuban-Americans) and civil society organizations to assist the legal private sector in Cuba*. Further, the establishment of micro-lending funds for Cuba could also help emerging entrepreneurs gain access to capital and associated managerial expertise.[130]

More generally, the capacity and credibility of the United States in international economic policy making are being threatened by the repeated ability of small but well-positioned domestic interests to trump the general national interest. In no issue is this paradox more evident than in U.S. policies toward Cuba, still trapped in the traumas of the 1959 revolution and its aftermath. The U.S. Executive Branch and Congress should seize upon Cuba's incipient economic reform process as the golden opportunity to reassert the U.S. national interest and approach Cuba with characteristic American realism and self-confidence.

Geography dictates that, eventually, Cuba will become fully integrated not only into the global economy but also into the Caribbean Basin. In preparing to take advantage of the widening of the Panama Canal by constructing shipping facilities at Mariel to service the Eastern seaboard of the United States, and by authorizing new golf courses and boat marinas that only American citizens could fully occupy, the Cuban authorities are signaling that they understand the powerful gravitational pull of geography—that Cuba and the United States will, inevitably, once again become

---

[130] As proposed by The Cuba Study Group, *Supporting Small Business in Cuba: Recommendations for Private and Public Sector Leaders*, April 2011. Available at: www.CubaStudyGroup.org.

economic partners. In approaching Cuban economic reform, the United States should join with the international development community in nudging forward that irresistible flow of history.

**Figure 6.1. Aspiring Cuban Performers, Havana.**

Photo credit: RFeinberg

# About the Author

RICHARD E. FEINBERG is professor of international political economy at the School of International Relations and Pacific Studies, University of California, San Diego. His four decades of engagement with inter-American relations spans government service (in the White House, Department of State, and U.S. Treasury), numerous Washington, D.C.-based public policy institutes, the Peace Corps (Chile), and now in academia. He is also the book reviewer for the Western Hemisphere section of *Foreign Affairs* magazine. Feinberg is a nonresident senior fellow with the Latin America Initiative at Brookings.

BROOKINGS

*The Brookings Institution*
*1775 Massachusetts Ave., NW*
*Washington, D.C. 20036*
*brookings.edu*