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FIDEL CASTRO AND THE ECONOMIC DEPENDENCE CYCLE IN CUBA



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Fidel Castro ruled Cuba for almost 50 years. He has maintained a strict control on power in a country that has been economically battling the United States ever since the revolution in 1959. He has also seen his economy go through ups and downs during his reign. Now in the last years of his rule, and most likely life, his effect on the Cuban economy is becoming clear. Castro has forced the Cuban economy into a cycle of dependence that has not benefited Cubans. The 30 years of trade dependence on the USSR, dependence today developing with Venezuela, has done nothing but hurt the Cuban economy. Castro has shown the ability to make favorable trade agreements with countries that share similar socialist ideals, but they have resulted in an imbalance of imports over exports in the trade agreements that has put Cuba in debt. This dependence has undermined the viability of the Cuban economy, hurting Cuba by obstructing its needed growth. This trade deficit makes the economy appear to be successful, but it fails to produce long term development. The economy has not grown enough to meet its capital needs, which has to be compensated for with loans.

To show this economic cycle of trade and debt, this paper examines three periods in Cuba's economic history. These periods are 1960-1990, 1990-2000, and 2000-present. The third period this paper analyzes is the key to understanding the whole of Castro's influence and ideas. This section uses primary documents to analyze the current trade agreements that Castro has forged and shows how his actions in the last six years expose

his true goals for the Cuban economy. To figure out his effect, the perspectives of scholars of each time period have to be understood and Castro's past economic performance has to also be analyzed.

The first period is Cuba's relationship with the USSR. This trade agreement created Castro's first major trade partner. The agreement was the main economic support for Cuba from 1960 until 1990. In 1960 Castro first set up a trade system that had a large trade deficit with heavy imports relative to the minimal exports. The second period was the one from 1990 until the early 2000s. This was a period after the USSR collapsed and Cuba had to run its economy without the Soviet backing. The period from 1993 until the end of the century saw Castro's effect on the economy change. He appeared to be on track to diversify and open up the economy, helping it grow with more market oriented reforms, and without the major support of another country. During this period Castro's influence was opening the economy to more capitalist ideas and showed growth that wasn't present earlier in the decade. The last and third period is from the early 2000s until today. In this period the latest trade agreements with Venezuela have put Cuba back in the cycle of economic dependency. This trade agreement also is similar to the agreement with the USSR, in which it has a large trade deficit. This agreement supplied enough capital to run the Cuban economy and allow Castro to reverse many of the reforms in the previous period. These three periods in Cuban economic history are the key to understanding how Castro has trapped the Cuban economy from ever becoming sustainable and growing on its own.

Each of the three periods of economic policy have produced schools of interpretation. These different ideas can be seen in the examination of scholarly secondary

sources from each of the three time periods. The scholars analyze these three periods conclude what type of economic system they think is developing. Scholars also see the dependence of the Cuban economy before the revolution in 1959. They view that seizure of all American businesses as creating a clean slate for Castro to work from. He eliminated foreign involvement and started new economy. The ideological debate he has had to battle was between his desire for socialist expansion, and the forces of a capitalist world economy.

An early but critical perspective of Castro's change appeared in Robert S. Walters' article "Soviet economic aid to Cuba: 1959-1964." He analyzed the economic support the USSR gave to Cuba through 1964, its influence over their economy, and how the relationship even influenced Cuba's trade with China.¹ He contended that this pressure made the Soviets the ones who wanted the agreement and wanted to help Cuba, and that the pressure made Cuba accept whatever trade agreement the Soviets gave them. This view that Cuba had to accept the trade agreement is the origins of the idea of dependency. The idea suggests that Cuba relied so heavily on the USSR that they did not know any other economic system, making their economic identity center on a dependent state ideology.

George Boughon's book is an example of this dependency idea as a historical perspective during this time period². His writing focused mainly on the political

¹ Robert S Walters, "USSR Economic Aid to Cuba: 1959-1964," *Royal Institute of International Affairs 1944-1966* 42, No. 1 (Jan. 1966):74-86.

² George J. Boughon, "USSR-Cuban relations, 1956-1960," *Journal of Interamerican Studies and World Affairs* 16, No. 4 (Nov. 1974): 436-453.

maneuvering of the USSR and their interest in Cuba, which is similar to Walter's article. It focused on the years 1956-1960 and ended in the economic relations set up in 1960 so it did not even cover the amount of time the Walter's article did. He also took a specific analysis of USSR sources, like Soviet news articles, official USSR trade data, and western news articles on Soviet Cuban relations, and chose to focus less on Cuban sources. Boughthon took the same western ideal of looking at the USSR and ignoring the maneuverings of Cuba, so naturally his sources were mainly economic and political Soviet sources.

Both Boughthon and Walters chose to look at the Cuban economy through the perspective of Soviet aid. Their main focus on Castro was not whether Castro's effects improved the Cuban economy but whether he had any effect at all. This perspective ignores Castro's involvement in the trade agreements totally. These two authors saw the USSR as the large world power that was only involved because of their desire to have influence in the Americas. The Boughthon article focuses on the political maneuvers of the Soviets before the revolution and made it seem as the whole purpose of trading with Cuba was to counter the US with a socialist partner for the Cold War. The early interpretations were made during the time of the Cuban missile crisis and these American writers may have incorporated their animosity in the interpretations and analysis of the Castro economy. Instead of going in depth and finding more material from the Cuban perspective these two scholars found Soviet information about the Cuban trade. This was attributed to the difficulty in attaining these materials when they were researching. The cold war period was not an easy time to get information from Cuba to the US. Their research techniques were definitely influenced by the era they were living in and their interpretation therefore

has been influenced by being American scholars.

The last pre-1990s source was written by Louis Perez. His analysis is important because he was one of a few scholars who was writing at this time that did not follow this system of analysis of the Cuban economic identity, that Bougthon and Walters did. His historical analysis focused on the Cuban reaction to the influence of the Soviet economic dependence. He asserted that the influence economically and politically of the US was forcing Cuba into a "revisionist" history.³ Perez's said that revisionist interpretation of their economic identity comes from the Cubans themselves. After the revolution in 1959 where Castro takes over and expels mainly US enterprises, Which forced the people to interpret their economic history for themselves. There is no foreign country running their economy telling them what their economy should do and how to go about it. The new interpretation Perez says develops is one of revolution, which makes sense since they just had one. He claims they create an anti-imperial influence attitude that Castro champions throughout his reign. This ideology casts Cuba as being oppressed by the foreign influence and allows them to keep the idea that they are still battling outside influences for their economic freedom. Perez said that pressure from the US forced Cuba to take a revisionist view of their own history because they had no real economic history of their own. Through the US -USSR economic dominance, the Cubans have never made their own history. They have always been influenced by other larger nations when making decisions. According to Perez, Cuban historians took a reactionary view to the western idea of dominance and saw themselves as the struggling revolutionaries fighting against an evil

³ Louis A. Perez Jr., "The Service of the Revolution; Two Decades of Cuban Historiography 1959-1979," *The Hispanic American Historical Review* 60, No.1. (1980):79-89.

empire of oppressive influence.⁴

Castro and the revolutionaries used this to fuel the support for a better Cuba. This was seen by westerners as a weakness; an idea that Cuba was a weak country because it relied on other countries for stability. From the Cuban perspective they were fighting the evil influence of America by trading with the Soviets. Historically these three sources show the western influence on Cuban historiography and how that affected the views of Castro and Cuba. Perez showed how this idea of struggling against a larger power, was a motivational technique that Castro used to support his socialist agenda. He implied that with this support from the people the negative ideology western scholars saw, was seen by Cubans as part of a fight against American Imperial influence. He looked at this ideology and how Castro used it as an asset to help him accomplish his goals for structuring the Cuban economy in a socialist direction. He explained that this theory gained so much traction amongst the people; casting Cuba as the underdog in this battle between good and evil.

Cuba changed its economic structure and found success in other areas of trade. Between 1993 and 1999 grew every single year.⁵ This change was unexpected by the previous western scholars, like Walters and Boughthon, who would have predicted after the collapse of the USSR that Cuba's economy would collapse and Castro government would fall. The old historical view of Cuba's economy was changing. These scholars were seeing Castro's new reforms and were re-evaluating the previous perspectives that ignored Castro's effect. This was seen in the scholarly writing of the early and mid 1990s, there

⁴ Ibid, 81.

⁵ Ana Julia Jatar-Hausmann, "What Cuba can Teach Russia," *Foreign Policy* No. 113 (winter, 1998-1999): 87-103.

was a sort of paradigm shift in the views of the Castro economy in Cuba. The two authors I analyze for this, the period from 1990-2000, Gillian Gunn and Andrew Zimbalist effect the change in the interpretations. These two authors also show the change in research styles, Gunn used more sources from early scholars like Boughthon and Walters, with mainly Soviet source material but did an independent analysis of the Cuba economy trying to separate it from the Soviet influence.

Gillian Gunn, in 1990 wrote an article that supported the ideas of the Cuban economy as a growing market, while not knowing what the future collapse of the USSR would truly do to the Cuban economy. She saw the reactionary spirit of Cubans and the political power Castro drew from it. Gunn also saw that revolutionary spirit driving the Cuban economy.⁶

Gunn's primary sources came from the same sources that Walters and Boughthon used, which were mainly sources from the USSR. However, she also incorporated US trade and the world markets for Cuban goods and came to the conclusion that their exports to the USSR were good enough to sell independently. She didn't know the bottom would drop out of the Soviet support like it did, but she saw Castro's resistance theories as a political motivator for the people. Gunn thought that this theory was the reason the economy would hold together.⁷ She also recognized how Castro was using Perez's philosophy to help improve the economy at that time. Gunn was re-evaluating the conclusion that Castro was just the pawn of the Soviets, and looked at the economic numbers and decided that the economy was good enough to become independent.

⁶ Gillian Gunn, "Will Castro Fall?," *Foreign Policy* 79 (summer 1990) :1-10.

⁷ *Ibid.*, 2.

This is an important idea because she analyzes the Cuban economy by itself. This was a departure from the ideas of the early western scholars who didn't think Castro's economy could survive. This idea of Cuban dependence is starting to be challenged in the 1990s, Gunn is one of the first, non-Latino scholars to question this dependence theory.

The Cuban situation was not very successful for the first few years of the 1990s, but changed in 1993. The way that scholars saw the Castro economy changed with the economic upturn, Gunn and others saw the new improvements that Castro was making and started to form their opinions about Castro's effects on the economy. This change in thinking was seen in Andrew Zimbalist's article "Dateline Cuba: Hanging on in Havana". This article was published in 1993 and shows this change very well. His argument was that the US shouldn't pay so much economic attention to Cuba, but should change its approach to sanctions. He was countering the old perspective of Cuban economics. He didn't believe Cuba was as insignificant as the western perception of the island. He talked about how the US was approaching the situation the wrong way because understanding the historical view the Cubans had of themselves could have given insight into the way to deal with them. He looked at the historical view of the struggle and the continuity that was brought by Castro's revisionist ideas he supported his economic goals with. Zimbalist showed how Castro used the political ideals of revolution to stay in power despite a loss of 50 percent of Cuban national income.⁸ The new analysis of the Cuban economic history in the mid 1990s took a perspective of Cuban resistance, and began to see its power with the people of Cuba. This combined with Castro's reforms of the mid 1990s made many

⁸ Andrew Zimbalist, "Dateline Cuba: Hanging on in Havana," *Foreign Policy* 92 (Autumn, 1993):151-152,154-167.

scholars look at the success and admit Castro had some effect on this economy.

Zimbalist also predicted that by 1994 Cuban economy would be growing and stabilize. His predictions were right, and also showed how Cuba's economic identity was being reinterpreted. He was certainly among a minority of scholars that predicted a positive outcome for the Castro economy in 1993, but the ideological change was happening.

Zimbalist's research was different than Boughthon's Walters's or Gunn's, because he focused on Cuban economic trade terms that were not from an American or Soviet perspective. This was the change in the way the Cuban economy was researched. Instead of seeing Cuban economic development in terms of the USSR trade or subsidies. He analyzed how their Cuban industries were growing on a nationally competitive level. Cuba had to be competitive to survive economically and this changed the perception of the competency of these industries. Zimbalist's analysis allowed him to gain a new understanding of the reforms that Castro had made. He believed that Fidel Castro was trying to help improve the economy while spitefully ignoring the American embargo.

The economic and ideological change came with Castro's 1990 reforms. The old idea that Cuba was strictly dependent on other countries faded once the USSR collapsed. With the major trade partner gone many scholars predicted Cuba would fall into economic obscurity and another revolution, this time against Fidel Castro. That didn't happen, and the economy actually grew, so a new perspective arose. This new idea: that Castro's economy may not be a totally dependent system, and may become an independently viable capitalist system. The perspective of Castro's affect would change again in the 2000s. His new economic reforms and trade agreements, during this period from 2000-present,

combined with the Soviet model of trade, put Cuba into a dependent state again. This new policy changed the perspective on Castro and Cuba once again, and clarified Castro's effect on the Cuban economy.

One scholar who was key in developing these ideas was Edward Gonzalez. Gonzalez took a counter approach to what most of the modern writers concluded about the 1990s. In his book *Cuba after Castro*, he took an opposite perspective on Cuban economics. Gonzalez saw the growth which was percentage wise still working its way back up to the 1989 level as a negative trend. He analyzed the trend toward old economic levels and said their pace was too slow. He interpreted Castro's theories of resistance as a way to preserve his power, which he contended was not getting the same effect as in the past. He said that people were beginning to see Castro as "el Viejo or el Loco—a crazed leader out of touch with their everyday reality."⁹ Gonzalez regarded the economic reforms and everything Castro did as political posturing to repress any political opposition and retain power for his regime.¹⁰

Gonzalez used many Latin secondary sources in his interpretation of Cuban economics; his sources were mainly economic sources. His thesis was thought out well but he used the economic growth of Cuba as an example of how Cuba was falling short and needed reform after Castro eventually dies. His perspective was opposite of the other authors because he saw the economy getting worse because of the political instability of Fidel Castro. Gonzalez is a contemporary source who sees the merit of the economic reforms but thinks Castro is the key to economic success in Cuba, and doesn't think he

⁹ Edward Gonzalez, "Cuba After Castro: Legacies, Challenges, and Impediments," *Santa Monica: RAND* (2004): 10.

¹⁰ *Ibid.*, 10-12.

can be successful.

Historians are now seeing this other perspective of current events in Cuba in 2005 as the *Economist* ran an article that highlighted the inefficiencies of Castro's social infrastructure and how the people may be getting tired of him. The article "Summer of Discontent" shows how Castro is battling both economic downfall, in a 40 percent drop in sugar production¹¹ and increasing social issues with inefficient local utilities. The positive perspective of his economic reforms started to wear off with the people.¹²

Another author who follows this perspective was Carmelo Mesa-Lago and Jorge Perez-Lopez's book *Cuba's Aborted Reform*. This book characterized the 1990s as a reform period but the declining economy of the new century, has loosened the economic health of the country.¹³ The sources Mesa-Lago and Perez-Lopez used were secondary sources of economic experts of Cuba and some primary research to back up the opinions with Cuban Government information. This was a good assortment of information that combined to give a picture of the progression of the Cuban economics up to 2005.

With all the economic change in Cuba the perspective on what Castro has done has also vacillated through the years. The early dependency theories which were re-evaluated in 1990s to a more positive outlook on Castro's open market reforms, to the current analysis which show how Castro has taken his power and closed the economy to the world market. A restructuring by Castro in the 2000s has left the perspective of the Cuban economy focusing on Castro's new trade agreements and policy changes. These

¹¹ "Summer of Discontent: Castro Battles Power Cuts and Dissent," *Economist* 376, no. 8437 (Aug. 30, 2005):1.

¹² *Ibid.*, 1.

¹³ Carmelo Mesa-Lago and Jorge F. Perez-Lopez, *Cuba's Aborted Reform: Socioeconomic Effect, International Comparisons, and Transition Policies*, (Gainesville, Fl. University of Florida Press, 2005).

perspectives are the beginnings of what will become Castro's new cycle of the Cuban economic dependence. The analysis of these three eras have shown how scholars have categorized Castro's economy through the years.

Through the analysis of the contemporary scholars through the three periods of Castro's economic history we know that there is a pattern of economic trade agreements that help Cuba. Whether they were the result of Fidel Castro's Socialist agenda or the forced dependency of other states, has been the debate. Through the analysis of the data from these three periods we will see how Fidel Castro has been the reason why Cuban economic have been stuck in this cycle of dependency. Through the analysis of the Soviet trade relationship we will see how the cycle of dependency was started, ironically with ideas of revolution. The second period of economic reform that Castro developed which proved to be the evidence of how the economy could function and grow if it were opened to a more capitalist structure. The third era of economic history has just begun in the 2000s with the new trade agreements with Venezuela and China. This combined with Castro's economic restructuring, that reversed many of his previous reforms, has put Cuba into the Soviet model of foreign dependence. Throughout these time periods Fidel Castro has had to reconcile his Socialist ideals and economic success required to support his regime. All of this combines to show how Castro's decision making has put Cuba into a cycle of dependency.

Castro did have some effect on the trade agreement even though the previous historiography didn't give him very much credit. Castro was in a situation he would find himself in throughout these three economic periods. He had to reconcile his socialists ideology with his goals for Cuban economic success. Because of Castro's socialist ideals

and recent revolution against, what he would call, imperial American influence in Cuba. This socialist ideology was not the typical Marxist communist ideas Castro, tries to use this socialist ideal as a unifying influence on his people. His version of socialism puts himself at the center, his brand makes his decisions on how to structure the economy and the social infrastructures as the way to an ideal socialist state. This allows him to stay in power and keep much of his autocratic control over the entire country by leading the way to a socialist ideal. This ideal has Castro providing all the food and civil services to the people for free and the economy structures by the government making all the people equal. Capitalism is not part of this ideal and the revolution was a fight against foreign capitalist influence. Castro's socialist ideas of government control are completely opposite the free market ideas of capitalism. In 1960 after the US had Castro had to try and forge a new open market capitalist economy, or try and find another large trade partner, which would be the USSR. To Castro the choice was obvious. He chose to trade with the Soviets. This ideological compass that lead Castro to partner with Soviet Union has had great effect on the Cuban economy. The idea that Castro was just a pawn in a larger battle between the US and USSR was not seeing the effect on the Cuban economy that Castro has had. It can be said that because of Fidel Castro's socialist ideals Cuba attained this trade agreement with the USSR, that would be the root of all the Cuban economic struggles. This deficit and trade system that he developed also repeated itself in the third economic period. This was the repeated, unsuccessful, economic reform that turned into Castro's economic dependence cycle.

The First period mentioned above, 1960-1990, was the key time for Castro in forming the economic identity of Cuba. His effect during this period would reappear in the

early 2000s, he was making a pattern that he would try and fit Cuba's economy in again. This agreement was the beginning of Cuban dependence on other countries to support their economy. In the 1960s Castro would make agreements with the USSR that would create the trade deficit that Cuba is still fighting through today.

The main trade agreement was started in 1960 when Cuba contacted the USSR to start the trade agreements, initially negotiating a 345,00 ton purchase of sugar. Later the same year they committed to buying all 700,000 tons of the sugar that the Americans refused to buy, along with another contracted amount already purchased. This opened doors for more trade, and the Soviets quickly worked out an agreement for 1 million tons annually over the coming four years. A large 100 million dollar credit was also lent by the Soviets that year and the next two with other key credits over the years. Over the years from 1960 until 1964 the Soviet credits alone equaled between 559-609 million dollars. That was accompanied by over 150 million dollars also credited by other Eastern European countries and China. The total amount credited Cuba over those four years by the network of socialist countries was close to 800 million dollars. Much of it was in economic development projects and credits on imports of products from the countries, but this aid also forged the trade relationships that lead to even more unbalanced trade agreements between the two socialist countries.¹⁴

The agreement in reality turned into an agreement for the Soviets to credit Fidel Castro any amount of money that Castro desired to sustain the Cuban economy. All of this played out until the USSR broke apart. Cuba's dependence was so much that in 1981 the

¹⁴ Walters, 74-86.

Soviet credit was highest at 7.4 billion dollars, which was 70 percent of their total commerce for that year, with 3.6 billion dollars in aid money. Part of which included 62,000 tons of military equipment.¹⁵ In the years between 1980 and 1987 the Soviets delivered more than 4 billion dollars in military goods to Cuba.¹⁶ The more representative of their dependence was the average sum of 4.9 billion dollars in aid they received in 1982.¹⁷ The prices that the Soviets were paying for the sugar imports and the low prices of the exports, made it as though they were giving money to Cuba. By the 1980s Cuba was solely dependent on all the Soviet aid to support their economy.

This dependency would seem to have been a consequence of Cuba's inability to develop a competent economic structure, but we see in the second section of this analysis that this is not the case. This second period shows how Castro when forced developed free market reforms that opened the economy to expansion and developed a growth pattern through the 1990s. This growth showed the potential of Castro's economy and also showed how Castro was able to reconcile his socialist goals with a more free capitalist economy. The era is an example of what kind of potential the Cuban economy had.

The second period of Cuban economic history was the time from 1990, after the USSR collapsed until the 2000s. This was a new time where Fidel Castro had to change his economic system. He was again forced to reconcile his Socialist ideals with the need for economic viability in Cuba. The fall of the Soviets created a depression that forced

¹⁵ Raymond, W. Duncan, "Soviet Interests in Latin America: New Opportunities and Old Constraints," *Journal of Interamerican Studies and World Affairs* 26, No.2 (May,1984):167.

¹⁶ Jaime, Suchlicki, "Soviet policy in Latin America: Implications for the United States," *Journal of Interamerican Studies and World Affairs* 29, No.1 (spring,1987): 44.

¹⁷ Duncan, 176.

Castro to compromise his socialist ideals by opening the Cuban economy up. This was seen in three economic policy changes: legalization of the dollar, foreign investment, which also opened up the tourist industry, and self employment. These were the three areas that Castro had his most effect through the 1990s dealing with the depression. These are the reforms that allowed Cuba to expand its economy and develop a more diversified economy.

The first and main reform was the monetary policy changes. These changes had the largest effect on the Cuban people and represented the compromising of the Castro socialist agenda and the forces of the capitalist world economy. The monetary policy centered around the dollar. In 1993 Castro legalized the dollar, which opened up the black markets that developed when the dollar was illegal. This opened up a whole market of goods and services the people did not have access to before. This switch was not a complete change, the government still paid workers salaries in pesos but many industries, like sugar, used dollars as bonuses for workers who went over their quota, which resulted in a boost in production. This was manifested in nickel production when the production in 1993 was 26,000 tons and went up to around 42,000 tons in 1994. In a 1995

Washington Post article, Jose Aguilar, a worker in Cuba's tobacco fields synthesized the reform well when he said:

To be honest, often before we did not really care about how we worked, because those that worked got paid the same as those who did not. Now, if I work hard I get dollars, not pesos, and with dollars I can buy soap, shampoo and things my family needs to live. As long as they give good rewards, workers will work well.

As Jose said the new dollar gave people a chance to buy things like soap and, shampoo, because of their scarcity in Cuba. This simple legalization of the dollar had a tremendous

effect on the Cuban economy and the standard of living for many people.¹⁸

Another benefit that emerged from the legalization of the dollar was relief from inflation of the peso. As the economy was falling the value of the peso went with it, causing an inflation problem. With the exchange of pesos to dollars the Cuban government was able to control the amount of pesos in the economy which alleviated some of the pressure from the rampant inflation.¹⁹

This was a big change for Castro because of what the dollar represented to him. The revolutionary historical perspective he portrayed to the people, that the Perez historiography explained, was about fighting foreign influence and the dollar represented this influence. Castro's dollar reform represented a failure in his battle, of 33 years, against this foreign influence.

The other advantage that came from this policy was the use of money orders from family members in other countries being received in Cuba. This was an untapped source of income Cuba had never known of before. After Cuba legalized these money orders family members sent dollars from the United States to family still in Cuba. This quickly became a large source of dollars to Cuba.²⁰

Another large reform that came out of the early 1990s was foreign investment and Tourism. The effects of this was highlighted by the authorization of almost double the amount of joint venture investment in Cuba, which also helped expand the tourist

¹⁸ Douglas Farah, "Cuba bucks the Past: Socialist Economy Shifts Gears when Workers Get Dollar Incentives," *The Washington Post*, November 17, 1995, sec. A, final edition.

¹⁹ Larry Rohter, "Cuba Allowing Citizens to Buy and Sell Foreign Currencies," *The New York Times*, November 9, 1995, sec. A, late edition.

²⁰ Carlos Batista, "Cuba: Twelve Months of Unprecedented Change Coming to a close," *IPS-Inter Press Service/ Global information Network*, July 16, 1994.

industry.²¹

The foreign investment played a role in helping Cuba, with the joint venture agreement that allowed majority foreign ownership. Making it possible for foreign investors to come in and have control over more than half of a Cuban business. The increase in financing, also helped by expanding tourist industry. It formed a key source of foreign exchange for dollars from visitors to the island which helped the economy.²² The foreign trade that encapsulated the investment was the number of businesses that were allowed to import and export nationally. In 1987 only 50 were allowed, in 1995 there were 250 that were allowed to trade, and also 650 offices of foreign firms in Cuba.²³ Foreign investment that sprang up in the early 1990s, was the representation of this. The change in foreign investors was from 7 in 1990 to more than 210 in September of 1995, with a total investment of 2.1 billion dollars.²⁴

Access to the dollar was a key in helping the Cuban economy because by the late 1990s tourism had surpassed sugar as the largest source of revenue for the Cuban economy. With 1.4 million visitors and 1.8 million dollars in gross income the tourism sector in 1998 became the largest income sector of the Cuban economy. This revenue was generated because guests in Cuba could only pay in dollars so all the money coming from this industry was dollars. This was an incentive for local Cubans to work in the tourism industry. When a taxi driver who drives in a tourist area can make his peso salary many

²¹ Ibid, 1.

²² "Cuba Profile: History, Government, and Economy." *International Debates*, (Sept.2005):162-166,192.

²³ World of Business Intelligence Report, 20.

²⁴ Dalia Acosta, "Cuba-Outlook: 1996 and the Promise of Better Times," *IPS-Inter Press Service/Global Information Network*, December 18, 1995.1.

times over in tips alone, he then gains access to those luxury items that dollars access.²⁵

One of Castro's most important reforms was the concession of self employment. As part of the 1993 reforms Castro's government made a list of 135 self employed jobs Cubans could hold.²⁶ These jobs were considered for helping eliminating unemployment and creating more streams of dollar revenue. This new self employment was still however, taxed first.²⁷

These two eras of economics in Cuba really show the difference in Castro's policy when he was forced to reform in the 1990's and when he was able to pursue his socialist goals in the period from 1960 to 1990. These two periods show how Castro's agenda has effected the his economic policy. It is clear to see that the 1990s reforms were a necessity that Castro felt no way around, because the of foreign money represented the foreign influence he fought for so long against. The foreign investment and incorporating the dollar was like an invasion to Castro. In the third period of economic analysis we see that he felt this way because of the economic restructuring he did.

While in the early 1990s economic analysts would agree that Cuba's economy was slowly growing creating the new positive outlook of Castro. Castro however, took some economic steps backward in the new millennium, by reversing many of the reforms of the early 1990s. The main areas this was seen was in self employment, foreign investment, along with his reform of the monetary policy. He has effectively reversed his improvements on the economy in those areas. This time period, 2000-present, is the third

²⁵ Saffron Walden, *World of Business Intelligence Report: Cuba*, (Essex, United Kingdom, Walden Publishing ltd, 2000), 9.

²⁶ Batista, I.

²⁷ Walden ,5.

period that will be analyzed. This period he reshaped the economy of Cuba, and showed his real intentions for the direction of the Cuban economy. This is the key to understanding how the previous two economic periods fit into Castro's economic goals. This section will analyze some newspaper articles written during this time, and other economic reports to show how Castro has set up another dependent trade. Similar to the trade with the Soviets in the first period, during this era Castro would also make an overly dependent agreement with socialist countries, Venezuela, and China. In this era he shows how his socialist idealism effect his decision to close down the economy and reverse many of the former reforms.

In 2004 Castro flipped his monetary policy changing his mind about the dollar. In a reform that replaced the widely circulating dollar with a local equivalent, the convertible peso, the exchange of dollars to peso was charged a 10 percent surcharge.²⁸

The other way Castro reversed his monetary policy was with the remittance of families in other countries. These new laws in 2004 made it illegal to send remittances to some government officials, allowing them to be sent to immediate family, and limiting the amount to 300 instead of the previous 3,000.²⁹

After Castro had maintained a policy toward the dollar, which became important for buying items that people can't normally get with the peso and stabilizing the hard currency and exchange rate, he switched back to favoring the peso and taxed the people heavily for its exchange. This complete turn around in policy had Castro reasserting his control over the monetary policies that were changed to help grow the Cuban economy.

²⁸ Mark Frank, "Castro's Largesse Troubles Economists," *The Financial Times*, May 2, 2005, London Edition 1.

²⁹ "Cuba Profile..." 165.

Castro similarly took a reversed position on his self employment reforms that were enacted in his early reform of 1993. The new policy was enacted in 2004 and it did not issue new licenses for 40 of the 135 jobs that were allowed. In 2005 2,000 more licenses were revoked in an effort to seemingly show the governments control over the industry.³⁰ This new policy toward the self employment cut the number of jobs in the industry by almost half of the 250,000 high.³¹

Financial investment also took hits from Castro's policy. By 2005 half of the 800 foreign companies that were registered in Cuba in 2002 left, along with a fall in joint ventures from 700 at its peak to less than 300 in 2005.³² This downward spiral of foreign investment had a resulted impact of a joint venture and two small cooperative production ventures closing every week since 2000.³³

This shows how the foreign investment that he saw as threatening in the 1990s he was slowly getting rid of. He is slowly restructuring the economy so the monetary reforms, the foreign investment, and self employment all are being faded away to reassert his control and eliminate the things he sees as foreign influence on the Cuban economy.

Castro was busy in the early years of the new millennium reasserting his control over the Cuban economy. The economy was on a slow growth pattern since 1994 and Castro was reporting a 9 percent growth rate in 2005. The new claim was based upon the new "socially sustainable" formula for GDP (Gross domestic product: The total worth of goods and services produced in a country in a year) that the Cuban government said:

³⁰ Ibid 165.

³¹ "Castro's Folly; Less Economic Freedom Makes Cuba Poorer," *The San Diego Union Tribune*, July 11, 2005, sec. "opinion."

³² Ibid 1.

³³ "Cuba Profile..."165.

better measured a socialist country's economic value. This new GDP formula did not allow Cuba's growth to be compared to the traditional reported GDP. The United Nations Economic Commission on Latin America and the Caribbean (ECLAC) reported that their conventional GDP calculations for 2004 was a growth rate of 4 percent, compared to Cuba's new formula that Cuba's economy and planning minister Jose Rodriguez said was 5 percent.³⁴

The discrepancy of two different systems of calculating the GDP shows the new ideas Fidel Castro is trying to assert while he takes more control of Cuba's economy. His purpose for changing all the reforms, that had once been successful and now being reversed, to reassert his control over the economy. Fidel Castro's need to keep his socialist agenda in the face of all kinds of pressure from the United States and the downturn after the collapse of the USSR. Castro has been taking control of the economy in ways that have closed down the economy. Reversing his old policy wouldn't make any sense if he thought the economy would falter and it would hurt his regime. That is why he announced the changed formula for the GDP growth rate, he needed a way to show the economy was growing to allow for him to close off many of the reform areas of the economy to avoid compromising his socialist ideals. He is making the economy sound successful while he cuts back the reforms.

Castro used his new economic trade agreements with Venezuela and China to sustain the economy. In 2000 Castro signed an accord to allow the sale of 53,000 barrels per day of Venezuelan crude oil to the Cuban Petroleum Company. Later in 2001 Hugo

³⁴ Marc Frank, "Cuba's Growth Improves Under Own Measure of Economic Activity Statistical Comparison With Other Countries is Now Impossible but Castro Says the New Method Better Assesses Progress in the Country," *The Financial Times*, December 14, 2005, sec. "The Americas", 12.

Chavez (Venezuelan President) amended the agreement to allow Venezuela to pay Cuba, in hard currency, for goods and services intended for payment of oil received. Then in 2005 Cuba and Venezuela signed 49 economic agreements that included the whole economy and widened the trade agreement allowing for National banks to be swapped in both countries. The economic trade of duty free goods into Cuba was around \$400 million, and their export of duty free goods to Venezuela was highest in 2003 at \$150 million. Through this agreement, he again opened a large trade deficit with another country.

The second trade partner that Castro was relying on was China, in 2004 the two countries' trade totaled more than \$500 million, which was an increase of 47 percent on 2003. The next few years China has pledged to spend around \$500 million in investments and another \$500 million in a joint nickel operation where Cuba owns 51 percent of the endeavor.³⁵

In 2004 the trade in dollars in Cuba was \$5.5 billion, and by late 2005 that number had risen to \$7 billion after the new trade agreements with Venezuela and China.³⁶ All of this trade has allowed Castro to eliminate the reforms of the early 1990s and is showing signs of dismantling the market oriented aspects of the Cuban economy. He is deconstructing the economy to try and preserve his socialist ideal, while still maintaining a competitive economy in the market system of world economics.

Castro has backed his economy up with what he feels is enough support to sustain it while he dismantles the perceived economic influence of the western capitalist system. He has closed down the reforms that allowed the economy to grow through the

³⁵ "Cuba Profile..." ,166.

³⁶ Frank, 2.

1910s. His pattern of making large capital friendly trade agreements has put Cuba in an economic cycle of heavy deficit involved trade agreement. When they defaulted on most of their international loans in 1986, Cuba lost all ability to gain credit from other international organizations. Combine that with American policy against Cuban trade made it difficult for Cuba to have an economy grow and succeed.³⁷ Castro has seen the results of opening up his economy and has turned away, in favor of his socialist trade agreements. In a 1995 meeting between President Clinton's special advisor on Cuba, Richard Nuccio, and an European union official over Cuba's investment laws that were being discussed. Mr. Nuccio said: "capital without capitalism," "we don't think there is a policy change under way," trying to have "Capital without Capitalism" is an inherent contradiction doomed to fail, he said.³⁸ Nuccio was correct because Castro had no intentions of opening the economy and implementing full liberalization of the economy. His effect on the Cuban economy can be seen as holding Cuba in a socialist structure, too outdated and rigid to help the economy grow, while keeping Castro's absolute control over the Cuba. He has managed to keep Cuba under economic dependence under the guise of a revolutionary spirit for 46 years.

Trade with Venezuela and China was the reason Castro was able to reassert the control he wanted. In his mind he was able to reaffirm the battle against foreign capitalist imperialism in Cuba. The trade agreements were not as heavily laden with deficits but they were the vehicle in which he could report economic growth and still repeal the 1990s reforms. He was using positive trade agreements to counter all his negative structural

³⁷ "Cuba Profile..." 165.

³⁸ Kevin G. Hall, "Cuba's Investment Law Draws Criticism, Praise," *Journal of Commerce*, (Dec. 1995), Sec. "Foreign Trade" 1a.

policies he was making. This shows how he is purposefully trying to set up large deficit trade agreements in order to support his socialist goals for the Cuban economy. Castro has been the person responsible for putting Cuba in a cycle of economic dependency to support his socialist revolution he believes is still going on today.

When Fidel Castro is either deposed or dead Cuba will be once again liberated from dependency. Castro may have been a self proclaimed liberator but he was a man struggling with two competing ideals. This conflict between Castro's socialist ideals and world capitalism, made Fidel Castro decide between his political agenda and Cuban success. He intentionally created the dependency that developed out of the foreign influence in Cuba. This capitalist dependency, he claimed to eliminate, he replaced with a socialist dependency. He took Cuba from capitalist dependency to a socialist, while ignoring the positive effect of the 1990s reforms he enacted. The reforms showed a glimmer of hope to an economy that was on the brink of destruction in 1990. Castro decided to solidify his power over the island, and ignore the success of the 1990s reforms, in what figures to be the last years of the aging dictator's reign. The unrealized potential does provide some hope for the people of Cuba, that a new leader could take Cuba farther than Castro ever would allow. The new ruler could take the Cuban economics in one of many directions; keep on with the steady Socialist trade, clamp down the economy more and inevitably run the economy into the ground, or learn from the reforms of the 1990s and open the economy up to capitalist ideology. Time will tell what Cuba's economy will become, but for now under Fidel Castro it seems destined to be an economy dependent on other socialist countries.

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