

Independent Structural Adjustment: Cuban and Neoliberal Models Compared

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This article considers the capacity of small island and independent nation-states to recover from serious external economic crises by looking at the case of Cuba in the 1990s and comparing Cuban adjustment with adjustment in Thailand under an essentially IMF-controlled plan in 1997. Cuba had to restructure its socialist economy in the wake of the collapse of its trading relationship with the old Soviet Union and other Council for Mutual Economic Assistance (CMEA or COMECON) countries. Thailand had to restructure its capitalist economy after a collapse of its currency and the widescale failure of financial institutions. Particular attention is paid to the similarities and differences between Cuban and IMF models of 'structural adjustment programs' (SAP), and their outcomes.

While some policies may be virtually 'non-discretionary' in such a period of structural adjustment (for example, currency devaluation, trade and foreign investment liberalisation), Cuba's experience demonstrates that independent choices are available. Budgetary policy during restructuring may be expansionary, reining in the deficit when growth resumes. Liberalisation of foreign investment may be effectively controlled, for example through joint venture development. And successful and popular social programs (for example, health services) may be effectively quarantined from the restructuring process.

This paper considers the extent to which Cuba's heterodox choices were a product of that country's particular history and political system, and to what extent they present useful lessons for other small, independent or island nation-states. The article begins by discussing the IMF's structural adjustment program for Thailand. A discussion of Cuban structural adjustment is then followed by a schematic comparison of the Thai and Cuban experiences, and a review of the current challenges for the Cuban political economy.

Cuba's development experience appears to break most of the orthodox economic rules—it is regularly decried and routinely embargoed by U.S. governments. Yet the island nation's achievements in health and education,

for example, have been lauded by the World Health Organisation and, more recently, begrudgingly acknowledged by the World Bank.¹ In recent years, with the collapse of the Soviet Union, Cuba faced enormous challenges in restructuring its economy, and it did so in a distinct way. Cuba's approach to structural adjustment in the 1990s is compared with the orthodox model, as represented by the IMF's program for Thailand, in the wake of the Asian Financial Crisis of 1997. Common, as well as the distinct, features of the two approaches are discussed as well as the extent to which Cuba's approach is unique or, alternatively, to what extent it may present useful lessons for other small, independent nations.

The IMF's structural adjustment program for Thailand

Prior to the crisis of July 1997, Thailand's economy had been in rapid transition. There had been some common regional problems: high export dependence, high gearing of many major companies, high volume and rapid capital flows, unsustainable high growth levels from earlier urbanisation and industrialisation, poor finance supervision, export markets drying up with the Japanese recession and increasing U.S. protectionism. In Thailand there had been a steady decline in agriculture, a rise in the manufacturing and finance sectors, a more recent rapid rise in financial securities markets, a strong rise in inequality throughout the 1980s, and a concentration of wealth in Bangkok along with the decline of more populous but increasingly poor rural areas.² Manufactured exports, particularly those in assembly and labour intensive production, had become an important source of foreign exchange. For example, in 1995 Thailand's big ticket exports included more than US\$5.6 billion in computer and telecom goods, over \$6.3 billion in electrical machinery, \$6.7 billion in textiles and \$2.1 billion in footwear.³ However, many of these exports were facing important competition from cheaper labour countries, such as Bangladesh and south China.

In 1996, Thailand's exports of electronics and integrated circuits fell sharply, and its footwear and textile industries also fell.⁴ An important part of the problem was the absence of a strong educational infrastructure. A more highly skilled workforce might have helped Thai manufacturers progressively replace labour intensive export industries with more highly skilled manufacturing industries, as in South Korea. Thai Government accounts had not been in deficit, but massive excess building development in Bangkok reflected the inflated expectations of private investors and bankers, both domestic and foreign. The export problems opened up an uncharacteristic current account deficit. Yet the Thai Baht continued to hold up through its peg to the U.S. dollar.

The Thai Government would later explain its crisis as stemming from a fixed exchange rate, a very open capital account, high interest rates, and

large short term capital flows 'that left the economy vulnerable to sudden shifts in market sentiment and external shocks'. These factors joined with a fall in exports, slowing economic activity, overcapacity in the property sector, consequent debt service problems, and a strengthening U.S. dollar which was raising the value of the pegged Thai Baht.⁵ Other commentators have pointed to a poorly supervised finance sector as a factor contributing to the amassing of a mountain of bad debts.⁶ Common ground is that the hedge funds singled out and used their combined resources to attack the overvalued Thai Baht until the country's reserves (and its regional allies' support) ran out, leading to a sharp devaluation, rapid capital flight, exposure of bad debt and financial collapse.⁷ The Bank of Thailand announced on 2 July 1997 it would no longer defend the Thai Baht's 'peg', and the currency lost 15 per cent in one day. By the end of the year it had devalued more than 100 per cent, though it bounced back substantially in 1998. Having successfully attacked the Thai Baht, the hedge funds moved on to South Korea.⁸ With capital flight, bad debts were exposed and a large number of finance companies ceased trading. Fifty-eight finance companies were then shut down, at the urging of the IMF.⁹

With the crisis in foreign reserves and the collapse of financial institutions (not to mention the shattered pride of the Bank of Thailand) the Thai government went to the IMF for foreign exchange relief. It called on 500 per cent of its reserves quota and, as a result, had to pay a price.¹⁰ The IMF requires payment of interest and stringent loan conditions, for substantial calls on foreign exchange. The IMF committed US\$3.9 billion to the SAP, but also organised a larger amount in bilateral aid (mainly Japanese) and from other multilateral agencies, the World Bank and the Asian Development Bank. By 6 October 1998 the IMF had paid out \$2.8 billion of its promised \$3.9 billion.¹¹ The Japanese Miyazawa Fund announced in October 1998 that it would add another \$1.5 billion in credits to the Thai Government—and also to its debt.¹²

In the first of a series of letters of intent, the Thai Government, through Finance Minister Thanong Biyada and Bank of Thailand Governor Chaiyawat Wibulswasdi, outlined its promise for a medium term policy framework. The aim was to restore growth rates of 6 to 7 per cent, bring inflation down to 4 to 5 per cent, reduce the current account deficit to three to four per cent of GDP and restore foreign exchange reserves to about \$30 billion. It would do this by a 'comprehensive restructuring of the financial sector', monetary, fiscal and wage restraint, privatisation, civil service reform, and 'some safeguards for the poor'. The monetary and fiscal restraint would aim to move the public sector balance from an estimated 1.6 per cent of GDP deficit in 1996–97, to a surplus of 1 per cent in 1997–98.¹³

However the IMF had perhaps not anticipated the depth of the recession triggered by the currency and financial collapse. Thailand's output

contracted by more than 5 per cent in the second half of 1997, and by more than 9 per cent over 1998.¹⁴ The country slid into deep recession, the crisis destroying many of the gains made for poor people through the 'trickle down' of growth over previous decades. While inequality had increased substantially in Thailand during the boom years of the 1980s and 1990s, the numbers under the poverty line had also decreased substantially from the late 1960s to the mid 1990s. The recession would reverse that trend. Eight million Thais earned less than \$2 a day before the crash, and while their incomes were hard hit, the rising price of rice and other basic commodities made their position desperate.¹⁵ While unemployment was tipped to double within a year, there was a much larger movement from the formal to the informal sector, and a strong migration back to rural areas, which were already crowded and poverty struck. The construction industry was badly hit, but as it already held many illegal Burmese workers, the impact on jobs was nearly impossible to measure.

The World Bank in 1994 had estimated that trade liberalisation in the East Asian region would lead to real income increases of between 3 per cent and 5 per cent per annum; economic modellers Murtough *et al.*¹⁶ had suggested that Thailand in particular would gain a more than 2 per cent growth in real income per annum, simply as a result of the Uruguay Round of GATT, and more still with APEC liberalisation.¹⁷ Instead, by late 1997, both Thailand and almost the whole region were in deep recession. What did the modellers of the benefits of trade and capital liberalisation not take into account?

When the depth of the Thai recession was realised, the IMF's SAP was revised to remove the requirement for a public sector surplus of one per cent, and allow for expansionary policy, with growing budget deficits. For example, by August 1998, according to successive letters of intent, the planned deficit for 1998-99 was three per cent, by December it was 5 per cent, and by March 1999 it was six per cent.¹⁸ In early 1998, after investigating the social implications of the crisis, the World Bank opened a \$300 million 'social investment fund'. Loans from this fund, at 7 to 8 per cent interest, were to support existing Government programs in infrastructure, health, environment and education.¹⁹

The IMF came under strong criticism for its initial imposition of a highly contractionary budget, just as a serious recession was hitting. The impact of devaluation, after all, was already contractionary. Former Finance Minister, Dr Virabongsa Ramangkura, said that the closure of 58 finance companies hit the real economy hard, and this impact was compounded by high interest rates.²⁰ Did the shift to expansionary budgets not show that, just as it had failed to predict the crisis, the IMF had miscalculated the impact of it? The IMF was unapologetic, saying that initial tight monetary and fiscal policy had made the currency more attractive to hold, and had

helped avoid a 'depreciation-inflation spiral'.²¹ However while privatisation was said to be an aid to Government finances, one effect of the SAP has been to increase public debt. By July 1999 state debt had climbed to Baht 1.77 trillion, or US\$50 billion.²²

The Thai Government's 'Master Plan' for privatisation became an integral part of the IMF's SAP, with two very immediate and pragmatic objectives. Firstly, privatisation of the state owned sector (telecommunications, water, energy, transport, industrial and financial) (SOEs) would provide the means for the financial restructuring program, as a large share of the proceeds of SOE sales could then be channelled into refloating the failed banks and finance companies. Secondly, the anticipated foreign purchases of SOEs would become a means to entice foreign capital back to Thailand, to improve the country's foreign accounts and foreign reserves.²³ The Thai Ministry of Finance, in its first post-crisis 'letter of intent', told the IMF what the Fund wanted to hear: that privatisation would 'increase efficiency, keep public enterprises in broad financial balance, improve corporate governance and attract more non-debt creating capital inflows'.²⁴ Prime Minister Chuan Leekpai's Government vowed that the state would:

have a significantly reduced role in the future economy ... the state will maintain an operating role only in specific enterprises whose operations are strategic, socially obligatory or non-commercial in nature, yet are considered necessary for the quality of life of Thai citizens.²⁵

Privatisation was defined widely, as 'all the measures that increase private sector participation in sectors where government enterprises presently operate', and all the possible forms of privatisation would be used—public offerings, strategic partnerships, management buyouts, bond offerings, concessional contracts, and the like.²⁶ All the 59 SOEs, with their 320,000 employees, were on the 'to sell' list. The use of proceeds from sales were to be split:

- 50 per cent for funds to 'needed social services such as education, public health, labour, welfare and agriculture' on the one hand, and
- 50 per cent to funds for the Financial Institutions Development Fund (FIDF).

This fund was to bail out creditors of the failed financial institutions. In cases where shares, assets or part of an SOE were sold, a reserve fund would be created for development of the SOE's services, or to help SOE employees affected by the sale, and then the 50/50 split between social services and financial bailouts would occur.²⁷ Some very general social, labour and environmental concerns were addressed in the Master Plan. Privatisation plans would have to 'minimise' and 'include measures of their social and environmental impacts, and severance pay measures would be required for all privatisations'.²⁸

By the middle of 1998 there were Cabinet approved sector-specific plans for the privatisations. Plans for the communications sector envisaged a 'transitional market with restricted competition' over two to five years, then 'functional market competition' sometime between 2002 and 2005. The water sector (part of which, the East Water Co., had been privatised in 1991) was to be privatised over 1999–2000. The diverse transportation sector (including roads, airlines, rail and water transport) with 14 SOEs, required its own master plan. The energy and power sector already had some private ownership, but was also complex and required further detailed analyses.²⁹ By June 1998 a number of public offerings or strategic partnerships had been announced. However, by 2000, many of these privatisations had stalled because of worker resistance and protests at foreign buy-outs. Resistance to privatisation has been assisted by provisions in Thailand's 1997 Bill of Rights which guarantee worker participation (s.60), peaceful assembly (s.44) and make telecommunications and broadcast industries a 'national resource' (s.40). The privatisations are still being contested.

Cuban crisis and adjustment

There are some similarities in the way in which Cuban structural adjustment in the 1990s was precipitated by a crisis in external accounts. It was the collapse of the previously assured trade relations with the Soviet bloc that forced the pace of change and demanded structural adjustment in Cuba. Between 1989 and 1991 COMECON stumbled and then fell, following the dramatic events in the Soviet Union and Eastern Europe. The network of bilateral trade and credit arrangements between the COMECON countries were progressively replaced by payments in hard, convertible currencies. This process was complete by 1992. For Cuba this meant an end to the barter type exchanges (for example, sugar for oil) and to the guaranteed COMECON quotas for sugar exports. From now on oil would have to be purchased at higher world market prices and sugar and nickel sold at lower world market prices. Further, the reversion to world market prices in 1992 meant a rise in the effective price of imported wheat, chicken, milk and a wide range of other supplies and equipment.³⁰ Production of sugar fell from 1990 and kept falling for several years, to a low in 1995. Similarly, nickel-cobalt production fell sharply between 1989 and 1993; it recovered strongly in the mid 1990s to surpass the 1989 level, though exports did not recover to quite that extent (Table 1).

Table 1: Cuba: Sugar and nickel production and export 1989–1996

	1989	1990	1991	1992	1993	1994	1995	1996
Sugar prod. (m. tonnes)	7.58	8.45	7.23	7.22	4.25	4.02	3.26	
Sugar exports (m. dollars)	3,920	4,314	2,259	1,220	752	748	714	952
Sugar workers (000)	396	410	426	445	435	230	211	203
Nickel-cobalt prod. (000 tonnes)	46.6	n/a	n/a	n/a	n/a	n/a	42.7	53.7
Nickel-cobalt exports (m. dollars)	486	388	231	214	143	196	327	417
Source: CEPAL 1997: 285, A49, A17, A30								

There were concurrent severe falls, between 1989 and 1993, in production and employment in textiles, clothing and chemicals. Machinery and electronic production and employment also fell in 1993, but had recovered to 1991 levels by 1996.³¹ There was a slower recovery from falls in construction,³² as infrastructure investment was not given highest priority in the early recovery phase. At the same time, the U.S. opportunistically intensified its blockade of Cuba, hoping to topple the Cuban Government through contributing to economic collapse. Under the Torricelli Law (the ‘*Cuban Democracy Act*’) of 1992 the United States ended all U.S. subsidiary trade with Cuba and set up a system to pressure companies from other countries trading with Cuba. Though the European Union unanimously rejected this extraordinary and extraterritorial law, since 1992 a large number of European, Canadian and Latin American companies have been influenced to abort planned contracts with Cuba.³³

Espinosa Martínez puts the Cuban crisis of the early 1990s down to three factors: disintegration of the COMECON, tightening of the U.S. blockade in the early 1990s and structural vulnerabilities of the Cuban economy, including heavy reliance on agricultural exports and international financial markets.³⁴ The collapse of COMECON was undoubtedly the major factor. The combined impact of economic developments was a sharp contraction in Cuban production: a fall in GDP of more than 30 per cent over the three years between 1990 and 1993 and, at the same time, a severe restriction on foreign exchange. The Economic Commission for Latin America and the Caribbean (CEPAL)³⁵ estimated that the total loss of markets was greater than that of the Great Depression, and that while the magnitude of the shock was

comparable to that in Eastern Europe or in the old Soviet Union ... [however] in distinction to similar processes in many other places, there has been an equitable distribution of the costs of the crisis and the subsequent measures.³⁶

The measures taken by Cuba in what became known as the ‘Special Period’ (1990–93) therefore deserve some attention, particularly in view of the country’s relatively rapid emergence from combined crises of foreign exchange and contraction. By the end of the 1990s the Cuban peso had stabilised and the economy was growing significantly, though it had not yet

returned to 1989 output levels. Indeed from 1996 to 1999 the Cuban economy was growing faster than the Latin American average.³⁷

Cuba's 'Special Period' strategy, especially from 1993 onwards, was to stabilise and structurally adjust, but in its own distinctive way. It needed to re-establish a capacity for external income, and this would be through nickel and tourism, as well as other suitable niche markets, while it reorganised and depopulated its devastated sugar industry,³⁸ and while it instituted measures of decentralised decision making and increased linkages to cooperative farms. Three-quarters of land management was passed over to cooperatives and individual farmers.³⁹ At the same time Cuba would, so far as possible, maintain its system of social guarantees (social security, free health care and education) so as to protect the high levels of economic equality. Similarly, it would defend its social control of industry and productive assets, particularly in the face of U.S. attempts to undermine Cuban socialism. However, finding both hard currency and the resources for new investment required a new approach to foreign capital. While the 1980s had seen some small steps towards allowing foreign private investment through joint ventures, a major set of interrelated changes were undertaken between 1993 and 1995.

In a process described as 'redefining the consensus' the Cuban Government, through its National Assembly and 'workers parliaments', in 1993-94 decided to: maintain investment in the pharmaceutical and biotechnology industries, boost associations with private foreign business, legalise the use of convertible currency (principally the U.S. dollar) in domestic transactions, introduce a convertible peso (equal to one U.S. dollar), stabilise inflation, further develop cooperative production units, reduce state subsidies to many enterprises, raise charges for a number of goods and services (electricity, water, cigarettes, rum, beer), and create hard currency incentive funds for a large number of workers.⁴⁰ Cuban Government representatives say that the development of these policy changes was through a process of participatory democracy, involving input from a range of community organisations.⁴¹ Foreign observers confirm that there was indeed intense and long debate on these policies in Cuban community groups, in the relevant period, leading to some sense of 'ownership' of the policies.⁴²

The 'Special Period' measures (including the *Foreign Investment Act 1995* and the 1992 changes to property rights under the Cuban Constitution) have enabled the creation of a number of joint ventures, mainly from Spain, Canada, Mexico, Brazil, Italy, France and Holland.⁴³ A fair amount of this investment has been in tourism, which has boomed since the early 1990s,⁴⁴ growing much faster than tourism in other Caribbean countries. The number of visitors rose from 340,000 in 1990 to 1,600,000 in 2000, a growth rate averaging 15 per cent per annum, and at times reaching 20 per cent

per annum. In 2000 about 20 per cent of investment in tourism was from foreign firms.⁴⁵ Over half the tourists are European and almost one fifth Canadian.⁴⁶ There are very few U.S. tourists, as U.S. law prohibits travel by U.S. citizens to Cuba, without special permission. Foreign capital is also being solicited, and has appeared in modest amounts, in light and automotive industries. For example, there are joint venture textile, shoe and plastic industries, as well as collaborations in the production of buses and trucks.⁴⁷ Banking technology was upgraded between 1995 and 1998 and banking laws were changed in 1997, allowing eleven foreign banks to open their offices in Cuba. However, the Banco Central, in addition to performing the functions of a traditional central bank (supervising other banks, and controlling currency and monetary policy) regulates the direction of savings into productive activities and restricts credit on the basis of risk analysis.⁴⁸

A significant 'second economy' of cooperatives and small business has sprung up, providing the social benefits of diversifying sources of income and 'making more tolerable the sacrifices of the crisis', especially for those who have access to foreign currency.⁴⁹ Commenting on the special nature of Cuban structural adjustment, CEPAL says:

contrary to what has happened in Latin America [Cuban] liberalisation of markets is a process of social solidarity, which has mitigated the regressive effects in the distribution of costs of the 'special period' ... [further] the discipline imposed by foreign currency has broken a 'laxness' over external finance which had persisted for decades.⁵⁰

Cuba has not become a socialist 'mixed economy', as state enterprises dominate and private enterprises are still small and fragile.⁵¹ While individual Cubans can now transact in foreign currency, small business is limited to individual and family enterprises. No Cuban private individual can hire labour, and the Cuban social partners (for example, state enterprises, cooperatives and foundations) of joint ventures with foreign capital remain the responsible bodies for labour hire. Under Chapter 12 of the *Foreign Investment Act 1995*, a labour tax of 14 per cent is imposed to sustain the social security system, on top of the 30 per cent income tax paid by foreign capital (or more, for natural resource enterprises). This amounts to a normal corporate tax rate of 44 per cent.⁵² Clearly a number of foreign companies feel that access to a new market is worth paying this fairly high rate.

By the mid 1990s, the pattern of industrial production was changing. Sugar comprised 23 per cent of the total value of production in 1989, but this had fallen to 17 per cent in 1996. Production of import substituting capital goods, and capital goods in the energy sector, had taken on an expanded significance, growing from 11 per cent to 16 per cent and 12 per cent to 15 per cent respectively, over the same period.⁵³ Cuban trade had also shifted

substantially in composition and direction. The proportion of Cuban sugar exported to the Soviet Union had fallen from 49 per cent in 1989 to 28 per cent in 1995, but the total volume of sugar exported had fallen to almost a quarter of the 1989 level.⁵⁴ At the same time, whereas 80 per cent of Cuban trade in 1989 had been with Eastern Europe, this had fallen to 12 per cent by 1993. The total proportion of trade then diversified considerably, with greater proportional reliance on Western Europe (34 per cent), and the Americas, minus the United States (40 per cent).⁵⁵

The pattern of public spending also shifted, in the course of structural adjustment. Contrary to the IMF model, levels of public spending were maintained during the depression of the early 1990s, leading to huge deficits, which are still the substance of external debt. Social security and health spending were maintained, while the first significant cuts to public investment and to defence and security (Tables 2 and 3) were made in 1991. It may be, though, that defence budgets were effectively maintained by defence force involvement in some tourist operations. Later on, at the beginning of output recovery in 1995, business subsidies were cut back and the deficit was addressed (Table 4). By 1999, the current account deficit had narrowed to 1.3 per cent of GDP while the fiscal deficit had expanded somewhat, from 2.2 per cent of GDP in 1998 to 2.6 per cent in 1999, affirming the willingness of government to spend more in a recovery phase. While business and cooperative subsidies had been cut, there was extra expenditure in the areas of social security, public wages and investment.⁵⁶

Table 2: Cuban government budget (m. pesos) 1989–1997

	1989	1991	1993	1995	1997
Total expenditure	13,904	14,713	14,566	12358	12,613
Education	1,650	1,504	1,384	1,358	1,480
Health	904	924	1,076	1,108	1,275
Defence & security	1,259	882	712	610	733
Social security	1,093	1,225	1,452	1,594	1,707
Business subsidies	2,653	3,882	5,443	1,802	1,350
Deficit/surplus	-1,403	-3,764	-5,050	-765	-470
Deficit/surplus as %	-6.7	-21.4	-30.4	-3.2	-1.8
Source: CEPAL 1997, Appendix 7					

However while social security levels were held up, and while wages rose slightly and prices were held stable in the late 1990s, growth was much stronger in investment and exports.⁵⁷ In 1999 the growth rates in investment expenditure of 18 per cent and in exports of 10 per cent were much stronger than the GDP level of 6 per cent, domestic demand at 3.6 per cent, consumption at 2 per cent or imports at 3 per cent.⁵⁸ This differential reflects the capacity of a socially planned economy to harness available resources to enhance investment and growth, though at the expense of consumption. There are, of course, political costs to such a policy. Yet,

contrary to the Eastern European experience, levels of popular dissatisfaction with Cuban structural adjustment are not nearly so great as those in Eastern Europe. This may be due in part to the intense mobilisation of the population against each new incident of U.S. hostility, and against the blockade in particular. It may also be due to the popularity of the system of social guarantees. Surveys in the mid 1990s showed a majority of Cuban people at least moderately optimistic about the economy, even at the height of the depression.⁵⁹ This may reflect the reported high levels of participation in developing measures to deal with the crisis.⁶⁰

A relative rise in morale in 1996, reflected the actual improvement in total output (Table 3), as well as maintenance of social security and health standards, while the election results in 1992-93 and 1997-98 suggested broad support for the policies employed to deal with the crisis.⁶¹ In Cuba, there is a one party system, but with substantial non-party representation in the Cuban parliament. Official candidates can be voted out—however no organised opposition campaign or significant media coverage of opposition views is allowed. While the mass organisations are supposed to engage people in democratic decision making, Cuban elections mostly amount to a plebiscite on Government actions. The 'Miami option', broadcast from the exile community with U.S. Government support, was to abstain, nullify or spoil ballots. However, there was minimal support for this option. Around 98 per cent of eligible Cubans chose to vote in the 1992-93 and 1997-98 national elections: six to seven per cent abstained or cast blank, null or spoiled votes, five to six per cent voted for independents and 88 to 89 per cent voted for the Government ticket.⁶² Active political dissent, however, is not tolerated in Cuba, and many dissidents have been jailed.⁶³ Active dissent is always seen as linked to the sustained and aggressive U.S. efforts to overthrow Cuban socialism.

Significant growth resumed in 1995, and (with some weakness in 1997-98) continued for the rest of the decade. But the relative repression of private consumption must remain a problem for policy, with sustained numbers of young people thinking about emigration, and with high levels of tourism accentuating the lure of the promise of the consumer world, particularly that consumer world just 100 kilometres to the north. Cuban migration and interest in migration to the United States remains high (though not nearly as high as that from Mexico). However, migration is aggravated by anomalous U.S. policy and law (the *Cuban Adjustment Act 1966*), which on the one hand refuses to allow large scale legal migration (Cuban authorities now permit this) yet on the other hand rewards those who arrive in the United States illegally.⁶⁴

By the end of the 1990s recoveries in agriculture, and in the sugar industry in particular, led to a reduction in subsidies to agricultural companies and in budgetary assistance to the cooperatives, though much obsolete sugar

mill technology had been closed down and more had to be replaced. In addition, significant new external loans were obtained for investment in sugar, airports and telecommunications, areas of investment with potential for hard currency returns.⁶⁵

Table 3: Cuba: Main economic indicators 1985–2000

	1985	1990	1992	1993	1994	1995	1996	1997	1998	1999	2000
GDP m. pesos (constant	19,201	19,003	15,009	12,776	12,863	13,124	14,213	14,572	14,754	15,674	16,556
GDP growth	n/a	-2.9	-9.9	-14.8	0.7	2.5	8.7	2.5	1.2	6.2	5.6
Govt consumption	5,585	5,575	4,732	4,681	4,592	4,564	4,746	4,775	4,863	4,994	5,131
Private consumption	8,361	8,353	5,963	5,409	5,583	5,752	5,906	6,194	6,317	6,358	6,611
Gross investment	5,459	5,043	2,353	1,674	1,211	1,269	1,740	1,810	1,914	2,051	2,093
Exports US\$m	6,164	5,662	5,139	3,858	4,210	4,393	5,474	5,622	5,162	6,340	6,378
Imports US\$m	6,368	5,731	1,972	1,865	2,222	2,478	3,080	3,402	3,203	3,715	3,418

Source: CEPAL 2002 (Table 180) at constant 1981 prices; and CEPAL 1997 (Appendix 1)

How have Cuba's 'social indicators' fared during crisis and structural adjustment? In brief, health is doing fairly well, though nutrition and education (particularly higher education) suffered, and inequality was aggravated but is now improving. A central policy objective was to maintain Cuba's high level of human development, and the budgetary figures for the 1990s suggest that a real effort was made (Table 2).⁶⁶ Health, education and social security spending were maintained, at the expense of defence and business subsidies. But investment was often maintained at the expense of consumption, and more independent trade unions, for example, may not have allowed this.

The health system seems to have maintained its high standards. The major substantial health indicators slightly improved over the depression period of the 1990s (Table 4) despite the crisis and despite critical shortages of goods, including many medical supplies. The high standard of medical services, and the ratio of doctors to population, seems to have been maintained. Much of this was due to the professional dedication of Cuban health workers, who are not well paid and who experience some greater travel restrictions than other Cubans, because of the investment the state has made in their education. Life expectancy continued to rise and infant mortality continued to fall, throughout the 1990s. Both these indicators are now very close to those of the United States (Table 5)—a country with ten times the Cuban level of GDP per capita—and substantially better than either Mexico or Thailand. However, some infectious diseases also rose in the early 1990s. The rate of tuberculosis, in particular, doubled over 1994–95, though these rates stabilised and had slowly begun to fall by 1996.⁶⁷

With widespread shortages, the quality of dietary intake fell between 1989 and 1993, and recovered only slowly through the 1990s. Indeed, the quality of dietary intake in 1997 was said by one report to have been below that of

1970.⁶⁸ Average protein intake by the late 1990s was still at historically low and relatively inadequate levels, and this must be acting to undermine general health levels, as well as morale.⁶⁹ A range of new programs to meet food needs were instituted in 1993. Cooperative production units were created, and land was similarly given over to more than ten thousand families, to produce subsistence and crop foods. An open market for agricultural produce was established, while private transactions in \$US were legalised and the space for private business transactions was expanded.⁷⁰ Housing cooperatives in the cities grew their own fruit and vegetables. However, these programs could only be said to have produced poor to modest outcomes by the mid 1990s. By 1996 production of high protein food such as meat and milk, which had fallen drastically in the early 1990s, had recovered only slowly and was still well below 1989 levels. However, production of rice had recovered more strongly.⁷¹ Oxfam reported that by 2001 success in farming reforms had brought average calorific intake back just below WHO minimum levels.⁷² Good quality food was available to those with access to foreign exchange, but this foreshadowed the opening up a form of inequality virtually unknown in the 1970s and 1980s, and posing a new challenge for Cuban socialism.

Table 4: Cuban social indicators 1980–2000

	1980–85	1985–90	1990–95	1995–2000
Life expectancy (years)	73.9	74.6	75.3	76
Infant mortality (per 1000 live births)	17	12.9	10	9
Maternal mortality (per 100,000 live birt			27 (1990-98)	
Illiteracy % (over 15)	7.9		5.2	3.6
Tertiary level enrolments %	20 (1980)	21 (1985)	21 (1990)	12 (1998)

CEPAL (2002) Tables 6, 33, 37, 42, 45

Also damaged by the depression of the early 1990s were education levels. Primary and lower secondary education levels more or less held up, but higher secondary and tertiary education retention levels fell off sharply (Table 4). The main reason for this seems to be the greatly reduced incentive to gain professional qualifications. In the 1990s the salaries of highly qualified persons began to compare very badly with those who participated more directly in foreign currency markets, for example small business surrounding tourism. A person driving a taxi, in the performing arts or selling souvenirs could earn more in dollars than a doctor, engineer or scientist, paid for the most part in pesos. By the late 1990s a significant minority of the population had gained access to some dollar income or bonuses, but most (and particularly those outside Havana) had not. The educational result has been that, between 1990 and 1997, numbers enrolled in pre-university levels fell by more than half with just a slight recovery in 1996–97. A corresponding rise in the numbers in technical and professional education only slightly offsets this large fall.⁷³

Measures of poverty are difficult to apply in Cuba, as most international measures of poverty (and for that matter, of development) are based on income. In Cuba, however, near universal home ownership (without mortgage payments, and mostly without rent), free health care and education, community organised childcare, subsidised basic foods, guaranteed pensions and special needs assistance make income a very inadequate measure of poverty. The UNDP charts, for example, rarely have meaningful figures for Cuban income, let alone inequality in income. Nevertheless, Cuba fares reasonably well in the UNDP human poverty index of 2000 (using mainly 1998 figures) due to good performance in many of the other factors that comprise this index: high life expectancy, very low illiteracy rate, good access to fresh water and health services (less so to sanitation) and low levels of underweight children. Of the developing countries, Cuba is ranked number three in the UN's poverty index, lower than Uruguay (at number 1) but higher than NAFTA-integrated Mexico (at number 12).⁷

Table 5: Some international comparisons

	Thailand	Cuba	USA	Mexico
Life expectancy at birth (years) 1970-75/1995-2000	59.5/69.6	70.6/75.7	71.5/76.5	62.4/72.2
Female/male life expectancy at birth 2000	73.2/67.3	78.4/74.5	79.9/74.1	76/70
Under 5 mortality (per 1000 live births 1970/2000)	102/29	43/9	26/8	110/30
Infant mortality (per 1000 live births) 1970/2000	74/25	34/7	20/7	79/25
Inequality: richest to poorest 10% income 1997-98	11.6	n/a	16.6	32.6
Inequality: richest to poorest 20% income 1997-98	7.6	n/a	9.0	16.5
Adult literacy 1985/2000	90.3/95.5	94/96.7	n/a	85.3/91.4
People living with AIDS (% 15-49) 2001	1.79	<0.10	0.61	0.28
Undernourished people (% pop.) 1997-99	21	17	n/a	5
Tuberculosis cases per 100,000 people, 1999	48	10	6	16
Telephone mainlines (per 1000 people) 1990/2000	24/92	31/44	545/700	65/125
Public exp. on education (% GDP) 1985-87/1995-97	3.4/4.8	6.8/6.7	5.0/5.4	3.5/4.9
Public exp. on health (% GDP) 1985-87/1995-97	0.9/1.9	4.9/n/a	4.7/5.7	1.8/2.6
Public exp. on military (% GDP) 1985-87/1995-97	2.2/1.6	n/a	5.3/3.1	0.4/0.5
Seats in parliament held by women, 2002	9.6	27.6	13.8	15.9
Gross tertiary enrolment, female as % male, 1998	118	142	116	93

Source: UNDP 2002: Tables 6, 7, 8, 10, 11, 13, 17, 22, 23, 24

However, the UN poverty figures are a bit crude when attempting to identify the impact of the Cuban crisis. Some Cuban researchers have preferred the term 'people at risk' in place of 'poverty', and have attempted to measure this using a combination of indicators such as: access to free education; permanent access to free health care; home ownership; income adequate to purchase basic foods and other necessities.⁷⁵ These measures really amount to an empirical testing of the Cuban social guarantees. On this basis, between 1988 and 1996, the researchers noted a strong rise in 'people at risk' in Havana (four to 11 per cent) but a higher rate (a lower rise from a higher base) in the eastern province (12 to 21 per cent). From

1995 onwards a slow decline in these levels had begun. Inequality in Havana, based on income levels, had similarly worsened from 1988 to 1995, but had improved significantly (though not yet to 1988 levels) by 1996.⁷⁶ By all accounts the east of the country was worst hit by the crisis and is still the poorest.

The gender development measures of the UNDP also rely fairly heavily on relative income levels, and due to the absence of good income figures Cuba has no ranking in the UNDP's Gender Development Index for the year 2000. However, while Cuba is classed as a country of 'medium human development' (MHD), its average life expectancy for women (79) is now well above that of the MHD countries and even above the average for countries of 'high human development' (HHD). Its female literacy rate of 96 per cent is also well above that of the MHD countries and equal to that of the average HHD countries. The numbers of women in tertiary studies had fallen through the 1990s, for reasons noted above, but the proportion of women to men in tertiary studies (152 per cent) remained one of the highest in the world. Women also held 27 per cent of the seats in the Cuban Parliament, though the women's economic activity rate (63 per cent of the male rate) was fairly ordinary in world terms.⁷⁷

Thai and Cuban structural adjustment compared

The Cuban model of structural adjustment might be compared to the IMF-Thai model (Table 6), as there are some similar objectives (stabilise the external economy and restore investment levels), yet at the same time very different social priorities.

The similar features of the models are that (i) both seek to engage in a tariff reduction process, to enhance trade opportunities; (ii) both seek to devalue and stabilise the currency; (iii) both seek efficiency measures in the public sector and (SOEs. Major differences between the two models could be summed up in this way: (i) while the IMF approach cuts social expenditure in the crisis, to remove a budget deficit, the Cuban approach maintains social expenditure in the crisis, then reduces the consequent deficit in the recovery phase; (ii) while the IMF approach cuts tax on foreign direct investment (FDI), to attract investment, the Cuban approach imposes a stable and high tax rate on foreign private investment, which is mainly attracted to joint ventures; (iii) while the IMF approach is to transfer labour regulation to private employers, in the name of flexibility, the Cuban approach maintains social regulation of labour hire and wage and job security; (iv) the IMF approach is to privatise public enterprises, the Cuban approach was to develop agricultural cooperatives and joint venture industry; (v) the IMF approach is to use the proceeds of privatisation to meet budget needs in a crisis and to underwrite the costs of capital

restructuring, while the Cuban approach was to protect public assets and investment but to supplement them through joint ventures with private investors; and (vi) while the IMF model is imposed without public discussion, as a standard 'technical' fix, the Cuban model was discussed intensively, to help develop the means of sharing the costs of managing the crisis, and to assist in the acceptance of hard economic decisions.

Cuban structural adjustment might also be compared to the structural adjustment of the 1990s in Eastern Europe. While the World Bank⁷⁸ has correlated growth in output with liberalisation measures, it has also admitted that, in the Eastern European 'transition' to capitalism, growth has been very uneven, inflation has been chronic and critical social indicators such as life expectancy and infant mortality have gone backwards in the 'transition'.⁷⁹ Not surprisingly, these economic changes were poorly received. Comparing 1995 regimes with those of the socialist past, there were very poor Russian attitudes towards both the political and the economic regime, and more favourable Central and Eastern European attitudes to their respective political regimes but less favourable attitudes to their economic regimes.⁸⁰

Table 6: A comparison of IMF/Thai and Cuban structural adjustment

	IMF-Thai model	Cuban-socialist model
Similarities	Devalue and stabilise currency	
	Engage in WTO tariff reduction process	
	Efficiency measures in public sector and SOEs	
Differences	Cut social expenditure (health education) in crisis, to reduce deficit	Maintain social expenditure (health, education) in crisis to reduce deficit in recovery phase
	Cut private investment taxes to attract FDI	Stable and high private investment tax rate
	'Deregulate' labour: regulation by large companies to allow corporate restructuring	Socially regulate labour to sustain income and job security
	Privatise all public enterprises	Develop agricultural cooperatives and joint venture industries
	Use the proceeds of privatisation to meet budget needs in a crisis and to underwrite the costs of capital restructuring	Protect public assets and investment, but supplement these with private investment through joint ventures
	Impose standard 'technical' IMF policy formula, modified by popular domestic resistance	High level of social participation in developing policies to share the costs of managing the crisis

Challenges for, and lessons from, Cuba

In conventional terms, the Cuban structural adjustment of the 1990s was quite successful. The currency stabilised, investment levels began to be restored and significant growth in production resumed. Export capacity is being gradually rebuilt. All this occurred rapidly, within a few years of Cuba's great depression, in face of the collapse of trade relations with the former COMECON countries and under sustained pressure from a hostile U.S. blockade. In broader terms, the Cuban health system maintained its high standards, though nutrition and retention in higher education suffered. The achievements are impressive. As the UNs CEPAL says, Cuban adjustment was 'a process of social solidarity, which has mitigated the regressive effects in the distribution of costs of the "special period"'.⁸¹ The Cuban experience of the 1990s says a great deal about the strength and resilience of Cuban collective institutions, including its planned economy. It also indicates that IMF-styled structural adjustment is not the only viable response to economic crisis and dislocation. Alternatives are possible.

Cuba is significant for this reason alone—to demonstrate that new investment can be sourced and socially managed, and that social equity and high living standards can be maintained, even through a difficult period of restructuring. However, the way in which Cuba has done this has relied heavily on a highly organised, controlled and motivated society. This is not easily replicable. The social control and morally charged 'special measures' were important, in particular, because repression of consumption was critical to rapid restructure, reinvestment and growth. Yet longer term lessons for other countries are also apparent. Sustained and consistent investment in health and education, as well as an equitable social security system, does pay dividends, in the longer term. And a strategy of managed, joint venture-led foreign investment can work. Cuban adjustment sustained the social guarantees of health care and social security, and maintained social control of investment. The controlled foreign private investment and limited small business openings have altered, but have not fundamentally changed, Cuban socialism. Yet there are a number of new challenges for the Cuban system.

Firstly, management of foreign capital is something quite new for Cuba. The current joint venture regime seems to attract the benefits of new investment without surrendering the direction of development, or labour and social security standards. The ability to attract investment has a lot to do with the relative spread and diversity of investment in tourist facilities and light industry, and the very low Cuban wage. However, this could change. Further, stand-alone foreign ventures in resource industries are now legal and any such developments could well become influential. The U.S. blockade, as well as the need for new investment, maintains a constant pressure to develop new linkages with European, Canadian and Latin

American companies, in unfavourable financial and contractual circumstances. Such pressure seem likely, in time, to lead to a string of demands for concessions from foreign capital.

Secondly, the development of niche export markets (other than tourism) will remain important, and this depends to a fair extent on increased efficiency in production and marketing. Pharmaceutical and biomedical production has a good start in this area, based on a strong medical education system and with several unique medicines and vaccines.⁸² However, export marketing requires considerable development. The twin problems in this exercise are the U.S. blockade and the domination of the world drug business by several giant multinationals, which actively and effectively block any new entrants. In the areas of light and automotive industry, the diversity of import substituting production in Cuba is literally dazzling. But if new niche markets for export are to be developed, there must be some rationalisation and specialisation in this field. The capacity to do this may expand with new joint venture investment and an easing of the U.S. blockade, if that were to occur.

Thirdly, the dual currency system and the system of dollar incentives, while useful in harnessing productive and diverse energies, and in mitigating the impact of a very hard adjustment process, has also opened up significant inequalities. Dollars are widely used in many parts of Havana, and in the tourist areas, but are scarce in most other parts of the island. Yet an increasing amount of goods and services are now transacted only in dollars. Those Cubans with family members overseas are now also privileged by dollar remittances. As mentioned above, the disparity in incomes and the broken connection between skills and incomes has also had a substantial adverse impact on the higher education system, and in time this will influence the breadth and depth of human capital in the country.

Fourthly, pressures for political reform continue from inside and outside the country. Most prominently, there is sustained pressure from the U.S. Government and the leaders of the exile Miami community to overthrow Cuban socialism and President Castro, and to restore to landowners and companies property taken more than forty years ago. Ironically this extreme pressure, which rejects all dialogue with the 'dictatorial' Cuban Government, seems to be the major barrier to political reform. Restrictions on the press, the repression of dissidents and the blocking of opposition political formations are all legitimised, within Cuba, as part of a social and moral struggle against a U.S. Government intent on restoring its pre-revolution domination of Cuba. U.S. based groups point to Cuban laws banning 'enemy propaganda', the 'insulting of patriotic symbols' and 'unauthorised news', to the arrest and jailing of hundreds of political dissidents, and to the restrictions on trade union organisation to the one official union (the CTC).⁸³ The Cuban Government and its supporters

respond that most of these steps are made necessary by the aggressive stance of the U.S. authorities, and their determination to support any emerging internal opposition forces.⁸⁴

International campaigners against the death penalty also drew attention to the 'worrying increase' in executions in Cuba in 1999. Amnesty International⁸⁵ reported at least ten executions in 1999, a marked increase on previous years. To put this in perspective, no political dissidents have been executed, and the rate of executions in Cuba is still less than that of the United States. There are also genuine internal pressures for reform, with groups such as the Internal Dissidents Working Group (GTDI) calling for political and economic reforms. Some political prisoners from this group were released in 2000.⁸⁶ The Cuban Government will have to respond to these pressures.

Finally, the rise of tourism in particular has lifted the profile of consumerism. The interactions between young Cuban people and tourists, in particular, raise their expectations of a western-style standard of living. The level of prostitution and black marketing (for example, in cigars and drugs) around tourist areas is now also at high levels, adding another layer of social problems. The attraction of the western consumer world is likely to grow, along with a neglect of Cuban achievements. As in other countries, it is easier to see what you do not have, taking what you do have for granted. Political cohesion, and the sharing of sacrifices to maintain Cuban institutions (social control of investment and the health and social security systems), will become more difficult to manage. In particular, the relative repression of political dissent (considered necessary to block U.S. subversion) may become more unpopular, in view of the relative freedom of expression of the large numbers of foreigners passing through Cuba. The demand for legitimate vehicles of dissent is likely to increase, while developments in political liberalisation so far have been tentative.⁸⁷ The Miami-based counter-revolutionary forces are not the only forces to contend with.

People outside Cuba, undoubtedly influenced by the barrage of U.S. propaganda about Cuba and the supposed mesmeric influence of President Fidel Castro, often ask 'what will happen when Fidel dies?' In some respects this is a fair question, because Fidel Castro has dominated politics in his country like no other political leader of the 20th century. In focusing on structural changes, this article tends to ignore this, but Fidel's influence has been enormous. He is also one of the most misrepresented political figures of recent times. Most will have heard the repeated U.S. claims of a 'repressive dictatorship' in Cuba. Yet there are no death squads or repressive police operations in Cuba, as in many U.S. client states in Latin America. Fewer will have heard of the international acclaim for Fidel Castro's achievements. For example, on the occasion of the 50th

anniversary of the World Health Organisation, the Director of the WHO, Dr Hiroshi Nakajima, in decorating Fidel Castro, said he considered Cuba a model for Latin America and the world, in the sphere of health.⁸⁸ Nor was Castro's position harmed when James Wolfensohn, the President of the World Bank, was forced to admit that Cuba's social welfare indicators were better than those of most World Bank client states. Although regarded as virtually an 'anti-model' of development in World Bank circles, Cuba was doing a 'great job on education and health' Wolfensohn admitted.⁸⁹

The U.S. Government's expectation, in association with the Miami lobby, is that the Cuban system will simply roll over (Russian style) and revert to open market capitalism after Fidel Castro's death, with the Miami lobby (and the Miami mafia) moving in to pick up the spoils. Such a transformation is highly unlikely. Cuban institutions have proven themselves far too resilient, and far too popular. The substantial changes in Cuba over the course of 1990s and into the 21st century suggest that a more useful question is not 'what will change when Fidel dies?' but 'what is changing now?'

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