

# Economic Woes of Cuba accentuated by miscellaneous adversities

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**ABSTRACT:** Island nation Cuba has undergone enormous economic challenges in recent times. This communist nation has had a tumultuous past ever since it was discovered by explorer Christopher Columbus in 1492 and declared as a Spanish colony. Cuba gained independence in 1902 with cooperation from America. The US however wielded authority in the internal affairs of Cuba. Since drabble of US supported dictatorship by Fulgencio Batista in 1959, Fidel Castro took control waging guerrilla war aided by Ernesto Che Guevara. Cuba received USSR support in military arrangement, economic cooperation in its opposition against US during the cold war period which lasted from 1945 to 1990. Cuban economy endured hardship on account of the trade embargo imposed by US in 1960. Tussle with US reached its peak during US sponsored invasion at Bay of Pigs in 1961 and Cuban missile crisis in 1962. Cuba formed socialist republic with induction of new constitution in 1976 under leadership of communist leader Fidel Castro. It however received ire from western stalwarts such as UK and US when it provided moral support to Argentina, when the later was at loggerheads with UK during Falkland Islands dispute in 1982. US enforced trade embargo lasted more than 50 years causing economic distress, travel restrictions, limitation on remittances, reduction in educational exchange, scarcity of food and medical supplies. Situation improved when US president Barrack Obama intended to lift restriction with press release in January 2011. Normalisation of US- Cuba relationship though suffered a blow when US President Donald Trump came to power in 2016 and re-imposed restriction owing to opposition of previous regime and Cuban connection with US adversary Venezuela. Cuba has faced steep challenges in recent times with the outbreak of COVID 19 when the travel ban dealt a severe blow to the tourism dependent economy. Cuba is now saddled with health emergency, trade restriction, economic uncertainty, and energy crisis, and soaring unemployment, chronic scarcity of basic supplies and bleak prospect of recovery. Communist authority of Cuba warned the citizens of 10% decline on economic activities in 2020 due to harsher US sanctions, pandemic led tourism prohibition and dimmed scope of foreign exchange inflow.

**KEYWORDS:** *Economic sanctions, Travel restriction, Economic vulnerability, Virus outbreak, Resource crunch, Defunct leadership, Social hardship*

## I. INTRODUCTION

Cuba is a single largest archipelago in the Caribbean region and regarded as 'sugar bowl of the world'. Over the years its dwindling sugar industry is losing its credential to Brazil and India. Cuban cigar known the world over and tobacco production plus export contributed enormously to Cuba's GDP as tobacco industry boasts of being the fourth largest industry. This island nation is a tourist heaven to millions of people who visit the white sand beaches, picturesque aqua coloured sea, grand heritage sites and magnificent national monuments. Cuba however has a chequered past full of topsy-turvy moments of historical and economic importance. Cuba secured freedom in 1902 being greatly protected by US. Flamboyant Sergeant Fulgencio Batista

ascended to power in 1933 with a coup. He continued as US supported authoritarian military leader from 1952 to 1959 until he was dethroned through Cuban revolution lead by Fidel Castro, his brother Raúl Castro, and Ernesto ("Che") Guevara. Hostile relationship with US started when Fidel Castro became ruling authority in 1959 and nationalised all US businesses without any compensation in 1960. Invasion at Bay of Pigs by US in 1961 dented the relationship gravely and Castro declared Cuba a communist state and sided with USSR as close ally. Cuban missile crisis in 1962 aggravated US- Cuba rift as USSR flexed muscles to position nuclear missiles on the island but through negotiation between US- USSR, it resolved discontentedly. US unilaterally imposed economic, commercial and financial sanctions in 1962 and continued

for 60 years resulting in economic damage estimated to exceed \$922 billion in 2020. All through the cold war period Cuba received support of Russian counterpart since inception with full membership of the Soviet-based Council for Mutual Economic Assistance in 1972. Its relationship with Britain however strained due to moral support provided to Argentina at the time of attack to Falkland Islands. Hostility with western world cost Cuba heavily as it aggravated the economic hardship of the nation. As USSR collapsed, US tightened embargo and Cuba rolled out reform measure in 1993 to counter its deleterious impact. A visit by Russian President Vladimir Putin to Cuba in December 2000 was aimed at reinforcing bilateral ties between them. President Fidel Castro transferred power to his brother Raul Castro as his health deteriorated and finally stepped down in 2008. In the reform process ban on mobile and personal computer was lifted in May 2008. EU too lifted its ban in 2008 which was imposed as diplomatic sanctions in response of crackdown on dissidents in 2003. The coastal nation faced the catastrophic wrath of nature caused by Hurricane Dennis in July 2005 and Hurricanes Gustav and Ike in September 2008. Cuba continued its communist affiliation as it corroborated with visit of Russian and Chinese President in 2008 and signing of trade and investment accord by Chinese Excellency to receive Cuban nickel and sugar. During global meltdown of 2008 Cuban economy suffered hugely and growth rate almost halved to 4.3%. This communist country with bureaucratic regime observed relaxation when Cuban authority allowed its citizen to travel abroad as tourists in April 2011 and economic reforms offered more opportunity to private enterprise in August 2011. Relationship with US improved briefly during Barrack Obama Administration when US president made a trip to Havana in March 2016 and discussed lifting the 54 years long embargo. However his successor Donald Trump annulled diplomatic ties with Cuba and imposed rigorous sanction on account of its connection with Venezuela. Cuba is dealing with oil shortage and also scarcity of basic necessities. The island economy which stagnated for years was hardest hit due to the Corona outbreak and global economic slump. There is now a dire need of autonomy for state-owned companies, currency convertibility and liberalization driven reforms to revive the moribund economy.

## II. LITERATURE REVIEW

In the article titled 'Doing Business in a Post-Fidel Cuba' published in Harvard Business Review in December 19, 2016, author Pablo González Alonso and Alec Lee expressed concern sluggishness in economic liberalization and impending fiscal crisis in 2016. Authors referred that end of embargo could lead to higher capital inflow and the prospect went brighter with the visit of President Barrack Obama in March 2016. However, simmering uncertainties persisted about nullification of Cuba-US reconciliation after Trump's ascendancy to power. It is referred that lack of

domestic savings, insignificant capital formation, fallacy of state dominance across sectors, limited option for private enterprise, and slackness in liberalisation, dual currency difficulty and energy shortage after collapse of Venezuela put Cuba in dire straits.

In the article titled 'The Potential and Pitfalls of Doing Business in Cuba' by Pablo González Alonso and Alec Lee published in Harvard Business Review dated March 16, 2016, authors referred about Cuban revival opportunity after 57 years of Cuban revolution with the historic trip by US President Obama and an end to the U.S. embargo of 55 years. As per authors' opinion, withdrawal of trade restrictions would pave the way for US business extension in Cuba financial services, telecommunication and FMCG business. The article analysed Cuban stagnation owing to dearth of capital investment, ineffectiveness of overpowering public sector and sustained confusion of twofold currency system.

In the article titled 'What You Might Not Know about the Cuban Economy' published in Harvard Business Review in August 17, 2015, author Jorge I. Dominguez stressed on unimaginable hardship endured by inhabitants in the face of crumbling Cuban economy. In the narrative we find Cuba experienced heyday with support from USSR during cold war period (1945-1990) and later on from Venezuela and Brazil in exchange of superior healthcare services from Cuba. Dwindling infrastructure however remained a bottleneck for economic growth and the inability of reform measures by communist leadership. Aging population, dependence on tourism, restrained private sector operation, outdated tax policy, slipshod investment failed to capitalise human capital as it remained underutilized for defunct leadership ridden island nation.

In another article 'World Urges US to Lift its Embargo on Cuba' by Margaret Besheer published in voanews dated November 07, 2019, we find the appeal of world to lift harsh long drawn sanction imposed on Cuba shattering its economic prospect and putting social lives in great distress. United Nations member countries came in solidarity of Cuba and reasoned with US to lift the ban on island nation which acted as an impediment for economic and social progress. In an estimate economic loss of Cuba had been in excess of \$922 billion over last 60 years which jeopardised economy severely, accentuated hardship of people in the face of acute shortages of fuel and other bare necessities. The embargo in the context of economic, commercial and financial activities debilitated economic condition and deteriorated standard of living of common people to great extent. Authoress has stressed on dire need of Cuban reform measure, initiation of foreign trade and enhancement in foreign investment to put the economy on sustainable growth path.

In another article 'Cuba in crisis: necessity forces a new departure' by Bhavi Mandalia published in Pledge times

dated August 18, 2020, we find the concern of author about prolonged economic stagnation persisted in island nation. Author recounted the past horror of 1993 when 35 percent of economic deceleration led to unimaginable economic downturn after collapse of socialist Russia. The opposition with might US cost sugar island heavily and brought it on the brink of financial bankruptcy. The situation in 2020 reliving the historic past when Fidel Castro had to legitimise greenbacks in a desperate bid to salvage economy. Stringent US sanction, global economic slowdown and effect of pandemic brought Cuba down on its knees. The desperate time called for dollarization of economy in October 2019. The much-needed economic reform should reflect in autonomy of private sector which remain eclipsed for so long in the dominance of large state-owned companies. Liberalisation is required for export and import by private enterprise to stimulate the moribund nation.

### OBJECTIVES OF THE STUDY

The principal objectives of the research paper are delineated below-

- i. To critically analyse the leading causes of economic turmoil in Cuba
- ii. To discuss the gravity of crisis in Cuba and mention about possible remedial measures

### III. METHODOLOGY

Descriptive and analytical methods are followed to perform the research function on aforementioned topic. The evaluation of economic condition of a nation calls for checking evolution process. There is a necessity to look into past and conduct some fact finding operations to establish causal relationship. The background history is pertinent to identify systemic strength and weakness of the nation and to gauge the influencing factors which triggered present economic dismay. Columns in business magazines, newspaper articles, and web publications from reliable sources had been utilized to make certain the legitimacy of analytical delineation. Macroeconomic indicators were checked to fathom and elucidate economic condition and the performance of the nation. There was an attempt to detect key drivers of the economy and what went wrong with their calibre and spontaneity. It is to be admitted that compared to G 8 or G 20 nations or OECD, NAFTA or EU nation's data paucity for Cuba is a great hindrance to research work. Further research is possible to explicate the economic deficiency and despondence of communist nation.

### THE SEVERITY OF ECONOMIC PREDICAMENT

Cuban economy went through several stressful times but it showed tenacity and weathered all hardships with the courage and strength of patriotism. It had been under communist leadership for about six decades. With Raúl

Castro's resignation, glimmer of reform measure got perceptible. Miguel Díaz-Canel took over as figurehead ruler in April 2018. However, the economy went into tailspin since corona virus led global pandemic doomed the prospect of recovery in 2020. Reduction in Venezuelan subsidies and reinforcement of sanctions by Trump administration rendered deleterious impact for feeble Cuban economy. The scarcity of basic necessities and inflation due to shortage affected the lives of socialist state gravely. Life in deprivation was well pervasive in Cuba and also social repression in socialist system. The new leadership unfurled reform measure to garner much needed hard currencies such as US dollar and Euro. Cuba purchased about 80 percent of food items and fuel from international market, which is hard to procure with Cuban peso. There is severe liquidity crunch with disruption in tourism earning and restriction on trade due to hard-hitting sanctions. To fill up empty coffers the government allowed dozens of dollar stores. It kept selling much needed food items, cleaning merchandise, home appliances and electronic goods. In a desperate measure, government also declared subsidy of 10% on dollar transaction way back in 2004. There was relaxation for private business in recent times in central command economy with assurance of legal protection and permission for foreign trade and transaction. Similar reform promise was made by communist predecessor Raúl Castro about a decade ago but never followed through owing to objection by communist party hardliners. But during 2020 economic hardships, reform measures were difficult and in a bid to fulfil it government provided private enterprises access to wholesale markets. Prolonged dependence on foreign nations, initially on USSR from 1960 to 1990, and later on Venezuela from 2007 to 2017 didn't help economy be self-reliant as Cuban exports mostly failed to finance imports of the nation. Myopic authoritarian communist leadership couldn't embrace Chinese-Vietnamese model of "market socialism" and flawed structural reforms by Raúl Castro during 2007-2017 left the economy at the mercy of foreign grants and subsidies.

### THE IMPACT OF ECONOMIC SLUGGISHNESS

As per the prediction by the Economic Commission for Latin America and the Caribbean (ECLAC), Cuban economic activity will contract by 8 percent on account of Coronavirus outbreak that has impacted the tourism dependent economy to a great extent. Ministry of economy stayed apprehensive about decimated economic growth of 1% and surge in unemployment figure to register 44.1 million in 2020. Incidence of poverty would aggravate to bring 230.9 million below the poverty line this year. Extreme poverty will grow by 28.5 million with worst impact inflicted on women. Virus outbreak, trade embargo, and wrath of Trump administration owing to connectivity and cooperation with Venezuela have cost the rundown economy heavily. The economic crisis of 2020 is a grim reminder of Cuban economic turmoil of 1990 after collapse

of Soviet Union. The Island economy contracted by 35% in 1990 as much needed soviet subsidy receded sharply. Social deprivation spiked and hunger, malnutrition became pervasive due to acute shortage of bare necessities. This event led to mass exodus from Cuba and many rafted to reach Florida in 1994. Economic deceleration was at a rate of 10-12% in each year from 1991 to 1993. The global pandemic of 2020 has jolted global economies dreadfully and also rattled Cuba. As per World Bank prediction, Latin American economic GDP would shrink by 7.2 percent in current time and for Cuba this contraction could be 10% in 2020 and much higher in 2021. In the following graph we find the evidence of economic decadence in Cuba for more than a decade starting from 2006.

Diagram I: GDP growth in Cuba 2006-2019

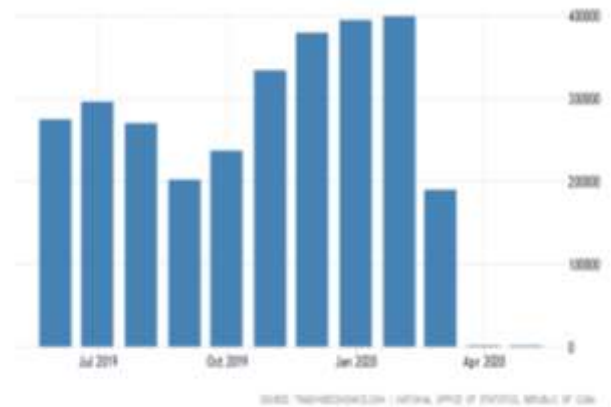


Source: CASACUBA, The Cuban Research Institute, The Kimberly Green Latin American and Caribbean Center at Florida International University, 2020

GDP growth rate is always regarded as right microeconomic indicator to measure economic performance of a nation. The above figure of GDP in Cuba from 2006 to 2019 bears the testimony of economic downfall in socialist island nation. From a roaring 12.2% GDP growth in 2006, it fell abysmally to a meagre 0.5% 2019. Communist regime, lack of reforms and state dominance didn't do any good for the sluggish economy. Cuban gross fixed capital formation which is purely savings instrumental for economic progress averaged 9.7 percent on annual basis in last 5 consecutive years whereas Latin America and Caribbean economies were far beyond at 18.6 percent. Fiscal deficit for Cuba reached 8 percent of GDP in 2018 from merely 1.3 percent in 2013. The surge in inflation rate from 0.6 percent in 2017 to 2.4% in 2018 hurt household budget badly. Agricultural output at constant price fell from 7.3% in 2007 to -1.5 percent in 2017. Massive perennial trade deficit laid open disgraceful balance of trade for beleaguered economy. Export of goods plummeted by 49% compared to 1989 when higher import by 41% resulted in 220% deficit in the balance of goods. Cuba was saddled with debt burden of \$2.6 billion to be paid by 2020 with 9%

rate of interest despite condone of \$ 8.5 billion from Paris Club.

Diagram II: Cuba Tourism Arrival data June 2019 – May 2020



Above diagram portrays worrisome condition of tourism sector in Cuba in recent time. Tourism was considered to be mainstay of the economy. Island nation remained famous for idyllic pristine beaches with abundant sunshine, genteel breeze and scenic view. The architectural marvel of Havana city drew tourist in great numbers which flocked till February 2020 but later on it plummeted to all time low with spread of novel corona virus which put ban on worldwide tourist movement. It resulted in immense loss for foreign exchange earning for foreign currency dependent nation. Millions of people connected to tourism sector rendered jobless or witnessed their income receded sharply. Revenue earning for govt. exchequer was also badly affected. It created problem for govt. to provide healthcare and social services at backdrop of dwindled tourism earning. Unless COVID 19 episode comes to an end and tourist flow normalise, tourism sector struggle and reel under crisis in virus afflicted time.

#### IV. REMEDIAL MEASURE

There is a dire need of a radical change in erroneous internal economic model of Cuba to give it the much needed makeover. Excessive dependence on external support such as USSR aid until 1990 and Venezuela oil and capital supply until 2012 failed to make the economy self-reliant. The economy was at a great disadvantage too due to hardest US sanctions which tried to isolate Cuba from the rest of the world. Trade and investment got affected severely, tourists contracted, and private- micro businesses were badly hit. On top of it, successive communist regimes didn't liberalize economy and state dominance in every sector affected sector-wise performance and impeded economic growth. Structural reform by Raul Castro from 2007-2017 was a noble initiative. It reflected in reduction of labour force from 84% to 65% in state sector, opening avenues for micro businesses, idle state land distribution among marginal farmers and cooperatives. Government intervention was stopped for private property transaction,

social services were truncated and tax reform took place. In the middle of 2019, Cuban legislative assembly sanctioned long term plan to be achieved by 2030. But it lacked vision, planning rigour and detail description. The issue related to unification of monetary and exchange-rate as dual currency norm in the form of national peso and convertible peso created market distortion and made export process ambiguous and cumbersome. This issue needed to be addressed. In 2019, new president Díaz-Canel assured to reduce administrative control, decentralize state enterprise, create opportunity for micro business, liberalize foreign trade and improve the condition for foreign direct investment. But none of the promises were fulfilled till 2020. As per Cuban economists there were hard-pressed needs for price reform, liberty for self-employed professionals, elimination of barrier for non-state sector, permission for foreign enterprise to recruit and pay to local employees, foreign investment in microenterprise, removal of taxes for small businesses, elimination of corrupt state officials embroiled in bribe and malpractices. Finally, state authority should ensure adequate health measure, food and supply of bare necessities to tackle spread of contagious COVID 19.

## V. CONCLUSION

Cuban economy remained extremely vulnerable and braved unprecedented challenges in year 2020. 60 years of communist regime failed to deliver the much needed economic reforms. State dominance and lack of vision in policy making brought the economy to the verge of collapse. Situation turned grave due to fuel crisis, debt burden, heightened economic sanctions imposed by Trump administration(2017—2020), reduced tourism, devastation caused by cyclone and extreme weather condition and lack of foreign aid ever since economic turmoil erupted in Venezuela in 2012. The latest blow was the outbreak of corona virus which wreaked havoc for the struggling economy. Managing health crisis along with severe scarcity of basic necessities has been a tough battle although Cuba had been praised for long for its best treatment facility and brigade of efficient medical professionals. The progress of applied science, biotechnology and pharmaceuticals had been applauded by the entire world. However, Cuban orthodox communism has failed to capitalise on its educated workforce and entrepreneurial spirit. In last 60 years no serious effort had been noticed by Cuban government to reduce dominance of state enterprise and opening up of avenue private business group. Archaic mindset and communist sentiment caused distance from capitalist nations. Trump administration is quite belligerent and punishing Cuba with toughest sanctions due to its relationship with US rival Venezuela. Shadow of uncertainty prolongs in the Caribbean island state as it waits for necessary grant from communist nation China or Russia. Six decades of communist party rule failed to pursue reform measures and made the country reliant on

remittance, foreign aid and tourism and now in the wake of global pandemic the situation has turned adverse for all its three sources of earning. Economic contraction is predicted to be 10% and more in the year 2020-21. In this severe ordeal, plight of inhabitants are deplorable. Hardship is felt in daily lives of Cubans as they suffer horrendous shortage of food and basic goods and Cuban sugar or Havana cheroot hasn't been able to salvage the economy. Unless the monster virus is tamed and tourism roars back to normalcy with full-fledged operations, saga of human misery in Cuba would continue. Economic reforms and adoption of market economy should be pursued for real turnaround and resurrection of moribund communist archipelago.

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