

Economy of the republic of cuba economics essay

[Economics](#)



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1. 1 Ambition

Cuba, with its official denotation, Republic of Cuba, is an insular state in the Caribbean. The history of Cuba belongs to the most impressive and interesting of Central America. Occasionally in the past the policy of the whole world had been affected by the ups and downs Cuba's. On the island Cuba you will find the most beautiful buildings in the Caribbean for this era, created by important architects. Great writers, artists, but also gangster bosses characterized the myth of this country.[1]Meanwhile the historic city of Havana belongs to the UNESCO world heritage.[2]What are the main challenges facing the country today and how will Cuba develop in the next ten years? The intention of this paper is to discuss this and several other questions belonging to this topic.

1. 2 History of Cuba

In order to establish a solid knowledge base regarding the successional description and discussion, the following section provides a short overview about Cuba's history. In fact this is not Cuba's history in every detail – it is meant to show the economical development until today and the motivation to run a socialistic system. During the first half of the 16th century, the Arawaks, the native people of Cuba, were discovered by the Spanish. Since that day the Cuban people had been dominated by those conquerors. Because of increasing violence and introduced new diseases by the Spanish, the native people of Cuba had been minimized within just a few decades. In the 17th and 18th century a huge amount of African people were enslaved and brought to Cuba in order to work on the labor-intensive sugarcane plantations. This led to the fact that around this time Cuba was the world

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largest sugar exporter. As time drew on first small riots occurred. In the year 1868 a war of independence started, which lasted ten years. As a consequence of this war the slavery was abolished, but in fact the Spanish colonial rule was not stopped. 15 years later, in 1895, the second war of independence started, which failed, too.[3]After the American battleship „ Maine" was destroyed in mysterious circumstances inside the harbor of Havana, the Americans intervened in the Cuban-Spanish war. After a few months Cuba became an American half-colony. In the year 1902 the Republic of Cuba had been declared and the United States founded a military base within the region of Guantanamo. The 1920s represented Cuba's bonanza period based on great sugarcane yields. In 1924 dictator Gerardo Machado took over the power. He confiscated large areas and plantations for his own use or sold them to the American and other foreigners. In 1933 Sergeant Fulgencio Batista started a putsch attempt against Machado, in 1940 he came into power. After a first fail in 1953, together with Che Guevara and 81 further revolutionaries, Fidel Castro attacked the presidential palace in Santiago de Cuba in 1957. The result was the displacement of Batista and the expropriation of U. S. companies and citizens.[4]The revolution ended in the year 1959. In response of this „ change of government" and the strong volition to stay independent the U. S. ceased the economic aids and the sugar purchases. In 1962 there was the first economical crisis in Cuba based on the economic embargo by the U. S. . Based on the gained experiences during the last decades of living in a dictatorship, the national objective of Cuba was the establishment of a classless society. In 1976 the first socialistic constitution came into effect. In 1980 first disturbances occurred within the population caused by the high

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force of the embargo. As a result of that, 100, 000 people left their county[5]. The only real commercial relations are established to other socialistic countries such as the USSR (until 1991) or China for example.[6]In the last years there were some changes regarding the socialistic mindset in order to prevent people to flee from Cuba. In 1993 for example the Cuban government legalized the US-dollars as a currency for tourists in order to make it possible for citizens to earn a certain amount of own money.[7]In 2008 Fidel Castro resigned from all his political positions based on his bad physical condition and so his younger brother Raúl Castro accepted his office.[8]This is the starting point of the following description regarding the current state of Cuba's economical status.

2 Current status regarding the economy of Cuba

The following section contains information about Cuba's current status regarding its economy based on different criterions. It represents the knowledge base for chapter 3, which consists of the discussion and analysis regarding the current challenges and problems facing the country today. Any occurring valuations or regards to economical concepts will be treated in chapter 3. The author of the text makes mention of the fact, that there exist, for the most part, only less or timeworn information about the economy of Cuba. The government of the Republic of Cuba abandons only sparse information and if at all very aimed to its political goals. Exact data do, in most of the cases, not exist respectively are the secret of the socialistic state.[9]

General

The Republic of Cuba spans an area of about 110. 860 km². Its capital city is Havana with 2. 2 millions inhabitants. Collectively Cuba has got about 11. 2 millions inhabitants.[10]Cuba belongs to the last countries, with a centrally planned economy.[11]Its head of state is Raúl Castro, Fidel's five years younger brother, who came into power in the year 2008.[12]

GDP

The gross domestic product (GDP) is a measure of all goods and services going through the market in dollar value.[13]The main part, about 80 percent, of the Cuban GDP is generated by the services sector. The important areas are on the one hand the tourism sector with about 2. 5 billion U. S. dollars and the " export" of medical and educational services to friendly countries, for example Venezuela. These delegations of abroad Cuban realizes a share to the GDP of about one billion U. S. dollars. Furthermore they are one of the most important sources for foreign exchanges for the country.[14]According to Cuban information, they received in the year 2006 an economic growth of 12, 5 percent. In the next three years overall even 30 percent.[15]

Natural resources

The most important export good of Cuba is nickel. In the year 2007 the Cuban produced about 76, 000 tons of this good. In 2008 the production increased further more. But intensive falling prices on the world market caused heavy losses in this important sector. The country earns about 500 billion U. S. dollars by exporting this natural resource to the world. Cuba represents about 30 percent of world wide nickel deposit. Other natural
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resources are chrome, cobalt, copper, ferric as well as a minor quantity of mineral oil and natural gas. Cuba itself claims to hold over 20 billion barrel recoverable sources of raw oil.[16]Until the 1990s the Soviet Union was the most important supplier of oil. Cuba revealed most of its total needs by oil imports from the Soviets for bargain prices. Today Cuba covers the half of its demand from on-shore-delivery of natural gas and mineral oil. The remainder is revealed for bargain prices and conditions from Venezuela. Other contracts have been awarded to China, Vietnam and Brazil.[17]

Agriculture

The former sector of wealth, the agriculture, is today mostly unproductive. Cuba, once the biggest producer of raw sugar, has got closed half of its sugar mills. About 50 percent of the productive land are by now uncultivated. For this reason about 80 percent of the food have to be imported. This fact leads to overall costs of about two billion U. S. dollars. An agrarian reform, started in the year 2008, which farms not cultivated areas out to workers and farmers without land, results until today in no long term improvement. [18]

Industry

The industry of Cuba is, in an international context, preponderant not competitive. The requirement of industrial goods can not be covered by the own production. Nevertheless Cuba has available highly developed biotechnology. Cuba´s pharmaceutical industry holds a range of patents for medications, which are exploited in the whole world. Medical products become, with a volume of 350 millions U. S. dollars in the year 2007, one of the most important export goods of the Republic of Cuba.[19]

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Import and export

Cuba has got a weak industrial base. Because of this fact, Cuba's balance of trade demonstrates a pronounced deficit. The deficit of the balance of services is less. One reason for this fact is the high inflow of foreign exchanges from the services sector. To the main export goods belong nickel, medical and biotechnological products, tobacco, sugar and rum. The main import goods are mineral oil, agricultural products and food. In the year 2009 Cuba imported goods and services worth 152. 9 million euros from Germany and exported goods and services worth 36. 6 million euros to Germany. In spite of the embargo by the United States a not inessential part of the import goods (about 538 billion U. S. dollars) comes from there. Most of the needed industrial and consumer goods have to be imported.[20]

Indebtedness

The aggregate debt of the Republic of Cuba is estimated to be approx. 20 billion U. S. dollars in addition to the debts towards the countries of the Council for Mutual Economic Assistance. The strong increase of the world market prices for food, the global financial crisis, the crash of the quotation for nickel and three hurricanes in autumn 2008, led to one of the most difficult financial situation in Cuba. Almost all active companies in Cuba moan currently about high out standings. Since 2008 Cuba disallows official statements concerning this topic.[21]

Currency

In Cuba there exist two official currencies. On the one hand the Peso Cubano, what is actually the domestic currency. National wages and most of the services are paid out in this currency. On the other hand, there exist the <https://assignbuster.com/economy-of-the-republic-of-cuba-economics-essay/>

Peso convertible. This currency is to be seen as a substitute for the, in the year 2005 abolished, U. S. dollar. The main part of the basic needs, Cuba´s inhabitants only can buy in converted currency (" peso convertible"). Because of that, the major part of the population is reliant on payments and transfers from abroad, for example from relatives, who live in foreign countries.[22]

Infrastructure

The Cuban traffic system is timeworn. Since the breakdown of the Eastern block in the 1990s, spares had been no longer available. In the years 2007 and 2008 the government declared this situation as the main focus of investments. The purchase of Chinese locomotives and interurban tour buses led to a relaxation of this problem. In the year 2007, for example, 5, 000 buses out of Chinese production had been imported. Streets are still in a bad condition.[23]

Energy

Like the infrastructure, most of the energy supply of Cuba is timeworn and originate partial from former Soviets times. In the year 2006 the government of Cuba invested 1, 5 billion euros in new electric cable, substations and powerhouses. Moreover Cuba ordered 480 millions energy saving lamps in China for saving electric power. The issue of energy belongs to the most important projects in Cuba. All this measures lead on to a better energy supply in Cuba. As a positive result, the blackouts decreased.[24]

Foreign Trade

Cuba's foreign trade interrelations are still very low. The most important trade partners are Venezuela, China and Canada. Because of the increasing trade relation to Venezuela, also the Cuban foreign trade with Latin America grew. New agreements with Brazil and Mexico result in good chances to new trade relations. Cuba is member of the World Trade Organization, but not of the International Monetary Fund, the World Bank and the Interamerican Bank of Development. Consolidated with Venezuela, Cuba favored a cooperation of the Latin American states as the "Alianza Bolivariana para las Americas" (ALBA). In the year 2008 the number of joint ventures and other forms of international cooperations fell from over 400 (in the year 2003) to 211 and increased 2009 again to 218. In the last declaration of intent, Raul Castro pronounced the prospectively support of economical cooperations with foreign countries.[25]

Economic situation of the Cuban population

Staples and also the prices for water, electrical energy and gas are subsidized by the Cuban state. The health and education system in Cuba are free for all its inhabitants. The main dilemma of the Cuban political economics are the less incentives for performance for the working population.[26]

3 Main challenges facing Cuba today

Constructive to the previously created base of generally information about Cuba's historical and economical background, the following abstract illustrates the current problems and challenges facing the Republic of Cuba today. The analysis spaced on economic concepts, the research of literature, <https://assignbuster.com/economy-of-the-republic-of-cuba-economics-essay/>

but also on gained impressions of the author by visiting the country. After the victory of the independence war, the U. S. imposed the economic embargo in the year 1962. Accompanied by the economic crisis in Cuba and the ruling political circumstances of the cold war at that time, Cuba turned towards the socialistic oriented states. Since 1976 Cuba is already a centrally planned economy.[27]Its economic relations to foreign countries focused until 1990 nearly exclusive to the member countries of the Council for Mutual Economic Assistance. During the period of the Council, the Republic of Cuba get many advantages by this economic relationship. It profited of high subsidies from the Soviet Union, by then the most important sponsor of Cuba. Furthermore Cuba imported most of its food, machines and oil from the Soviets for bargain prices and exported sugar for above- market prices. The production of raw sugar was very efficient at that time. Certainly because of the in the colonial era generated requirement. But more because of the high subsidies by the Soviets. Both facts led to a comparative advantage Cuba ´s towards the other countries in this market.[28]That implies that the comparative advantage occurred not by determining which activities have lowest opportunity cost[29], but rather by the high subsidies. Since 1962 there never prevailed market-based circumstances in Cuba. Until 1990 the whole Cuban economy was distorted by the influence of the Eastern block. The resolution of the Council on the one hand and the breakdown of the Soviet Union on the other hand in the 1990s, led on to a second dramatic economic crisis in Cuba, which continues until today. As a result of the omission of the Eastern market, the GDP of Cuba decreased of about 37 percent. The subsidies of the East stood away as well and also spares for their machines could not anymore be procured. In the year 1992

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Cuba's government decided to develop the tourism sector as a substitute for the no longer applicable external trade with the Eastern block. Additionally the economy had been decentralized for adapting at the requirements of the world market. A market economy and also foreign exchange had been allowed in some niches. At this time Venezuela supported the country with ample aids. These included oil supplies for a obvious less price than the word price had been, credits, investment projects and also the employment of Cuban qualified personnel. And also China afforded Cuba a three- figured million credit among the purchase of Chinese goods.[30]Because of the high wold market prices for nickel, the good results of the tourism, the successful exports of services in the health sector and also the hope, that Cuba's biotechnology and software development became competitive on the international market, the Cuban believed with a optimistic self- assessment to weather the crisis, also without the support of its former confederates. [31]Because of the strong concentration on the tourism sector at this time, the Cuban government disregarded its industry and agriculture. Additional the Republic of Cuba made itself yet again dependent of other countries, in this case of the Bolivarian Republic of Venezuela. And again, the trade between the two countries did not proceeded under market-based conditions. In the year 2008 the prices for nickel collapsed and also the sector of tourism did not generate enough income, because of the expensive supply of the tourists. At the same time, the world market prices for food increased rapidly. As a result of Cuba's failure in the last 18 years to renew its factories and to make investments in its industrial sector, Cuba had to pay a lot of money for food, because of their own not sufficient production of food.[32]For the production of goods and services you always need three

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factors: Land, labor and capital.[33]In Cuba there exist a lot of fertility land, but most of the areas are not cultivated and most of the land lies idle. The contribution of the workers, the labor factor, is insufficient because of the extremely low wages. But higher incomes always come along with a higher productivity.[34]As already mentioned, buildings, equipments, machines and improvement of Cuba are less marked. So, also the capital factor with its manufactured resources is in a bad condition, because of the fact that today most of the facilities are closed or timeworn. As a consequence of all these points, the industry of Cuba is coined by a low productivity and quality concerning the output.[35]Cuba's big problem is its missing and not available capital stock, which affects all of the three described factors. Since the 1990s the Cuban government did not invest in future productive capacity to raise its productivity and the quality of the goods. As a result of that, the goods are not competitive to international countries and the economic growth of Cuba is very less. Without an economic development, in most of the cases, a sustainable and widespread increase in the standard of living is not possible.[36]As a consequence of that, Cuba has to import the major part (about 80 percent) of its food demand. Also the cultivation of Cuba's staple rice sunk dramatically, so that also rice has to be imported.[37]In this context the concept of the trade balance can be attached. A trade balance of a country illustrates the imports and exports of goods within the frame of its balance of payment.[38]Cuba's balance of trade demonstrates a pronounced deficit.[39]According to that, the country has to import more goods for consuming, than it is able to produce. So it can be described as a negative balance of trade. This point demonstrates again, how dependence the Republic of Cuba is on the rest of the world. A negative balance of trade

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means also, that the expenses of the imports exceeds the revenues of the exports. The way is insecure, how to finance all these huge amounts of import goods. Exact data of available funds, credits or foreign exchanges do not exist.[40]As a result of that, the Republic of Cuba is until today situated in significant financial difficulties.[41]Venezuela presents still the most essential ally for Cuba. Venezuela grants Cuba high loans. Because of this, Cuba is situated in an immense financial dependence from Venezuela again. On exchange, Cuba dispatched a lot of its medical and educational professionals.[42]Cuba's economy current bearing columns are on the one hand the by now increasing sector of tourism and on the other hand the transfers of a million Cuban people, living in exiles, to their relatives in Cuba. Estimations indicate that on the way barely one billion dollars are generated. [43]And the Cuban people are eminently dependent on this payments, because of the small wages, paid out in Peso Cuban.[44]The salary of a worker amounts to 15 convertible pesos, that conforms to approx. 13 euros. [45]By way of comparison, one liter gasoline costs converted one euro. But the main part of their basic needs, Cuba's inhabitants can only buy in converted currency (" peso convertible") on the black market. Egalitarian and socialistic minted societies usually have got two fundamental problems: On the one hand, they have to defend oneself against mighty, not egalitarian, hierarchical states. On the other hand, and that is its main problem, the most important propulsion of an efficient economy is absent- the competition.[46]The government of Cuba occupies a monopoly position and acts as producer and employer. Because of that there is no place and chance for enterprising actions and competition. Additional it is provided by the influential military.[47]Army and state assumed since 2003 the control of <https://assignbuster.com/economy-of-the-republic-of-cuba-economics-essay/>

the nearly whole economy of Cuba again.[48]The nationalization of the sections industry, agriculture and infrastructure led on to leverage a price or market system. In such a system supply and demand would determine the goods and the prices at which exchanges will take place.[49]Because of the fact, that the government provides its inhabitants not the goods they demand, the black market developed in course of the socialistic regime. [50]This increasing parallel economy illustrates another big problem for the government of the Republic of Cuba[51], because it gradually loses the control over its population. An extraordinary problem or challenge for Cuba`s economy demonstrates the from the U. S. decided economic embargo, which exists since 1962. Since the revolution in the year 1959 the United States of America had been the most important trade partner. The embargo prohibits every kind of trade, investments, tourism and payments between the two states. Nevertheless the permitted import of food from the United States accounts today about 400 million dollars. But only against cash payment. Furthermore the U. S. determined a lot of administrative regulations. The government of the U. S. also tries to extend the embargo to the trade between Cuba and other third countries.[52]However, under president Barack Obama a approximation between the two states occurred and the embargo has been loosed.[53]Nevertheless this circumstances makes it additional difficult for the Republic of Cuba obtaining for example spares or machines for building up its own economy. Because of the fact, that a market system is deactivated, there is only a low technical and economical efficiency. As a result of no generated profits, the economic growth of the Republic of Cuba is clammed.[54]

4 Forecast regarding the next ten years

One of the last socialistic governments has to ask itself, how to go on.

Currently Raul Castro is the head of government of the Republic of Cuba. It is primarily up to him and his party, the Communist Party of Cuba, which way the country will go in the next decade. Basically there exists two alternatives: Either, Cuba proceeds like it acted in the last 20 years. Or a renewed revolution will happen and the country changes its form of government into a market-based system. Which consequences will come along with both alternatives, the following abstract will discuss. It targets giving the reader a forecast about the development of the Republic of Cuba in the next ten years. At this point it is useful to mention that official information about the future of the Republic of Cuba are very scarce.

Because of this, the forecast on the one hand is based on the conclusions of the analysis of chapter 3 and on the other hand on the author's own opinion regarding this topic.

Alternative 1: Maintaining the socialistic regime

As a first possibility the retention of the socialistic regime comes into question. In this case everything will remain unaffected. Furthermore the Republic of Cuba has to struggle with the effects of the economic crisis in the 1990s. Nevertheless, the Cuban government holds on to its ideology and continues the centrally planned economy also in the future.[55]Under this requirement the attainment of political goals will always have priority over attaining economic aims.[56]By the assumption of office, president Raul Castro announced a structural transformation with the objective to boost Cuba's economy. Up to now, fundamental changes have not been seen.

[57]In course of this, the productivity and also the quality of the goods will stay low and the country will not be competitive to the rest of world. Also the embargo of the U. S. will remain in force or even will be exacerbated. This situation would complicate Cuba's possibilities to purchase food as well as industrial and consumer goods, which they are not able to produce by themselves. The situation of the Cuban population would be worsened and perhaps a lot of them would try to escape. In long- term the government of Cuba can not count on the support of its today's confederates. For example China is situated in political change. It is on the way to a democracy and a social market-based system.[58]Concerning to this circumstances, it will not be able, to support Cuba in the future with delivering goods under the market price. Because then, its own economy would be endangered. And also in Venezuela Cuba cannot confide permanently. In course of the decrease of the oil price in the year 2008, the economy of Venezuela sustained a crack. Most of the independent experts assume a prospective shrinking performance of the Venezuelan economy. The government of the country targets the aim of a economical growth of one percent.[59]Because of this expectations the country perhaps can not lend the Cuban money for all the time. Furthermore, they educate maybe their own professionals and are no longer dependent on the Cuban once. All this points will lead to a creeping, total economical breakdown of the Republic of Cuba. The victims of this will be especially the basic population of Cuba. As long as the family Castro or its confederates rules the country, an end of the socialistic regime is not foreseeable.

Conclusions:

There is a high probability that the Republic of Cuba will run down by maintaining its current form of government and its way to organize the market. Due to the lack of economical partners Cuba will be at its own in the near future, not able to supply its population with the basic needs. Another problem could occur if the embargo of the United States is relaxed or even reversed. A socialistic government will have a hard task to explain the population why they have to relinquish freedom and wealth.[60]In course of this, a revolution by the peoples might be a result.

Alternative 2: Implementation of a market-based system

As alternative 2, it could be imaginable that the Republic of Cuba changes in the next few years its socialistic regime into a market-based system. For the country this transformation would certainly lead to a immediately total breakdown of the economy. Under the current conditions, the Cuban people are not able to work autonomous and in competitive circumstances. If Cuba would open its market, it should implement a competition policy, which stimulates competition among international investors, permits self-employment and promotes small businesses. A creation and protection of monopolies or oligopolies should be discarded by the current policy.[61]In this situation Cuba should nevertheless depend on the abilities of its population. Because Cuba's most important resource are the talents of its highly educated inhabitants. The country should concentrate on its currently strengths in the tourism sector, the education and exporting of its professionals and also the development of biotechnology. The expansion of the biotechnology is also today a economic priority of Cuba, so that the

foundation stone is already laid.[62]The people could be the engine of economic growth, for example by exporting professional services to the world market, not just to Venezuela as a political deal in return for its economical aims. These people, who have already worked on " international" missions, could lay the structural foundation for democratic politics. A political opening on the part of Cuba would lead on to development assistance from the European Union and Canada.[63]The Republic of Cuba will be reliant on the financial helps of these states for accomplishing a reconstruction of their country. If this first step is done, Cuba's economy would pick up, although very slowly but steadily. Perhaps, this situation could improve the relations to the U. S., so that the economic embargo will be, with the diplomatic help of the European Union and Canada, rescinded. In this case, Cuba would get another chance to stimulate its economic growth. [64]

Conclusions:

Certainly Cuba's way towards a social market democracy remains still insecure and is a long way to go.[65]But as soon as the step is initiated, there exist a real chance for the country to develop in a positive way, after the total breakdown is redressed by the development assistance from the European Union and Canada. By this radical transformation, in the long run Cuba and especially its population has got better expectations and perspectives than with the current form of government.