

# Macroeconomic implications of the sinking economy of Cuba

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**University of Zagreb**  
**Faculty of Economics and Business Zagreb**

**MACROECONOMIC IMPLICATIONS OF THE SINKING  
ECONOMY OF CUBA**

Undergraduate thesis

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**Course:** Macroeconomics

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**Zagreb, September 2022**

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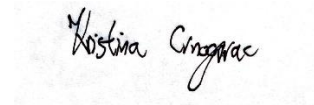
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## **1. INTRODUCTION**

This paper will focus on the Cuban economy and their current state and position in the global market. As they have been hit with rising inflation and the COVID pandemic in the recent years, I will follow the timeline of the most important historical events and focus on the macroeconomic side of the Cuban economy.

### **1.1. Subject and goal of undergraduate thesis**

Main goal for this paper is to showcase the macroeconomic indicators in Cuba through a historical lens and try and understand their newfound economic situation and their struggle to implement democratic policies and fight corruption in a successful way. Through looking at these indicators, I will be able to make implications about their monetary and fiscal policies, economic sectors, unemployment, inflation, human rights; and try and find a better understanding as to why Cuba is stricken with poverty today and could be heading towards a new crisis. Moreover, I will discuss their most important figures that have made an impact on the entire world, such as Fidel Castro and Che Guevara and reflect on the constant corruption and violence that has been present for many years. Cuba, as a mixed command state, run by its government has been under the communist regime for several years and it has most definitely left some excruciating consequences on the development of triumphant macroeconomic policies (Rodriguez, 2013).

Furthermore, my research will give insight in the striking dichotomy of high Human Development Index (HDI)<sup>1</sup> and income inequality when it comes to distribution of wealth between the bottom fifty percent of the public and the top ten percent, with wages being extremely low of about 1200 Cuban pesos or the equivalent of 46\$ per month (Statistics, 2021). When introducing any transitioning economy, it is of utmost importance to look at their interdependence to the rest of the world, and in this case, connections to the rest of Latin America and the former Soviet Union. With Soviet Union and communism collapsing at the

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<sup>1</sup> HDI measures the life expectancy, education, and per capita income of the population to rank countries according to their human development. It has been altered two times so far, once in 2010 and once more in 2020.

end of 1991, it brought great consequences to the countries who now found themselves without any additional help and in need for economic reconstruction. Moreover, I will be including graphical representation of their GDP growth, unemployment, wealth distribution and inflation, with which I will be able to further expand my understanding of the consequences that Cuba faces even in the modern times. Following my research, I will look at the challenges Cuba is yet to tackle as their economists and government officials are now struggling with growing inequality, inflation, and rising unemployment in recent years, as well as the remaining threat of COVID-19 pandemic producing a new wave of national and international lockdowns, which would further harm everyone's economic prospects.

To conclude my research, I will try and give insight and possible instructions on how Cuba should proceed with its current economic state and create a better future for its citizens, while also fighting for a democratic state, filled with equal rights, social and political freedom, as well as more opportunities for them to expand their domestic production and become a bigger force in the global market.

## **1.2. Methods of collecting materials**

To conduct this research, I have looked at materials that seemed trustworthy and up to date with current events. I have browsed through web pages, books, newspaper articles and journals to find the most useful information for this paper. When presented with data, I have used qualitative and quantitative resources to further expand my research and get the best results. The following paragraphs will be filled with real facts I have collected and interpreted for the purposes of this paper and for drawing conclusions from the presented information.

## **1.3. Content and structure of undergraduate thesis**

Firstly, I will introduce Cuba as a small island country and try and explain major historical events that have played a crucial role in shaping the economic and the political climate, all the while trying to unfold all sides of their history, discussing both positive and negative impacts. Then, I will focus more on the economic sectors, with a focal point being the development of tourism as services make up almost 75% of GDP and employ about 65% of the total working population (Hinch, 2019). Moreover, I will discuss the role of domestic and

international trade and the reasons behind the Cuban development and the influence of the government and corruption. The main part of my paper will be oriented towards the economic situation in Cuba through years, as well as observing the macroeconomic indicators and their graphical presentation, especially GDP and unemployment rates with the help of which I will draw conclusions about Cuba's current economic situation. In addition, I will expand my research to the expectations for the future and try and give educated guesses about their prospects in the upcoming years.

## 2. HISTORY OF CUBA

Everybody would agree that the historical developments of Cuba played a huge role in shaping the today's economic climate and in determining the importance of their industrial sectors in the international economy. Moreover, Cuba has been under many political regimes that made its mark on the economy that is present today.

### 2.1. Brief overview of important historical events from the 1800 until the 1940

Ever since 1492, when Christopher Columbus discovered the Americas, Cuba had been under the influence of the Spanish colonizers. With its agricultural sector being entirely led by the slave force, it was very clear that Cuba's economy at that time was dependent on the everlasting slavery (Bethell, 1993). However, this notion was nothing new in the so called "*New World*" as most of the colonizing European countries were counting on the exploitation of the newly acquired territories across the Atlantic Ocean. But this concept had become a different reality as the independence movements persisted in Latin countries after they had been relying on this regime for almost 300 years. The first significant revolt against slavery happened in a French colony, known as Haiti, in 1791 and even though they made a significant impact in their fight against slavery, which helped other countries in South America begin a fight for their freedom, Spanish colonizers had different ideas for Cuba as they had planned to make it the biggest commerce state at that time, fully capitalizing on the slave workforce, as they were almost 35% of the entire population, with 224 268 people being slaves from Africa (Morris, 2014).

Throughout the upcoming years, Cuba did not put much of a fight with their Spanish colonizers as their sugar cane profits were high and foreign exports were booming. Nonetheless, in 1868, a man by the name of Carlos Manuel de Céspedes decided to free his slaves and his actions lead the Cuban people into what is now considered the Ten Years War<sup>2</sup> (Geiling, 2007). All the conflicts further culminated in the determination of slavery in 1875. Although, this did not signify the result for Cuba, as they have started another war against the

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<sup>2</sup> The war lasted from 1868 until 1878 and it was first of three wars that Cuba has fought against the Spanish. For the purpose of this research, I will only mention this one as it was the initiator of the fight for independence.



Spanish colonizers in 1895, which ended up involving the USA and had started their everlasting and reoccurring influence within the Cuban island as Cuba had been named their protectorate in 1898. Soon after that, on 20 May 1902 Cuba finally declared formal independence and was named as the Republic of Cuba with Tomás Estrada Palma as the first president (Cameo, 2007). Even after the in effect independent Republic was declared, USA remained deeply involved in the Cuban affairs and would continue to influence the political environment as they wished. This had raised some concerns and several interventions were attempted, as well as declarations of war, but to no avail.

However, Cuban economy has started to quickly change with the American influence, as it had become more tourist oriented, which was great for their GDP at the time, but there was also a high rise of illegal activities, such as drugs and prostitution. The beginnings of the newly founded Cuban republic were very unstable and people in the highest political roles, holding the most power were mostly engineered to behave on behalf of the people who made them reach such a high rank in society. Moreover, one of the bigger events before the Cuban revolution was the Sergeant's Revolt in 1933 and its main leader was Fulgencio Batista who is known as "*El Hombre*" in Cuban history, as well as one of their most controversial presidents.

## **2.2. Cuba under the influence of President Fulgencio Batista**

Fulgencio Batista y Zaldívar gained political control in 1933 and had been in a powerful position, on and off for 30 years as either a military officer or a president. Even when he was not in a powerful position himself, he made sure that the country was ran by someone he could trust and thus continue to enforce his ideas through so called "puppet" presidents<sup>3</sup>. When he first became president, alongside other four people<sup>4</sup>, it was a poorly managed political structure which involved him only making military choices for most of his five-year presidential term. The only memorable thing from that period was the 1940 Constitution of Cuba that proposed considerable changes to Cuban politics and to the scope of authoritarian power when it comes to presidential activities (Costa, 1998). After this, he resigned for a

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<sup>3</sup> They are leaders of the so-called puppet states, which are dependent upon other countries and other regimes, either for political or economic support, or both. In this case, puppet presidents were completely dependent on Batista and his power and ties to the USA and organized crime.

<sup>4</sup> Also called the Pentarchy of 1933.

short while, until he wanted to regain his presidential control in 1952, which had not been as successful as he had hoped, having lost most of his previous supporters. Batista then organized a “*Coup d'état*” or a military coup that ended with him becoming president before the election of the new one could ever take place, bringing alongside a rising communist party and dictatorship. During his time, the economy of Cuba was booming and there was an increase in GDP from previous years, with the per capita income of Cuba in 1953 being not less than \$430, as well as Cuba being ranked as one of the most prosperous Latin American countries. However, this information should be taken at face value as the government officials who oversaw the documents were under Batista’s control.

Furthermore, unemployment remained high and the new founded middle class in Havana saw little opportunities for employment within their fields, but on the other hand, industrial and agricultural wages increased steadily. He has also influenced the countries investment and production opportunities by giving away most of the land, mines, and ranches to the United States under concession. The main challenges under Batista were the rising crime rates, unstable political regime that had become a police state regulated by those higher in power and used to intimidate, the economic and social erosion of rights of poor people who only kept getting poorer and complete lack of human and civil rights.

Looking over testimonies from the 1950s, it is clear that Batista was loved by the wealthy Cuban people since they were able to continue to be shielded by his government and by the aid he had from the United States, while the poor Cubans reaped little of the benefits he offered, silenced by the terror he seemed to portray during his years as a leader. This conflict of interest between those in power and the rest of the population further escalated in what is today known as one of the most influential periods of Cuban history.

### **2.2.1. Cuban Revolution**

One of the most crucial events in Cuban history is the Cuban revolution; or so called *Revolución Cubana*. The revolution was led by Fidel Castro and his followers from January 1953 until December 31, 1958, which is now celebrated as *Día de la Revolución*.<sup>5</sup> There were many reasons for this to had happened in Cuba, but the most obvious one was Batista’s inability to lead the country and having USA involved in most of their foreign trade and

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<sup>5</sup> Translating to “Day of the revolution “.

policies, which only strengthened the US imperialism in the South (Britannica, 2022). Although, he is not the only person to blame as Cuba had been seeing a constant cycle of corrupt presidents and military leaders that kept resurfacing all throughout the 20<sup>th</sup> century. As Batista continued to lose his power in the eyes of the public, he also became increasingly against the communist party, which cleared way for them to grow with a new leader, Fidel Alejandro Castro Ruz. After Castro's attempt to legally replace Batista as the nation's president through courts of law, he was beaten and unsuccessful which made him start an armed attack with not enough men, after which he was imprisoned for a while; and later fled the country. However, this turn of events had not stopped Castro and he returned with a bigger army and another renowned personality in the Cuban history, Ernesto (Che) Guevara<sup>6</sup>, with whom he had planned alternative military tactics, known as guerrillas<sup>7</sup>.

The following next few years were very strenuous for both opposing parties and the rest of the public, as it involved constant destruction of property, violent threats, arrests from both sides and a constant battle between Castro's new and radical views focused on improving Cuba; and Batista's power hungry and authoritarian stance that had been present for many years already. The US did not want to be involved in the ongoing conflict, they had even stopped supplying weapons and ammunition to the island but was forced to do so once Castro decided to target American people who were employed at the naval base in Cuba called Guantánamo Bay (Spadoni, 2010). The climax of the conflict happened during the elections of 1958 in November when Batista decided to fraudulently put his previously chosen successor as a president, while it was very clear he had not won the elections by majority voting. As Guevara's and Castro's party grew, they were able to quickly seize the power after that and Batista fled the country officially on 1 January 1959, leaving it to be run by a new president Manuel Urrutia Lleó and Castro as a prime minister (Lievesley, December 2004). Castro enjoyed his brief victory and his status as a hero for the Cuban people, as well as revolutionaries across the world, however, he had soon realized that he was left with a very damaged economy who needed financial support, which he was not able to get from the United States. He then chose to rely on several restrictive fiscal policies, such as high taxation rates, as well as a tighter monetary control of their exchange rate (Rodriguez, 2013). As there was rising inflation and complete downfall of the economy, Castro lost his position

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<sup>6</sup> Originally of Argentinian descent, gained the right to "officially be Cuban" after the revolution.

<sup>7</sup> A type of warfare that is quick moving and composed of people who are against the regular military tactics.

as a prime minister for a while, having faced serious consequences from other officials, from the people who wanted the revolution to continue, possible assassinations and from the US.

Returning to power in late 1959, he brought a new ally to the table, as he now had established a trade pact with the Soviet Union, denouncing the US power and becoming a target himself during the planned American attack in the Cuban Bay of Pigs (*Bahía de Cochinos*) that took place April 1961 (Sweig, 2002). However, this had proved unsuccessful, and Castro continued to lead the country as the prime minister for several years ahead.

### **2.2.2. Special period in Cuba**

In the following years, Cuba stayed loyal to the Soviet Union and had received substantial financial help in return for their cooperation, while the Soviet Union reaped benefits of low-cost trade and production of agricultural products in Cuba. This new regime meant that Cuba was now ran as a socialist state under the Communist party with a strong emphasis on creating common ownership structures and further establishing good healthcare and education standards.

The first major economic crisis occurred during the Great Depression (1929-1933) and hit Latin America, as well as Cuba, as investments dropped, and panic spread quickly from the USA into the other countries across the world. However, consequences were far lesser than those in Europe and USA and there are books and scholars who believe that the socialist regimes and government intervention helped combat any major catastrophes (Knight & Drinot, August 2014). In the upcoming years, nationalization of small business and economic stagnation were constantly prevalent in the newly founded state, and as sugar harvests grew scarcer due to changing environmental issues, Cuba has yet again found itself on the brink of the total collapse, which was worsened further by the fall of the Soviet Union in 1991; and every country under their wing had to figure out how to fight for themselves when it comes to the international market and ration food and goods without having discounted prices. Furthermore, it was estimated that by 1992, Cuba's economy had declined by over 40% in under two years, with major food shortages, widespread malnutrition, and a lack of basic goods (Brundenius, 2002). With these circumstances, Cuba entered, what is known as Special

Period<sup>8</sup> or “*Período especial en tiempos de paz*”, an era of economic decline and depression, lasting from 1991 until the early 2000s. The period was characterized by constant reductions and shortages, particularly food and oil shortages. Cuba’s industry, mining and agricultural sectors also suffered tragic losses of over 400% in their share of GDP, respectively (Brundenius, 2002). This period evoked large scale disruptions in transportation, employment opportunities, violent protests, fiscal deficit, and foreign currency accumulation and ended up with growing famine and high poverty rates across all social classes. All was not lost though, as Cuba now turned to tourism and Western population to increase its GDP and was partially successful in broadening their economic sectors and opening more to the public, since illegal activities continued to grow. To try and save the devastating economic situation in Cuba, Castro had developed a partnership and a trade pact with newly elected Venezuelan president Hugo Chávez, where they would trade oil and medics between their countries, which turned out to help both, and Castro managed to raise minimum wages for industry and agricultural workers (Rodríguez García, 2011).

### **2.2.3. Economic position after the revolution and the Special Period**

As Cuba managed to recover after its prevalent crisis, the government was on the brink of the collapse when it came to their political ideologies. The people realised that communism brought them only difficulties and the government had a choice to make between economic growth, development and supporting market forces or continuing with their communist ideologies while the economy stagnates and there is always another crisis waiting to happen (Smith & Walter, 2016). Even though the accompanying consequences were brutal to begin with, however as a transitioning economy, Cuba had placed itself in a much better position than the rest of the Comecon<sup>9</sup> countries, especially when it comes to social outcomes, specifically education and health care (Cooper & Orduñez-Garcia, 2006).

Although, its unstable and constantly changing political regimes were significantly more influential than in the rest of the Latin America, mostly due to its size, thus further hindering any potential economic development. In the following years, Cuba managed to focus on their education and health care, as well as sugar exports and crude oil reserves that helped them

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<sup>8</sup> Meaning behind this phrase would be that the situation was so dire it might require war practices, even though the country itself was not under any “real” attack.

<sup>9</sup> Comecon, also known as CMEA (Council for Mutual Economic Assistance), is an organisation, established in 1949 and comprised of ex-Soviet Union bloc countries to help them recover and further develop.

regain their position and strength and stabilised the economy. During the financial crisis of 2008, Cuba was not spared in the crumbling of their banking and financial system, which was worsened by their dual currency and fixed exchange rate regime. This had further created complications when it came to the influx of foreign direct investment, accumulation of more international debt and new credit limits were enforced (Alejandro & González-Corzo, 2010). This had set pace for the Central Bank of Cuba to announce deep institutional and structural changes that would help the monetary situation get better in the future. However, in the following years, the Bank focused more on the dollarization and euroization and the policies were not implemented correctly, leaving the monetary situation in the same position as previously, needing a substantial change and reform. Then, the Cuban government decided that their best bet is to make the tourism their most relied on economic sector, which did pay off in the end, but not with some negative influences on the population and their standard of living as well as environmental consequences and disfiguring of national heritage (Sato, 2016).

### **2.3. US embargo against Cuba**

One of the more pressing underlying issues has been the dissolving relationship of Cuba and the United States. As I have noted previously, all throughout the history of Cuba as we have come to know it today, there has been a “strange”<sup>10</sup> tie with the USA. Some presidents ended up using that tie more strongly than the others, with the prime example being President Batista, but more strikingly there has been a deep-rooted involvement of the US administration when it came to all the political and economic decisions made in Cuba over the span of a hundred years (Augustin, 2022). However, ever since Castro came into power, USA cut all their ties with the Cuban government and refused to get themselves involved in any international relations as they were strongly opposed to their alliance with the Soviet Union and the growing fond for communism.

The trade embargo<sup>11</sup> was imposed on Cuba indefinitely in 1958 and has been quite strong even during the Special Period. At that time, USA had been the largest exporting partner of Cuba and it ended up taking quite a toll on its economy, until government officials in Cuba

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<sup>10</sup> Strange, as in difficult to properly understand the positives and negatives of both sides and conclude all the reasons behind such a relationship, open to interpretation by many economists.

<sup>11</sup> Trade sanctions or penalties imposed by one country, individual to another to affect ones international and domestic power and influence them economically and politically in either a positive or a negative way.

decided to turn their attention to European countries as well as neighbouring Latin countries. The era of this embargo can also be presumed as a silent war on Cuba as it brought difficulties in health care, provided less clean water resources, and overall made the population less of an international player in the global market (Drain & Barry, 2010). This ban was very strict and ended up lasting for over 50 years, during presidents Eisenhower, Kennedy, and Carter, until President Obama decided to ease the ban in 2014, stating: *“Our shift in policy towards Cuba comes at a moment of renewed leadership in the Americas. Let us leave behind the legacy of both colonization and communism, the tyranny of drug cartels, dictators, and sham elections. A future of greater peace, security and democratic development is possible if we work together — not to maintain power, not to secure vested interest, but instead to advance the dreams of our citizens.”* However, this union was short lived as President Trump ended up worsening the relationship with Cuba and continued to impose sanctions on the trade during his years in the office. Moreover, ever since Biden presumed the presidential role in 2020, there have been no significant advancements in the relationship between Cuba and the USA (Augustin, 2022).

### **3. ECONOMIC PROFILE OF THE COUNTRY**

Cuba, as an economy, has been mostly export oriented throughout the history, with domestic needs taking the secondary position. This dependence has started with Spain in the colonial times, continuing with United States during the First Republic of Cuba, expanding with the spread of Cold War to the Soviet Union and finally, in recent times, with Venezuela (Mesa-Lago C. , 2019). As the government leads the economy and favours foreign investment more than the domestic production, there is a clear need for a reform in all their industry sectors.

#### **3.1. Main economic sectors and their importance**

It seems as if though Cuba's economic development and production follow a discernible pattern with its mostly difficult and rigid past political influences. Main Cuban economic sectors have been sugar, petroleum, tobacco, construction, nickel, steel, cement, agricultural machinery, and pharmaceuticals for quite some time now (Gale, 2021). Furthermore, their mineral and steel industry continued to further develop purely because of the Fulgencio Batista's loss of power in the 60s, however he was the sole reason why Cuba continued to develop their agriculture as he believed that is one of the most crucial economic sectors for any country. Cuba's economy has always been closely tied to their harvest of sugar and the prices of sugar on the international market, that is why we sometimes can see short economic booms and consequential GDP growths of around 3 percent during the 20<sup>th</sup> century as there were significant sugar booms at times (Mesa-Lago C. , 2005). However, during those economic booms in the beginning of 20<sup>th</sup> century, Cuba has witnessed a rise in organized crime as well as welcoming more American tourists who were mainly focused on illegal activities such as gambling and prostitution, and not at all worried about the real natural beauty of the island. This image mostly negatively affected the capital city Havana, as it was dubbed as "*the Latin Las Vegas*" (Britannica, 2022).

When it comes to the industrial sector, Cuba has discovered some new high quality oil deposits that helped expand the domestic production and consumption in 2005 (Mesa-Lago C. , 2020). Overall, the economic sectors of Cuba have seen a shift over the years, with the main emphasis on the resources that could bring great value to the growth of GDP and the ones that could be exploited and further sold on the global market.



### **3.2. Influence of the government and spread of corruption**

Corruption in Cuba has been growing ever since the USA got involved in the decision-making process of the Cuban government, from early 19<sup>th</sup> century. Since the American officials in Cuba often got to occupy some of the most well-paid positions, Cuban officials took this as an opportunity to accumulate wealth for other wealthy people and continue to exploit the poor and the working class. This situation only further escalated during their fight for freedom and during World Wars. Bribes, lack of integrity, police brutality, insider information trading, fraud, illegal networks; are just a few examples of the ways the government took advantage of their high-ranking positions. However, it is somewhat unclear whether Cuba managed to fix this situation during the communist regime as the measurement of such statistics in a structure like that is very strenuous and often yields the wrong results (Sáenz Rovner & Davidson, 2008). Many believe that a corrupt government goes against everything a socialist leader would condone, although some scholars argue that corruption in Cuba goes very far, and it is ingrained in the highest and most powerful institutions that there is no way in eradicating it.

The latest information comes from the 2021 Corruption Perceptions Index (CPI)<sup>12</sup> which ranked Cuba as 46, which is the lowest corruption levels of any Latin American country (Transparency International, 2020). Moreover, Cuba has entered 21<sup>st</sup> century hopeful and ready to combat malpractices that have plagued its government for centuries through focusing on accountability and transparency as one of the main pillars on their road to a successful and democratic country.

### **3.3. Current economic situation**

With Raul Castro (Fidel Castro's younger brother) taking the leading position in the country in 2008, there have been many changes in the political structures and in the economic environment that have helped Cuba reach somewhat desirable living standards and employment opportunities. Even though he comes from a communist background, over the years, Raul adopted to the free-market policies and took on a more egalitarian role, at least in

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<sup>12</sup> Measures the perceived corruption of a government on a scale of 0 (highly corrupt) to 100 (very clean). Also, not to be confused with another measure called CPI or Consumer Price Index.

the eyes of the Western world. He implemented the Economic and Social Policy Guidelines in 2011 made to promote GDP growth and foster economic prosperity (Feinberg, 2018). The guidelines proved to be triumphant in the private sector field, where small and medium enterprises took the lead and managed to create employment opportunities, there were also some institutional changes and the government managed to lower the international debt. Furthermore, the Central Bank of Cuba has welcomed the governments dollarization policy back in 1993, with further focusing on the idea of a potential Euroization option in the near future, instead of focusing on reinforcing the role of the Cuban peso and making their monetary policies stronger, yet far more difficult to implement (Ritter & Rowe, 2003).

Moreover, when we look at the following graph of economic sectors from 2021, we can see that as with every developing country today, the amount of dependence on agriculture shrunk drastically from previous years and the main emphasis shifted to the services, especially tourism related ones. Even though Havana has been one of the most popular Caribbean places for visitors, especially during the early 1930s, tourism has shifted a lot since its expandatory policy in 2007 and helped significantly in the creation of a new, prosperous Cuban economy.

Moreover, the number of visitors to the island, doubled from 2007 till 2017, due to the increasing number of interested tourists from Europe (Wilkinson, 2008). However, not all the country welcomed the growth of tourism as it created the so-called *tourist apartheid*<sup>13</sup> that also has ties to Batista's ideas of a tourist country, where there were far greater negative consequences than positive ones, when it came to increasing tourism. Furthermore, tourism has brought to attention all the strenuous consequences for the local public in modern times, such as environmental degradation, poor transportation opportunities for locals, radicalized Western views and many more. In addition, their practices were oriented towards the so called "Cuban-style" growth model<sup>14</sup> of the tourism sector that could have had potential applications in other fields, but this project has been left on hold ever since Raul Castro retired (Feinberg & Piccone, 2014).

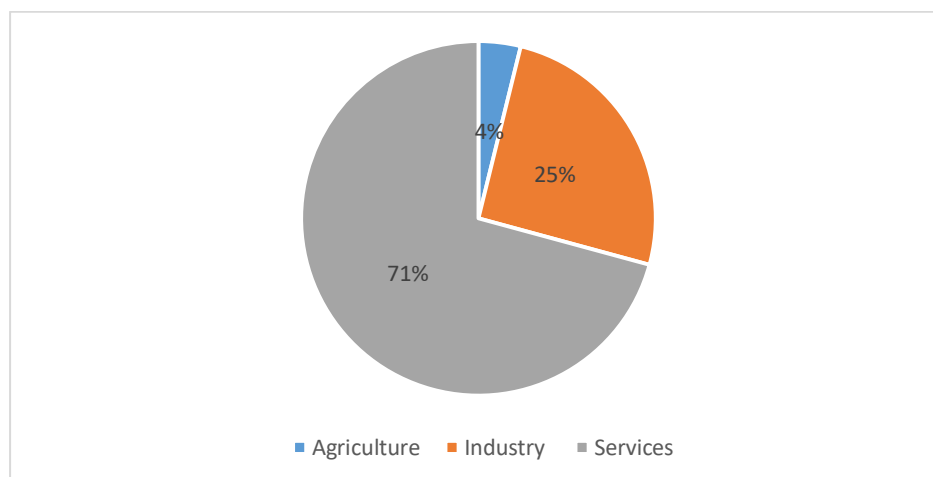
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<sup>13</sup> A term used to describe growing disparity between the local population and arriving tourists, especially when it comes to differences in the purchasing currencies. In this case, large disparity in the use of the dollar and the local currency peso.

<sup>14</sup> Name for collaborative efforts among state companies, national and international entrepreneurs aimed at advancing the Cuban economy.

## Graph I

Economic sectors in Cuba, as a % of total GDP in 2021



Data from database: International Marketplaces- Cuba, 2021

As Raul Castro was replaced by Miguel Díaz-Canel in 2019, the question of the economic development and better working macroeconomic policies was once again reopened. Cuban people were ready to leave behind the false promises of their previous leaders and continue to work together towards a more hopeful economic future. However, with their economy still withering away, unemployment being high, police still running the country, rampant protests from both sides, and the new threat of a COVID-19 pandemic approaching, Cuba has continued to struggle with some unimaginable consequences.

### 3.4. Impact of the COVID-19 pandemic

Cuba is one of the Latin American countries that has coped quite well with the COVID-19 pandemic and their response has been fairly successful, at the very beginning at least. They have combated the pandemic with early warnings to the public, mitigation policies and by keeping a strong medical surveillance of the affected people, making sure they stay isolated and get the help they need (Burki, 2021). Moreover, they quickly reacted when it came to distributing vaccines to the population, offering more than enough doses, first for the elderly and immunocompromised and then to the rest. They now have a little over 85% of the population fully vaccinated with their homegrown vaccines (Burki, 2021). Their Centre of

Molecular Immunology (CIM) in Havana ended up developing and providing the public with the so-called Soberana-2, that has passed all the stages of testing and was deemed as one of the most important discoveries for as small of a country as Cuba (The Economist, 2021). Although beneficial and influential in their country, the challenge remains when it comes to distributing it across the world as there are many other countering vaccines that are readily available, and people seem to rely on more.

Furthermore, if we were to look at the graph below, we can see that there was a significant increase in cases in the middle of 2021, where there were almost a thousand cases each day (Mas Bermejo, Sánchez Valdés, & Valdivia Onega, 2020). This influx of new cases coincided with the rest of the world, as we could see an increase in cases of almost any given country. Since then, the numbers steadily stayed on the same linear scale for the rest of 2021 and so far, all throughout 2022. Cuba has even offered to help neighbouring countries and those in need of more medical help during these troubling times, with one of their public health officials abroad stating: *“The international health programme is about solidarity; Cuba believes that healthy populations are the bedrock of global society, and they want to support that any way they can”*. UNICEF Cuba has also played an influential role in helping acquire necessary medical equipment and medication, while also providing additional care and support for nursing homes, infants and their mothers, and people with autoimmune diseases who need better tracking and supervised care in case they come into close contact with the virus (Muñoz, 2021).

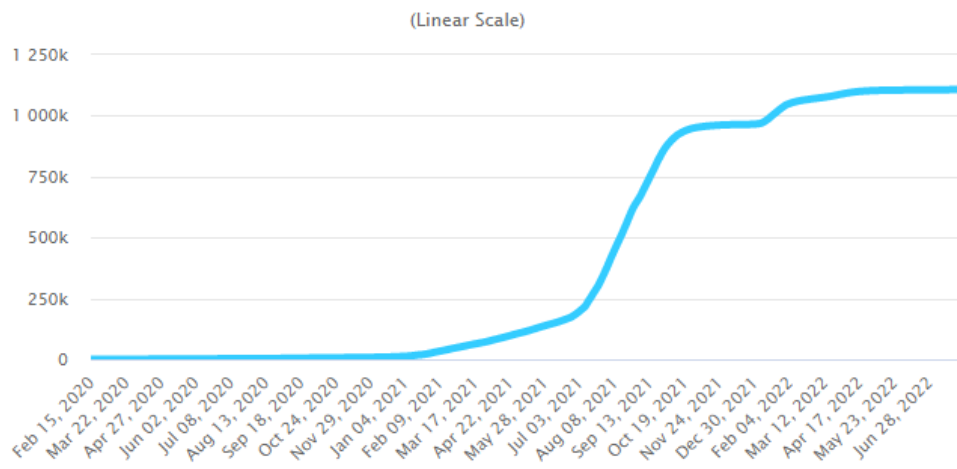
However, Cuban health care system has struggled to support this level of demand and it is increasingly difficult for them to maintain the standards they have displayed so far. Moreover, with the announcement of new financial and international support from the government<sup>15</sup>, we can only hope they end up back on top with their policies, promoting the country’s high life expectancy and advanced health care practices (Pérez Riverol, 2020). Despite this optimistic turn when it comes to their health care, Cuba has been hit quite badly with the economic consequences, with their imports shrinking massively, lack of production and travel bans, all contributed to the shrinking of the economy by almost 12 percent (Mas Bermejo, Sánchez Valdés, & Valdivia Onega, 2020).

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<sup>15</sup> For reference, this support has been announced in 2020, but as of August 2022, there are no new advancements.

## Graph II

Total coronavirus cases in Cuba, linear scale



Data from database: JHU CSSE COVID-19 Data

## **4. MACROECONOMIC INDICATORS FROM 1950 TO 2022**

Cuba has faced immense challenges throughout years, and I have looked at their most troubling and most rewarding times in history, having mentioned the most notable influences they had had on the economy. Now, I turn my attention to the graphic representation of the macroeconomic side of the history and the present projections with the help of which I will give my own conclusions and follow the previously stated historical timeline while I go through the most important indicators.

### **4.1. Growth of GDP**

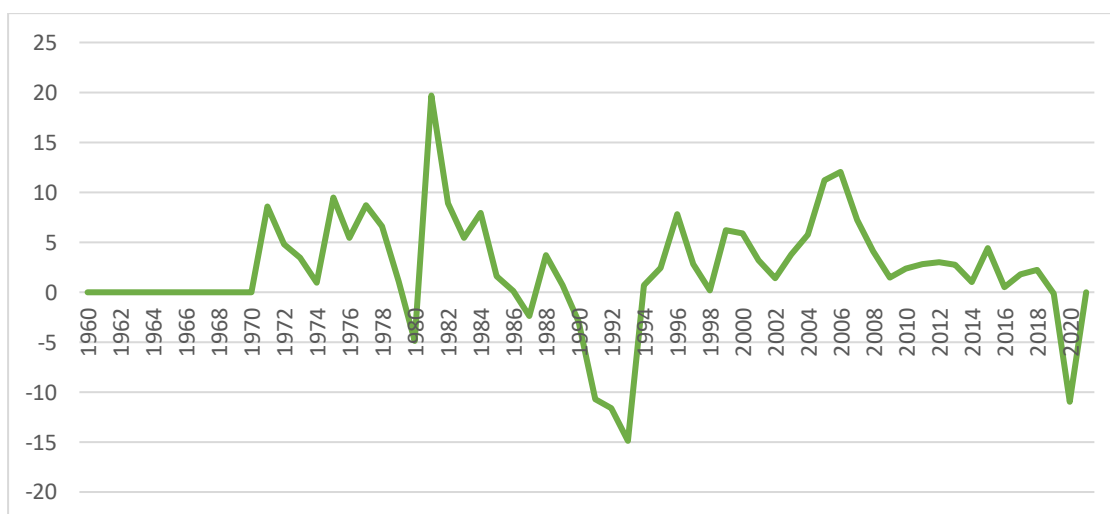
As it is visible on the graph below, Cuba's GDP growth rate has seen many changes since the Cuban revolution. According to the official reports, there are no available data for the year 1960 until 1970 as there have been speculations of altering the financial and economic statistics during Castro's leadership (Anderson, 2021). What followed that, was a short period of an economic boom and growth rate of almost 10%, which was because of growing ties with the Soviet Union, high prices of sugar and further strengthening the position of the Cuban economy in the context of the whole Latin America. Then, Cuba got involved in foreign affairs and wars where they helped liberate colonized countries, which meant their economy was going through a period of stagnation after 1974. After that, there were no significant changes, except for the year 1981, which experienced a growth in GDP of almost 20%, which was mainly due to the discontent with the way the economy had been run had dropped significantly and due to the implementation of so-called "small-scale capitalism" changes (Devereux, 2020). The conclusion from that period was that Cuba's economic prospects were greatly affected by the revolution, as living standards dropped over the years and the economy mostly stagnated as the annual growth was a little over 0.6% which is not on par with the situation that was present before the revolution.

Moreover, one of the most significant drops in economic activity happened in 1990 when the Soviet Union collapsed and left Cuba independent and not able to fight with the economic depression and transition at the same time. In addition, prices of sugar became very unmanageable for Cuba's frail economy at that time and the domestic production could not be saved from all the negative outcomes. Furthermore, as agriculture had always been a big part of Cuba's economy, specifically their exports when it came to sugar canes, mostly while

under the control of Spanish, their GDP growth was also influenced by catastrophic environmental issues. One of the most overwhelming years for harvest was 2005 when Cuba faced hurricanes, the worst drought in the last century and the electricity crisis (Oshima, 1961). Despite that, Cuba managed to avoid a bigger crisis and achieve the growth of around 5% during that period. There was a drop in the 2008 as there was a widespread financial crisis, however Cuba didn't achieve negative growth and their Central Bank was the one that was left with the most severe consequences that were becoming more visible only in later years, as their monetary policies at that time caused further collapse (Marc, 2008). In the years that followed, there has been a steady growth averaging around 5%, and the last notable drop was in 2020 due to the COVID-19 pandemic, which ended up further harming the domestic production and consumption. In 2022, there has been a slow economic recovery at 4% (Frank, 2022).

### Graph III

GDP growth in Cuba (annual %)



Data from database: World Development Indicators

## 4.2. Unemployment rates and living standards

Looking at the graphical presentation through the years, we can see that unemployment was a big concern during the first half of 20<sup>th</sup> century, with the number reaching almost 9%. However, during the year 2005 there was an unemployment rate of only 1.9% which was virtually full employment (Forde, 2021). Since then, the situation managed to stabilise a bit, until 2019 when unemployment continued to cause significant damage to the economy, accompanied by high inflation. When it comes to the HDI index during 1950s, many scholars argue that the high figure of 0.815 is not a consequence of the revolution, but simply an indication of a country that was on the right track of economic development, which its chances ending up ruined with the rise of socialism (Ricón, 2016). Furthermore, at that time, Cuban economy was classified as one of the most prosperous Latin American economies, and its employment rates were 50% of the rates of European countries.

Moreover, there is an upside when it comes to living conditions in Cuba, as there have been several improvements through the years such as more women in the higher paying positions, lower infant mortality rates, higher education standards, easier way of transport and with that more prevalent tourism practices. Although, Cuba is not a poor country “by definition”<sup>16</sup>, wages remain on the lower side, with highly educated people, such as medics, earning about 30\$ per month (Alvarez, 2021).

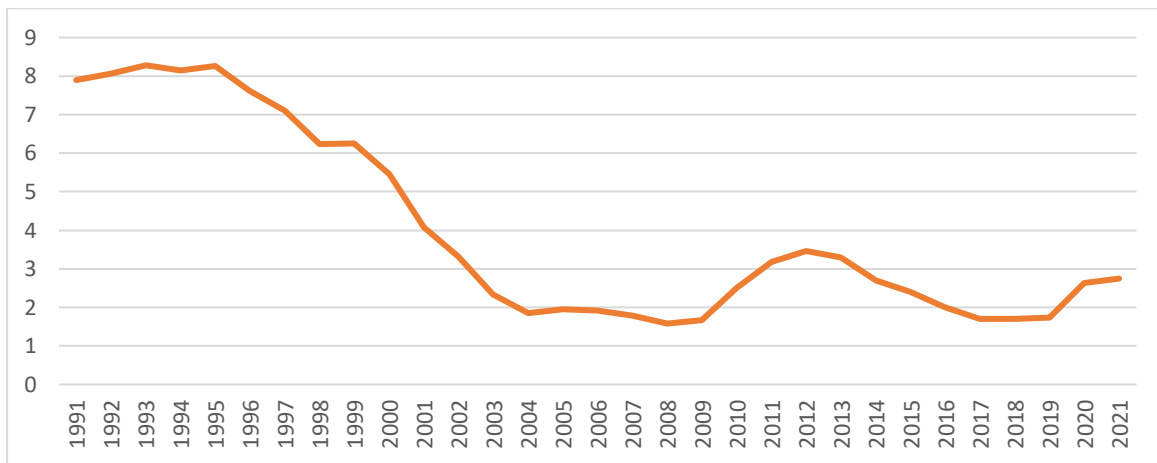
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<sup>16</sup> In reference to UNESCOs absolute poverty definition.



Graph IV

Unemployment in Cuba, total (% of the total labour force)



Data from database: World Development Indicators

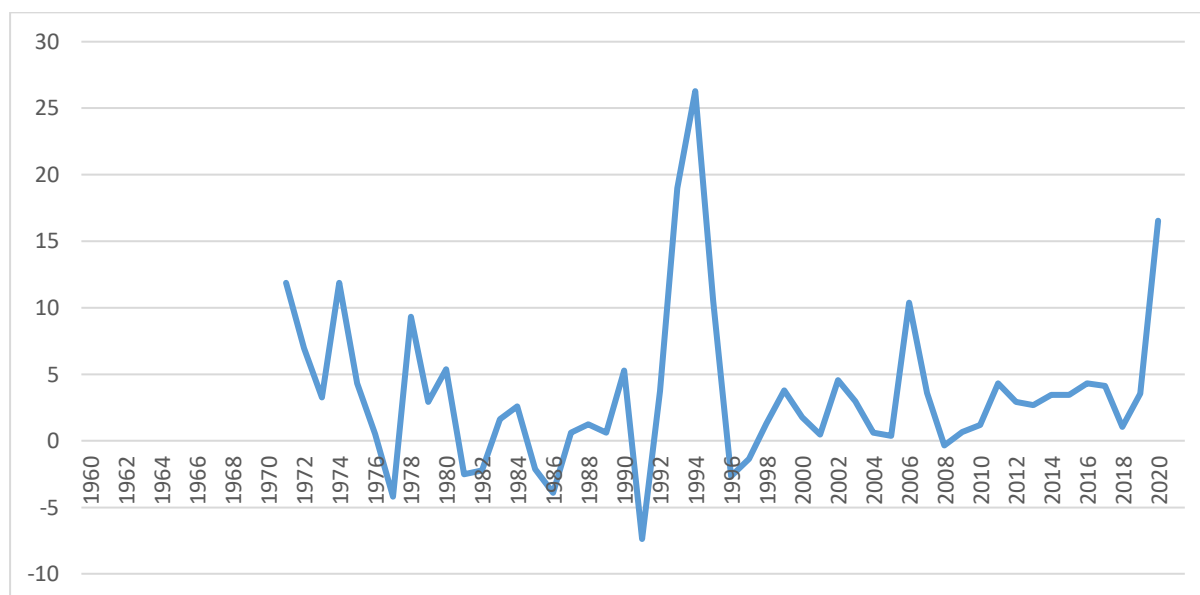
### 4.3. Inflation and CPI

As there is no information available for the period after the Cuban revolution, I have found multiple sources that state the inflation was slightly on the rise after Castro seized power, however, the rise was negligible as it was around 0.5% on a yearly basis and prices were mostly under constant rates because of government supervision (Hernández-Catá, 1990). Moreover, the Special period of Cuba, as I have stated previously, was especially concerning in all economic aspects, as well as when it comes to inflation, with the rate of inflation reaching a record 26.28%. After that, there was a stabilization period, where inflation was under control for a while, until 2019, where we can notice the beginning of a new sharp incline.

Nowadays, inflation is on the rise again and many believe that it was potentially offset by the new government officials because early on in 2020, there was a new monetary reform ready to be presented by the current president Diaz who stated, *“The reform will eliminate a complex dual currency and multiple exchange rate system that masked a host of government subsidies, pegging the remaining peso currency at a single rate”* (Marsh & Acosta, 2020). Moreover, inflation hit a new maximum in February 2022 of 77.3%, as measured by the CPI, which I will continue to discuss in the following chapters (Cuba inflation rate, 2022).

Graph V

Inflation in Cuba, annual % (GDP deflator)



Data from database: World Development Indicators

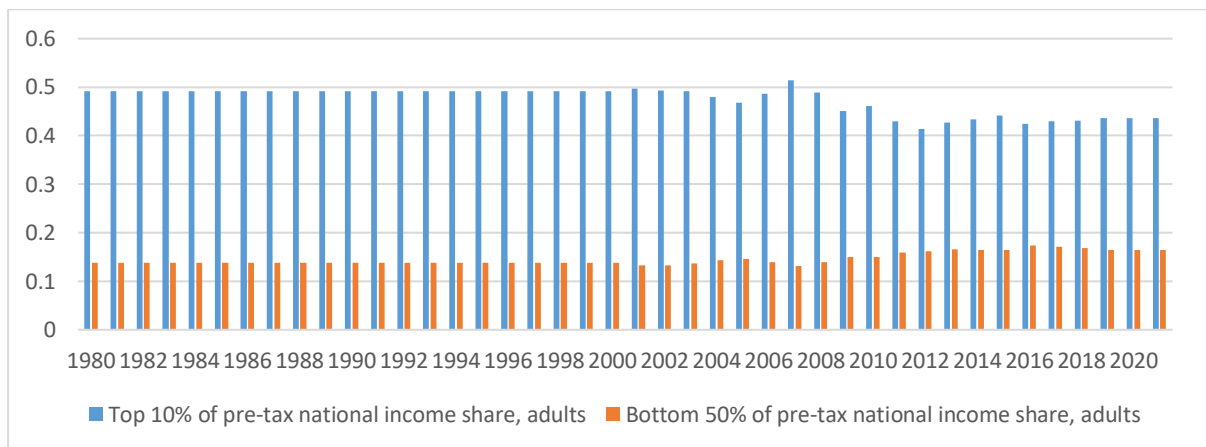
#### 4.4. Income distribution and inequality

Inequality issue in Cuba is a growing concern, but it is not a new phenomenon. As it is visible in the graph attached to this chapter, the wealthy individuals have been in far greater positions than the lower half of population for quite some time now. Although, there are no official reports of data before 1980, there are many scholars who recall the inequalities that were present at times of previous presidents, especially Batista (Archibold, 2015). However, this situation briefly changed after the Cuban revolution, not in the top ten percent, but there was a slight increase in wages in the bottom fifty, as theoretically there was a nationwide call to treat all people equally, respectfully and with equity. In practice, things remained more or less the same. In addition, as Cuban government continued to make way for more liberating economic policies, these inequalities became far more visible. As the accumulation of wealth is not possible under the Cuban current regime, it is quite difficult to discern the inequalities by only looking at the income of individuals, but rather by doing a thorough analysis of labour relations, taking into consideration that most of the workers are employed by state-owned firms and institutions (Everley, 2019). These inequalities have also influenced the

need for social reforms as more and more people end up on the brink of poverty, with workers not being able to support themselves only by the wage they get, but are growing more reliant on remittances from abroad, especially from the USA. Since their relationship with the American government has not been the greatest during the history, Cuban authorities ended up passing high tax requirements for the people who do receive payments from abroad, which further hinders the growth opportunities (Mesa-Lago C. , 2015). Furthermore, the inequality issues only bring light to the rest of the social and political problems Cuba has been facing and are in dire need for resolving as soon as possible.

### Graph VI

Wealth distribution of Cuba, 1980-2021



Data from database: World Development Indicators

## **5. EXPECTATIONS FOR THE FUTURE**

The economic situation in Cuba is getting worse as its predicted by their economists due to the lack of government reforms, reduced financial support from other Latin American countries; especially Venezuela, and disciplinary measures from the US administration, while also struggling and adapting to the growing immigration problems (Mesa-Lago C. , 2021). As a result of these actions, there have been several visible and severe consequences on the Cuban population which I will describe in more detail in the following paragraphs.

### **5.1. Challenges Cuba is yet to tackle**

When it comes to challenges that the Cuban authorities should handle, there are plenty that have come to surface in the last five years, but it is quite clear that they are deeply rooted into the history that follows Cuba and its people. Firstly, as Cuba made its economic foundation primarily on tourism and exports over the last few decades, they were severely damaged when the pandemic hit, paired with the continuous US restrictions, new monetary reforms, and the government reverting to their own socialist and restricting policies, made the country's population outraged and there were mass protests organized during 2021 (Mesa-Lago C. , 2020). Furthermore, with the monetary reform, which weakened the Cuban currency, came higher than ever inflation, with many reports believing that it may exceed 400% in the upcoming years (Salazar-Carrillo, 2021). All of these factors only pushed the economy further into the inevitable downfall as the unemployment rates started to rise again and there was a shortage of necessities, with the accompanied shrinking of all the economic sectors. Also, the government is not giving any real solutions to its people which causes further outrage and makes people feel more hopeless about the future. Moreover, scholars who have reviewed the current situation have justified fears that Cuba may be heading towards their worst crisis yet, even more severe than the one after the fall of the Soviet Union (Mesa-Lago C. , 2021).

### **5.2. Ways they can improve**

To improve, the government of Cuba would need to implement deep structural and political reforms, that would include all economic sectors and all institutions. The fight against power

abusing and corruption and would have to be done from the inside and it would entail a lot of powerful people losing their positions, which I don't think is possible any time soon. To offset the increasing unemployment and inflation, there should be an increase in wages, as well as tax reforms, which would generate a much larger labour demand and considerably lower the hit of high level of prices, while also fostering the need for innovation. Furthermore, the people of Cuba should continue to fight for a country that is led by just individuals and the ones who will understand the importance of young people. Only in unity can the real changes be done, political and economic.

## 6. CONCLUSION

Looking at the macroeconomic indicators of Cuba, we can state that the economic situation right now is not the greatest and needs a significant amount of intervention by the authorities. However, its citizens have been through a lot of economic changes and Cuban government has found itself paralyzed and not sure how to move on from their current challenges; or even if they want to change substantially. To revisit, we have been introduced to the greatest historical events that have influenced Cuba as much as the rest of the world, particularly the rest of the Latin countries, starting with the abolishment of slavery, all to the famous personalities who continue to impact and inspire young revolutionaries all around the world. Moreover, the GDP growth is not of any concern, as they have had quite considerable growth periods. The biggest challenge for them remains the growing interdependence to other countries as they struggle to finance themselves and promote investment opportunities within the country, with especially concerning being the influence and meddling of the USA and their authorities. Finally, we can only speculate if Cuba is truly ready to end up on the right track to a successful and flourishing economy that is led by democratic decision making, but it does show a great potential to do so. There is no easy way out for the Cuban public, but the recent GDP per capita growth shows that maybe there is a reason for them to remain hopeful.

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*“Our shift in policy towards Cuba comes at a moment of renewed leadership in the Americas. Let us leave behind the legacy of both colonization and communism, the tyranny of drug cartels, dictators, and sham elections. A future of greater peace, security and democratic development is possible if we work together — not to maintain power, not to secure vested interest, but instead to advance the dreams of our citizens.”* (Moore, 2016)

*“The international health programme is about solidarity; Cuba believes that healthy populations are the bedrock of global society, and they want to support that any way they can”* (Pérez Riverol, 2020)

*“The reform will eliminate a complex dual currency and multiple exchange rate system that masked a host of government subsidies, pegging the remaining peso currency at a single rate.”* (Marsh & Acosta, 2020)

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