



CUBA

Rank: **153**
 Score: **4.75**
 Category: *Repressed*

Trade Policy	5	Government Intervention	5	Foreign Investment	4	Wages and Prices	5	Regulation	5
Fiscal Burden	3.5	Monetary Policy	5	Banking and Finance	5	Property Rights	5	Black Market	5

With Cuba's 75-year-old dictator Fidel Castro becoming more feeble with age, the fundamental question is how long (certainly in the near term) whoever eventually succeeds him can continue to pump life into the regime's historically rigid Communist policies without making serious market reforms. Despite the fact that Cuba has amended its laws to allow rudimentary self-employment and has encouraged state enterprises to become more self-managed, the state retains control of the means of production. Workers for the regime receive housing and food subsidies but little more than \$8 to \$20 in monthly wages. Cubans who count on remittances from U.S. relatives, receive tips as help in tourist facilities, or are self-employed as vendors or bicycle repairmen make more but on balance also pay stiff taxes. On April 18, 2001, the United Nations Commission on Human Rights voted to condemn Cuban human rights practices; Castro responded with a series of increasingly strident outbursts against Cuba's critics, labeling Argentine Foreign Minister Adalberto Rodríguez Giavarini a "yankee bootlicker," Canadian Prime Minister Jean Chrétien a "fanatic," and the Costa Rican government "a hypocrite of the devil." The combination of such counterproductive rhetoric, the lack of any effective rule of law, and constant arrearages to creditor nations continues to make Cuba a dubious destination for investment. Even after Castro's demise, and assuming an eventual post-Castro transition to a fledgling market economy and elections, Cuba's efforts to rebuild will be hampered by outdated models, habits, and customs.

TRADE POLICY

Score: 5—Stable (very high level of protectionism)

The Castro government inspects and approves all imports. In many cases, customs officials also confiscate imports (especially scarce goods like electronics) for their own use, and such corruption enjoys official sanction. The effect is to bar most imports. Perhaps the biggest impediment to trade is Cuba's obsession with protecting its borders, which makes it nearly impossible for merchant ships to bring imports into the country. Although Cuba's economy is closed to foreign trade, the government has opened four free trade zones—three of them close to Havana—since 1997. These free trade zones give greater tax and tariff concessions than are permitted by the foreign investment ministry. According to the Economist Intelligence Unit, however, "the level of activity in these zones is not sufficient to make a significant contribution to the external accounts."

FISCAL BURDEN OF GOVERNMENT

Score—Income and Corporate Taxation: 3.5—Stable (high tax rates)

Score—Government Expenditures: n/a

Final Score: 3.5—Stable (high cost of government)

Cuba's top income tax rate is 50 percent; the average taxpayer faces a 10 percent tax rate. The top corporate tax rate is 35 percent. (Data for government consumption or government expenditures are not available; therefore, Cuba's fiscal burden of government score is based solely on its tax rates.)

Scores for Prior Years:

2001: 4.75 **2000:** 4.75 **1999:** 4.85
1998: 4.85 **1997:** 4.85 **1996:** 4.85
1995: 4.85

Population: 11,178,000

Land area: 110,860 sq. km

Major industries: sugar, petroleum, food, tobacco, textiles, chemicals, paper and wood products, metals (particularly nickel), cement, fertilizers, consumer goods, agricultural machinery

Major agricultural products: sugarcane, tobacco, citrus, coffee, rice, potatoes and other tubers, beans, livestock

GDP: n/a

GDP growth rate: 6.2%

GDP per capita: n/a

Exports of goods and services: n/a

Major export trading partners: Russia 21.1%, Netherlands 13.9%, Canada 13.1%, Spain 7.0%, Egypt 5.3%

Imports of goods and services: n/a

Major import trading partners: Spain 22.80%, France 9.95%, Canada 9.40%, China 8.50%, Italy 7.80%

Foreign direct investment (net): n/a

GOVERNMENT INTERVENTION IN THE ECONOMY

Score: 5–Stable (very high level)

Although the Castro government permits some private (albeit highly restricted) economic activity, it still owns and runs most of the economy. When Cuba opened itself to tourism in 1993, the demand for rental property and restaurants increased. As a result, Cuba now allows its citizens to rent their houses and to operate restaurants from their homes. The Economist Intelligence Unit reports that Cuba is restructuring its state-owned enterprises in a process that includes “extensive retraining, the overhaul of accounts and new procedures for inter-company transactions.” However, “The most recent figures show that by October over 1,100 of a total of around 3,000 state enterprises had embarked on the process, but only 50 had completed the transformation.”

MONETARY POLICY

Score: 5–Stable (very high level of inflation)

From 1996 to 2000, according to the Economist Intelligence Unit, Cuba’s weighted average rate of inflation was –0.08 percent. However, the validity of this number is questionable because of the government’s extensive involvement in the economy. Inflation is suppressed and reflected in persistent shortages and black market activity. Cuba’s currency is basically worthless and is not convertible on the international market.

CAPITAL FLOWS AND FOREIGN INVESTMENT

Score: 4–Stable (high barriers)

Some foreign investment is permitted on a case-by-case basis, and some investment has taken place (mainly in the hotel industry). All investments must go through the state. Cuba’s constitution still outlaws all foreign ownership of property and forbids any Cuban citizen from participating in joint ventures with foreigners. It still is illegal to hire Cubans directly. According to the Economist Intelligence Unit, “The opening of the economy to foreign investment will remain tightly controlled, but foreign investors will continue to trickle in as they negotiate their way to favourable agreements on an increasingly diverse range of activities with Cuba’s instinctively suspicious authorities.” The foreign investment law provides additional protection against expropriation, but all arbitration must take place in government ministries that afford the investor little protection.

BANKING AND FINANCE

Score: 5–Stable (very high level of restrictions)

Although the government has established a new set of state-owned banks over the past several years and has opened a series of state-run bureaux de change, it still controls all activity in the banking sector. It has permitted 17 foreign banks to open representative offices, for example, but does not allow them to operate freely. “Like other reforms,” reports the Economist Intelligence Unit, “banking modernisation is proceeding at a controlled pace.” Some changes also have been introduced into the insurance sector; according to the Economist Intelligence Unit, “Products not known for 35 years, such as travel and medical insurance, and personal pensions, are being promoted. The first insurance joint ventures with foreign capital were announced in early 1997.” The government, however, still fully controls this sector as well.

WAGES AND PRICES

Score: 5–Stable (very high level of intervention)

The government sets virtually all wages and prices. The Economist Intelligence Unit reports that “the price system is not yet able to operate as an efficient allocator of resources, as domestic prices and the official exchange rate (used for enterprise accounts) are fixed by the state.” In addition, “retail spending is divided between a number of markets (US dollar and peso, state and private, legal and illegal). Price behaviour varies widely between these outlets. In the state-run peso shops, rationed basic goods are sold at highly subsidised fixed prices. The peso cost of purchases in the state-owned US dollar shops is inflated by the distorted domestic ‘unofficial’ exchange rate (which was Ps19:US\$1 in mid-1998). Prices in the free markets for domestically produced agricultural and industrial products are determined by market conditions, and have tended to fall as availability has improved since the markets were established in 1994. Prices on the black market, which operates in both US dollars and pesos, fluctuate most widely, but there are no published data series.”

PROPERTY RIGHTS

Score: 5–Stable (very low level of protection)

Private ownership of land and productive capital by Cuban citizens is limited to farming and self-employment. According to the U.S. Department of State, “The Constitution provides for independent courts; however, it explicitly subordinates the courts to the ANPP and the Council of State, which is headed by Fidel Castro. The ANPP and its lower level counterparts choose all judges. The subordination of the courts to the Communist Party, which the Constitution designates as the superior directive force of the society and the State further compromises the judiciary’s independence.... The law and trial practices do not meet international standards for fair public trials.”

REGULATION

Score: 5–Stable (very high level)

The government regulates the entire economy by owning and controlling the means of production. Corruption is an enormous problem. According to the Economist Intelligence Unit, “An aspect of the broad campaign of self-criticism and ideological strengthening that had begun to emerge at the start of [2001] and has been confirmed in recent months is the focus on ‘economic crime’, ‘social indiscipline’ and corruption. These concerns reflect not only the economic costs of the high level of petty pilfering but also the ideological strains created by economic crisis, reform and structural change over the past decade. The level of pilfering may have declined from its peak during the 1991–95 crisis, when it was the only way for many Cubans to survive beyond the ration book, but it is still endemic.” Any progress in reforming the state-dominated system has been slow.

BLACK MARKET

Score: 5–Stable (very high level of activity)

Cuba’s black market is larger than its legal economy. Even basic economic activities—including the sale of milk and bread, transportation services, and housing—are performed in the black market. Cuba is a major hub for illegal drugs, and there is considerable smuggling of consumer goods. The currency black market is likewise substantial.