CUBA'S PATH TO A MARKET ECONOMY: WASHINGTON CONSENSUS, DOI MOI, OR REFORMA Á LA CUBANA?

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> "Experience has taught that no two countries react identically and that in any case, success requires patience and persistence."
>
> — Robert J. Samuelson[1]

The end of the Cold War underscored two important events: the dissolution of the socialist camp and the beginning of a new era of transition and development for socialist countries. Nations that had previously benefited from the gains of the Soviet centralized economy were faced with the pressing question of how to survive on their own. Meanwhile, international demand for increased global economic integration was on the rise. The consolidation of the European Union (EU), ongoing discussions concerning the Free Trade Area of the Americas (FTAA), and planned negotiations for the Doha Round of the World Trade Organization (WTO), prove that the push for what some call "globalization," is intensifying.

In an attempt to participate and benefit from further integrated markets, the post-socialist countries have undertaken various reform processes, which have drastically affected each economy in different ways. One example is that of the former Soviet Union and Eastern European countries, which eagerly and quickly embraced the tenets of the "Washington Consensus,"[2] the set of reforms calling for monetary prudence, fiscal discipline, trade and financial liberalization, and privatization.[3] This case, along with those of Argentina, Indonesia and others, show how the Washington Consensus has failed, for the economies witnessed short-term periods of growth, followed by economic decline.

Learning from Eastern Europe's example, Asian countries have adopted a slower approach, which according to some economists, has paid off. Vietnam, in particular, has not accepted the Washington Consensus as the last word on development and transition. In fact, it has been noted by some that Vietnam has followed more in the footsteps of China, which Joseph Stiglitz cites as a success story of economic reform sans Washington Consensus.[4]

Despite the growing trend among the last vestiges of communism of opening to a market economy, Cuba remains the slowest at implementing a long-term plan for transition and development. The nominal changes, which are discussed later, serve to maintain Cuba; improvements are limited. Should Cuba adopt

1. Robert J. Samuelson. "Brazil's New Global Fears," *Newsweek*, October 21, 2002.
2. This term was coined in 1990 by John Williamson, of the Institute for International Economics, a think tank in Washington, DC.
3. Nancy Birdsall and Augusto de la Torre. "Washington Contentious: Economic Policies for Social Equity in Latin America." Carnegie Endowment for International Peace and Inter-American Dialogue. 2001.pp.6.
4. Joseph Stiglitz was the former World Bank Senior Vice President and Chief Economist between February 1997 and February 2000. He is the co-recipient of the 2001 Nobel Prize in Economics for his analyses of markets with asymmetric information.

the same socialist path towards the market as Vietnam and China have done, and continue to do? Once Fidel is no longer in power, will the new leadership embrace change as Vietnam has done, or will Cuba become "just another Caribbean country," as Jorge Domínguez suggests, and adopt the Washington Consensus?[5] Many of these questions have no definitive answers, and in the context of Castro's recent crackdown on dissidents, the future remains unpredictable.

This paper argues that Cuba ought to follow in Vietnam's footsteps choosing the slow approach to market reforms. While the Vietnamese approach has its weaknesses, Vietnam has had the least painful, and therefore, more successful, transition to a market economy.

The discussion will begin with a brief comparison of Cuba and Vietnam, putting into context their similarities and differences. The first part of the paper examines Cuba with respect to economic policies during the Cuban revolution, highlighting the inconsistencies of the Castro regime, current economic environment, and weaknesses and competitiveness of the Cuban economy. The second part focuses on Vietnam, providing information on roughly the same areas as for Cuba, highlighting the countries' differences. The last section provides a comparative analysis, followed by concluding comments.

CUBA

Cuba and Vietnam share many similarities such as their geostrategic importance, long histories of dependence on foreign countries, and dependence on central planning for the viability of their economies. The legacy of dependence they share on external markets has deeply impacted both countries.

The Spanish American War of 1898 marked not only the end of about 400 years of Spanish colonial rule in Cuba, but also the advancement of U.S. expansionism in the hemisphere. The Platt Amendment authorized U.S. intervention in the name of maintaining "individual liberties." Although it was later abrogated in 1934, this provision reflected U.S. economic ascendancy.[6] In fact, Jules Benjamin cites this relationship as detrimental to Cuba's future: "The U.S. economic influence and the growth it brought to Cuba made the new relationship viable, but at the same time weakened its long run prospects."[7]

Fidel Castro's Revolution in 1959 changed that historical relationship. Castro declared Cuba a socialist state in 1962, thereby alienating the United States, and subsequently aligning itself with the USSR. The perceived freedom from Yankee imperialism really signified a new dependence on its Soviet benefactor.

Vietnam's long history of dependence resonates with that of Cuba. By the 19th century, Vietnam had weathered 1,000 years of Chinese occupation, followed by 700 years of internal rivalries, only to be colonized by the French. Once the French were ousted, Vietnam's socialist leadership naturally aligned itself with Russia, creating a new dependence on Russia's central planning system, as well as developing a heavily subsidized export sector, and favorable trading agreements.

In terms of geostrategic importance, both countries lie within close proximities of two of the world's largest economies: Cuba lies 90 miles south of the U.S., while Vietnam shares its northern border with China, whose "economic miracle," has fostered a sevenfold increase in GDP to more than $1.2 trillion.[8]

5. Jorge Domínguez makes reference to Cuba's Caribbeanization implying that in the future, Cuba will join other Caribbean countries as mainly dependent on tourism, the exportation of raw materials, and remittances as the main sources of foreign exchange.

6. Ian F. Fergusson. "Cuba: An Economic Primer," Congressional Research Service, The Library of Congress. Updated June 20, 2002, p. 2.

7. Jules R. Benjamin. *The US and the Origins of the Cuban Revolution: An Empire of Liberty in an Age of National Liberation*. Princeton University Press, Princeton, 1990, p. 69.

8. Christopher H. Stephens. "Policy Collisions: China's banking reforms require dramatic changes affecting many policies and sectors," *The Banking Law Journal*. Coudert Brothers LLP, Hong Kong, p. 2 [http://www.coudert.com/publications/articles/030115_14_collisions_blj.pdf].

Their geographic locations highlight two significant intermestic issues: trade and narcotics traffic. The EU and the NAFTA illustrate how geographical proximity facilitates and augments international trade. Cuba, being situated in between South America (the supplier) and North America (the demander), could take on its old role as transshipment point in the colonial era. If Cuba's transition is not carefully managed, cocaine and dirty money could possibly infiltrate markets, as is the case with other Caribbean countries. Vietnam could share the same fate considering its close proximity to Myanmar (previously known as Burma), which is one of the largest heroin producing countries in the world.

Despite their apparent similarities, these two transitioning and developing countries share many differences. Among many of them, Cuba grows slowly under the leadership of old, yet unwavering Fidel Castro, while Vietnam flourishes under younger and more reform-minded direction. Other differences include their reaction to the collapse of the Soviet empire, the nature of regional relationships, and the degree of commitment to long-term economic reform.[9]

Cuba's Economic History

Cuba has not been able to build a foundation or the groundwork for a sustainable transition. Instead it has followed a seemingly ad-hoc, reactive "zigzag approach"[10]; the Cuban authorities have vacillated between reforms and promoting moral incentives. After the triumph of the Revolution, Cuba's economic policy promoted an import-substitution scheme, whereby the Cuban government sought to increase widespread self-sufficiency thereby replacing dependency on the U.S. The failure of this policy coincided with Cuba's integration into the Council for Mutual Economic Assistance (CMEA), or the "socialist common market."[11] From this point forward, Cuba made an about face, focusing on producing sugar for export in return for Soviet oil.

The intense efforts to produce sugar distorted Cuba's economic development and inhibited the economy's ability to produce other goods and services. In order to revive the distorted economy, the government took a third economic path of implementing numerous market reforms from the late 1970s to the mid-1980s (similar to the ones implemented again in the mid-1990s). Experiments in managerial independence, farmer and crafts markets, wage incentives, and self-employment were conducted. Additionally, the first steps were taken to open the country to investment from non-communist nations.

As was the case with the previous measures, flirtations with capitalism did not suit Fidel's regime, for its perception was that reform meant loss of control and power. Thus, the reforms ended. The rectification period entails Cuba's return to the old days in which the last vestiges of the overture to the market were erased.[12]

Thus, when faced with crisis, Cuba accommodated economic reforms. Philip Peters, Vice President of the Lexington Institute, cites two driving forces for change as coming from economic policy makers and Cuban security forces:

> The impetus for change seems to come from both economic policymakers, who want to use market forces to spur growth, and from the Cuban security forces, who are concerned that deteriorating economic conditions could provoke social unrest. Officials praise self-employment as a source of jobs, services and growth—even as they reaffirm that the fundamental socialist character of Cuba's economy will not change."[13]

9. Julie Marie Bunck. "Marxism and the Market: Vietnam and Cuba in Transition." *Cuba in Transition—Volume 6*. Association for the Study of the Cuban Economy, Washington.

10. Bunck. p. 238.

11. Fergusson.

12. Fergusson.

13. Philip Peters. "Cuba's Small Business: Taking a Wild Ride." *Transition Newsletter*. The World Bank Group. 1997. [http://www.worldbank.org/html/prddr/trans/mayjun97/art11.htm].

Therefore, the reforms acted more as a security valve to assuage the citizens; by no means were they part of a long-term plan for sustained reform.

Cuba's Current Economic Environment

The demise of the Soviet bloc in the beginning of the 1990s directly affected the Cuban economy. Cuba's GDP fell 35% between 1989 and 1993.[14] In order to save its ailing economy from further decline, Cuba's policymakers were forced to streamline the economic structure by adopting some capitalist strategies. After ten years since the beginning of Cuba's adoption of reforms, one can observe that the Cuban economy has witnessed some successes along with an equal share of failures.

The Cuban economy has achieved an improved growth rate. In 2001, the Cuban economy grew by 3% following a 5.5% growth in 2000, according to the United Nations Economic Commission for Latin America and the Caribbean.[15] Also Cuba's adoption of partial dollarization, and a convertible peso as of 1993, has facilitated international transactions.

In his report "Survival Story," Philip Peters attributes Cuba's recovery to essential measures which have affected all sectors of the economy including: opening the door to remittances, encouraging foreign investment, using incentives to revive agriculture, replacing sugar with tourism, and overhauling state enterprises.

Importance of Remittances: According to a recent study conducted by the Inter-American Development Bank, remittances to Cuba in U.S. dollars grew 22% over 2001, totaling US$1,138 million in 2002.[16] Manuel Orozco, of the Inter-American Dialogue, asserts that the remittances sent by recently emigrated Cuban Americans comprise a significant generator of hard currency. As is the situation with most Latin American countries, this huge amount of money forms a significant part of Cuba's GDP, helping to keep the economy above water.[17]

However, unlike other Latin American countries, the unique U.S.-Cuban relations politicize the transfer of remittances to Cuba. Orozco asserts that most remittances are sent informally, via people traveling to Cuba, either directly or via third country, who take the money to Cuba for a fee, popularly known as *mulas*. Due to this process of informal transfer, the amounts of money going to Cuba are difficult to estimate.[18]

Cuban Americans, while vehemently against the island's dictator, support their loved ones abroad. Therefore, while voting and lobbying in favor of the relentless economic embargo, they send cash to family members on the island affording them a better life. As money does not go to all people equally, two worlds have emerged in Cuba: a world of people with *dólares*, and another without. This skews Cuba's purchasing power, as well as the national standard of living.

Aside from increasing individuals' purchasing power, access to foreign exchange increases the national reserves through the government's tax system, and also means there is more hard currency in circulation readily facilitating the development of infrastructure projects.[19]

Foreign Investment: In September 1995, the Cuban government enacted Law 77, which allowed foreign investors to contribute to projects in Cuba. Foreign direct investment is not substantial, due to U.S. economic sanctions, and Cuba's own legal and bureaucratic restrictions. The weak infrastructure for con-

14. Philip Peters. "Survival Story: Cuba's Economy in the Post-Soviet Decade."Lexington Institute. May 2002, p. 2.

15. Joachim Bamrud. "Macro 2002: More bad news." *Latin Business Chronicle*. January 7, 2002 [http://www.latin businesschronicle.com/reports/reports/macro2002.htm].

16. Pedro DeVasconcelos. "Sending Money Home: An International Comparison of Remittance Markets," Multilateral Investment Fund, Inter-American Development Bank, February 2002, [http://www.iadb.org/mif/website/static/en/28docb.doc].

17. Manuel Orozco. Meeting at the Inter-American Dialogue. Washington, DC. April 2, 2003, 9 AM.

18. Orozco. Economists and social scientists alike debate actual dollar amounts. Some argue that a larger portion of the Inter-American Development Bank figures are transfers and not dollar remittances.

19. Peters. "Survival Story."

tracts and disregard for property law troubles and deters some international companies looking to do business in Cuba. However, despite the lack of institutional infrastructure, companies from Europe and Canada engage in joint venture projects in basic industry, tourism, and construction sectors.[20]

These foreign investors are financing and managing factors of production in Cuba, mainly in the tourism industry. Peters states, "Cuban officials say that 31 joint ventures with foreign investors have contributed $1.1 billion in capital to hotel development. Additionally, 50 hotels are managed by foreign companies under management contracts."[21]

Canada, one of the biggest contributors of foreign direct investment (FDI) in Cuba, has developed the mining industry, particularly Cuba's rich nickel deposits. "The mining industry is mining nickel and cobalt reserves. Gold, copper, and chrome are also mined, but on a small scale. Nickel production has doubled over the last 3 years thanks to a joint venture with a Canadian firm."[22]

Reviving Agriculture: Modest steps toward the opening of Cuba's agriculture sector have helped improve the economy. The redistribution of two-thirds of state-owned lands to cooperatives and individual farmers contributed to this change. Additionally, material incentives to increase production were given to farms and cooperatives to boost production. Peters observes that "Farmers are permitted to sell surplus produce to consumers in a new legal channel of food supply that complements the state's distribution system."[23] Despite these advances, it is noteworthy that the Cuban diet still falls short of recommended levels of some nutrients. The United Nations Food and Agricultural Organization places Cuba in a category of "moderately low" undernourishment.[24]

Tourism: After centuries of dominating the agricultural sector, and the principal generator of revenue, sugar is stepping down to tourism due to the problem of chronic low yields. Peters cites that "As Cuban policy makers manage the difficulties of the sugar sector, they are placing strategic emphasis on the sector that offers the greater comparative advantage in the global economy: tourism."[25]

Cuba is revamping old beach resorts, and constructing new ones in an effort to accommodate the thousands of tourists that flock to Cuba each year. The number of tourist visits grew from 340,000 in 1990 to almost 1.8 million in 2001. This includes American tourists. In 2002, more than 20,000 Americans traveled to Cuba illegally, according to the U.S.-Cuba Trade and Economic Council.[26]

Overhauling State Enterprises/Perfeccionamiento Empresarial: The improvement of state enterprises is another endeavor emerging from the economic crisis. The Cuban government made way for increased efficiency in the state enterprises by adopting a strategy known as *perfeccionamiento empresarial*. Theoretically, under this process, the state enterprises will lose their subsidies entirely and be made to thrive by serving the internal and export markets. The slow yet thorough process involves auditing of an enterprise's finances, and comprehensive self-evaluation, where managers examine their area of business and devise methods of improvement. Managers are required to create pay plans that provide incentive payments to reward higher output.

20. Peters. "Survival Story."

21. Peters. "Survival Story."

22. African, Caribbean and Pacific Group of States (ACP Group). Note on The Republic of Cuba. ACP/27/005/98 Bridgetown, 5 May 1998 Or: French Tr: SB/SO. [http://www.acpsec.org/gb/cuba/cubaf_e.html].

23. Peters. "Survival Story."

24. Peters. "Survival Story."

25. Peters. "Survival Story."

26. US-Cuba Trade and Economic Council. [http://www.cubatrade.org/].

Peters cites that of Cuba's 3,000 state enterprises, 244 had completed this process as of June 2001, and 1,530 were in various stages of self-evaluation and re-engineering.[27] This process is a gesture toward abandoning the state-planning model. While this systemic change will take time, it is a necessary and difficult step in Cuba's reform process.

Regional Agreements: Cuba currently has a limited trade agreement with CARICOM nations, and pursues a free trade agreement with member states. The Cuban authorities have also proposed a trade agreement with the MERCOSUR, which is being negotiated. Cuba is an observer to the African-Caribbean-Pacific Group, (ACP), the Latin American Integration Association, (popularly referred to as ALADI, it's Spanish acronym), and the Association of Caribbean States (ACS).[28]

Additionally, Cuba is an original signatory of the GATT Agreement of 1947, and a full member of the World Trade Organization, (WTO), since April 20, 1995 the date when it ratified the Uruguay Protocol to the GATT that brought the WTO into existence as a successor to the original GATT Agreement of 1947.[29]

While Cuba participates in these international agreements, it is also true that Fidel Castro hinders Cuba from participating in multilateral organizations, such as the OAS, whose main criteria for membership is having a democratically elected leader. Cuba cannot realize its potential as a leader of Caribbean countries due to its authoritarian regime. In the words of Mark Kurlansky, "It takes only a glance at the map to see what an unnatural aberration [Cuba's] isolation has been."[30]

Castro's vehement stance against the FTAA and globalization further isolates Cuba. Castro has described the endeavor of global integration as "the most blatant re-colonization of the Third World. The FTAA…is the annexation of Latin America to the United States; a spurious union of unequal parties, in which the strongest will swallow up the weakest, including Mexico, and Brazil."[31]

The recent severe acts of repression on the part of the Cuban government, jeopardizes Cuba's inclusion in the Cotonou Agreement.[32] Needless to say, the regime's actions do not bode well for Cuban foreign relations, not to mention those with the United States.

Cuba's Weaknesses/Competitiveness

Political Freedom: The recent jailing of dissidents shows Cuba's political slide back into repression the island has not witnessed since the 1970s. Given the most recent onslaught of arrests and sentences of dissidents, one may conclude that Cuba's repressive regime shows no sign of changing its ways. Taking the idea that the level of political freedom in a country indicates the level of economic freedom, Cuba's economy is in trouble as well. Since the 1970s, Cuba's regime had let up on its repressive nature. This is reflected in The Heritage Foundation/Wall Street Journal 2003 Index of Economic Freedom, where

27. Peters "Survival Story." p. 13.

28. Chantal Agarwal, "Circumventing U.S. trade sanctions: Why Spain and Canada have continued engagement with Cuba." Paper submitted for the course Economic Integration of the Americas, George Washington University, Fall 2002.

29. Personal Interview. Thomas Andrew O'Keefe of Mercosur Consulting. Washington, DC. March 31, 2003.

30. Mark Kurlansky. *A Continent of Islands: Searching for the Caribbean Destiny*. Addison-Wesley Publishing Company, New York, 1992. p. 286.

31. Ana J. Faya. "Cuba and the Non-Aligned Movement: Towards a More Prominent Role," *Focal Point: Spotlight on the Americas*. March 2003, Volume 2, Number 3.

32. The Cotonou Agreement is an effort at cooperation between the ACP & EC, underpinned by a legally binding system and the existence of joint institutions, which is based on the fundamental principles centered on the objective of reducing and eventually eradicating poverty consistent with the objectives of sustainable development and the gradual integration of the ACP countries into the world economy. For more on provisions, principles, objectives, and technical areas, see the official document online at [http://www.acpsec.org/gb/cotonou/accord1.htm].

Cuba was listed as one of the countries showing greatest improvement overall since 2002.[33]

Despite this finding, overall improvement of economic freedom is nominal; in the same report, Cuba ranks last when compared to countries in the Western Hemisphere.[34] The arrests and sentencing of dissidents, which includes economists, journalists, and independent librarians was an overt way of regulating and punishing those who question the Revolution.

James Cason, the current Chief of the U.S. Interest Section in Havana, illustrated the Cuban reality due to the lack of political and economic freedom in Cuba in a recent presentation:

> In Cuba's paternalistic system, the Government assumes the responsibility of allocating all of the country's resources. As the Government's ability to provide these resources declines, the average Cuban is forced to either do without or break the law to acquire basic goods. This is the real tragedy, that most Cubans are forced to do the latter, turning themselves into criminals against their will. Indeed, we are finding that the most significant impact of the sugar mill closures is that the former employees no longer have access to goods to pilfer for sale on the black market. For most Cubans, the black market has become the only market.[35]

Regulatory Framework: Eliot Kalter, a representative of the International Monetary Fund, cites the lack of regulatory frameworks as the reason that privatization in Latin American countries fail.[36] In the case of Cuba, there exists a comprehensive regulatory framework, but to a fault, as it limits Cuba's slow adoption of market reforms.

In a recent report published by the Banco Central de Cuba, it is reported that Cuba's regulatory framework, which was developed during the 1990s, has fostered the establishment of important legislation. The first major legislative step was taken in 1992, the worst year of Cuba's economic crisis, when Cuba's constitution was amended allowing for the redistribution of land, the decentralization of the international trade sector, and the reform of foreign economic relations.

The following year, Laws 141 and 142 were passed. The former allowed for the legitimization and expansion of criteria for *trabajo por cuenta propia,* or self-employment. The latter complemented the former by declaring the decriminalization of retaining foreign currency, including the US dollar.[37] Together, these two laws opened the doors to the tourism industry. According to Phil Peters of the Lexington Institute, when the Cuban government made room for small enterprise, "a new entrepreneurial sector soon came into being and peaked at 209,606 licensed entrepreneurs by January 1996."[38]

Critics of gradual market reforms view excessive regulation of Cuba's opening as a hindrance to progress, rather than a catalyst to reforms. The regulations in Cuba's business transactions best reflect this phenomenon.

Regulation in Business Transactions: One example of economic repression is the excessive regulations in business transactions. The modest number of joint ventures and *cuentapropistas,* or self-employed, have been described by Tim Johnson of the *Miami Herald*, as "islands of capitalism in a sea of socialism." Scholars at a recent conference on Cuba's growing

33. Gerald P. O'Driscoll Jr., Edwin J. Feulner, and Mary A. O'Grady. *2003 Index of Economic Freedom.* The Heritage Foundation/ *Wall Street Journal.* p. 6.

34. O'Driscoll et al.. *2003 Index of Economic Freedom.* p. 17.

35. James Cason. Presentation to the Cuba Transition Project. University of Miami. April 7, 2003. [http://usembassy.state.gov/Havana/wwwhcason.html].

36. Ariel Terrero, Ariel. "Recetas y Reacciones," Globalización, V Encuentro Sobre Globalización y Problemas del Desarrollo, La Habana del 10 al 18 de febrero de 2003. [www.globalization.cubaweb.cu/dia5/fmi.html].

37. *La Economía Cubana en el Periodo Especial 1990-2000.* Banco Central de Cuba. La Habana, Cuba. January 2001.

38. Peters. "Survival Story." p. 14.

private sector say that "the Castro regime has never allowed the private sector to flourish. It has choked businesses with red tape, forced them into illegal survival strategies and condemned them to a provisional and tenuous experience."[39]

Roberto Orro echoes this observation when he states, "Furthermore, an ordinary Cuban citizen is not allowed to set up any business with a foreign partner; only the State has such a privilege."[40] In response to the heightened economic crisis in 1993, the Cuban government permitted its citizens to have their own jobs. Ted Henken, a scholar at Tulane University, agrees that the government has imposed a thicket of legal restrictions on Cuban citizens.[41] These restrictions caused the number of *cuentapropistas*, to shrink, especially in 1996, when the number went down to 209,000.

These restrictions reflect Castro's mistrust toward the sector. The state upholds a huge power that undoubtedly thwarts the development of the private sector. Self-employed workers face abusive taxes aimed at preventing the expansion of self-employment. Evidently, within the current political system, it is impossible to foresee a radical transformation capable of putting the Cuban economy on the path of sustainable growth.

VIETNAM

Vietnam's Economic History

Whereas the Cuban economy contracted 35% as a result of the implosion of the Soviet bloc, Vietnam suffered as well. Aside from having to survive severe balance of payments crises, more disturbing was the dismantling of the central planning mechanism. By 1986, conditions in Vietnam reached drastically poor levels. The United Nations Development Program cites that in that year, "Vietnam had to import 1.5 million tons of rice and starvation conditions were prevalent."[42]

While Vietnam has made many market-oriented changes in its economic policy, it still maintains its socialist structure. In fact, its transition can be best described as "market socialism."[43] The country's one party—the Vietnamese Communist Party (VCP)—with Nong Duc Manh serving as general secretary, wields much of the decision-making in the country's policies.[44] Since 1979, the VCP has been engaged in a heated internal debate over the pace and extent of economic reform. *Doi moi*,[45] the Vietnamese economic renovation model, was adopted in 1986, causing a surge in growth between 1991 and 1997. According to William Turley and Mark Selden, "In contrast to Eastern European reforms *Doi Moi* favors gradualism and political stability over radical change, with economic restructuring to come before privatization."[46]

It is important to note Vietnam's persistence in maintaining these reforms. Julie Marie Bunck attributes much of Vietnam's achievements to the overall consistency in its execution of reformist strategies. "… [The] Vietnamese leadership has governed with remarkable consistency from reunification in 1975 to the transition of the 1990s." She continues by saying, "Since the mid-1989s the regime has

39. Tim Johnson. "Castro has chokehold on private sector, scholars say." *The Miami Herald*, Thursday, November 21, 2002.

40. Roberto Orro. "Economic and Political Liberalization in Former Socialist Countries: Implications for Cuba," *Cuba in Transition—Volume 11*, Association for the Study of the Cuban Economy. 2001. pp.174, [http://lanic.utexas.edu/project/asce/pdfs/volume11/orro.pdf].

41. Johnson.

42. http://www.undp.org.vn/undp/docs/2001/vnnhdr2001/eng/chap4.pdf.

43. Notes adapted by the United Nations Development Programme from William S. Turley and Mark Selden. "Reinventing Vietnamese Socialism: Doi Moi in Comparative Perspective."

44. US Central Intelligence Agency World Factbook 2002. Vietnam. [http://www.cia.gov/cia/publications/factbook/geos/vm.html]

45. Literally meaning "change and newness", it is the Vietnamese Communist Party's term for reform and renovation in the economy.

46. Notes adapted by the United Nations Development Programme from William S. Turley and Mark Selden. "Reinventing Vietnamese Socialism: Doi Moi in Comparative Perspective."

steadfastly maintained its long-term plan of economic reform."[47]

Vietnam has taken more steps toward the adoption of a market economy than Cuba. Frederick Brown, the Associate Director of South East Asia Studies at Johns Hopkins' School of Advanced International Studies, cites six fundamental alterations made to the Vietnamese socio-political system as being: the slow expansion of the National Assembly; the VCP's intention to separate its bureaucracy from the operation of the government; utilization of the law rather than relying on party fiat as appropriate to a country no longer at war; the continued decentralization of national administration; the party's commitment to "equitization" in many areas of economic life; and pluralism within the VCP, allowing for genuine debate regarding the country's economic future in the context of global economic integration.[48]

Manuel Montes points out that at the pinnacle of its reform process, Vietnam took five important steps including the reformation of prices and price setting, the reduction of production in traditional sectors, such as textiles; increased agriculture and non-tradable goods; and increased exports of raw materials, especially agricultural, forest and fish products. He specifies that there were significant reallocations in labor, which did not raise the unemployment rate very much due to sustained overall growth, an increase in rural incomes, the granting of generous construction and other non-tradable sectors.[49]

Vietnam's Current Economic Environment

Vietnam has one of Asia's fastest growing economies, maintaining an average GDP growth of 7%. Much like Cuba, Vietnam maintained positive growth rates throughout the transition period and since 1993, witnessed a rising trend in investment/GDP ratio and in savings. In 2002 alone, 7,694 enterprises were established, with 605 of joint-stock companies. However, current account deficits and fiscal deficits remain large.[50]

Remittances: As is the case with Cuba, one of Vietnam's greatest economic assets is the *Viet Kieu*, the name referring to 2.5 million emigrants and refugees who have settled abroad during and after the Vietnam War. Stein Tønnesson points out that after long debate, the Vietnamese National Assembly adopted a new citizenship law declaring the *Viet Kieu* as part of the nation, establishing the right to dual citizenship.[51] This move eases the transfer of the estimated $1.2 billion in remittances per year to the Vietnamese economy, according to Frederick Brown's report.[52]

Foreign Direct Investment: In 2000, the National Assembly approved the New Revised Law on Foreign Direct Investment, which has many improvements relating to: foreign currency; taxes and import duty; land-use rights and mortgage of land-use rights; management of joint venture companies; and approvals and licensing.[53]

This has facilitated foreign investment from many countries, with Singapore as Vietnam's top foreign investor, with over US$6 billion of investment capital in 311 projects, according to the Ministry of Planning and Investment.[54] Other major investors are Taiwan, Japan, Hong Kong, and South Korea. Vietnam also attracts investment from 80 of the 500 world-leading multinational companies, including

47. Bunck. pp. 237-8

48. Frederick Z. Brown. "President Clinton's Visit to Vietnam." *Asian Update Series,* Asia Society. November 2000. [http://www.ciaonet.org/frame/wpsfrm.html].

49. Manuel F. Montes. "Vietnam: Transition as a Socialist Project in East Asia." *Transition and Institutions: The Experience of Gradual and Late Reformers*. Edited by Giovanni Andrea Cornia and Vladimir Popov. Oxford University Press, Oxford, UK. 2001. p. 97.

50. Montes. p. 98.

51. Stein Tønnesson. "Vietnam in the Asian Crisis," *Globalization and Third World Socialism: Cuba and Vietnam*. Edited by Claes Brundenius and John Weeks. Palgrave, New York, 2001. Pp. 189.

52. Brown.

53. [http://www.apecsec.org.sg/]

54. "Singapore top foreign investor in Vietnam." *Asia Times*. [http://www.atimes.com/atimes/printN.html].

Unilever, LG, Samsung, Coca-Cola, and Nike.[55] Foreign investment significantly increases the number of jobs, thereby increasing the overall success of the economy. According to the Vietnamese Embassy, foreign invested projects have generated close to half a million jobs in 2002 alone.[56]

Regional Agreements: Unlike Cuba, Vietnam has responded favorably to the growing trend of globalization; it has relations with more than 100 countries and territories, and trade agreements with nearly 60 countries and territories. The normalization of diplomatic relations with the U.S. as well as its Framework Agreement on co-operation with the EU bode well for further trade relations between Vietnam and the rest of the Western countries.

The U.S. Central Intelligence Agency (CIA) asserts that the Vietnam-U.S. bilateral trade agreement indicates Vietnam's growing role in international trade. The CIA documents that "the US-Vietnam Bilateral Trade Agreement, which entered into force at the end of 2001, expects to significantly increase Vietnam's exports to the U.S. Furthermore, Vietnam has benefited directly from the removal of obstacles to action on Trade Promotion Authority. The bilateral US-Vietnam trade agreement passed the Congress virtually without opposition."[57]

More importantly, Vietnam participates in other trade and economic agreements aside from that with the U.S. In July of 1995, it became a full member of the Association of South East Asian Nations, (ASEAN). While the negotiations have continued into the first quarter of this year, bilateral market access contacts have been initiated.[58] Aside from decreased barriers to trade, the organization creates a space for countries to improve how they function and operate. For example, in April 2001, member countries attended a three-day workshop where representatives participated in Training Needs Assessments, which would contribute to identifying training gaps and qualified institutions, and provide for regional cooperation.[59] Membership to ASEAN facilitates knowledge spillovers and trainings to its citizens, rendering the population more capable to accommodate a growing economy. While Vietnam is not yet a full member of the WTO, a working party on the accession of Vietnam was established in January of 1995.

Vietnam's Weakness/Competitiveness

While Vietnam's transition has seen much success, it is far from complete. The larger portions of the fundamental and far-reaching reforms are still at an initial stage, or have yet to be considered, which, according to the report co-authored by Voung Nhat Huong, implies that the official commitment and resolve towards reforms in Vietnam has yet to be seriously tested. This report cites the problems in the Vietnam's financial sector reforms, pointing out that the Vietnamese government draws the line when it comes to reforms at financial reforms. "The financial sector represents a nexus of control reaching almost all sectors in the economy, which enables the government to both raise subsidies and allocate funds to special programs and state-owned enterprises.[60]

Another problem stemming from Vietnam's imperfect transition is the widening gap between those with higher and lower incomes. According to *Reuters*,

55. "Singapore top foreign investor in Vietnam."

56. "Foreign-invested projects generate some half a million jobs." Embassy of the Socialist Republic of Vietnam in the United States of America. 12 December 2002. [http://www.vietnamembassy-usa.org/news/newsitemprint.php3?datestamp=200212271712].

57. Statement by Ted Austell, Co-Chairman, U.S. Trade, on Bipartisan TPA Compromise.

58. The last meeting of the Working Party was held on 10 April 2002. Bilateral market access contacts have been initiated. Topics under discussion in the Working Party include: agriculture, the customs system, import licensing, national treatment, SPS and TBT, State trading, trading rights and TRIPS.
[http://www.wto.org/english/thewto_e/acc_e/a1_vietnam_e.htm]

59. M. Uriarte. "ASEAN Member Countries Consolidate Regional Training Needs," *ASEAN Biodiversity*, October-November 2001 Issue, pp 52-53.

60. Voung Nhat Huong, et al. "Financial Sector Reforms in Vietnam: Selected Issues and Problems." [www.econ.ku.dk/rand/images/financial.pdf].

"In a country where about a third of the 80 million people lives in poverty, the rich earn 12.5 times more than the worst off, a 1.90-fold increase in 2001 from 1999."[61]

Moreover, the high level of corruption in Vietnam hinders economic growth. According to Transparency International's Corruption Perceptions Index 2002, which ranks 102 countries (on a scale of 1-10, one being the most corrupt and ten being the least), Vietnam was ranked at 2.4, its cohorts being Georgia and the Ukraine.[62] Therefore, it is evident that Vietnam faces a long list of reforms to make. The good news is that it has built a sound foundation on which to build these new changes.

ANALYSIS

Former President Rodríguez of Costa Rica asserts that Cuba should open and that Cuba should follow what China and Vietnam have done to adopt market reforms.[63] Vietnam's early days illustrates the negative impact that rapid change can have on an economy in transition. Rajiv Sekhri explains that "Vietnam's example is instructive because it's already felt the dark side of globalization and didn't like it. In the mid-1990s hot money zoomed to Vietnam—in 1996 alone, it saw $8 billion of foreign direct investment. But investors left even faster than they had arrived, disappointed they wouldn't see returns overnight."[64]

Additionally, transitioning economies are vulnerable to external shocks, which is why the 1997 Asian crisis strongly impacted Vietnam's emerging market. Sekhri says that the financial crisis was the impetus for Vietnam to reevaluate its strategies to growth and development. "Asia's financial crisis was another blow. The economy never quite recovered. Hence Vietnam's new go-slow approach to globalization."

A second point is that economic growth flourishes where political freedom exists. Roberto Orro, argues that political freedom causes economic liberalization and not vice-versa. He points out an interesting correlation between the levels of economic reforms with levels of political freedom. His argument derives from the important observation that "no authoritarian regime would be willing to undertake measures that might jeopardize its power.[65] Orro's conclusions are that economic reforms will not be completed unless the monopoly power held by Communist parties is removed.

A third point is that infrastructure and sound institutions are the basis for transitioning institutions. This implies a gradual reform process for Cuba, so it will have the tools with which to implement policies urging higher growth. Huong's report also highlights this point by asserting that "transitional countries should aim at strengthening the rights of investors and the efficiency of contract enforcement," on the basis that law enforcement mechanisms that govern both debt and equity transactions are sound.[66]

Furthermore, the reformation of institutions should be consistent: "The World Bank states: in every case [of transition] what matters is the breadth of policy reforms attempted and the consistency with which they are maintained."The report highlights that

61. "Vietnamese Earn More but Rich-Poor Gap Widens." Reuters. January 14, 2003. [http://www.globalpolicy.org/socecon/inequal/2003/0114vietnam.htm].

62. Cuba was not included in this report. Press Release: Transparency International Corruption Perceptions Index 2002 | English. [www.transparency.org/pressreleases_archive/2002/2002.08.28.cpi.en.html].

63. Miguel A. Rodriguez, J.B. and Maurice C. Shapiro Visiting Professor of International Affairs. Personal Interview. The George Washington University. Washington, DC. 3 April 2003.

64. Rajiv Sekhri. "Countries that Ignore IMF Fare Better Off—Stiglitz." Reuters. April 19, 2000. [http://www.globalpolicy.org/socecon/bwi-wto/imf/stieg.htm].

65. Orro. p. 174 [http://lanic.utexas.edu/project/asce/pdfs/volume11/orro.pdf].

66. Huong. "Financial Sector Reforms in Vietnam: Selected Issues and Problems."

"Countries will only fully exploit [their] potential by being consistent over time."[67]

Aside from consistent policies, Vietnam teaches that building relationships with neighbors is useful: China, Laos, and Cambodia. Vietnam and China have declared their intentions to collaborate as both countries forge paths toward economic liberalization. Cited in *Vietnam News*, leaders of both Vietnam and China have met in Beijing in efforts to boost the relationship between the two countries. Party General Secretary Nong Duc Manh has expressed the importance of the Chinese Government's efforts to help Vietnam improve several existing economic projects. By expanding these bilateral ties, both countries will serve as support for each other as they emerge from their socialist systems.[68]

Considering Cuba's transition in a Latin American context, forging ties as Vietnam has done could prove more difficult, as its neighbors struggle with their own developing democracies and economies. Venezuela undergoes an internal struggle with Hugo Chávez remaining in power, and President Uribe has its internal strife concerning rebel groups and drugs. Also, the CARICOM remains a weak agreement that does not offer the benefits that ASEAN does for its Asian members.

This means that Cuba, if faced with this daunting task soon in the future, may look to Brazil, Mexico, or Chile, which have adopted Washington Consensus reforms, and continue to do today. As recently as April 26, 2003, *The Economist* asserts that "[T] he region's new center-left governments, such President Luiz Inácio Lula da Silva in Brazil…has not only tightened monetary and fiscal policy, it is pursuing the structural reforms espoused by its predecessor."[69]

If they do so, Cuba's policy makers and reform-minded leaders should proceed with caution; after the euphoria created by initial improvements, the Washington Consensus proved unsustainable in most transitioning countries.[70] While explaining the reasons for failure and the debates on causes of the resulting dissatisfactions go beyond the scope of this paper, it will be noted that there are five main reasons the Washington Consensus did not succeed: the region's vulnerability to balance of payments crises; basic macroeconomic reforms were not fully implemented; institutional reforms, or "second generation" reforms, were not implemented at all; the debate that growth would not reduce poverty stalled reforms; the region's dependence on volatile capital flows.

Given its current economic indicators as a transitioning country, Cuba is no exception to its Latin American neighbors: it lacks the infrastructure that the Washington Consensus requires. Aside from Cuba's substantial balance of payments crisis, the macroeconomic reforms it has implemented fall short of what is necessary for sustainable reforms, and the country's dependence on volatile capital flows (we recall the negative effects of Hurricane Michelle and the terrorist attack on the World Trade Center had on the tourism industry), the concept of the Washington Consensus is anathema to the whole essence of this socialist regime for over 40 years.

This does not suggest that Cuba should not take steps toward improvement, but rather that it should adopt reforms without summarily discarding everything the country has known for many years. Doing so would induce a painful transition, with potentially difficult consequences, such as the Argentine crisis of 2001 and early 2002. Whoever assumes the role of policymaker in Cuba's future leadership, ought not to follow whole-heartedly the Washington Consensus. Stiglitz declared during a World Bank conference on development, referring to the recommendations of U.S.Treasury and International Monetary

67. Huong. "Financial Sector Reforms in Vietnam: Selected Issues and Problems." p. 27.

68. "Vietnam, China party leaders vow raised relationship," *Vietnam News*, April 10, 2003. [http://vietnamnews.vnagency.com.vn/2003-04/09/Stories/01.htm].

69. "Wanted: a new regional agenda for economic growth," *The Economist.* April 26, 2003. p. 29.

70. Once exception is that of Chile, where many of these reforms proved successful. The reasons for success are debated by economists and political scientists alike.

Fund, that "We now know that many of the successful developing countries do not follow the precepts of the Washington consensus."[71]

Lastly, while Cuba has a highly educated population, the development of reform models have not been implemented. Alejandro Aguilar and Nancy Quiñones, international trade specialists from the *Instituto Nacional de Investigaciones Económicas*, (INIE),[72] say they are in the process of developing "gravity models" of their own, using country data from neighboring Caribbean countries.[73] However, due to the lack of political freedom and isolation from the rest of the international financial and economic communities in the world, Cuba's scope of economic reforms is limited. Therefore, plans for reform are not likely to come from Cuba itself in the immediate future.

CONCLUSION

On May 1, 2003, Fidel Castro gave a speech at the May Day rally held in Revolution Square, Havana concluding that:

> The American people, the millions of highly cultivated individuals who reason and think, their basic ethical principles, the tens of millions of computers with which to communicate, hundreds of times more than at the end of the Viet Nam war, will show that you cannot fool all of the people, and perhaps not even part of the people, all of the time. One day they will put a straightjacket on those who need it before they manage to annihilate life on the planet.[74]

The irony of this statement calls attention to Fidel's myopia; Cubans, a citizenry of cultivated individuals, who reason and think and have basic and ethical principles, have not been fooled either. Despite his continuous calls for moral incentives, and defiance of global trends, the Cubans are aware of the successes that could result from an overhauled system, improving their livelihoods, and the economic performance of their country.

Jorge Domínguez observes that, "If the Cuban government wishes a better future for its people, then it must take some calculated risks. Bold behavior has never been alien to Cuba's leaders, so the following is not an unthinkable strategy…"[75]

These lessons become apparent after analyzing the economies of Cuba and Vietnam. Taking into consideration the success of Asia, reflected by its improving economic indicators, it is evident that Cuba ought to follow the example of Vietnam. Among the specific reforms, Vietnam has accomplished increased and sustained growth in its GDP, in attracting foreign investment, in liberalizing trade, and improving its relations with its neighbors, all within their conception of market socialism, which has seen them through the harder initial years of reforms. All of these endeavors have been carried out in a calculated method allowing growth, but not at the expense of the majority of the population, as was the case in other countries that hastily embraced reforms.

As Fidel reaffirms his belief in "*con la revolución todo, fuera de la revolución nada*," the rest of the world watches in shock at the state of human rights. Meanwhile, entrepreneurial and reform-minded Cubans despair as Fidel's political declarations cast a cloud over Cuba's economic future. On the basis that political freedom and economic liberalization are linked, if Cuba wants to advance beyond survival, it must abandon its current regime allowing for a more tolerant and open leadership that will lay the groundwork for steps toward a sustained market economy.

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71. Rajiv Sekhri. "Countries that Ignore IMF Fare Better Off—Stiglitz," *Reuters*, April 19, 2000. < http://www.globalpolicy.org/socecon/bwi-wto/imf/stieg.htm >.

72. INIE is a think tank with links to the Cuban Ministry of Economy and Planning, and although it tends to be less reform-oriented as other organizations and institutions in Cuba, its ideas do not always resonate with those of the regime's policies.

73. Phil Peters. "Visit of Cuban Academics Alejandro Aguilar and Nancy Quiñones." Memo to file. Lexington Institute, April 11, 2003.

74. Speech given by the Dr. Fidel Castro Ruz, President of the Republic of Cuba. May Day rally held in Revolution Square, Havana. May 1, 2003. [http://espana.cuba.cu/gobierno/discursos/2003/ing/f010503i.html].

75. Jorge I. Domínguez. "Cuba in a New World," Chapter 11. *Latin America in a New World*. Edited by Abraham F. Lowenthal and Gregory F. Treverton, Westview Press, Boulder, CO. 1994. p. 212.