

Cuba turns to austerity and foreign investment to counter economic contraction

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At a session of Cuba's National Assembly held last week, Cuban President Raúl Castro and Economy Minister Ricardo Cabrisas disclosed that the country's economy contracted nearly 1 percent in the past year. This is the first time a recession has officially occurred since 1993, following the dissolution of the USSR and the collapse of the economic relationships that had subsidized the Cuban economy for several decades. Remarks by Castro and Cabrisas made clear that the Cuban government aims to accelerate its program of laying off public sector workers and throwing them to the growing private sector while inviting foreign investors to take advantage of Cuba's low-wage labor force.

The main reason for the contraction is the continued low price of commodities, particularly oil, nickel and sugar, resulting from the ongoing global economic crisis. This has manifested in Cuba as a massive drop in economic support by Venezuela, as that country's economy reels from the impact of low oil prices that supply nearly all of its export earnings and a substantial portion of its state revenue.

In particular, Venezuela has not been renewing contracts for medical services provided by Cuban doctors and other professionals—Cuba's main source of export earnings—and has even reportedly fallen behind on payments. In addition, estimates are that shipments of Venezuelan oil to Cuba have dropped from 90,000 barrels per day (bpd) to 40,000 bpd toward the end of the year.

The drop in oil supplies has led to cutbacks in public lighting and bus service and the imposition of large decreases in fuel usage by state workers, including through reductions in working hours, and may also lead to the closure of a refinery in Cienfuegos resulting in the loss of hundreds of jobs. The reduction in oil

shipments has also led to a further fall in hard currency income, and thus imports, as Cuba was reselling a portion of its subsidized oil for desperately needed dollars.

The Cuban government's strategy to deal with the collapse in support by Venezuela is to turn to austerity and an expansion of market relations, particularly through foreign investment. Aside from cutbacks in energy consumption and imports, including of food, austerity is also being pursued under the guise of "efficiency" and the cutting of "dispensable" expenses. More and more workers are being shed from the public sector and turned into *cuentapropistas*, or "self-employed" workers. The number of *cuentapropistas* has skyrocketed since they were legalized in 2010, and now amount to some 550,000, or around 10 percent of the labor force.

All told, roughly one-third of Cuba's labor force is now involved to some degree in private sector employment, with 50,000 or so employed in joint ventures with foreign investors. One theme repeated by Castro during his speech at the National Assembly was that Cuba needs to get over its "obsolete mentality, full of prejudices" against foreign capital and investment and eliminate the "excessive delays in the negotiating process" that have hampered growth in this area. Just recently Haier, a Chinese company, announced it would open a factory in Cuba to manufacture low-cost tablet and laptop computers.

Castro's speech further indicated that the country has been delaying payments to suppliers while it works on renegotiating its external debt, having restructured around \$50 billion in the past few years. Even so, Cabrisas stated that Cuba would look to sell bonds in the coming year to help overcome a deficit in the just-approved budget that he said amounted to 12 percent of

GDP. If increased revenue targets from exports and tourism are not reached, social spending will likely be slashed to make up the rest of the budgetary shortfall.

The Cuban government is also looking to increase its own domestic oil production capabilities in the future, and has been working closely with Australian and Russian companies to expand existing operations. It is also exploring the possibility of expanding drilling operations in the Gulf of Mexico, thought to potentially harbor the equivalent of billions of barrels of oil, and has hired a Chinese firm to conduct a seismic exploration of the area.

The situation in Cuba would be much worse were it not for a large increase in the number of tourists, especially Americans who are now more easily able to travel to the island following the normalization of relations and relaxation of travel restrictions. A report by the Ministry of Tourism indicated 4 million tourists visited Cuba in 2016, a 13 percent increase over the previous year, with 137,000 Americans visiting in the first half of the year alone. The increase in tourists has, however, also reportedly exacerbated shortages of food stemming from reduced imports.

Despite Castro's claims that with these measures Cuba is "not going, and will not go, toward capitalism," the ruling strata around the Cuban Communist Party hope to use the expansion of foreign investment to move Cuba towards a system more like China's, in which their rule and privileges are secured while they offer up the impoverished Cuban working class to be exploited mercilessly by US and global capital.



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