Table of Contents

Institutional factors: The speed of reform and resistance to change *2*

International insertion *3*

Cuba's reform: a comparative perspective with Vietnam[1]

Pavel Vidal Alejandro
Universidad Javeriana Cali

After several years of reforms, the Cuban macroeconomic growth figures do not meet expectations. The annual GDP growth rate has been merely around 1.7% for the last five years. Cuban GDP growth lags behind the rates reached by Vietnam during the first years of reforms: in 1987-1993 Vietnam achieved a GDP growth rate of 5.6%. Subsequently, Vietnam accelerated its growth rate above 7%.

The differential between the economic growth of Vietnam and Cuba during the first six years of reform is 2.9% in favor of Vietnam. The differential increases up to 4.5% and 4.6% when compared with the average growth rates achieved by the Vietnamese economy during the 1990s and the 2000s.

When the evolution of the different sectors that make up GDP are confronted, all, without exception, have had higher growth rates and higher accounting contributions in Vietnam. The same applies to all components of GDP on the demand side, highlighting exports first and investments second. The process of opening up to international capital inflows has been crucial for increasing Vietnamese exports and investments.

[1] The full article can be seen in https://www.tandfonline.com/doi/full/10.1080/17487870.2015.1119046

In effect, exports have presented incredible dynamism to Vietnam with rates of double-digit growth, but its multiplier effect on the economy has been low. In Cuba, the elasticity is higher, but the growth in exports has been very poor.

The Vietnam growth can be explained not only by its export success. The reform also managed to reduce external vulnerability and accelerate changes. International openness, which included the end of the U.S. embargo, and institutional factors also explains the difference in results.

Institutional factors: The speed of reform and resistance to change

In all respects, the Vietnamese reform seems much more aggressive than the Cuban one in terms of speed and depth. The Cuban government has opted for a sequence in which an experiment is done first, the results are checked and adjusted, and the tested project is then generalized by the creation and adoption of the legal framework. The test sequence and generalization makes the Cuban reform process rational but slow.

The tempo for updating the Cuban economic model has been slow because of the fear that drastic changes could produce a reform's collapse if state enterprises are exposed to a hasty transformation. One option that the Cuban government has not considered is to undertake a momentum reform of two speeds, slower in the state sector and faster in agriculture, cooperatives and all of the emerging private sector of small and medium scale.

Certainly, the structure of the Vietnamese reform favored undertaking a steady but accelerated reform, which at times could even implement measures of "big bang" style. The state sector in Vietnam was always smaller than in any of the other former socialist economies. The large-scale state enterprises were only a small part of its economy.

Dollar (1993), Perkings (1993) and Riedel and Comer (1995) agree that the structure of the Vietnamese economy was convenient for responding to "big bang" liberalization. It is easier to make a market system work when small units are in the majority. Farmers, households business, and small industries can adjust their method of operation to market forces much more easily; they are natural net-income maximizers. They have less to learn when the overall economic system converts to market principles, while big industries need more time.

Vietnamese reform was, of course, the result of a political process where contradictions, power struggles and ideological discussions

existed. However, it seems that Vietnam had less resistance forces to the changes, than Cuba has today.

Resistance to Raul Castro's reforms can be recognized from various sectors of the Cuban society. State unemployed, retirees and families depending on government subsidies, especially pensioners, seem to integrate the most vulnerable group. On the values and beliefs of much of the population (whether or not political leaders or party members) weigh fifty years of a system with full employment, generalized subsidies and free social services, benefits that the Cuban people are afraid to lose. The Vietnamese population had fewer benefits to defend, and this could explain the less significant resistance to change (Yamaoka 2009). It is also more difficult to develop institutional transformations after fifty years of living under the same rules and ideology against the market and private sector. On the contrary, Vietnam had a recent past of capitalism in the southern half of the country and was therefore better prepared to adjust to market reforms.

Another form of resistance to Cuba's reform is taking place on what has been termed as "the bureaucracy". In Cuba, the general final government expenditure accounted for 34.7% of GDP in 2008 whereas in Vietnam it accounted 7.8% in 1989 and 6.1% in 2008. With a large state sector, there is more room in Cuba for rent-seeking behavior and resistance from the bureaucratic sector.

International insertion

The Vietnamese reform, compared to Cuba's, not only has a bigger growth rate, but further diversification and reduction of external vulnerability. In this sense, one of the first advantages for the Vietnamese reform is that it began before the dismantling process of the socialist block and, hence, the country had time to build up enough inner strength for economic growth, which allowed cushioning of the effects of the fall in trade and support from the Soviet Union. The Cuban GDP contracted 35% from 1990 to 1993 due to the breakdown of the socialist block, while the Vietnamese GDP slightly decelerated but remained on track of positive growth.

By the time of the Soviet Union´s disappearance, Vietnam already had achieved a major diversification of its hard currency income sources, in part because it found important oilfields but also due to rapid results yielded by the agricultural reforms. Vietnam not only began its reforms before the Soviet Union fell, but used the Soviet aid to support the cost and adjustments of the reforms (Dollar 1993; Perkings 1993).

A second difference is that the Vietnamese government did not replicate going forward the kind of relationship it had with the socialist block. From the 1990s on, the Vietnamese growth has been resting on increasing productivity, foreign investment inflow, and the integration to the international value chains based upon marked relations.

During the nineties, the Cuban economy obtained significant progress on the liberalization and diversification of its markets. However, during the 2000s, the landscape changed with the rapprochement to Venezuela. Special financial and commercial relations were concentrated on Venezuela and a series of policies discontinued and in some cases reversed the nineties' reforms.

The problems now facing the Venezuelan economy are also responsible for low growth in Cuba's GDP. Currently, the goods trade with Venezuela accounts for 40% of the island's total exchange, well above the second place of China with 12.5%. Nevertheless, the data shows that the Cuban GDP dependence was higher with the former Soviet Union than it is compared to Venezuela. Before the Soviet debacle in 1990, commercial relations with the former Soviet Union represented 28.2% of the GDP; while at the present, with Venezuela, this percentage means around 12%. This suggests that a breaking of the linkages with Venezuela should have a noteworthy negative impact on the Cuban economy, but less than the impact during the nineties after the crumbling of the Soviet Union.

Until the U.S. embargo is completely lifted, companies based in Cuba will not be able to export goods and services to the United States. If the U.S. embargo is finally lifted, the possibilities of international insertion will multiply, as it happened in Vietnam, favoring even further the GDP growth.

The stock of foreign direct investment ("FDI") as a ratio of Vietnamese GDP rose from zero in the mid-1980s to over 75% by the 2000s.

The first years of international openness took place in Vietnam under the U.S. embargo and without access to international financial organization funds, a common element with Cuban reform. Not until 1993, Vietnam renegotiated an unsettled debt with the International Monetary Fund (IMF) and began receiving new loans. In 1994, Vietnam joined the World Bank and the U.S. suspended the economic embargo against the Asian country. As of this date, the openness rate (proportion of foreign trade volume to GDP), increased from 60% to over 100%, and annual FDI inflow jumped from US$0.5 to US$1.8 billion. In 2007, it surpassed US$8 billion per year. Foreign investment has been essential for the Vietnamese industrialization process. The main amount of Projects with foreign capital have been directed to that sector, followed by the real estate sector.

The ending of U.S. embargo on Vietnam and its entrance to international financial institutions added 2% to GDP growth (Vidal, 2015). This can provide some clues as to the effect it would have on the growth of the Cuban economy, with a future end of the U.S. embargo and a greater integration into international financial institutions.

There is great potential in the Cuban market, and the country is an attractive location due to its high levels of health, security and education. Its geographic position in the continent and proximity to the United States is also a favorable element that would open great options once U.S. embargo is eliminated.

References

Dollar, D. 1993. "Vietnam: Success and failures of macroeconomic stabilization", in Ljunggren, B. ed 1993, *The Challenge of Reform in Indochina.* Cambridge: Harvard Institute for International Development.

Perkings, D. H. 1993. "Reforming the economic systems of Vietnam and Laos" in Ljunggren, B. ed. 1993, *The Challenge of Reform in Indochina.* Cambridge: Harvard Institute for International Development.

Vidal, P. 2015. "Cuba's Reform and Economic Growth: a Comparative Perspective with Vietnam", *Journal of Economic Policy Reform*, December 2016

Yamaoka, K. 2009. "The feasibility of Cuban market economy: A comparison with Vietnam", IDE Discussion Paper No. 189, https://ir.ide.go.jp/dspace/bitstream/2344/832/1/189_yamaoka.pdf.