

# The Feasibility of Cuban Market Economy: A Comparison with Vietnam

著者	Yamaoka Kanako
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Kanako YAMAOKA\*

**Abstract**

In spite of the difficulties incurred by its people, Cuba has maintained a centrally planned economy with single party system. On the contrary, Vietnam has introduced a market economy under communist rule, and succeeded in generally improving living standards. The factors that contributed to the introduction of Vietnamese-style reforms are (1) severe economic crisis, (2) demonstration effects from neighboring countries, (3) poor social policy, (4) initiatives by ex-conservative leader/s, and (5) weak state capacity. The conditions to sustain high economic growth are (1) social sectors familiar with capitalist economics, (2) abundant labor forces with relatively low labor cost, and (3) investment by exiles. This paper analyzes to what extent Cuba meets these conditions.

**Keywords:** economic reform, socialism, economic crisis, state capacity, governance, social policy, development strategy

**JEL classification:** P21, P30

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\* Associate Senior Research Fellow, Latin American Studies Group, Area Studies Center, IDE (Kanako\_Yamaoka@ide.go.jp)

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**INSTITUTE OF DEVELOPING ECONOMIES (IDE), JETRO**  
**3-2-2, WAKABA, MIHAMA-KU, CHIBA-SHI**  
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# The Feasibility of Cuban Market Economy: A Comparison with Vietnam

Kanako Yamaoka

Institute of Developing Economies (IDE), Japan

## Introduction

Although both Cuba and Vietnam are socialist states that implemented their socialism via nationalist movements, each of them has followed a unique path. While Vietnam decided to introduce a market-oriented economic system as early as 1986, Cuba has maintained a highly centralized economy even after the disintegration of the Soviet Union in 1991. Even after Fidel Castro retired from formal leadership in 2008 due to health reasons and was succeeded by his younger brother Raúl as the president of the Council of State, Cuba's economic policies of centralization and minimal market mechanisms have not changed. A former Japanese ambassador to Cuba, Dr. Nobuo Miyamoto, has claimed that Raúl Castro is interested in Chinese or Vietnamese styled economic reforms<sup>1</sup>, and a Chinese ambassador to Cuba also stated that the Cuban government had introduced some reforms in 1993 inspired by the Chinese model (Cheng [2007: 28]). Nevertheless, Raúl has yet to make significant changes. This paper is aimed at examining under what conditions Cuba might introduce free market mechanisms, and whether the Cuban state would accomplish sustainable development were such an economic system to be introduced. In order to evaluate this possibility, the author considers in this paper: (1) Vietnam's experience of market reform; (2) Cuban problems of governance and state capacity, especially regarding the issue of corruption,

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<sup>1</sup> When Dr. Miyamoto invited Raúl Castro to his official residence in Havana in 1993, at the end of his mission as Japanese ambassador, he suggested to Raúl that the Cuban government consider some reforms similar to China that open and liberalize the economy. Raúl responded to him that the situation was exactly about to move in that direction (that which Miyamoto suggested), and asked Dr. Miyamoto to wait and see what was to happen (Miyamoto [1996: 184-85]).

considered to be a byproduct of economic openings, that impedes healthy economic development.

It is not a commonly held view that Cuba will likely introduce Vietnamese styled reforms, especially among scholars in the United States. There are few studies on possible economic reform without preceding political reform in Cuba. In a Miami newspaper, Pérez-Stable stated that she would accept Chinese-styled economic reforms in Cuba as a “stepping stone” to a free and democratic Cuba (*Miami Herald* July 5, 2007). Yet, this path has never gained a large number of supporters among the Cuban immigrant community in the United States. In a 2007 poll among Cuban-Americans, only 5.7 percent of those questioned answered in favor of lifting the US embargo were Cuba to open economically without first opening politically. On the other hand, 10.1 percent favored trade normalizing given political reforms without economic openings. While the largest number of the questioned favored *both* political and economic reforms as a crucial conditions to lifting the embargo, support for democratization without economic reform was double that for economic reform without democratization, the latter currently taking place in China and Vietnam. Vietnam’s or China’s experience has never been adopted formally in the Cuban government’s policy-making, although it is likely that many Cubans prefer economic reforms with more market mechanisms. According to a 2005 report by the Institute for Cuban and Cuban-American Studies of the University of Miami, many of the Cuban refugees after the end of the Cold War prioritize economic reforms that would improve living standards, rather than political reforms which may bring about democracy<sup>2</sup>. Thus, it can be inferred that the majority

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<sup>2</sup> The report says, “For many, improved living conditions and economic opportunities would be enough to satisfy the majority of the Cuban people.” “Recent Cuban Refugees: Their Hopes and Fears,” *Cuba Focus*, Issue 56, July 2004. <http://ctp.iccas.miami.edu/main.htm>

of Cubans see economic, rather than political, reforms as the most urgent and needed changes.

Still, there are quite a few studies on the possibility of Cuba moving toward a market economy, especially one modeling China and Vietnam. With the premise that Soviet-styled centrally planned economic model never brings about high economic growth and improvement of living standards, Perkins [2005] claims that: (1) Chinese immigrants abroad first gave investments to China at the beginning of the Chinese reforms; (2) Both the Chinese and Vietnamese governments were generally reluctant to realize rapid reforms to introduce market-oriented policies, and especially resisted approving land ownership; (3) Undervalued exchange rates in both countries helped the development of export-oriented industries; (4) There is a social consensus that, for a certain period of time, only a small fraction of the population will become rich; and (5) Reforms for a “more competitive industrial and service sector economy” should be thorough and complete, not partial.

The book edited by Brundenius and Weeks is the only comprehensive work that attempts to compare Cuba and Vietnam from economic points of view. They believe that the socialist path still has some significance in reforming economies after the end of the Cold War, and criticize the reforms taken by Russia and Central Europe. They evaluate Central Asian (Caucasian) countries’ reforms as more mixed and gradual (Brundenius and Weeks [2001: 21]), and look at Vietnam’s reforms as a successful case of mixed reforms. They also show that the Cuban economy has been successful in that Cuba could avoid sharp economic decline that Russia, Eastern Europe and some Latin American countries experienced at the collapse of the Soviet Union in 1991 or the Asian Financial Crisis of 1997. However, according to their data on comparative GDP

declines among Latin American countries, Cuba was first (it had the most drastic GDP decline) in two-year and in three-year declines, and second, fifth, and ninth in one-year declines. They also analyze that US economic sanctions have led to stagnant economic growth after Cuba's recovery from its sharp GDP decline in the first half of the 1990s. It is true that the US embargo has made it impossible for Cuba to obtain credits from international financial institutions and US banks. Also US tourists cannot visit Cuba, and US firms cannot trade with Cuba except in the category of "humanitarian goods" such as medicines, medical equipment and food. Subsidiaries of U.S. firms in third countries cannot trade with Cuba. Also for a third country, it is quite costly to send ships to Cuba, knowing that the ship cannot dock at any U.S. port for 180 days after visiting Cuba. However, Brundenius and Weeks fail to question how Vietnam could manage high economic growth from 1987 to 1994, after economic reform in 1986, but before the US embargo against Vietnam was lifted in 1995. It is possible that the Vietnamese boom was the result of economic reforms (Doi Moi), and it could be a strong proof that one country can develop its economy without the lifting of US embargo. The emphasis of Brundenius and Weeks on state institutions which regulate the economy is important (Brundenius and Weeks [2001: 256]), as Mesa-Lago [2008] stresses in his analysis of social security and healthcare reforms in Latin America<sup>3</sup>. On the other hand, they need to show more evidence in their comparison between Cuban economy and transitional economies of Eastern Europe, especially its economically successful members such as Poland, Hungary and the Czech Republic, in order to conclude that Eastern European economies have experienced greater disaster than Cuba since the

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<sup>3</sup> Mesa-Lago admits that Cuba's highly centralized and universalized social policy, especially healthcare system has resulted in Cuba's best health indicators in Latin America (Mesa-Lago [2008: 325-327]), and the role of the state could not be neglected in structural reforms (Mesa-Lago [2008: 246]).

disintegration of the Soviet Bloc.

Pérez-López [1995] finds that Cuba's reforms after the collapse of the Soviet Union were closer to Gorbachev's partial reforms than Chinese reforms. His later work with Diaz-Briquets on corruption in Cuba argues that only democracy can secure good governance which is crucial for economic development in a medium and long-term (Diaz-Briquets and Pérez-López [2006]). This argument has inspired the author of this paper, as in China and Vietnam corruption has been a serious impediment to higher economic growth, and healthy development of economic structure such as fair competition and income distribution. Yet, the author still considers that it is worth analyzing the possibility of a policy strategy that involves economic reforms before political ones. Examples from China and Vietnam show that this path of development may bring about high economic growth and quick improvement of living standards. In spite of serious corruption problems, both countries have shown that economic development has generally brought about increases in living standards and gradual social development as a result of economic growth. In Vietnam, infant mortality rates improved from 49 (1990) to 30 (2002), and the rate of malnutrition of children under the age of 5 became 34 percent (2002) from 45 percent (1990). As the Vietnamese government retreated from many spheres of social policy at the start of economic reforms, those improvements can be understood as the fruits of economic development. Furthermore, this type of reform does not require regime change in the short and medium-run. If the primary policy agenda of the current Cuban government is regime survival, as Domínguez [1989] pointed out many years ago, this reform is the best alternative to guarantee a certain level of economic recovery, while maintaining the communist party in power. This means that it is easier for the current Cuban



government to accept the necessity of economic reforms. If the majority of Cuban immigrants to the United States left Cuba for economic reasons, as shown in several polls, one might assume that most of Cuban people prefer economic reforms to political reforms. As such, it may be feasible to encourage the government to engage in economic reforms rather than democratization. This paper analyzes the feasibility of these two types of conditions in Cuba, and questions whether Cuba has the socio-economic and geopolitical conditions to introduce Vietnamese-style reforms.

The author chose Vietnam rather than China to compare with Cuba first because China is much larger and more diverse than Vietnam, which is still much larger than Cuba. North Vietnam succeeded in socialist revolution almost at the same time with Cuba. Also their revolutions are both nationalistic and introduced socialist ideology later to sustain sovereignty. Moreover, both states must concern themselves with the influence of the international community, significantly more than China. In short, Vietnam has more common conditions with Cuba than China.

In analyzing Vietnam's experience to compare it with Cuba's, the author considers separately the conditions *to introduce* a market economy and the conditions *to sustain* one and accomplish high economic growth. The former conditions, those which made it possible for Vietnam to introduce market economy, are; (1) serious economic crisis; (2) the demonstration effect of neighboring countries; (3) poor social policy as a source of legitimacy for egalitarianism; (4) initiatives by powerful and originally conservative leader/s; (5) weak state capacity to let more people to practice relatively free economic activities. The latter conditions which made it possible for Vietnam to sustain high economic growth are; (1) sector/s familiar with capitalist economy, both business and agricultural sectors; (2) abundant labor force with relatively low labor cost; (3)

investments by overseas Vietnamese.

## **I. How Did Vietnam Come to Adopt a Market Economy Under Communist Rule?: The Conditions**

Dapice [2005] implies that it would be difficult to compare Cuba and Vietnam because they have several critical differences in their economies: if the majority of the population is urban (Cuba) or rural (Vietnam); if labor force in agriculture is agricultural workers (Cuba) hired by state enterprises or peasants (Vietnam); and only 10 percent of the labor force in Vietnam work in the public sector while 80 percent of Cuban workers are hired by the public sector (Dapice [2005: 180]). Yet, Dapice does not focus on those differences as keys to understanding Vietnamese reforms, and concentrates his analysis on Vietnamese performance of economic development since Doi Moi began. It is the opinion of the author that the socio-economic and geopolitical differences between the two countries may also have made their development strategies different.

### **(1) Economic Crisis**

The process that enabled the Vietnamese government to adopt a market economy in 1986 can be seen in terms of the degree of domestic economic crisis and change in the international environment, as well as of socio-economic development under the Hanoi government's leadership. The communist leaders in Hanoi proudly launched a centrally planned economy in 1976, after the victory of the Vietnam War and the subsequent unification of North and South Vietnams. The first condition that made

leadership to reconsider socialist economic policy was serious economic crisis. Vietnam's economic crisis under socialism can be divided into two periods; the first crisis took place in former North Vietnam (when?); and the second occurred after the 1975 unification. The Hanoi Government in North Vietnam gradually expanded its socialist economic policy after the Geneva Peace Accord of 1954, which approved Vietnam's independence from France and the division of North and South Vietnam. Agricultural production decreased during the years of 1958-1975, and in some years it fell to only half the average production of the colonial period (Tri [1990:18-21]). The failure was caused by the Hanoi government's heavy dependence on agriculture in order to invest in heavy industry (Tri: [1990: 22]). Yet, the problems of a centrally planned economy were not broadly recognized, partly because those years overlapped with war against France and later the United States, and the people in North Vietnam were more ready to sacrifice their welfare for independence and sovereignty.

After the end of Vietnam War and the unification of North and South Vietnam, the people in the North started to acknowledge various defects of the system. After cooling down from enthusiasm of the victory of the Vietnam War, many northerners started to seek better living standards. Yet, the strongest resistance came from people who lived in former South Vietnam. They had lived under a capitalist system until 1975, and were not ready for the collectivization of farms and confiscation of industrial assets. South Vietnam had been economically more prosperous than North. Its land is much more fertile than the mountainous North and Central regions, and its fertile Mekong Delta always provides its redundant rice harvest to the needy citizens of the North and Central regions. Furthermore, the business sector in urban areas in South Vietnam was dominated by ethnic Chinese, who traditionally have been the most powerful

business sector in Southeast Asia. Both farmers and business people in the South resisted the Hanoi government's new economic policy (Kirkvliet [2003:41], Tri [1990:79]), and their sabotage and protest drastically impacted agricultural and industrial production.

It can be argued that there is an economic gap between Cuba and Vietnam. In Vietnam, in the early 1980s, tens of thousands of peasants reportedly died of hunger. The Vietnam War had just ended, and both the government and the people had to struggle to recover. On the contrary, the situation in Cuba after the collapse of the Soviet Union was not as grave; no single Cuban was reported as dying of hunger in the period of 1992-93, the worst period of Cuba's economic crisis. It is partially due to the government's generous social policy. Furthermore, the only forceful intervention in Cuba since the 1959 Revolution was the Bay of Pigs, while Vietnam was constantly attacked by France, the United States and China from the 1950s to 1970s. Therefore, economic crisis in Cuba may not have been as serious as Vietnam's pre-Doi Moi (reforms) period, and one could claim that Cuban people since the first half of the 1990s have not been as dissatisfied as the Vietnamese in the early 1980s. However, most Vietnamese, 80 percent of whom were peasants at the time, were used to considerably lower living standards than the mostly urban Cuban populace. Discontent with their government's economic policy depends on how they subjectively evaluate the quality of their lives, and cannot be conceptualized simply through cross-country comparison. Even if Cuban citizens did not die of hunger as often as Vietnamese peasants did, the Cuban experience may well have triggered equal discontent toward the government as was felt in Vietnam in the 1970s and 1980s.

## (2) The Demonstration Effect of Neighboring Countries and International Relations

There are two internationally influenced paths market reforms in Vietnam could have taken. One is socialist-leaning reforms similar to those of Gorbachev's USSR and Deng Xiao-ping's China, and the other is the more capitalist system used by members of ASEAN (Association of Southeast Asian Nations). The reforms that occurred in Gorbachev's USSR and Deng Xiao-ping's China are obviously two very different ways of reforming a socialist economy. Gorbachev recommended that the Hanoi leadership to introduce economic reforms in 1984, when he also greatly reduced Soviet aid to Vietnam. Not only Gorbachev's recommendation, but also the aid cut obliged Vietnamese leaders to move forward toward liberalization. As an economic model, China's system was more suitable for Vietnam according to the Hanoi leadership because of its social and cultural similarities. Both China and Vietnam began their socialist revolutions with agrarian societies, where over 80 percent of their populations were peasants. Vietnam always carefully observes policy decisions in China, and the Vietnamese Communist Party always holds its twice a decade congress several months after its Chinese counterpart in order to evaluate the proposals and changes are to be carried out in China.

ASEAN offers another that Vietnam could have used had it not had chosen a socialist system. While Vietnam suffered serious economic crisis after the Vietnam War, most ASEAN countries, first Singapore, then Malaysia, Thailand and Indonesia started to enjoy high records of economic growth. Furthermore, ASEAN, originally a regional agreement to defend its members from Communism, transformed into a broader impetus for regional economic integration. Vietnam joined ASEAN in 1995, ready to coordinate its economic, commercial and monetary system with its capitalist

neighbors, and to seek further economic development within the regional framework.

Another factor behind the demonstration effect is that China is Vietnam's most powerful neighbor. Vietnam does not have to worry that a stronger neighbor may oppose their new project to adopt a market economy without democratizing. China may have interfered if Vietnam had had introduced both political and economic liberalization, taking some prosperous ASEAN neighbors, but as long as Vietnam is using the Chinese model, Vietnam has security guarantee from China. Similarly, Vietnam's smaller socialist neighbors of Laos and Cambodia also have similar policies, and as a result all three nations are both geographically and politically secured in the international arena. On the contrary, Cuba is not geographically close to China and Vietnam, and also has as its superpower neighbor the United States, which may not approve if Cuba were to adopt a Chinese or Vietnamese model. It would be much more difficult for Cuba to get support from its neighbors if it were to try to realize economic reform without preceding democratization.

### (3) Poor Social Policy in Vietnam

Social policy (healthcare, education, old-age pensions, social assistance for socially vulnerable citizens, housing, portable water supply, etc.) generally functions as one of the most effective redistributive policies of any government. Socialist states have provided, as per Marxist principles, universal social policy to realize more egalitarian societies. Cuba achieved one of the most universal social policies in the world since the first half of the 1960s, whereas Vietnam did not. Free education in Vietnam was established only after the unification of North and South, and in the socialist North before 1975, individual villages were responsible for funding their own schools and

teachers. Old-age pensions and free healthcare were provided only to the urban public, and after the Doi Moi economic reforms of 1986-1989, all these social policies became no longer free, and quite expensive.

The main reason for this poor social policy is lack of resources. Both Cuba and Vietnam received economic assistance from the Soviet Union during the Cold War, yet the amount that Cuba received was much more than that of Vietnam.

**Table 1: Soviet Aid to Cuba and Vietnam (1980 – 1988)**

<b>Year</b>	<b>1980</b>	<b>1982</b>	<b>1984</b>	<b>1986</b>	<b>1988</b>	<b>1990</b>
<b>Cuba</b>	3,243	4,340	5,153	3,280	3,270	3,955
<b>Vietnam</b>	935	1,000	1,040	1,325	1,365	585

Source: *CIA Handbook*, 1982-1991

The population size of Vietnam was almost 7 times as large as Cuba's, but the total amount of Soviet aid to Cuba was 2-5 times as great. As a result, Soviet aid per capita in Cuba was 14-35 times as large as that in Vietnam. The Cuban government could use this advantage to successfully provide universal social policy.

Another reason for Vietnam's poor social policy is its continuous war experience. Vietnam suffered from a greater number of wars during the second half of the 20<sup>th</sup> Century. The first Indochina War for independence from France lasted from 1946-1954, and Vietnam was divided into two in the process. The North Vietnamese government in Hanoi decided to unify Vietnam and attacked France, which resulted in the Second Indochina War from 1959. This conflict attracted the attention of US administrations who feared extension of the Soviet sphere of influence, and US government interfered in

the war from 1964. The so-called Vietnam War lasted until 1975. After unification, the People's Republic of China (PRC) attacked Vietnam in 1979 (Sino-Vietnamese War). As a result of this continuous warfare, the governments of both North and Unified Vietnam had to sacrifice much of their resources, and at the end of each war, they also had to spend more of their budget on economic recovery.

Before economic reform, 85 percent of the Vietnamese population were peasants living in rural areas. For this 85 percent, there were few social benefits, and because of their socialist government's heavy dependence on the agricultural sector for industrial development plans, both socially and economically Vietnamese peasants gained little from their socialist state. This meant that Vietnamese peasants had no reason to feel that they were indebted to their leadership, and that the Hanoi government could not rely on its social policy as a source of legitimacy for socialism. The peasants were left out with little benefit, had sacrificed themselves for industrial development working in Vietnam's main industry of agriculture, as a result dying of hunger in the thousands. Under these circumstances, the Vietnamese government had few options available besides allowing citizens to seek their own survival under a market system.

Cuba offers very generous social policy to its people, with free education, free healthcare and universal social security pensions. The basic principle behind Cuba's revolutionary government is never to neglect any of its citizens. While the Cuban government failed to guarantee basic consumer life, especially after the end of the Cold War, it succeeded in guaranteeing minimum living standards and one of the highest social indicators in Latin America. This accomplishment has contributed to the loyalty of the Cuban people to their government, as many citizens acknowledge that the government and Revolution have directly improved their lives. The Cuban people have



more reasons to recognize the legitimacy of their revolutionary government than their Vietnamese counterparts.

**Table 2: Cuba’s Rankings in Social Indicators in Latin America**

Social Indicator	Rank
Life Expectancy at Birth	4
Adult Literacy Rate	1
Combined Gross Enrolment Rate of Primary, Secondary and Tertiary Education	2
Infant Mortality Rate	1
Children under Weight age 5	3
Number of Physicians per 100,000 inhabitants	1

Source: UN Human Development Report 2007-08.

While generous Soviet aid made it financially possible for Cuba to spend more resources on social development, one should also note that the Cuban government has taken strong policy initiative in implementing such high social development. The 2007 national budget shows that the government’s expenditure on education, healthcare, housing, social security (pensions) and social assistance are 48.6 percent of total national expenditure, almost a half of its budget (ONE [2008]).

**(4) Initiatives for Reforms by Ex-Conservative Leader(s)**

As expressed in the so-called “Nixon-China Syndrome,” conservative leaders are often more likely to realize drastic policy change. While proposals of liberal reformists are often opposed and blocked in legislatures by conservative fractions, conservative leaders have enough ground to convince fellow conservatives. It was a former conservative leader that proposed and introduced the Doi Moi economic reforms in Vietnam in 1986.

It was Truong Chinh,(1907-1988), who had been known as a Maoist theorist in the Communist Party in the 1930s and 1940s. He was already powerful enough in the 1950s to become general secretary of the party, and introduced agrarian reforms in North Vietnam in 1954-56 that caused much confusion and mistakes and eventually led to Chinh's resignation as party general secretary. While considered for a long time as a conservative leader, Truong Chinh converted to reformist in early 1980s when he witnessed the misery of rural areas. In 1984 he organized a small study group with young economists and bureaucrats to make a reform plan, and proposed it in the 6<sup>th</sup> Party Congress in 1986.

As reasons that Truong Chinh succeeded in realizing Doi Moi economic reforms, Furuta [1996: 16] reports, were that (1) he was powerful and held the number two position in the party during the 1980s; (2) he was respected by many fractions of the party, both conservative and reformist; (3) the hardliner general secretary Le Duan died just two months before the 1986 Party Congress. Because he had been a respected conservative leader for many years, Chinh could propose reform ideas without jeopardizing his position at the party.

#### (5) Weaker State Capacity in Vietnam

Generally, social revolution strengthens the state and makes it more centralized and autonomous from a specific class (Skocpol [1978], Skocpol [1994]), as it did in Cuba. Yet, Vietnam could not achieve such as strong, centralized state after the socialist revolution. While many scholars argue that revolutions and state capacity categorize both Cuba and Vietnam as examples of strong states<sup>4</sup>, this author believe that Cuba has

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<sup>4</sup> Skocpol [1978] and Migdal [1988] classify both Cuba and Vietnam as examples of

a stronger state than Vietnam. One reason behind its status as a weak state is Vietnam's social and cultural diversity. Vietnam has 54 ethnic groups. Each of them has their own language and culture, and many ethnic minorities live in mountainous border areas. It was much more difficult for the Hanoi government to educate all of them as socialists. The second reason is the autonomous traditional community in North Vietnam, which did not easily accept state control. Northern Vietnamese villages have been famous for their autonomous character since the feudal period, and it is said that the king's rule reaches only until the hedge of the village. The village has itself is autonomous, and if its interest contradict with the king's, villagers prioritize village rule. This character has continued under the socialist government. Kirkvliet [2005] depicts how peasants protested socialist policy and succeeded in changing government policy. The third reason is resistance in former South Vietnam. While most people in the South supported the national liberation movement, they had many disagreements with the policies of the government of former North Vietnam. Also, they lived under capitalist systems and enjoyed richer consumer life than in the North. They could not find many advantages behind converting to the Northern system, and the Hanoi government met strong protests in the South. In this sense, Vietnam's economic reforms were introduced in a country in which few social spheres indeed had never become socialist.

## **II: How is Economic Development Sustained? Conditions for Maintaining High Economic Growth**

### **(1) Sectors Familiar with Capitalist Economics**

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exceptionally strong states among developing countries.

When the government introduces a new policy, the first question is who is in charge of implementing that policy. When a capitalist system is newly introduced, the country requires some people who know how to invest and take risks, how to compete fairly, how to respond to customers' claims, and how to adhere to institutions such as economic regulations. In case of Vietnam, the former business sector and relatively rich farmers of the former South Vietnam were the most powerful locomotive of the Doi Moi reforms. Those in South Vietnam lived under a socialist economy for only ten years, and most of them maintained their skills in business and management in both urban and rural areas.

Furthermore, peasants in North Vietnam also used to live outside of the socialist economy protected by the government. They knew how to survive without the socialist government's protection. They lived in their relatively autonomous villages, built schools for their children, took care of their sick by themselves outside of the government's social policy programs, and solved conflicts on land and harvest among village members. Villages in the northern part of Vietnam have been famous for their independence since the pre-colonial period, and the socialist government also made efforts to penetrate into village structure, succeeding only partially<sup>5</sup>. Although the government succeeded in distributing land equally among peasant households, abolishing classes and income disparity among villagers, the government could not control villagers' lives as thoroughly as the Cuban government. While the government could not provide sufficient social protection, peasants knew how to survive independently. This self-help culture is important when a market system is introduced, as citizens can find a way to survive as the government withdraws its protections from

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<sup>5</sup> Kerkvliet [2003: 29] describes how northern villages resisted state control over villagers' lives.

many spheres of life.

Here lies is a serious problem that Vietnam has been facing since the initiation of economic reform, corruption. According to Díaz-Briquets and Pérez-López, corruption happens when there is monopoly and discretion without enough accountability (Díaz-Briquets and Pérez-López [2006: 5]). In the short term, most cases of corruption tend to occur in the process of privatization. In any time period, a socialist country needs to seek foreign investment, and contracts with foreign companies especially attract corruption. In Vietnam, much corruption occurs when party cadres occupy the limited number of posts in joint ventures with other enterprises that have little accountability. There is not a strong enough judicial system to regulate discretion, and civil society is not yet prepared to monitor these enterprises. Díaz-Briquets and Pérez-López believe that democratization is a precondition to deter corruption, and after democratization government and international institutions can fight against corruption, as they have done in former Eastern Europe and Central Asia. It seems that they fear that once party and military cadres occupy high positions of joint ventures and mixed enterprises, they also stabilize the political status quo, impeding political reform. However, China and Vietnam face more pressures for political reforms, and indeed they have come to allow some civil liberty as they give up economic control over their people. Nevertheless, it is too early to judge the impact of a “economic reforms first, democratization later” policy on long term social demand for political reform.

## (2) Abundant Labor Force with Relatively Low Labor Cost

Asian industrial development all started from export-oriented strategy, taking

advantage of abundant labor forces with low labor cost. Asian states first succeeded in exporting labor-intensive light industrial goods, and later shifting to heavy industrial production. This is also true of China and Vietnam. Young populations provide abundant labor forces to newly developed industrial sectors. These workers come from rural, low-income, peasant families, and migrate to urban industrial zones.

These characteristics were or are common in all Asian countries, but they are not present in Cuba. The socialist government has solved, to a great extent, the economic and social inequality between cities and rural areas. Population aging in Cuba began twenty years ago. Vietnam's population aging started in the mid-1990s, ten years after the economic reforms were launched. It is thus unlikely that Cuba develop labor-intensive industries. The Cuban government needs to consider other development strategies.

### (3) Investment by Overseas Vietnamese

There are 2.7 million overseas Vietnamese (*Việt Kiều*) in the entire world, and half of them live in the United States. Before the 2004 regulation (explained below), overseas Vietnamese were reluctant to invest in Vietnam because they did not like to do business with the communist government. They were willing to help their relatives for humanitarian reasons, but did not want to help the government (Furuya [2002]). Many overseas Vietnamese sent money as family remittance since the 1980s, yet many of them were reluctant to invest in their ex-fatherland. In spite of the 1994 Foreign Investment Law, and also despite the complete lift of economic embargo of the US government against Vietnam in 1995, their investment did not increase to the level of their family remittances.

In 2004, in order to attract more foreign capital, the Vietnamese government introduced some favorable tax conditions for investments made by overseas Vietnamese. This new regulation makes all remittances by overseas Vietnamese tax-deductible. As a result, remittances dramatically increased by over 11 percent of GDP in 2006. That amount is equivalent to the total amount of official development assistance that the government received in that year. Finally, the new regulation has made overseas Vietnamese prioritize economic benefits over political resentment. The Vietnamese government expects overseas Vietnamese to send not only money, but knowledge that is crucial for industrialization (Ishizuka [2002: 271]).

Vietnam's experience shows that it was government's policy change regarding foreign investments that contributed increases of capital inflow. The lifting of the US embargo against Vietnam did not increase these flows.

### **III Evaluation of Applicability of Vietnam Model for Cuba**

(1) Does Cuba Have the Conditions Necessary for the Introduction of a Market System?

Among all the conditions examined as responsible for the *introduction* of market reforms in Vietnam, (1) serious economic crisis is present in Cuba, but (2) the demonstration effect is only half present, coming from China and Vietnam. Demonstration from neighboring capitalist countries is not clearly present, because it is unclear which country would be Cuba's modeling neighbor – the Dominican Republic, Puerto Rico, or Costa Rica? Furthermore, these countries have not integrated in the same way as their ASEAN counterparts, and as such do not offer a stable framework for Cuba to integrate into its common institutions.

(3) Social policy condition may work contradictory to the introduction of market

economy in Cuba, because it has strengthened the source of legitimacy of socialism of the government, and also because the Cuban people take it for granted to receive minimum social protection from the government, and may not be ready to find ways of survival without those protections. Condition (4), initiative by an ex-conservative leader, depends on the question of whether Raúl Castro, known as a conservative leader for many years, could openly convert to a reformer, as Truong Chinh did. Also, it has been unclear if Raúl is strong enough to convince all the conservative fractions to launch reforms, even if he had the intention to do so.

Up to now, Raúl has not shown any sign of change in his conservative line. He announced some minor reforms such as the approval of sale of personal computers and microwaves to Cubans, of Cubans' contracting cell phones, and equal treatment between foreigners and Cuban locals in terms of hotel use. These changes are better than nothing, but did not improve ordinary people's lives. The only reform that may solve even partially the material shortages of the Cuban people is to rent idle farmland to individual farmers free of charge. Yet, it still is not known how farmers would have enough incentives to produce more food, even with more land. Since succeeding his brother Fidel in February 2008, or his virtual succession in August 2006, he appointed new leadership members almost solely from the group of conservative first-generation revolutionaries, and it seems unlikely that he will resort to reformist policies, as he would have to convince all these conservative military cadres if he ever wanted to implement economic reforms. Suchlicki points out that the Cuban military, which has more than 50 percent of the national economy under its control, will never allow the introduction of market economy, because that means the military must abandon much of its privileges in the economy, privatizing their own state enterprises, most of which



are the most productive enterprises in the country (Suchlicki [2008]). If that is true, Raúl will need to compromise between the people's demand to improve their living standard and the military's interests in the economy. He should be strong enough to persuade the military if he wished to introduce market mechanisms. As Raúl is the second highest ranking of Cuban politics mainly because he is Fidel's brother, he may not be capable enough to obtain consent from all conservative fractions as Truong Chinh (or Nixon) did. Or it is also possible that Raúl is unable to implement any new policies as long as his elder brother Fidel is alive.

Condition (5), state capacity, determines to what extent the government could implement socialist system in the society and economy. If many spheres of the society were untouched in Vietnam because of lack of state capacity, or if the society is too strong in Vietnam, as Migdal [1988] describes for Turkey, it is easier to introduce market economy because socialist system had never been fully internalized by citizens. However, the Cuban government succeeded in penetrating in almost every sphere of the society, and has transformed the society with their revolutionary institutions.

## (2) Can Cuba Sustain Economic Development?

Condition (1) of existence of a certain number of people who are familiar with capitalist economy is not applicable in the case of Cuba. The question will be how quickly the people can learn the mechanisms of a newly introduced system, such as the taxation, investment, risk-taking and governance. Some argue that Cubans may be able to learn them quickly because they have experiences in black market activities (Saney [2004]). Yet, in the example of Vietnam, people in former North Vietnam, who also used to obtain many of their necessities in black market, have been slow in learning

how to do business in a capitalist economy. Vietnam's high economic development has been led mainly by people in former South Vietnam, whom people in former North Vietnam could learn from. Twenty years after the Doi Moi reforms were introduced, there are still many lags in development between those two regions, and people in former North Vietnam are still in the middle of the learning process. Condition (2) of abundant and inexpensive labor force could be relative. As population aging has been ongoing in Cuba for twenty years, one cannot expect abundant young labor force. Yet the question of labor cost may be relative, compared to those in Cuba's neighboring countries in the Caribbean, which enjoy relatively high wage levels compared to Mexico and Central America, and also operate in industries that Cuba would likely choose as export sectors. It is obvious that Cuba can never compete with China and Vietnam in the light industries sector, but if it chooses to export services, especially knowledge-based services such as medical staff service, as Cuba has been exercising in recent years to Venezuela, Bolivia and other developing countries in Asia and Africa, or as the Philippines has done in Asia and the United States, Cuba may be able to compete in the world market.

Condition (3) of investment by the exile community has been important in both Vietnam and China, especially after the government made favorable legal conditions for their investments. The possibility of Cuban-American community for investment in Cuba perhaps depends on reconciliation of both US and Cuban governments and also the emergence of younger generation which may accumulate capital in the United States, as did Vietnamese-Americans have done.

One of the greatest obstacles for investments by Cuban-Americans would be their strong demand for the democratization of Cuba. The Vietnamese model did not bring

**Table 3: Conditions to Introduce Market Economy**

Condition <i>to Introduce</i> Market Economy	Vietnam	Cuba
(1) Economic Crisis	Yes	Yes
(2) Demonstration Effects	Yes (China and ASEAN)	Yes (China and Vietnam)
(3) Social Policy	Poor	Generous
(4) Initiatives by Ex-Conservative Leader/s	Yes	Unclear
(5) State Capacity	Weak (Society strong)	Strong (Society weak)

**Table 4 Conditions for High Economic Growth**

Condition for High Economic Growth	Vietnam	Cuba
(1) Sector Familiar with Market Economy	Yes (in former South Vietnam)	No
(2) Labor Force	Abundant and inexpensive	Not abundant, cost is unclear
(3) Investments by Overseas Residents or Immigrants	Yes, after the new investment policy of Vietnamese government	Unclear, depend on conditions of Cuban government

about political reforms in the short term. According to the 2007 FIU Cuba Poll by Cuban Research Institute, still the largest group (35 percent) of the respondents feels it

necessary to wait for both political and economic transition in order to lift US embargo against Cuba, while the 6 percent responded that they would support cessation of the embargo with only economic changes. Because the second largest group (29 percent) supports unconditional lift of the embargo, this does not mean that most of them stick to political reforms as the primary condition to normalize the bilateral relations, but this tendency to prioritize democratization may discourage the advancement of Vietnamese-style reforms. The same tendency can be observed in the US government, as the Helms-Burton Act declares that the US government would lift the embargo only when both Fidel and Raúl Castros resign from all political positions, and also when the provisional government prepares for free elections with a multiparty system. Indeed, one-third of the Cuban-American community and the legally restrained US government would be the greatest external obstacles for any Cuban government effort to realize Vietnamese-styled reforms.

#### **IV. Conclusion**

Although both Cuba and Vietnam became socialist in the 1950s, there are many differences in conditions of the two countries. Vietnam has successfully introduced a market economy and maintained high economic growth while the maintaining a single-party system. This has been a good method of survival for the Vietnamese communist regime, and could be an appropriate model for Cuba. Yet, there are some conditions that Vietnam has that are difficult to duplicate in Cuba. Regarding factors that contribute to the introduction of a market economy, Cuba's generous social policy and strong state capacity may impede its people from adapting to a capitalist system. In Vietnam's case, those conditions allowed the Hanoi government to leave much space

free from socialism even during the height of socialist era of the 1970s and 1980s. The question of whether Raúl Castro would become a powerful reformist like Truong Chinh is unclear at best. As Fidel Castro remains quite influential even since his retirement in February 2008, Raúl may not be able to officially show the public that indeed he desires more economic reforms. Yet, as far as his bureaucratic appointments are concerned, Raúl has chosen to follow the same path as his elder brother.

There is even more uncertainty regarding conditions for high economic growth. Vietnam was fortunate to have people who were familiar with the capitalist system in its southern region, which Cuba does not have. The labor force is no longer abundant in Cuba due to population aging, and the government will need to find a different way from Vietnam to compete internationally. Both the Cuban and US governments need to prepare good circumstances to promote investments under a capitalist system.

The issue of corruption and good governance is complicated, as Vietnam neither has been able to overcome this problem. Yet, rapid democratization is not necessarily a solution to bad governance and corruption, at least short and medium terms, as one can see in Russia and Eastern Europe. The author agrees that good governance will emerge eventually with democracy, but it is the Cuban people that can decide how long they can tolerate their lack of economic and political freedom.

The current Cuban government may well fear introducing Vietnamese-styled reforms as they dread how society may diversify through economic liberalization and the empowerment of new private sector. These developments could inspire demands for democratization in the long run. Vietnamese styled reforms are similarly not free from democratization. Adoption of market system means that the government withdraws from many parts of the economy, leaving them in the hands of the private sector. It

also means that the government loses its power over the population via the economy. People no longer need to worry that the government might cut their salaries, demote them or lay them off if they express views different from that of their government. Interests become diversified and people's demands for a multiparty system grow dramatically. People working in the private sector can accumulate capital to form political movements, outside of official frameworks such as mass organizations. Both China and Vietnam chose development paths through foreign direct investment, and, due to resulting influence of international financial institutions, are more vulnerable to external shocks. This increases foreign influence on domestic issues extending beyond economic ones. Thus, there are many factors that may concern the Cuban regime for its own survival. In fact, the Vietnamese Communist Party is frequently pressed to form a multiparty system. At the 10<sup>th</sup> Party Congress of 2007, it is reported that there were heated arguments on the topic, and the resolution of the Congress was not announced until three months after its closure. Already there is more civil liberty in Vietnam such as free access to the Internet, legal criticism of the government by writing letters to the editors of some newspapers and journals, and the approval of many private publications. The current Cuban government may face the same kind of pressure from its people were it to introduce market reforms. The new administration of Raúl Castro has allowed more open expression of discontent in some newspapers and meetings at universities and work places, but still there is much less freedom in Cuba than Vietnam and China. This will be a political choice: (1) short-term stabilization of the society through improving people's material lives with long-term risks of democratization; or (2) the status quo, or short-term acquisition of power and stability through repression and military support at the cost of long-term uncertainty and instability as the government

maintains a zero-sum game. Considering Raúl's leadership selections in February 2008 and in March 2009, his government has chosen the second path. Yet, that means that the government has chosen to sacrifice the economic well being of its people for short-term stability. One wonders how sustainable this will be in the long run.

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