Chapter IV

Foreign Investment: Opening under the Socialist System

1. Introduction

The introduction of foreign investment in Cuba was approved in 1982, almost ten years before the collapse of the Soviet Union, and it is not a policy hastily made because of Cuba's economic crisis after the Cold War. As it was well analyzed in Chapter II, in the 1980s the Cuban government had already acknowledged the structural problems of the economic system based on the centralization and other orthodox socialist policies. The introduction of foreign investment policy was proposed under this recognition. According to the Decree 50 in 1982, which provided for the first time the introduction of investment by foreign capital, "the associations with foreign interests," "help the consolidation of our economic and social system" (from the preamble). And as a main form of the association, it refers to the joint venture program between a Cuban state enterprise and a foreign firm.

In Cuba, some foreign companies worked from early years. Regarding Japanese business in Cuba, in the 1980s all principal trading firms had their offices with Japanese representatives in Havana, and some other industries such as machinery and automobiles also had offices. In spite of the U.S. embargo against Cuba and Washington's pressure on the Japanese government, the attitude of Japanese businesspeople was, "to go wherever in the world they can get profit,"[1] and their policy is quite pragmatic, rather than ideological or politically motivated. This attitude is seen in developed countries other than the United States.

However, seeing the content of the projects and trades, using Japan as an example, the most business between Japan and Cuba is the exchange of Cuban primary goods such as sugar and seafood, and Japanese manufactured goods such as machinery, trucks, spare parts, chemical goods, etc. Japan's largest economic commitment with Cuba has been trades, and a few other activities such as plant exportation and technological assistance, which may promote the diversification of Cuban industries (especially industrialization) have not been done. There are many reasons for that, notably the U.S. economic sanctions and problems from the Japanese side, but the most basic problem is in the Cuban system. A series of reforms taken to promote foreign investment shows efforts of the Cuban government, and we decided to spare one chapter for that.

As it was said above, this policy was legalized in 1982, but the number of foreign firms which participated in Cuban business before the disintegration of the Soviet Union remained small. This is partly because the government had still not been well prepared. It was at the 4th Congress of the Communist Party in October, 1991 that the government called for the foreign investment in full. It was a few months before the collapse of the Soviet Union, but Cuba was already suffering from a delay of goods from the Soviet Union. In the previous year, the Soviet government had requested Cuba to do all business on a hard currency basis, not on the ruble basis that had been adopted. The Cuban government declared at the Congress that Cuba would start in full the promotion of tourism as a development policy in the short term, and the introduction of foreign investment as a policy in the long term. Cuba's dependency on imports is at a very high level[2], and a shortage of foreign reserve has been a serious problem. Tourism and foreign investment are thought, therefore, very effective in increasing the hard-currency income.

This chapter, under the understanding shown above, will depict the changes of the situation of foreign investment policy of Cuba after the 4th Congress, and analyze the conditions and situations held especially by the revision of the foreign investment law in September, 1995.

2. Introduction of Foreign Investment after the Disintegration of the Soviet Union

Since the government's official determination to introduce foreign investment at the 4th Congress of 1991, the first area which showed the effects was the tourism. Until the beginning of the 1990s, the

Table 4-1 The current number of foreign investments by sector and by country of origin (1995)

Sector	Number of enterprises	Country of origin	Number of enterprises
Agriculture	10	Spain	47
Mining (except petroleum)	28	Mexico	13
Petroleum	25	Canada	26
Manufacturing Industry	56	Italy	17
Tourism	34	France	13
Transportation	5	Benelux Countries	9
Construction	22	Tax Heavens	31
Telecommunications	3	Other Latin America (except Mexico)	29
Others	29	Others	27
Total	212	Total	212

Sources: George Carriazo Moreno, "Reforma en la economía cubana," *Panorama económico latinoamericano*, julio de 1996, p.18.

Cuban tourism had been very small, and most tourists were from the Soviet Union and Eastern Europe. Yet since the declaration of the 4th Congress, where the government showed a strong intention to develop both tourism and introduction of foreign investment, tourism became the first prominent area into which foreigners put their capital, because for them it is not very risky, and they can get profits within a short period of time.

Within a few years after the Congress, investment in areas other than tourism has been gradually increasing. The main areas are the mining industry, especially production of nickel and exploration of petroleum, production of cement, and the telecommunications industry, among others. The Cuban government is hesitant to publicize the names of foreign firms and areas, for the reason that they need to protect investors from pressure of the U.S. government. Yet as a general tendency, it was reported that Canadian firms invested in nickel industry, Canadian and French firms in exploration of petroleum, and Mexican firms in telecommunications and cement industries. In tourism, Spain has been the principal investor country from the beginning, but Canada, Italy and Germany are also increasing their investments. According to José Luis Rodríguez, Minister of Economy and Planning[3], the development of investment in the areas of textile and electronics was notable in 1996. The Minister stated then that the government would promote investment especially in the area of manufacturing industry[4]. The number of joint ventures up to the end of 1996 is 260, and it was reported that more than 100 more companies are currently negotiating (See Table 4-1).

(1) New Foreign Investment Law

The foreign investment law was revised after 13 years. The revision was announced on September 5, 1995. Compared to the Declaration of the Party Congress, limits in some points were modified:

1. Security in property rights: To legally protect assets formed through foreign investment, guarantees that the Cuban government shall not confiscate the property. For the first time the government legally recognized the property rights of foreign persons. It means that the major concern of foreign parts was resolved.
2. Areas open to foreign investment: It was already approved in the National Congress of People's Power in December, 1994. The law provides that all areas except education and medical service are available for foreign investment.
3. Elimination of limits to share ratio between the state and foreign people: In addition to joint ventures and association with foreign contract, the form of 100 percent foreign capital also became possible. In the case of joint ventures, the principle that the ratio of government with the foreign partner shall be 51:49 was eliminated, and it shall be determined in each case. The approval of 100 percent foreign capital

will be done as a case of joint venture. Yet no case of 100 percent foreign capital has been approved.

4. Employment of Cuban workers: As the principle, an enterprise in this category (with foreign capital) employs local workers through an employment entity proposed by the Ministry for Foreign Investment. Yet in the cases of joint ventures and business by a contract with an international economic association, with the Ministry's approval, the company shall be able to make a direct employment contract with the workers (Article 33 (1)). However, after this phrase, it says "always with arrangements of legally unemployed[5] persons for labor contract," and it indicates that the employment of enterprises with foreign capital is to solve the problem of unemployment. The direct contract is limited to the cases in which the government participates, and even without an employment entity of the Ministry, the government shall be able to control the employment.

Cuba has the experience of having been controlled by foreign (U.S.) corporations, and that foreign control was finalized by confiscation and nationalization after the Revolution. The revolutionary government's cautious attitude toward foreign investment is still observed. While the countries which are aiming for economic development through liberalization have been obliged to accept foreign investment with conditions favorable for foreign parts, because of lack of capital and technology, the Cuban government is introducing foreign capital little by little with much caution. Nationalization policy has given a legitimacy to the revolutionary government for 38 years as a symbol of independence from the United States, although it was at the same time the beginning of Cuba's dependence on the Soviet Union. Therefore, before considering the economic effects, they need to consider it a political issue.

3. Prominent Investment Areas

(1) Tourism

As it was stated in this chapter, the most marked investment area has been tourism. It was developed first in Havana City and Varadero Beach, which is located in the Province of Matanzas, about 3 hours from Havana City by car. The projects include constructions of hotels, hotel management, travel agencies, transportation and other infrastructure. Varadero Beach, where there were mansions of U.S. millionaires before the Revolution, used to be a very quiet resort area. But now, on the beach more than 20 hotels were built and the atmosphere has changed completely.

When a foreign firm invests in this area, usually the government constructs infrastructure such as hotels, and a foreign partner is in charge of management of the hotel and a travel agency. The number of hotels which reach the level for foreign tourists is not sufficient, and the government has constructed new hotels, as well as renovated the hotels built by U.S. companies before the Revolution. Its foreign partner takes care of management, including worker training, in which the discipline was not good enough to meet the demand of foreign tourists mainly from developed countries. Lufthansa Airlines of Germany takes advantage of its network of travel agencies and airlines, vending flight tickets and package tours, and brings European tourists to the hotels that it manages in Cuba. In this case, the Cuban side does not need to do marketing abroad, only offer hotels and some other domestic services.

Thanks to those efforts, the number of foreign tourists is increasing each year (See Table 4-2). According to the Ministry of Tourism in January, 1997, the number of foreign visitors in 1996 (until December 30) totaled 1,001,739, much more than 740,000 of the previous year (1995). The gross income from the tourism was 1.3 billion dollars in 1996, and is supposed to surpass that from the sugar industry. By country, the top country was Italy (168,954), then Canada (143,573), and Spain (105,904). Among Latin American countries, Mexico has been the top in recent years, but the number is decreasing because of the economic stagnation in that country.

Table 4-2 The number of foreign visitors

(Unit: Thousands of persons)

Year	1993	1994	1995	1996
Number	544.1	619	740	1001.7

Sources: Banco Nacional de Cuba, Oficina Nacional de Estadística, *Granma*, and the data of 1996 is from *Granma Internet*, 14 de enero, 1997.

The number and quality of the hotels which can receive foreign tourists are not sufficient. In the season of the International Trade Fair which is usually held in the first week of November, all the principal hotels become full. According to the government, the hotel rooms in the whole nation numbered about 25,000 at the end of 1995. Among them, only 1,700 of those were managed by foreign investors. The most hotels which meet the demand of foreign tourists have foreign participation, and the majority are in Havana City and Varadero.

Infrastructure other than hotels need to be built and prepared. One such area is the modernization and extension of international airports. In 1996 Canadian Intercan Technosystem invested 25.5 million dollars in a project to extend José Martí International Airport of Havana City. There are projects to develop regions other than Havana and Varadero. Santiago de Cuba, the second largest city in Cuba, is currently undergoing modernization at its center and hotels are being built and renovated. In Camagüey, the main city in the central region of the nation, the international airport is being extended using foreign investment.

(2) Real Estate

Under the socialist system, the dealing of real estate has been prohibited in Cuba, even among its nationals, since the 1980s. A citizen who wishes to move to another city or area in the same city, cannot sell his or her house or apartment. What he or she (Person A) can do is to search for a person (Person B) who has a house or apartment in that city or area where A wishes to live, and at the same time who wishes to live in the place where A lives now. If A and B can reach an agreement to exchange house or apartment, both can move to the place where they want to live.

Foreign investors also have this limit. When a firm establishes its branch office in Havana, it can only rent an apartment or house from the government corporation. After building a factory, the right that can be approved for a foreigner is only the right of its use. The right of property for the foreign part is not sufficiently protected. Furthermore, under the current situation where the shortage of housing and building for the use of foreigners has been serious, if they have to wait until the Ministry of Construction and the government corporation for services for foreigners, which is called Cubalse, to construct houses and buildings for foreigners, it would take more time, and the work may become more inefficient and lower in quality.

In January, 1995, it was decided by the government that the dealing of real estate shall be permitted only between the government and foreigners. According to that decision, the new investment law of September, 1995 provides that foreign firms shall be capable of purchase and investment of real estate (Chapter IV, Article 16). Since 1995, investment in the field of real estate has been advancing gradually. The district of Miramar in Havana, which was a residential area for upper-middle and upper class before the Revolution, many elegant houses and apartment buildings still can be seen, and many foreign firms have offices, along with embassies and diplomats' houses. However, as those buildings had not been well maintained after being confiscated, infrastructure such as water, electricity and telephone, and the buildings themselves have been deteriorating. Thus most of those houses cannot be used by foreigners without being repaired. Miramar is one of the areas to which foreign investors have paid attention from the early stage, and at the beginning of 1995, it was reported that a French firm obtained the right to develop the district.

In the same year, the government announced a plan to build, with associations of foreign companies, houses and offices for foreign firms. In July, 1996, the first joint venture for development of real estate was established with financing of Argentaria Bank of Spain. It plans to renovate 15 hotels, and then to build offices and houses. Habaguanex, S.A. which is reconstructing the area of Old Havana which was selected a world heritage by the UNESCO, is also participating in this venture. Those offices and houses are to be sold to foreigners, not for rent, but the prices are expected to be very high, and the foreign side is not very anxious to buy. Yet in any case, it is an advance in the reform.

(3) Other Sectors

In Cuba, the shortage in goods and services has been very serious, since the suspension of Soviet assistance, and drop of imports from the former CMEA countries. Even before the collapse of the Soviet Union and disappearance of the Eastern Bloc, the availability of goods was far from abundant, especially clothes and shoes, for example, but after that people cannot survive if they depend only on the ration system. People need to go to dollar shops in order to obtain not only clothes and shoes, but also soap and toothbrushes (they can also go to the "free market of manufactured goods" to buy those things, but the prices are almost the same as at the dollar shops). The government has been trying to introduce foreign capital in order to produce those goods in Cuba, and to reduce the dependency on imports. Therefore, industries to produce those consumer goods are limited to exports and domestic market only by hard currency.

Unilever of Great Britain and Holland, and Camacho, S.A. of Spain are producing in Cuba goods such as soap, detergent, and cosmetics. Those have been for the present aimed to be sold in the domestic market, and paid for in dollars, although they are thinking of exporting them in the future. Sherritt of Canada started last year the production of vegetables (such as broccoli and cauliflower) and fruits (such as strawberry and melon), all of which were supposed to be impossible to plant in Cuba. These agricultural products are for consumption in tourist hotels and supermarkets in dollars.

As Cuba has a similar climate to that in Florida, citrus had been planted since before the Revolution. But during the period of the Revolution, this sector had been left backward in new technology such as planting, packing and transportation. An Israeli firm invested in this area, taking charge of planting and a factory for packed juice.

4. Free Trade Zones and Industrial Parks

In the new investment law in 1995, there is a provision on the establishment of free trade zones and industrial parks. On June 3, 1996, the National Congress of People's Power legalized the decision as Decree 165, which showed to the world that Cuba was still advancing the process of economic reform, which had seemed stagnated after the incident of the shooting down of U.S. planes. The candidate areas are Mariel, 40 kilometers from Havana City, the area near the José Martí International Airport of Havana, and the city of Cienfuegos which is on the southern coast of the main island of Cuba. The enterprises (both foreign and Cuban) are exempt from tax for 12 years, and for 5 more years they get 50 percent exemption of use of labor tax and income tax. In the case of the service sector, tax exemption will be for 5 years, and then 3 more years of 50 percent of exemption to use of labor and income taxes. "Havana in Bond," the first bonded area in Cuba which was established in 1993, also shall be taken into the system of free trade zones.

If an enterprise wishes to establish its office and factory outside of the zones for the reason that, for example, it is more convenient to obtain a labor force and natural resources, with the approval of the Ministry of Foreign Investment, it shall be able to do its activities outside the zones without losing the advantages in tax, labor forces and finance (Article 25).

As for the employment of local labor forces, there is some advantage if they work inside the zones. In the case of state enterprises and joint ventures, they shall be able to employ people without going through an "employment entity" of the Ministry of Foreign Investment. They can establish an organization of its own, a similar employment entity and hire local laborers through its own entity. Yet in the case of an enterprise of 100 percent foreign capital, as well as the cases outside of the zones, need to make contracts through an entity of the Ministry.

They can also construct infrastructure such as ports, roads, hospitals, electricity, gas, and water, and also it is possible to rent or sell the buildings after constructing them.

Still it is in progress, and it is thought that currently the government is undergoing political adjustment inside. It is also unknown when they will put this into practice, but it can be expected that one day in Cuba we will see many factories.

5. The Influence of the Helms-Burton Act on Investments

As was depicted in detail in Chapter I, the Helms-Burton Act has affected the process of foreign investments in Cuba, although it has not been as much as was thought. The effect of Title III which was the part that caused the most concern, has been frozen by President Clinton. The EU and Latin American countries have strongly criticized the Act, and some of those countries, such as Canada, Mexico, and Great Britain took legislative measures to block the effect of Title III on the companies of each country. Therefore, the effect of the Act is diminishing on the third countries, but the negative effects on investment cannot be ignored, either. Carlos Lage, economist and Vice President of Cuba admitted in an interview with a Cuban magazine that several foreign firms postponed their investment because of the Act, and that interest rate for credits of commercial banks for Cuba rose because Cuba's country risk became higher[6]. However, at the same time he stated that Cuba made investment promotion and protection agreement with two more countries after the Act passed[7].

On the other hand, the firms which had already invested in Cuba have not yet (at least not completely) retreated from Cuba. For example, Javier Garza, president of the Domos Group of Mexico which owns 49 percent of the stocks of the new Cuban telephone company ETECSA, in an interview with Monterrey's local newspaper *El Norte*, stated that the Cuban telephone system was not U.S. property. According to him, the contract which the Cuban government made before the Revolution with ITT of the United States ended in 1989, and the Domos Group made a contract with Cuba starting in 1994, and therefore their business had no legal problem at all in the face of the Helms-Burton Act. Regarding the problem that senior staff and their families of the company would not be able to enter the United States, he said that he himself discussed it with his family and that all the family members agreed to accept the U.S. decision to reject their entries. He added that they would spend the money that was to be saved for investments in other countries[8].

Similarly, in the case of Sherritt International, of Canada, which has been one of the main investors in Cuba, at a meeting of stockholders with the presence of Fidel Castro, it was reported that it was announced by the U.S. State Department that possibly the U.S. government would take retaliatory actions toward the firm in the future, based on the Helms-Burton Act, and that Sherritt's chairman Ian Delaney and senior staff members of the firm would not be able to enter the United States[9]. Actually in July, 1996, one of the staff of Sherritt was refused entry to the United States. After the Act passed, Sherritt's stock price fell. In November, 1996, Sherritt announced that it issued $300 million of debentures to public, but it was reported that in reality it offered $675 million[10]. Vice President Patrice Merrin Best stated that this finance would be utilized for investments in nickel, petroleum refining, real estate, sugar and telecommunications in Cuba[11]. Despite all the difficulties caused by the Helms-Burton Act, Sherritt continues to deepen its commitment in business in Cuba.

In the case of Sherritt, the refinery of petroleum in Cienfuegos in which Sherritt is investing was constructed by the former Soviet Union, and therefore is not ex-U.S. property. This refinery was to be invested in by a Mexican company, but it was canceled because of Mexico's economic crisis[12].

There are some firms which canceled their contracts or reduced their commitment after the Helms-Burton Act was signed. The Dutch bank ING in July, 1996, and Bilbao Viscaya Bank of Spain in November, 1996, both canceled their credit for Cuban sugar industry for the following year. According to a report in France, this was because the State Department warned both companies that among the sugar mills to which they were to give credits included ex-U.S. property, and that it was possible that the U.S. government might assess penalties according to the Helms-Burton Act[13]. The credits canceled by those banks were taken by Sherritt[14]. Many sugar mills in Cuba are ex-U.S. property, which would be affected by the Helms-Burton Act.

The Mexican firm CEMEX once contracted with Cuba in 1994 for investment in the cement industry, but it was also reported that it would retreat because of the Act. Later the Cuban government stated that no firm had retreated because of the Act, and it is not clear if CEMEX has really retreated or not. Yet in any case, as the cement industry in Mexico is one of few areas that Mexico has a comparative advantage over its rivals in the United States, CEMEX has reasons to fear the risks by investing in Cuba, having a chance to take advantage of the North American Free Trade Agreement (NAFTA).

Observing the situation, it can be concluded that the firms which have already invested in Cuba do not consider the Act so fearful as to retreat from Cuba, while the firms which were considering investing in Cuba but had not yet invested are hesitating to realize the plan. The companies which have invested in Cuba also aim to establish their positions in Cuba while their U.S. rivals, which should have the most advantageous conditions, are blocked by the U.S. embargo from investing in

Cuba. However, it is also true that at the consideration of investing in Cuba, many firms are obliged to choose between the Cuban and the U.S. market, that is, if they invest in Cuba, they cannot access the U.S. market, and if they want the U.S. market, they have to give up the Cuban market. In the former case, if the firms have business opportunities in both countries, they need to get profits in Cuba to the extent that the profits compensate for that which they would have been able to get in the United States. If Cuba is so profitable is another question. It also depends on how long the U.S. embargo will last, but it cannot be denied that there is a risk.

6. Labor Issues in Foreign Investment

One of the main issues raised on the introduction of foreign capital was labor, especially employment of local workers in foreign firms and joint ventures. One issue is rationalization and the unemployment triggered by rationalization. When a foreign firm does business in a Cuban joint venture, it will act according to the capitalist principles. Especially when it participates in an enterprise which was before a state enterprise, it is inevitable to rationalize the organization and fire its redundant personnel. It has not been publicized, but, for example, it was said that Habana Libre Guitart, which was built as the Havana Hilton before the Revolution, was the first Cuban hotel which introduced foreign investment. The Spanish Guitart Group has been in charge of the management of the hotel since 1991, and it is said that one third or a half of the staff who worked before 1991 were fired. The socialist principle of no unemployment is collapsing in the introduction of the foreign investment, and it can develop into a political problem.

However, under the worst economic crisis in the history of the Revolution, the government is also proceeding with rationalization and firing (or displacing) workers in government offices and state enterprises. Also, salaries which the government pays are very low to keep a modest level of living. Therefore, now there is no big difference in risk of unemployment between the state and foreign investors, taking fringe benefits into account, to work in a joint venture or foreign firm is better. In the announcement of José Luis Rodríguez, Minister of Economy and Planning, at the National Congress of People's Power at the end of 1996, he said that "the introduction of foreign investment made it possible to protect the right to work of those who wait for a job assignment," and he appropriates the effect of creation of new employment. The government considers the introduction of foreign investment, along with the introduction of self-employment, as a measure to solve the unemployment problem.

Another problem is the system of employment and payment of salary. As was explained in the section of the new investment law, while a joint venture with the participation of the Cuban government is to be able to make a direct employment contract with local workers through an employment entity made within the enterprise, an enterprise of 100 percent foreign capital must employ through an entity of the Ministry of Foreign Investment. A Cuban who wants to work for an enterprise as such shall first register in the entity, and with a request of the enterprise, the entity shall pick up a candidate in the waiting list and present him or her to the enterprise. If the company would like to employ him or her after interviews and a trial period, it can make a contract, and if not, it can ask the entity for another candidate. Even after hiring him or her, the company can fire him or her whenever it would like, and thus the Cuban government asserts that under this employment system there is no disadvantage for the foreign part. In the case of joint ventures, the participation of the Cuban government possibly affects the employment, too.

As Economic Minister José Luis Rodríguez stated, one of the main purposes of the introduction of foreign capital is to solve the unemployment problem for displaced workers who are waiting for a new assignment. Therefore, it is unlikely that foreign companies and joint ventures can get better labor force by taking him or her from another organization.

The second problem is the system of payment of salary. The government has announced that enterprises which have foreign participation shall pay their worker's salary and social security costs (for pension and medical services, etc.,) in hard currency (dollars) to the entity which presents him or her to the enterprise. The workers shall be paid their salary by the entity in the Cuban inconvertible peso.

Since 1993 when the government virtually liberated the circulation of hard currency among the population, the circulation of the two currencies (dollar and Cuban peso) has been allowed, and thereby giving rise to a dollarized economy is functioning. Cubans now can enter hard currency shops which used to be prohibited before 1993, and self-employed people and black marketers receive dollars. For those who have some income in dollars, life is getting a little better. In this situation, the question if the salary is paid in dollars or inconvertible pesos will bear a great difference in working condition.

To presume from the current conditions for Cubans who work for foreign companies, the enterprises will have to pay the government's entity as the salary in dollars at an amount not lower than the international level. Therefore, foreign investors certainly will expect a high quality of labor, corresponding to what they pay the entity. However, it is questionable if they will be able to expect from their workers high quality labor, when they are paid in reality in inconvertible pesos.

Now, as was shown in Chapter III, even the government has found it necessary to pay in 'convertible pesos' which have the same value as dollars, to workers in some specific fields which require more incentives to improve the people's life or to increase exports, such as electric power plants and sugar mills. If the workers are paid in inconvertible pesos in the case of areas invested in by foreigners, it is more likely that the enterprises will perform worse, and that the foreigners will find it less profitable. Or rather, it is likely that the companies need to pay extra to their workers in addition to what they pay to the entity, or that, as is often seen in state enterprises, workers need to steal goods from the warehouses and offices of the company and sell them on the black market. In both cases, the enterprise needs to bear more labor costs.

Of course, this problem contains the much more basic issues of the low value of the inconvertible Cuban peso which reflects the various contradictions and the ill performance of the Cuban economy. It is more desirable to push the value of the Cuban peso higher, than to allow workers to receive their salary in dollars. Yet it is a question of the chicken or the egg, and if the government wishes to develop the areas of foreign investment, they need to make a political decision and even temporarily permit a little more irregular monetary circulation.

However, under the system of the socialist economy, the Cuban government has maintained the difference of salary among workers who work for the government up to only 4 times, and they are paid basically in inconvertible pesos. In the economic crisis and shortage of goods, many products including the ones very necessary to live are only available in dollar shops. The difference between those who have a dollar income and those who do not is now getting greater, and it is contradictory to the socialist principles. In order to maintain the equality to some extent under these circumstances, the government continues free universal education and medical services, and the rationalization of the government and its organizations is proceeding, and an accelerated income taxation system to self-employed people has been introduced. Now the government is trying to adjust and decide the point in the balance between equality and economic liberalization. Thus, as for the system of payment for workers in the areas with foreign investments, the government decided to keep the socialist principles, too.

7. Conclusion

Since the disintegration of the Soviet Union, the Cuban revolutionary government has been advancing reforms little by little, maintaining the socialist system and the revolutionary regime. Since the government is adjusting contradictions caused by introducing new factors into the old system, the process of reforms seems sluggish to those who observe from outside of the island. The conditions in foreign investments are less advantageous for foreign investors than those in Asian capitalist countries, and even compared with China and Vietnam, which have also kept the socialist system, Cuba's conditions are not better. For example, in comparison with China, Cuba is more advanced in the area of foreign remittances, while China is more attractive in employment and procedure of imports and exports. Furthermore, Cuba also has a disadvantage of the U.S. economic sanctions.

Yet in reality, the principles of socialism, especially the principle of equality, are deteriorating in the process of the introduction of tourism and foreign capital, permission for possession of dollars, and gradual introduction of self-employment. At the same time, however, it is difficult for the government to totally abandon the principle of equality. It is unlikely that the Cuban people are ready to allow the abolishment of the ration system of basic materials, free education and medical services, which are the positive side of the Revolution.

In addition, the Revolution took place relatively recently, in 1959, and many of the first generation who participated in the movement of July 26 and started Marxist strategy are still in power. Yet at the province and municipality level, the change of leaders is advancing greatly, and at the national level, some principal figures belong to a younger generation. Under this situation, it is more likely that the government will gradually proceed with reforms, adjusting between the worldwide trend of economic liberation and the stabilization of the revolutionary regime.

Yet it is unlikely that the economic reform itself will be suspended or stagnated for a long period of time, for it is never to be accepted nationally and internationally. For example, for several months after the incident of the shooting down of two planes in February, 1996, the government did not announce any new reform program. But in June of the same year, it legalized the free trade zones. An advisor of the Ministry of Economy, Miguel Figueras stated in his visit to Japan in May, 1996, that Cuba does not deny the possibility of private companies[15], and it can be interpreted as a sign of advancing the economic reforms to such an extent. In the long term, it is more appropriate to consider that Cuba is headed to economic liberation, maintaining the socialism politically, which indicates equality and national sovereignty.

Notes:

1 From author's interviews with Japanese businessmen who have worked in Cuba.

2 Cuba's food self-sufficiency rate has been very low. Even rice, the principal staple, needs to be imported for more than 50 percent of the national consumption. Almost 100 percent of grain to feed animals, wheat and dairy products are imported. 90 percent of petroleum is imported. As it is analyzed in Chapter II, the industrialization projects with Soviet assistance were stopped after the collapse of the Soviet Union, and Cuba has depended on imports for its supply of most of manufactured goods.

3 *Granma*, 26 de diciembre de 1996. Minister's announcement at the National Congress of People's Power.

4 Ibid.

5 In the Spanish text, the word "disponible" is used. Under the socialist system, theoretically unemployment does not exist. Correctly it should be called a person who was displaced temporarily from the position that he had and is waiting for another assignment by the government.

6 *Caribbean and Central America Report*, October 3, 1996, p.3. The interview was done by *Cuba Internacional*. On the rise of credit interests, it was also reported in *Financial Times*, January 7, 1997, p.23.

7 Ibid.

8 *Panorama económico latinoamericano*, septiembre, 1996. Yet this year, it was reported that the Domos Group is leaving the Cuban telephone business by selling its stocks to the Italian company STET. There is a view that the Domos did so because of the U.S. pressure (*CubaNEWS*, Vol.5, No.3, March, 1997, p.8.), while there is another which reported that the Mexican firm did so because of the Mexican economic crisis (*CubaINFO*, Vol.9, No.4, March 20, 1997.)

9 Ibid.

10 *Financial Times*, November 13, 1996.

11 *CubaINFO*, Vol. 8, No.15, November 21, 1996, p.3.

12 *CubaNews*, December, 1996, p.8.

13 *CubaINFO*, Vol. 8, No.16, December 12, 1996, p.7.

14 *CubaNews*, December, 1996, p.8.

15 *Mainichi Shimbun*, May 22, 1996.