

THE CUBAN ECONOMY'S TRANSFORMATION AND THE EU-CUBA POLITICAL DIALOGUE AND COOPERATION AGREEMENT (PDCA)

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1. Introduction

The agreement signed in 2016 between the Republic of Cuba and the European Union (PDCA) “aims to consolidate and strengthen links between the parties in the areas of political dialogue, cooperation and trade, on the basis of mutual respect, reciprocity, common interest and respect for their sovereignty” (OJEU, 2016). The agreement repealed the Common Position, the EU’s policy towards Cuba since 1996, which had blocked relations between the actors.¹ That same Common Position, however, left the door open for the possible negotiation of a cooperation agreement with Cuba – the very loophole used for the new agreement to prosper.

The change on the EU’s part has been clear. While the Common Position began: “The objective of the European Union in its relations with Cuba is to encourage a process of transition towards a pluralist democracy and respect for human rights and fundamental freedoms” (OJEU, 1996); the first preambular paragraph of the new agreement expresses the “desire to consolidate and deepen their links by strengthening their political dialogue, cooperation, and economic and trade relations, in a spirit of mutual respect and equality” (OJEU, 2016). In the *Joint Proposal for a Council Decision* of September 21st 2016 the High Representative of the Union for Foreign Affairs and Security Policy stated that: “The relationship will be geared to supporting the modernisation of the Cuban economy and society, cooperating bilaterally and in international fora with a view to strengthening human rights and democracy, countering discrimination and achieving the sustainable development goals” (European Commission, 2016). The change in the EU’s priorities is therefore clear. With the 2016 agreement, support is prioritised for the modernisation of the Cuban economy and society, without giving up on strengthening democracy within the framework of dialogue.

This chapter analyses the possibilities for European cooperation as set out in the PDCA, considering the tensions in the Cuban economy’s modernisation process due to both internal and external factors, and in the light of the European Union’s obligations to defend multilateralism

1. Council Decision (CFSP) 2016/2233 of 6 December 2016 repealing Common Position 96/697/CFSP on Cuba.

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and the values of the union. First, the economic prospects of the PDCA are considered. Then the possibilities of modernising the Cuban economy are addressed, before the discussion moves on to the internal and external determinants of transforming the economy. The final reflections indicate the problems the EU may face in ensuring the agreement develops in line with the planned objectives.

2. The economic prospects of the PDCA

Negotiations over the Political Dialogue and Cooperation Agreement (PDCA) between Cuba and the EU began in April 2014 and concluded on March 11th 2016. Following approval by the Council of the European Union, the PDCA was officially signed on December 12th 2016 and approved by the European Parliament on July 5th 2017. On November 1st 2017, following a decision by the Council, most parts of the agreement began to be provisionally applied, with full application subject to ratification by all EU member states.

The agreement was concluded ten days before Barack Obama's historic visit to Havana (March 20th 2016), which marked the beginning of an unprecedented period in bilateral relations with the United States. However, since the presidency of Donald Trump began in January 2017, the political context has changed substantially in Europe and the Americas and the optimism around the Cuba–EU bilateral relationship has faded, both due to potential tensions produced by the United States and those that may emerge within the European Union. Russia's geopolitical gambits in Latin America also require consideration. Since the beginning of this century, Russia has been extending and deepening its diplomatic relations with the countries of Latin America and the Caribbean (LAC). In fact, LAC countries share Russia's aim of defending a multipolar world. Russia is entering LAC markets with the sales of arms and technology and has established energy cooperation, all of which the United States may see as threatening its economic interests (Tirado and Caballero, 2019).

Three pillars structure the agreement, of which one is economic:

- trade and trade cooperation (Part IV): this Part codifies the conventional (WTO-related) basis for EU-Cuba trade. In addition, it includes provisions on trade facilitation and cooperation in areas such as technical barriers to trade and standards, with a view to improving the prospects for deeper economic relations. It also includes a clause envisaging the future development of a stronger framework for investments (OJEU, 2016).

Reference is also made in article 37 of the PDCA to “economic policies with a social vision oriented to a more inclusive society with a better income distribution in order to reduce inequality and inequity”, “trade and investment policies, bearing in mind the link between trade and sustainable development, fair trade, the development of rural and urban State and nonState enterprises and their representatives’ organisations and corporate social responsibility” and “the fulfilment of the objectives of the 2030 Agenda for Sustainable Development and of the internationally agreed objective of promoting decent work for all” (European Commission, 2016).

The agreement expresses concern for developing sustainable policies in the environmental, social and economic fields:

- Part III refers to cooperation and dialogue on sectoral policies and in its articles it states that the parties must agree on cooperation actions that will include sustainable development and gender perspective as “horizontal and strategic vectors for development” (art. 20) and will seek to promote transparent, accountable, efficient, stable and democratic institutions, as well as “promoting exchanges of best practices concerning good governance, accountability and transparent management at all levels” (European Commission, 2016: art. 23).

The EU’s proposal for cooperation with Cuba, as established in the PDCA’s objectives, involves accompanying “the process of updating the economy and society in Cuba by providing a comprehensive framework for dialogue and cooperation” (European Commission, 2016: art. 2). This cooperation framework concentrates on the multilateral aspects of trade and its international projection, with particular emphasis on the modernisation of its economy. Although the PDCA only refers to “updating the economy” and uses “modernisation” to refer for example to public administration, transport and customs, the *Joint Proposal for a Council Decision* says that the “relationship will be geared to supporting the modernisation of the Cuban economy and society” (European Commission, 2016: 2).

The Cuban economy’s modernisation depends to a large extent on the possibilities of carrying out the reforms envisaged in the new Constitution of Cuba. But also on the country’s geostrategic integration, in the context of the new global trade flows based on value chains that enable fragmented production and technology transfer absorption in advanced production processes. The focus on cooperation in the multilateral aspects of trade is a response to the EU’s trade strategy criteria as set out in *Trade for All* (European Commission, 2014). This strategy, in turn, is a response to the projection of both EU interests and values. These include the development of the poorest countries, strict social and environmental standards, and respect for human rights around the world. Another important point that is reflected in the PDCA is the defence of the multilateral system as the cornerstone of the EU’s trade policy.

Part IV of the PDCA on the regulation of trade between Cuba and the EU and the agreements related to the WTO is where Cuba will have to make an effort to adapt. Because while the PDCA pledges EU support, it also demands that the Cuban authorities make major changes to their trade policy. The Spanish Institute for Foreign Trade (ICEX) points out that while Cuba was a founding member of the General Agreement on Trade and Tariffs (GATT), is a member of the WTO and has signed most of its agreements, such as the General Agreement on Trade in Services (GATS), the minor role played by the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and the apparent lack of meaningful efforts to liberalise that framework is problematic, given that its trade regime includes numerous peculiarities that seem incompatible with multilateral discipline (ICEX, 2019). If changes to improve compatibility with multilateral discipline are not made, this could be a major obstacle to compliance with the PDCA and to Cuba’s relations with the EU.

The focus on cooperation in the multilateral aspects of trade is a response to the EU’s trade strategy criteria as set out in “Trade for All”.

Both internal and external factors determine the prospects of Europe joining in with the Cuban transformation towards integration in production fragmentation processes, accessing global markets and attracting foreign direct investment (FDI). The Cuban economy appears to have comparative advantages (tourism, maritime transport hub, food production) when it comes to connecting to global value chains, but its transformation requires increased private activity (regulated and des-tatified) and cooperation to develop alliances that help invigorate the economy based on the social economy and cooperativism.

The prospects for success and the purposes of European cooperation will in part depend the Cuban economy's evolution and the EU's commitment to supporting its modernisation. Part will therefore depend on the Cuban government and its economic decisions, as well as on Cuban society itself and its willingness and ability to participate in the modernisation. Factors that are external and exogenous to this relationship must also not be forgotten. Cuba's relations with the United States are one example, especially at a time when the Donald Trump administration generally adopts protectionist rather than multilateral positions.

The improvements in US–Cuba bilateral relations under the Obama administration were undone when it ended, causing potential harm to investments by foreign companies with interests in the United States, due to the extraterritorial effects of the Helms-Burton Act. This situation has worsened since the Trump administration announced on January 16th 2019 that it would shorten the deadline for the effective application of Title III of the law to just 45 days, instead of the habitual 180. There was a chance of the law being repealed by the United States Congress under the Obama administration, but this has become impossible in the Donald Trump era, especially in an election year like 2020.

Cuba's economic situation is limited not only by the stance of the United States, but also by the economic and political situation in Venezuela. Despite taking irregular channels to circumvent the US embargo, the oil supplied to Cuba has fallen to just 60,000 barrels a day (previously, up to 120,000 were sent), which are Venezuela's side of a deal in return for which Cuba provides Venezuela with doctors and teachers among other things (Vinogradoff, 2019).

3. The prospects of modernising or updating the Cuban economy

On April 19th 2018 Miguel Mario Díaz-Canel became president of the Council of State and of the Council of Ministers and it is to him that the task falls of facilitating Cuba's political transformation and economic modernisation. Raúl Castro remains the first secretary of the Communist Party of Cuba, which means that he has (or retains) the power both to drive the transformation or to stop it. However, the international context of "renewed cold war" and of the United States' blockade against Cuba does not favour the progress of the economic reforms. As recognised in Granma's report on the effects of the blockade in 2019:²

2. Official body of the Central Committee of the Communist Party of Cuba.

The economic, commercial and financial blockade imposed against Cuba continues to represent a brake on the development of all the

Cuban economy's potential, on the implementation of the National Plan for Economic and Social Development for the country, as well as for achieving the 2030 Agenda and its Sustainable Development Goals. From April 2018 to March 2019, the blockade caused losses to Cuba in the order of \$4.3436 bn (Granma, 2019).

The reform process to achieve greater productive efficiency has made little progress due to various conflictive situations in economic policy decision-making and the relationship between Cuba and the United States (De Miranda, 2019). But this should not be a hindrance to stronger EU–Cuba relations. The PDCA, which encourages dialogue and cooperation to promote sustainable development, democracy and human rights, and to find common solutions to global challenges through joint action in multilateral forums, aims to contribute to this objective. Areas of common interest include renewable energy, rural development, the environment, human rights, good governance, security and job creation. The agreement encourages engagement with all Cuban actors, including the public sector, local authorities, all of civil society, the private sector, and international organisations and their agencies. It also proposes forms of collective self-management (cooperatives) as a possible alternative in a context of incipient market development.

The PDCA is an economic cooperation agreement, but its success will depend on the Cuban economy's ability to adapt to certain market rules both domestically and internationally. The EU supports this transformation and economic modernisation through the cooperation mechanism. This should be effective, but persistent gradualism prevents meaningful progress. In any case, progress will be largely shaped by Cuba's new constitutional framework and the level of economic openness that is allowed without violating its restrictions. Developing both the private and cooperative sectors is desirable in the Cuban economy's current state, but policies on both sectors have suffered from successive ups and downs that generate uncertainty about the government's true commitment to promoting these activities (De Miranda, 2019).

Some tensions of this sort have already been seen in the process of approving the new constitution. A draft version was submitted for popular consultation between August 13th and November 15th 2018, substantial points were modified by the deputies of the National Assembly of People's Power on December 22nd 2018, and it was finally approved on February 24th 2019. Article 5 on the leading role of the Communist Party as a single party was modified in the final constitution. Where the draft constitution (2018: article 5) "organizes and orients the communal forces towards the construction of socialism", the approved constitution (2019: article 5) "organizes and orients the communal forces towards the construction of socialism and its progress toward a communist society". That is to say, the mention was recovered of the advance towards communist society from article 5 of the previous constitution,³ which nevertheless remains a constitutional brake on the process of modernising the Cuban economy and society, which is supposed to be the EU's goal.

This reintroduction of the terms of article 5 of the old constitution is significant. But particularly relevant is how the economic transformation

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3. Article 5 of the constitution proclaimed on February 24th 1976 contains the reforms approved by the National Assembly of People's Power in the eleventh Ordinary Period of Sessions of the third legislature held on July 10th, 11th and 12th 1992.

process is proposed in relation to the economic foundations, production processes and legal security of foreign investments and whether this contradicts the programmatic principles of progress towards communist society.

In this sense, article 1 of the 2019 constitution establishes that “Cuba is a democratic, independent and sovereign socialist state of law and social justice”. Recognition of the different forms of property gives scope to private companies and enterprises that they did not have in the previous constitution. In addition to the “socialist property of the entire population: in which the State acts as a representative and beneficiary of the people as property owner”, article 22 recognises other alternative forms of property defined in a clearer and more precise way than in the previous constitution. These forms of property are: 1) cooperative, “sustained through the collective labor of partner owners and through the effective exercise of the principles of cooperativism”; 2) private, “that which is exercised over specific means of production by natural or legal persons, Cubans or foreigners; with a complementary role in the economy”; 3) mixed, formed of the “combination of two or more forms of ownership”; and 4) personal, exercised over goods that “without constituting means of production, contribute to the satisfaction of the material and spiritual necessities of their owner” (*Constitution of Cuba*, 2019). It should be mentioned that although private property appears in the new constitution, its complementary role in the economy is noted. However, the allusion in article 21 of the previous constitution has been eliminated, in which “the means and instruments of personal or familial work ... may not be used to procure income derived from exploitation of the work of others” (*Constitution of Cuba*, 2002).

The importance to the transformation process should be noted of the recognition of private ownership of the means of production by foreign natural or legal persons in order to attract FDI. Cuba has enacted two FDI laws (Law 77 of 1995 and Law 118 of 2014) easing tax conditions to attract foreign capital, but it has not flowed to the island in the magnitude required for economic development. The FDI received between 2014 and 2018 was only \$2.46 billion, below the amount the Cuban government estimated it needed to receive annually (\$2.5 billion) and almost half of which went to the hotel sector (De Miranda, 2019).

Nevertheless, state control remains central and the socialist economic system of ownership by all the people is recognised as primordial. As article 18 of the constitution states, the planned management of the economy “considers, regulates, and monitors the economy according to the interests of the society” (*Constitution of Cuba*, 2019). That is to say, the concept of a “market” regulated by the state is present,⁴ unlike the previous constitution in which, according to article 14, “the system of economy based on socialist ownership of the means of production by all the people prevails, and the suppression of exploitation of man by man. Also in effect is the principle of socialist distribution: ‘from each according to his ability, to each according to his work’” (*Constitution of Cuba*, 2002).

4. Although the word “market” only appears once in the new constitution, it was completely absent from the previous one.

In this regard, the importance must be highlighted of the concept of “paid labor” in article 31 of the constitution: “Paid labor must be the principal source of income that sustains dignified living conditions,

allows for the improvement of material and spiritual well-being and the realization of individual, collective, and social projects" (*Constitution of Cuba*, 2019). It is the mention of the "realization of individual projects" that distinguishes it from the references to paid work in article 45 of the previous constitution. The process is therefore relevant not only for the type of society towards which progress is made (communist), but rather how advances are made through individual incentives (market and regulation).

The explicit recognition in the constitution of the development of cooperatives, based on the effective exercise of the principles of cooperativism,⁵ is another clear sign that the Cuban government seeks to encourage the progress of the market while structures of self-management by workers with inclusive, democratic foundations are maintained.

These new constitutional bases can help make EU support for the modernisation of the Cuban economy much more effective. Even before the new 2019 constitution, the Cuban ambassador Carlos Alzugaray (2017) pointed out that "The Cuban interest in the European Union is mainly in the economic sphere, where the signing of a renegotiation of its debt with the Club of Paris was a significant step forward. For the time been, the tourist sphere seems to have reacted more positively than all others, with increases of visitors and of investment in the hospitality sector in the Island". While important, tourism alone is not enough to promote development and modernisation and while Cuban interest in the EU continues to be in the economic sphere, it is also clear from the PDCA that the EU's interest in Cuba lies in its economy's capacity for transformation.

4. Internal and external constraints on the modernisation of the economy

The key to modernising the Cuban economy is its capacity to evolve from its current highly state-controlled, very inefficient structure. This structure is the cause of its low competitiveness both internally and externally, as well as the lack of competitiveness of its goods exports, which are highly concentrated in primary products (Torres, 2012). Another key to modernisation is leaving behind the rentier and extractive practices that currently characterise the Cuban state (De Miranda, 2019).

Which interest groups control the means of production is one of the main dilemmas for economies in transition or transformation. How can the necessary conditions for change be produced and systems of distribution be improved without production falling? A system of incentives may increase competitiveness, as long as they are based on private property and remuneration for labour (wages) and on the "realization of individual projects". Indeed, article 65 of the new constitution has united two articles from the previous one: "All people have the right for their work to be remunerated according to its quality and quantity which expresses the socialist principle of distribution: 'from each according to their ability, to each according to their labor'" (*Constitution of Cuba*, 2019).⁶ In reality, however it is phrased in the article, this is more of an

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5. Cooperative principles, according to the International Cooperative Alliance (ICA), are: voluntary and open membership, democratic member control, member economic participation, autonomy and independence, education, training and information, cooperation between cooperatives, concern for the community and equality.
6. In articles 14 and 45 of the previous constitution.

The question for observers and analysts of the reforms is what role the Revolutionary Armed Forces (FAR) will play in this process. Currently, they make a major contribution to the management of part of the economy and of certain companies.

allocative than a distributive principle.⁷ In fact, it is compatible with the existence of wide variability in remuneration: while the average monthly salary in state and *entidades mixtas* (public-private ownership) was 777 pesos in 2018, it was as low as 503 pesos in the culture and sports sector but up to 1,539 pesos in the construction sector; in exploitation of mines and quarries it was 1,423 pesos and in financial intermediation 1,199 pesos, according to data from the National Office of Statistics and Information of the Republic of Cuba (ONEI, 2019). With pay in the education sector of 538 pesos, in the public health and social assistance sectors of 808 pesos and in the science and technological innovation sector of 981 pesos, it is difficult to see how the average salaries in construction, mining and financial intermediation fit with remuneration based on the capacity or quality of labour.⁸

Private entrepreneurship – now categorised as “self-employment” – can also have a “bottom-up” development base by promoting formulas linked to the stimulation of social entrepreneurship through cooperatives. In 2018, cooperatives employed 469,900 people and represented 10.5% of total employment, 451,800 of whom were in the agricultural sector (*ibid.*). It should be noted that despite the low level of employment in cooperatives that were not agricultural, from 2015 to 2018 employment in these types of organisations (434 cooperatives) doubled from 7,700 to 18,100. This growth occurred in a context of employment falling in cooperatives from 2015 to 2018 by 15%.^{9,10} The role of cooperatives in the island’s economic development and their impact on local development is the subject of growing debate. Some authors consider them a fundamental instrument for updating the Cuban model (Novković and Veltmeyer, 2018; Fajarado and Moreno, 2018)

Despite the significant increase in registered self-employed workers – from 150,000 in 2008 to 580,000 in 2018 – the self-employed represent just 12.9% of the total employed population (4,482,700) (ONEI, 2019) and at least 20% of the self-employed see their businesses fail and give up their licence (Mesa-Lago, 2014). Rising self-employment has allowed employment to be transferred from the state sector, where there is over-employment, to the private and cooperative sector. Despite this, in 2018 the state sector still employed 3,067,000 people (ONEI, 2019), 68.4% of total employment. The economy continues to be highly nationalised. If a major adjustment is made that eliminates a whole series of unnecessary activities that swell the state bureaucracy, many of those workers would be unemployed and there would be a very serious social problem (De Miranda, 2019).

In fact, Cuba may be conceptualised as a socialist entity that renounced a transition to capitalism both constitutionally and in terms of remuneration in state and *entidades mixtas*, despite using market control and regulation in the interests of society in accordance with its constitution (art. 18). In this context, cooperatives can play a very significant role (Fuentes-Ramírez, 2018): they are a good fit with both the market and private property, but they also provide outlets for their members’ needs through the precepts of inclusiveness, sustainability and collective ownership of the means of production. By their nature, these organisations represent economic units that provide goods and services in exchange for economic returns obtained through the market, which are then distributed equally among their members.

7. Relative to the principle formulated by Karl Marx in *The Critique of the Gotha Program*: “From each according to his abilities, to each according to his needs”.
8. In Cuban pesos CUP (non-convertible). The monthly minimum wage in 2019 was 400 CUP, equivalent to €13.50.
9. In 2015, cooperatives employed a total of 531,300 people.
10. A certain decline in agricultural employment and, therefore, in cooperatives, is logical. However, the ONEI data (2019) do not allow us to calculate whether this has signified higher productivity in the agricultural cooperatives sector.

Table 1. Employed persons in the Cuban economy by employment situation

Group	Thousands of workers								
	2015	% s/ total employed	2016	% s/ total employed	2017	% s/ total employed	2018	% s/ total employed	% s/ total Non-state
Total employed people	4,713.7		4,591.1		4,474.8		4,482.7		
State	3,460.1	73.4	3,262.1	71.1	3,087.5	69.0	3,067	68.4	
Non-state	1,253.6	26.6	1,329	28.9	1,387.3	31.0	1,415.7	31.6	
Cooperatives	531.3	11.3	446.7	9.7	476.9	10.7	469.9	10.5	33.2
Agricultural	523.6	11.1	435.4	9.5	458.3	10.2	451.8	10.1	31.9
Non-agricultural	7.7	0.2	11.3	0.2	18.6	0.4	18.1	0.4	1.3
Private	722.3		882.3		910.4		945.8		66.8
of whom self-employed	499	10.6	540.8	11.8	583.2	13.0	580.8	13.0	41.0

Source: Produced by authors using ONEI data (2019).

According to Aranzadi (1976: 178), the modern cooperative movement undoubtedly emerged as a defence not just against the misery caused by 19th century industrialism, but also as a reaction against the capitalist system itself, against the abuses of private property, the exploitation of man by man, the immorality of business life: in a word, against the injustices of capitalism. Interest in creating a market without capitalism (or significantly reducing its role) has been growing in recent times. Theorists such as Cristian Felber (2019) have reflected on the so-called “theory of the common good”, which structures economic activity through managerial procedures that seek to place the person, self-management, the environment and equity at the centre of the activity of productive units. Functioning in this way, economic activity itself would contribute to producing fair redistribution. Other economists like Tirole (2017) have also made relevant contributions to the debate on the construction of an inclusive market economy that is not subordinated to capital.

The new constitution opens the door to developing the cooperative model, but for ostensibly historical reasons the efforts are largely directed to the agricultural sector. Cooperatives should be incorporated into the new sectors being reshaped.

The reform of the economic model resulting from the sixth Congress of the Communist Party of Cuba in April 2011, whose economic foundations are incorporated into the new constitution, are explained in the “Resolution on the Guidelines of the Economic and Social Policy of the Party and the Revolution”.¹¹ According to Rafael Hernández (2018b), the concept that is most often repeated in the economic guidelines approved at the sixth congress is decentralisation, with Raúl Castro himself stating that economic reforms will not be successful without decentralising.

The question for observers and analysts of the reforms is what role the Revolutionary Armed Forces (FAR) will play in this process. Currently, they make a major contribution to the management of part of the economy and of certain companies. The role the military may play in the transition is debated. Rut Diamint and Laura Tedesco (2017) analyse the power and control of the economy by the military structure. The FAR control over 800 companies, mainly in the sectors of sugar production, general

11. Sixth Congress of the Communist Party of Cuba: Resolution on the Guidelines of the Economic and Social Policy of the Party and the Revolution: <http://www.cuba.cu/gobierno/documentos/2011/ing/1160711i.html>

agriculture, tourism, construction and basic industries. Of the foreign currency that enters Cuba, 64% comes through the conglomerate of FAR companies. The Grupo de Administración Empresarial SA (GAESA) controls 70% of the retail trade. The GAESA group manages tourism companies (Gaviota, Gran Caribe, Cubanacán, Islazul, Horizontes, including 57 hotels, restaurants, marinas, car rental companies, an airline and a chain of stores), commerce (Palco, the Berroa free zone), foreign-currency shops, communications and agricultural production. Banco Financiero Internacional SA (BFI), one of the Cuban government's major banking organisations has come under GAESA's management. In 2015, GAESA controlled between 50% and 80% of Cuba's corporate revenue.

In short, after the start of the Special Period, the FAR gradually became a pillar of the economy and began to administer tourism, the internal foreign exchange market, air transport, mining, biomedicine and tobacco exports. In order to take on economic tasks they began to be demilitarised, and because they are not involved in internal repression duties, members of the FAR are loved and respected by the population (Tedesco, 2018). In interviews conducted by Laura Tedesco between 2015 and 2018, academics, activists and independent journalists considered that the FAR should be the central actor in the process of updating the economic model, because their role in the Special Period gave them greater awareness of the deficits faced by the Cuban Revolution (ibid.).

Rafael Hernández writes that the role some experts attribute to the military in controlling the economy is not borne out by reality (Hernandez, 2008b). In the Raúl Castro government, 13 of the 15 economic ministries were led by civilians. The underlying issue is political, which is why questions are asked about the extent to which the administrative autonomy of military institutions in the public sector is an independent variable in the political system of the new socialist model. The political power that previously assigned economic tasks to the military institutions will have to respond to the needs of the transition (Hernández, 2018b). Hernández believes that recognising the entrepreneurial capacity of the military institutions for their participation within the current Cuban public sector would mean seeing them as an integral part of the new socialist model (Hernández, 2018a). Diamint, Tedesco and Hernández thus largely agree that the FAR will play a central role in updating the economic model, although Hernández believes they will follow the guidelines set by the political leadership, which must in turn reflect the needs of the transition.

In the transition, the Cuban economy must not only improve the performance of companies, but must also tackle macroeconomic challenges. In general, Cuba's main problem has been low growth rates, particularly since 2008, and a high level of external debt. Increasing the growth rate requires investment, external demand for certain products (nickel) and tourism, and improved competitiveness. As Jorge Domínguez points out, the economic problems inherited by Raúl Castro go beyond the impacts of the Venezuelan economy and include technological obsolescence in manufacturing following the collapse of the Soviet Union in the 1990s, sugar industry bankruptcy amid falling production, and stagnant agriculture with a high dependence on food imports (Domínguez, 2017).

The impact of the proposed reforms (Cuba Debate 2017) will depend on the pace and the depth of their execution. Encouraging private initiative and/or the market (even under strong state protection) is not enough to stimulate economic growth. Without material infrastructure to underpin this structural change, the gaps widen in the conception of how to promote the path to this change.

Key to this is innovation. But the lack of interest in promoting it seems revealing given the apparent endeavours to create space for private initiative (in any form). The “National, Social and Economic Development Plan through 2030: Vision of the Nation, Axes, and Strategic Sectors” announces that human potential, science, technology and innovation form the basis of productive transformations and considers innovation its backbone. But companies are also important players in innovation. When the conceptualisation of the proposed economic and social model is examined, no autonomous state-owned company appears to exist with decision-making power and a vision of the future that is capable of developing innovation processes. Companies’ decision-making power is limited by a surfeit of rigid bureaucratic regulations, the centralised allocation of resources and disproportionate controls. Rather than managing themselves, companies are centrally administered (Díaz, 2019).

There are three main causes of the decline in growth (Torres, 2017). The first is the decreased provision of professional services to Venezuela, due to both saturation and lower demand in Venezuela caused by its falling oil revenues. The second was the global financial crisis, when declining global demand impacted Cuban products’ export revenues and caused their prices to fall. Nickel exports fell from \$1.465 billion in 2011 to less than \$500 million in 2016. The level for 2017 may have been \$586 million, but nickel has the problem not only of price but of the obsolescence of its production plants (ICEX, 2019). The third cause of decline is falling tourism demand in major markets in Europe and Canada, due to income decreases in these countries. All of this has influenced external debt growth. The debt renegotiations Cuba was forced to enter with its main creditors – Japan, Russia, Mexico and China – enabled the government to reduce its external debt: by 90% with Russia, 47.2% with China, 70% with Mexico and 80% with Japanese banks.

The quantity of professional services exported has not only fallen with Venezuela. Declines have occurred with Brazil, Ecuador and Argentina, influenced by changes in their governments. Nevertheless, professional services remain Cuba’s main source of foreign exchange. Their contribution to total exports (goods and services) was around 55% in both 2013 and 2017 (Mesa-Lago and Vidal, 2019). In 2018, professional services accounted for about \$11.3 billion, of which human health services exported accounted for 56.6%, around \$6.4 billion (ONEI, 2019).

This deterioration in the export of professional services has weakened the Cuban balance of payments, leading authorities to drastically reduce imports from nearly \$15 billion in 2013 to \$10.3 billion in 2016 and \$11.5 billion in 2018 (ONEI, 2019). Import contraction explains the growing shortage of consumer goods, while restrictions on capital goods imports continue to diminish already-depleted capital reserves (Feinberg, 2018).

In general, Cuba’s main problem has been low growth rates, particularly since 2008, and a high level of external debt.

Companies' decision-making power is limited by a surfeit of rigid bureaucratic regulations, the centralised allocation of resources and disproportionate controls.

Jair Bolsonaro's presidency in Brazil will also affect the Cuban economy's projection abroad and its integration into global value chains. The construction of the port of Mariel and its container terminal,¹² financed by a credit from the Brazilian National Bank for Economic and Social Development (BNDES), aimed to make it a hub for the ports of the United States. But with Donald Trump in the United States and Jair Bolsonaro in Brazil the project is faltering. Referring to the period of Raúl Castro's relationship with Dilma Rousseff, Yoani Sánchez (2019) writes that those "golden times" left Cuba with a debt it can barely repay to its former South American partner and a port that becomes more of a theme park of the past every day it fails to attract ships loaded with goods and investors willing to settle in its commercial area. The activity in Mariel and Cuba's major ports is affected by the United States' Torricelli Act, enacted in 1992, which prohibits ships that enter Cuban ports for commercial purposes from landing in US ports for the 180 days after they leave Cuba.

In the Port of Mariel is the Mariel Special Development Zone, which was designed for New Panamax ships. Its current capacity is 822,000 TEUs (twenty-foot equivalent units), with future potential to reach 3 million TEUs. Its website shows that 17 companies are currently operating and 26 are in investment processes (Cuban, mixed and foreign capital).¹³ Of the companies operating in Sector A, 12 depend on European capital (six 100% European and six mixed with Cuban). The Development and Business Program of the Mariel Special Development Zone covers the initial stage to 2022, centred fundamentally on the evolution of Sector A, which is dedicated to logistics services, advanced manufacturing, biotechnology and the pharmaceutical industry (Oficina ZED Mariel, 2019).

In addition to the significant macroeconomic constraints on the Cuban economy, the evolution of microeconomic structures is decisive for its transformation. The incorporation of remuneration or wages and the elimination of the concept of "exploitation of man by man" may help advance the creation of small and medium-sized enterprises. Until now these have been highly restricted by the self-employed workers criterion that allowed micro-enterprises to be created without employees and a restricted number of authorised activities. The reforms to the model proposed at the seventh Congress of the Cuban Communist Party in April 2016 should stimulate growth in this activities. The "Conceptualization of the Cuban economic and social model of socialist development" states that Cuban natural persons can form the following types of business:

- 1) Small businesses, which are essentially carried out by the worker and their family. These do not constitute business entities or have legal personality;
- 2) Private enterprises of medium, small and micro-scale according to the volume of activity, number of workers and social purpose, which are recognised as legal persons (Cuba Debate, 2017: 30).

The document also envisages foreign direct investment:

The establishment of wholly foreign-owned companies is promoted and authorised for the periods agreed between the parties, in particular to deploy modern productive capacities based on economic and social development, as a form of foreign direct investment (Cuba Debate, 2017: 29).

12. The work was carried out by the Brazilian company Odebrecht.

13. Mariel Special Development Zone website: <http://www.zedmariel.com/es>

The key to developing the Cuban economy through these small and medium-sized enterprises is their ability to integrate vertically or horizontally into larger companies, particularly those based on foreign capital, with real value chains that permit greater competitiveness and the incorporation of knowledge and technology. The model will struggle to work if small, medium-sized and state-owned enterprises (“business entities for all the people” and “budgeted” companies) end up forming a separate bloc to foreign companies.

Richard Feinberg (2018) suggests a series of realistic (although ambitious) economic reforms to consolidate the benefits of the domestic private economy and international tourism, as well as to attract more foreign investment, inject new dynamism into key energy and agriculture sectors, and improve growing opportunity and income inequalities. He also mentions the necessary reform of the dual monetary system, but cites Raúl Castro’s acknowledgement that eliminating monetary and exchange rate duality alone would not magically solve all the accumulated problems in the Cuban economy. Also prioritising reform of the dual monetary system, Grabendorff (2014) insists that as well making it impossible to establish clear cost–benefit criteria, the ratio of 24 to 1 between the Cuban peso (CUP) and the convertible peso (CUC) negatively affects the Cuban economy’s international competitiveness. In 2013, the first stage began of exchange unification in the business sector. In 2014, the accounting criteria were published that were to be applied by state bodies in the revaluation of assets and liabilities when monetary unification began in selected locations. CUP payments were accepted for products denominated in CUC at the rate of 24 CUP to 1 CUC. Currently, various exchange rates still coexist between the CUC and the CUP (an exchange rate for companies of 1:1, for the population of 1:24, for calculating wages in the Mariel Special Zone of 1:10, 1:2 for joint ventures and 1:7 for sales by farmers to tourism). For the transformations of the productive sector to begin and for foreign investment to take off strongly, the current multi-exchange rate system must be eliminated (ICEX, 2019).

While the external constraints that have emerged in recent years seem to give little cause for optimism, some authors, such as Mesa-Lago (2019), argue that there are signs of possible improvements on the horizon. First, more flexibility in investment approval procedures is seeing more projects being approved; foreign remittances increased steadily from \$1.44 billion in 2008 to \$3.36 billion in 2015 (Palacios, 2019) to become the second largest source of foreign currency; paying down negotiated external debt has improved external credit; agreements have been signed with Russia and China; and trade has increased with Russia after a period of stagnation (Mesa-Lago, 2019).

Developing industrial and trade policies aimed at reducing import dependence is one of the main long-term challenges for the island’s economy. External constraints must also be considered when designing an economic policy capable of addressing the main threats and opportunities facing the country over the coming years. A change of government in the Bolivarian Republic of Venezuela or the further tightening of the blockade by the Trump administration would significantly undermine the volume of foreign currency available in Cuba. Loosening Cuba’s external restrictions will also require the promotion of FDI, a return to the capital markets,

and the introduction of regulatory changes that allow productive investment of remittances. To this end, investments in the non-state sector should be opened up to the most productive professions and activities in order to take advantage of Cuba's enormous human capital (Palacios, 2019).

5. Final thoughts

Cuba's economic position is more critical now than it was in 2016, when the agreement between the European Union and the Republic of Cuba was signed. The US blockade and the lifting of the suspension of Title III of the Helms-Burton Act have significantly reduced income from US tourism on the one hand and raise the possibilities of US citizens affected by seizures of property from which foreign investors have benefited bringing law suits. This has placed many European companies with investments in Cuba in a difficult position. Further investment will not arrive without guarantees that they will not face legal proceedings in the United States.

The oil embargo on Venezuela (meant to foster political change in the country and at the same time worsen Cuba's economic situation) may slow the transformation of the island's economic system envisaged in the new 2019 constitution.

The EU's change of focus embodied in the PDCA prioritises transforming the Cuban economy. For the EU, the important thing is for the Cuban development model to work. The PDCA's references to the Cuban economy only describe accompanying the process of updating the economy and society in Cuba. The entire structure of economic cooperation could be jeopardised if the reforms of the economy's trade capacity – of exchange rate duality and the many peculiarities of the trade regime that are incompatible with multilateral discipline – are too slow or fail to materialise.

At the moment, despite the optimism generated by the growth of self-employment and cooperatives, the private sector does not appear able to trigger the transformation of the Cuban economy. It is more like an escape valve that gives a formal route to addressing declining personal income and employment surpluses from restructuring state-owned enterprises. Top-down modernisation of the economy by those who control its principal sectors and external sector remains the only route.

The EU agreement may facilitate development, but perhaps not enough to face the difficulties that may arrive. The EU will undoubtedly focus on how to circumvent the extraterritorial effects of sanctions on European companies under the Helms-Burton Act to avoid investments that are essential for development being affected. Indeed, that was one of the items on the agenda during the visit by Federica Mogherini,¹⁴ High Representative of the Union for Foreign Affairs and Security Policy, to Havana on September 8th and 9th 2019 to chair the EU–Cuba Joint Council and her meeting with Foreign Minister Bruno Rodríguez.

Therefore, along with the US blockade, it is necessary to consider the "internal blockade" – so named by President Miguel Díaz-Canel – men-

14. As reported by the Euronews agency: <https://es.euronews.com/2019/09/09/la-ley-helms-burton-en-la-agenda-cuba-de-mogherini>

tioned by Federica Mogherini on her visit, noting that “Cuba is at a crossroads. After completing its generational transition and adopting a new Constitution”. The future prospects for political dialogue between the two sides, as well as political and trade cooperation – central items on the agenda – are called into question by the Cuban opposition, who criticise the lack of attention to human rights on Mogherini’s visit.¹⁵ Cuban opposition pressure may indirectly influence the agenda of the PDCA-based relationship if pressure is also applied from certain partisan positions in the EU. The sensibilities of the new European Commission and the new High Representative of the Union for Foreign Affairs and Security Policy that took up their posts on December 1st 2019 remain to be seen. Just before the new Commission took up its posts, the European Parliament on November 28th 2019 adopted Resolution 2019/2929 (RSP) on Cuba, the case of José Daniel Ferrer (European Parliament, 2019), which specifically asked the Commission and the High Representative to acknowledge political opposition to the government of Cuba. If the Cuban economy does not advance, political dialogue is unlikely to progress.

Loosening Cuba’s external restrictions will also require the promotion of FDI, a return to the capital markets, and the introduction of regulatory changes that allow productive investment of remittances.

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