CHAPTER 11  

Globalization in Havana and Moscow

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The disintegration of the Soviet Union in December 1991 did not just end the bipolar nature of global politics but also heralded the appearance of a New World Order. The globalisation process was an important part of this New World Order and would have massive repercussions for politics and transnational economics. Moreover, it would also be highly significant in the relationship between Havana and Moscow.

In the 1990s Russia struggled to adapt to this situation, exacerbated by its move to a free market economy, which had a profound effect on its citizens, reflected in Russia’s falling Gross Domestic Product (GDP). (Tikhomirov, 2000: 209) The implosion of the Soviet Union had also simultaneously ended Soviet-Cuban relations, resulting in the island’s economy going into freefall with the loss of its most important economic partner. In an attempt to offset this colossal setback the Cuban economy also underwent dramatic change throughout the 1990s. However, from the mid-1990s the relationship between Havana and Moscow slowly began to improve.

This article will focus on this relationship between Havana and Moscow in the period since 1992. Firstly, the deterioration and subsequent improvement in the relationship in the 1990s will be examined and in relation to this the significance of the globalisation process will be analysed. The final consideration of this paper will be to consider the question of whether, due to their close economic ties for over 30 years, could Cuba follow a similar economic transition to that of the Russian Federation, once reforms commence on the island?
Cuban-Soviet relations may not have always been completely harmonious but they lasted for over 30 years and it was only with the disintegration of the Soviet Union that they were terminated. This had massive ramifications, both political and economic, for the Caribbean island, and it was bilateral trade that quickly illustrated the downturn in relations, as in 1992 trade fell by over 90 percent compared to that of the Soviet era. (Trade Yearbook, 173; Mesa-Lago, 1993: 140-143). In addition, in 1992 both the joint collaboration project to build a nuclear power station at Juragua was mothballed, and for the first time ever, Russia voted against Cuba at the United Nations (UN) Conventions on Human Rights held in Geneva. Moscow repeated this in both 1993 and 1994. (Granma, 1992: 3-6; Izvestia, 1992: 7; Izvestia, 1993)

The relationship may have deteriorated but it never completely disintegrated. A number of Russians remained on the island through marriage but of even more importance was Moscow’s decision to keep the listening post at Lourdes open, as it was “…necessary in order to maintain stable communications with our embassies in Latin America.” (Izvestia, 1992: 5)

However, from the mid-1990s the relationship began to improve illustrated by both Moscow again voting with Cuba at the UN Human Rights Convention, and by the return of visits by the two countries elites, which, since 1992, had been conspicuous by their absence. The first took place in June 1996 when the Russian Foreign Minister Yevgeny Primakov travelled to Cuba and during this, Castro commented, “Recently, relations have been improving little by little. There have been good moments, there have been critical moments and now there’s an upswing.” (Granma International, 1996: 3)

A number of different reasons underpinned this improvement but a return to Marxist-Leninism was not one of them. Instead economic links have been a driving force; Cuban sugar was important but so also are the island’s nickel and biotechnological industries. Cuba has also benefited not only from Russian investment, but also its position as a source of much needed spare parts for Soviet era machinery. Globalization has also been very significant and will be analysed in a later section. Moreover, a change in Russian foreign policy further aided this improvement, as since the mid-1990s, Moscow has attempted to reassert its influence in international relations. (Bain, 2006: 221-223)

The legacy from the Soviet era of the Cuban debt was also very important for the improvement in the relationship and in 2005 Russia announced that it had deferred its payment. (Bain, 2006: 222) This is a first for Moscow, but significantly the debt was not simply cancelled. This illustrates that Moscow
does not just continue to hope that the debt will be paid, but also the importance both of it and that of the Cuban-Russian relationship itself.

The new foundations of Cuban-Russian relations were questioned in the year 2000 with Vladimir Putin’s ascension to the presidency of Russia. Due to his KGB past and his December 2000 trip to Havana, made in the infancy of his presidency, it was thought that Marxist-Leninism might have again been increasing in importance. The agreements signed while he was in Havana disproved this and showed that it was the Cuban economy and not ideology that most interested Putin. In the years since, economic links have continued to expand and diversify with trade exchanges in 2004 being 23 percent higher than in 2003, and in 2005 the Cuban purchase of a Russian made IL-96-300 airliner, which was partly funded by loans from Russian banks. (bbc.co.uk, 2006)

In the period from 1992 to 1995 relations between Havana and Moscow deteriorated but they never completely disintegrated. However, from the mid-1990s they have improved and, significantly, this was based on practical economic reasons and not a return to Marxist-Leninism.

Globalisation and its Effects

The end of the Soviet Union and Soviet-Cuban relations coincided with the increase in the globalization process, which was partly due to a lack of an alternative to the international capitalist system with the disappearance of the socialist economic model. Globalization has, in the last decade, attracted a massive amount of scholarly attention, which has not just focused on the process in general, but debates have appeared over a definitive definition of it and whether it is even a new process or not. (Robertson, 2003; Gilprin, 2001; Castells, 2000; Gwayne & Kay, 1999) In relation to this, investment in Latin America, in general, and Cuba before 1959, from outside the region was not new but in the 1990s it was on a truly global scale and not predominantly from the United States, as had previously been the case.

Globalization has, however, impacted on many parts of society including politics, increased the power of multinational companies and transnational enterprise and has lead some to even question its effects on states’ sovereignty. Although this is the case, the effects of globalisation on countries, even within the same region, has not been universal. However, this article will focus on the pre-eminence of international capitalism, illustrated by the growth of transnational investment, which has resulted in an increase in interdependence between various world economies. This would be vital for not just the Cuban Revolution but also Cuban-Russian relations.
This may seem a peculiar statement, due to the continued restricted nature of Cuban society and importance of the central government in both people’s everyday lives and the national economy. However, the loss of the island’s economic lifeline since 1992 has caused this situation to begin to change. In the late 1980s in an attempt to offset the adverse repercussions of the Soviet reform processes Havana attempted to encourage tourism to the island and in May 1990 this came to fruition when Castro was present at the opening of a new hotel on Varadero Beach, which had been financed by foreign money. (Granma International, 1990: 3) After 1992 various legislation was passed to encourage even more foreign investment. This included both the right to be self-employed and to possess U.S. dollars, the right for joint ventures with foreign capital to be created in both oil and mineral exploration and production, and in September 1995 a new foreign investment law was passed which not only allowed foreign companies to move their entire profits abroad, but also very significantly allowed 100-percent foreign ownership of investments in Cuba. With nationalism having such a prominent place in the Cuban revolution, this law was truly historic. In 1997 free trade zones were created in a further attempt to improve the island’s dire economic situation. (Ley de la Inversion Extranjera; Perez-Lopez, 1997)

As these changes coincided with the acceleration of the globalisation process the likelihood of more foreign investment increased. The results have been dramatic, the socialist-trading bloc’s position within the Cuban economy has been usurped, as Cuba now trades on a truly global scale with companies from over 100 countries. In 1993 Venezuela, in no small part to its oil reserves, supplied Cuba with 20 percent of its imports. Western European countries, but particularly Spain, and also Canada had conducted trade with Cuba throughout the revolutionary period but in the 1990s their importance increased. In 1995 Canada was the Caribbean island’s main export partner and Spain held the same position with regards to Cuba’s imports with each holding 15 percent of their respective markets. (CIA Yearbook)

By 1995, 212 joint ventures had come to fruition with over nine different countries from around the world, and in the period from 1998 to 2001 a further 190 joint enterprises, in conjunction with 28 countries, were created. In comparison, in 1991 the number of joint enterprises was 11, excluding socialist bloc countries. The island’s nickel industry and telecommunications links have attracted investment from Canadian and Mexican companies respectively, while European companies have concentrated primarily on the tourist, tobacco and alcohol industries. Some of the most high profile deals are: in 1992 the French Company Pernod Ricard bought an interest in and global distribution rights for Havana Club rum. In the same manner, in the year 2000 the French-Spanish company Altadis bought 50 percent of Habanos, the
international distributor of Cuban cigars. (Ospina, 2002: 77; Amberg, 2000; Perez-Lopez, 1997: 33-34)

The success of this policy can be seen as the Cuban economy has recovered from its nadir in 1993 when total trade crashed to just US$3.2 billion. Its problems have not, however, completely disappeared and trade has not returned to levels enjoyed in the Soviet era, but it has grown to US$5.6 billion in 1996 and US$7.3 billion in 2004. (CIA Yearbook) This is despite, in 1996, the United States government passing the Cuban Liberty and Democratic Solidarity Act, or Helms-Burton Act, that attempted to prevent companies from third party countries trading with Cuba. Moreover, this economic upturn has been achieved without access to money from the International Monetary Fund (IMF), World Bank or the Inter-American Development Bank.

The United States embargo has conversely made Cuba a more appealing investment opportunity for non-U.S. companies. While the embargo remains in place these companies do not have to face competition from U.S. companies, and have been able to gain a foothold in the Cuban economy. The importance of this will be seen when the embargo ends as an influx of U.S dollars is expected to take place, with both U.S. citizens travelling to the island and U.S. companies investing in it. This has been borne out by a recent survey conducted in Florida, which stated that 65 percent of the 417 executives polled would be “likely to do business in a post-Castro Cuba.” (www.herald.com, 2005)

As stated, Russia has lost its pre-eminent position in the Cuban economy but the realisation quickly formed in Moscow that it was missing out on the investment potential that the Cuban economy offered. Moreover, due to links from the Soviet era it would also be easier for Russian companies to cultivate links with Cuban companies. In the period from 1995 to 1997, 260 joint projects were opened with Cuban and foreign money but only two of these were with Russia money. (Nezavisimaya gazeta, 1997: 2) Simply, Russia wanted a “piece of the action.” In addition, the colossal investment from the Soviet era was also simply being wasted. The Russian Foreign Minister Igor Ivanov, in September 1999, and Putin, in December 2000, both commented on this. Ivanov said, “It’s evident that our taking into account the wealth accumulated in the many years of relations between both nations, it’s logical that the ties between Cuba and Russia continue to develop.” (Newman, 1999) Putin commented, “We lost a lot of positions which were a top priority for both countries, and our Russian companies in Cuba have been replaced by Western competitors.” (Newman, 1999) In May 2005 Russian interest in the Cuban economy was shown when 132 Russian companies from the Moscow area attended a Cuban trade fair held in the Russian capitol. (Prensa Latina)
Unsurprisingly, Cuba’s burgeoning tourist industry has attracted attention from Russia. In 1996 the “Latina” travel agency opened in Moscow that specialised in travel to Latin America and the Russian travel agencies Atlantic Travel Agency, Druzhina and Atlas have all opened offices in Havana. The upshot was that in 1999 12,000 Russians travelled to Cuba for vacations. This constitutes a very small percentage of Cuba’s near 1 million European visitors per year but travel to Cuba from Russia was aided not just by the appearance of more wealthy Russians, but also in August 1999 the airline companies KLM and Air France began flying routes from Russia to Havana with stopovers in Amsterdam and Paris respectively. Moreover, in December 1999 Aeroflot and Cubana began their own joint service between Russia and Cuba. (ctp.iccas.miami.edu, 2005; Caribbean Update, 1999)

Russian interest has not just been in Cuba’s tourist industry, as Putin’s December 2000 trip illustrated. During it a number of agreements were signed. The Norilisk Nickel Company agreed to invest US$300m in the nickel-ore processing plant at Las Camariocas in Holguin province and a joint agreement to build diesel equipment for the Cuban sugar industry was also signed. The importance of nickel to the ‘new’ relationship has increased further as the significance of sugar has fallen and was illustrated in an interview in March 2005 with the Cuban ambassador to Russia, Jorge Martínez. In this he said, “Cuba comes second in the world in nickel reserves and fifth among nickel exporter…the world is showing a great interest in this branch of the Cuban economy and we are keen on cooperation with Russia.” (ITAR-TASS, 2005) In addition to this, Cuba’s much vaunted biotechnological industry was also part of an exchange deal for 2001 to 2005 signed during Putin’s trip. Cuban sugar, rum, medicines and medical equipment were to be exchanged for Russian oil, machinery and chemicals. (www.cnn.com, 2000)

As outlined, the Helms-Burton Act has not affected foreign investment in Cuba, and Russia is no different. Not only did Russia vote against its implementation in the UN but it also indicated that it was simply going to ignore it, as a Russian Foreign Ministry Declaration illustrated. It stated, “We confirm our intention to develop and broaden beneficial co-operation with Cuba as well as sectors of mutual interest, particularly in the commercial and economic sphere.” (Granma International, 1996: 13) Trade between the two countries also showed this, as levels of trade have remained at a higher level than in the early 1990s, and although at a much reduced level than during the Soviet era, Russia remains one of Cuba’s most important trading partners. (CIA Yearbook)

The foundations of Soviet-Cuban relations may have been socialist principles but Cuban-Russian relations post-1991 have conversely been aided by neoliberal economic policies. As the Cuban economy was reformed and the
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The effects of globalization were felt the realization formed in Moscow that companies from other countries had usurped its pre-eminent position. A desire to address this was vital in the improvement in relations between Cuba and Russia. It may not have returned to levels enjoyed in the Soviet era but economic links between the two countries have improved.

**1990s Russia: the blueprint for Cuba?**

As transition processes have taken place in various countries a number of comparisons and suggestions have been made as to which route a post-Castro Cuba is likely to follow, or resemble the closest. The countries suggested have included Romania, China and Spain after Franco’s death. (Ratliff, 2004; Cruz, 2003; Radu, 2003; Montaner, 2002) It could be concluded that once Cuba enters its own transition process it may be similar to the Russian one due to similarities particularly in their respective economic models during the Soviet era and Cuba, like Russia has a large army, and will also have to undergo the transition process while saddled with a large foreign debt. (Hernandez-Cata, 1993; Hernandez-Cata, 1999) Differences do exist and these include the Caribbean island not having to withstand a “near abroad” demanding independence or possessing a large military industrial complex. Despite these differences this section will examine the question of whether the Russian experience will provide the blueprint for Cuba once Fidel Castro has departed the political scene.

In the 1980s a number of reforms and legal changes were implemented in an attempt to kick-start the ailing Soviet economy. (White, 2000: 117-122) However, after 1992 the move towards a market economy accelerated greatly as it was decided the transition was to be carried out as quickly as possible and “shock therapy” was to be applied to the Russian economy. This would not just reform the economy but would simultaneously help cement democracy in Russia, due to the creation of many company owners, with the aim being “millions of owners, not hundreds of millionaires” and, it was hoped, this would prevent a return to communism. (White, 2000: 125) In addition, these reforms would also make the Russian economy an attractive proposition for foreign investment.

The reality of the Russian situation was, however, somewhat different to these hopes. The voucher scheme introduced to aid privatization was widely abused and inflation quickly ran out of control. In 1995, in an attempt to deal with this, a “loans for shares” project was introduced. This scheme allowed the government to quickly borrow money from private banks in return for shares in large state owned companies. However, when the government was unable to re-pay these loans the companies became the possession of the
banks, or in reality, the bank owners. It was in this way, and the voucher scheme, that oil companies such as Yukos and Sibneft were privatised at a fraction of their real cost. When these newly privatised companies were given their true valuation it resulted in the new owners, people such as Boris Berezovsky, Mikhail Khodorkovsky and Roman Abromovich, becoming not just millionaires but billionaires. This heralded the appearance in Russia of both oligarchs and “new Russians.”¹ (White, 2000; 123-129, Satter, 2003: 51; Tikhomirov, 2000: 207, 236)

The Russian economy may have recently been showing signs of recovery but in the mid to late 1990s the situation was very different. Both GDP and the population’s standard of living regularly decreased. Despite the improvement, even today, almost 20 percent of the population lives below the poverty line. Moreover, male life expectancy has fallen to just 60 years. This is something that has not gone unnoticed in Havana, with Castro, on various occasions in the 1990s, commenting upon this situation. In addition, at a conference on globalisation held in early 1999 in Havana, Cuban officials repeatedly stated that the transitions undertaken in other countries had been unsuccessful. (World Bank, 2005; Hernandez-Cata, 1999; CIA Yearbook) Foreign investment has been attracted to the Russian economy but not in the hoped for levels. Moreover, much of this has centred in the regions bordering Moscow and St. Petersburg and the foreign investment that has not focused on these areas has instead tended to be in the energy industry and oil in particular. This has occurred at the expense of the industrial sector, when it could have been thought that due to low Russian labour costs it would have been attractive to foreign investment. The results have been the appearance of “a market economy with Russian characteristics:” over reliance on oil, unequal development and massively skewed income distribution. (Ellman, 2000: 1,420; Watson, 1996; 429-455)

The motive for Castro’s comments may be to imply that the same fate would await Cuban citizens if the island’s government collapsed, but this will, however, be important in the transition process in a post-Castro Cuba. Although it is likely that Cuba will also move quickly to a market economy it would appear unlikely that similar mistakes would be made due to the knowledge that the population have of events in the Russian Federation in the early to mid-1990s. This will certainly be the case in relation to state-owned companies, or the parts of companies that remain in the hands of the state, being sold for below their market value. There will undoubtedly be winners and losers in this process but because companies will be sold for their true worth it is unlikely that Cuban versions of “new Russians” or oligarchs will appear.

¹ Oligarchs were interested in achieving political influence whereas “New Russians” were not.
What is also very important is that as a result of economic reforms and the
globalisation process in general there is more foreign investment in the
Cuban economy than in the Soviet one of the late 1980s. This will be impor-
tant, as it is not beyond reason to assume that once the opportunity arrives,
these foreign companies may increase their shareholdings in their Cuban
investments. This will, again, prevent the appearance of Cuban versions of
“new Russians” or oligarchs. The result is that due to this foreign investment,
it is likely that the Cuban path to the market economy will again be different
from the Russian experience.

Cuba may hold a strategic place within the Caribbean, and be the largest
island in the region, but it does not possess the enormous natural resources
that the Russian Federation does. This is simply the result of Cuba being
many times smaller than Russia. The island does however, have nickel
reserves, and this has attracted foreign investment, but its other main exports
today remain primary goods. This lack of natural resources means that a sim-
ilar ‘sale,’ to that in Russia, of state owned companies with massive resources
of natural wealth cannot take place, as they simply do not exist. This is not to
say that Cuba’s nickel resources will not be much sought after but again the
outcome will be very different from the Russian one.

The condition of the Cuban Revolutionary Armed Forces (FAR), although
no longer the force they were during the Cold War, is much better than the
Soviet army of the early 1990s. Discipline and moral are still higher in the
FAR, partly as it has never had to regroup from the moral sapping effects of
an Afghan-style war. In addition, it has played an important part in the eco-

omic reforms of the 1990s. (Hernandez-Cata, 1994) Therefore once the
transition begins in Cuba it is very likely that the FAR will act to safeguard
their relatively privileged position within Cuban society and this will provide
some form of stability in a post-Castro Cuba and avoid many of the pitfalls
that befell the Russian Federation.

The influence, power and wealth of the Cuban exile community in the
United States will also prove to be of vital importance. It has been estimated
that their net worth is between US$40-US$50 billion. Moreover, they have
not only acquired great economic wherewithal but also technical expertise,
with both being significant in a post-Castro Cuba. It is expected that these
people will invest in their homeland when the opportunity arises and the
United States government certainly believe this to be the case, as the fore-
word for the report of the Commission for Assistance to a Free Cuba in May
2004 written by Colin Powell illustrates. (Powell, 2004; Diaz-Briquets &
Perez-Lopez, 2003: 14-17) The existence of an exile community is not exclu-
sive to Cuba but what does make it different is not just its power and wealth
but the fact that it is ideally placed, a mere 90 miles from Cuba, to be, at the
very least, able to quickly invest in a post-Castro Cuba. Again this is very different from the Russia experience.

However, the existence and geographical proximity of the exiles will also complicate the transition process. The Cuban government has never paid compensation for expropriated land and property, and once change commences it can be expected that a number of cases will be brought to court where the ownership of property is questioned. This will be on a much larger scale than in Russia, will undoubtedly be complicated but, will again, make the Cuban transition very different from the Russia one. (Garibaldi & Kirby, 2003)

A variety of other reasons will also make the geographical proximity of the United States very important when change begins in Cuba. Not only is it likely that U.S. tourists will travel to Cuba, but the island’s proximity to the largest economy in the world will also benefit the transition of the Cuban economy and help the Caribbean island become more quickly and smoothly integrated into the global economy. This is something that none of the other countries that have undergone economic transitions have benefited from. Moreover, it will be in Washington’s interests for the Cuban transition process to be different from the Russian one because if it did the result would be the appearance of a large number of economic casualties, many of whom may leave the island in search of an improved economic situation in the United States. This is a scenario that Washington would rather avoid and it can be assumed would intervene to prevent from taking place. In addition, as stated, it can be expected many U.S. companies will once again invest in the island. The afore mentioned 2005 survey of company executives in South Florida interested in investing in a post-Castro Cuba illustrates this. (www.herald.com, 2005) This influx of money will further reduce the likelihood of both a similar route to a market economy as in Russia being followed, and the need of the new Cuban government to instigate its own “loans for shares” scheme.

Moreover, the Cuban transition when it does take place will differ from the Russian one simply because it will occur at a different time. In 2005 levels of international investment are much higher than even 10 years ago when Russia went through its own changes, with companies being more likely to have an international investment portfolio. This increases the chances of further foreign investment in Cuba. Conversely, the globalisation process has recently attracted an increasing number of critics, not least in the Western Hemisphere, and this may result in the transition process being conducted in a different manner than in Russia, as people no longer see the market as the solution to the continent’s woes.
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As has been stated many people expected the same fate to await the Castro regime as that which befell the socialist regimes in Eastern Europe and the Soviet Union. However, the Cuban government has adapted to the new situation it found itself in and continues to disprove this theory. As it was able to dumbfound Cuban watchers in the early 1990s, who is to say that it could not do so again in a post-Castro situation? The reforms that the government in Havana have already implemented have reduced the chance that it will follow a similar ‘Russian path’ to the market economy and more reforms could impact on the transition process again, further reducing this possibility.

Conclusions

The disintegration of the Soviet Union did not just simultaneously end Soviet-Cuban relations but it also had grave repercussions for the Cuban economy. In the years 1992 to 1994 the relationship between Havana and Moscow deteriorated but it was never completely severed, with Lourdes remaining open being the highest-profile symbol of this. However, from the mid-1990s relations began to improve due to both a change in Russian foreign policy, and crucially, for practical economic reasons. In addition, Cuba’s debt was also important, because if relations were severed, the remote chance that Russia may be paid would have completely disappeared.

However, globalization was also crucial. The Cuban economy was reformed to take advantage of this process and to provide much needed foreign investment but Russian companies realised that they were missing out on the investment potential that the island offered, as they witnessed the loss of both their pre-eminent place in it and the massive investment in the Cuban economy from the Soviet era. Simply, Russian companies wanted a ‘piece of the action,’ made more appealing due to the lack of competition from U.S. companies as a result of the continuing embargo. Marxist-Leninism may have been a cornerstone of Soviet-Cuban relations but, ironically, globalisation was highly important in the ‘new’ relationship that evolved in the 1990s between Havana and Moscow.

Despite similarities in their economic models, it is unlikely that the Cuban transition will resemble the Russian one. The mistakes made in the Russian transition are unlikely to be repeated in Cuba since the island’s population have had the opportunity to learn from the Russian experience. In addition to this, a similar ‘sale’ of state companies is further reduced as the Caribbean island’s economy already has considerable foreign investment in it. Moreover, a Cuban version of “loans for shares” is unlikely, as Cuban state companies simply do not have the massive natural resources that the Russian ones
had. This in conjunction with FAR acting to protect their privileged position will result in the Cuban transition being very different from the Russian one.

The existence, proximity and wealth of the Cuban exile community would also suggest this, as they are highly likely to invest in a post-Castro Cuba. Moreover, Cuba’s proximity to the world’s largest economy will aid the island’s return to the world economy. This is an advantage that no other country undergoing an economic transition has ever had, and certainly not Russia. Cuban exiles will undoubtedly aid Cuba’s transition but the question of compensation for expropriated property will mean that it will not be without problems.

In addition, the Cuban transition will not be similar, as it will take place in a different time from the Russian one. Moreover, the Cuban Revolution has dumbfounded many experts in the manner it has adapted to the post 1992 situation and it may well do this again once change begins in Cuba. What is apparent is that it is highly unlikely that Russia will provide the blueprint for the Cuban transition.

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