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## FEATURED Q&A

### Can Cuba Move Half its Economy to the 'Non-State' Sector?

**Q** Cuba wants to move nearly half of its economy to the "non-state" sector within the next five years, Communist Party official Lazo Hernández said last month in a speech in Havana. Currently, government-run businesses account for 95 percent of the island's GDP, said Hernández. Is the plan to move almost half of the country's economy to private businesses realistic? Can the country's tiny private sector absorb such an effort? Would such a move strengthen Cuba's economy?

**A** José Azel, senior scholar at the Institute for Cuban and Cuban-American Studies at the University of Miami: "Lazo Hernández announced that the country is seeking to transform its economy by increasing the economic participation of the 'non-state' sector tenfold. To accomplish this, the government is relying on its Draft Guidelines for Economic and Social Policy. This document proposes to chart Cuba's economic future and states paradoxically that 'central planning and not the market will be supreme in the actualization of the economic model.' The centerpiece of this plan revolves around firing as many as a million state employees (20 percent of the workforce) who could then solicit licenses to become self-employed as 'cuentapropistas' in precisely 181 specified trades. Moreover, the guidelines insist that prices will be set according to the dictates of central planning and the plan will insure that

any new 'non-state' economic activities (apparently the term 'private sector' is not to be spoken) do not lead to the accumulation of wealth. To fully appreciate the economic surrealism of the Cuban 'reforms,' it is useful to examine a handful of the 181 trades and activities that are authorized for self-employment and which are foreseen as becoming 50 percent of the country's economic activity. These include: trimming palm trees, cleaning spark plugs, refilling disposable cigarette lighters, mattress repair, wrapping buttons with fabric,

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### Peruvian Defense, Interior Ministers Quit Over Clashes

Peruvian Defense Minister Alberto Otárola and Interior Minister Daniel Lozada resigned Thursday amid criticism over their handling of clashes between government forces and Shining Path rebels. See story on page 2.

*File Photos: Peruvian Government.*

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## NEWS BRIEFS

**Mexican Police Find 18 Mutilated Bodies Outside Guadalajara**

Mexican police found 18 headless bodies in a van near a popular tourist area outside of Guadalajara on Wednesday, the Associated Press reported. The van was discovered on a dirt road near Lake Chapala, an area that is home to many U.S. and Canadian retirees. Authorities found messages in the van that were signed by the Zetas and directed at rival drug gangs. "They are clearly messages between rival groups that are in conflict," said Tomas Coronado, Jalisco's state prosecutor. The Zetas, who control significant swaths of eastern and northern Mexico, have been battling the Jalisco New Generation gang, a minor cartel allied with the Sinaloa cartel.

**Colombian Rebels Kill Seven Officers Near Venezuelan Border**

Colombia's FARC rebels on Thursday morning killed seven police officers and injured at least 12 more in an ambush on a police post in Norte de Santander province, near the Venezuelan border, EFE reported. In the aftermath, one rebel was killed and five more captured, said a police spokesman.

**Peru, Japan Seek to Strengthen Energy, Infrastructure Ties**

Peruvian President Ollanta Humala ended a three-day visit to Japan on Thursday, saying that the Andean nation wants to increase cooperation in the areas of "renewable energy, eco-efficiency and clean technologies," Agence France-Presse reported. Japanese Prime Minister Yoshihiko Noda also announced \$250 million worth of loans for Peruvian infrastructure projects, including energy-saving projects in public transportation and improved sanitation systems.

**Political News****Peru's Defense, Interior Ministers Quit Over Handling of Clashes**

Peruvian Defense Minister Alberto Otárola and Interior Minister Daniel Lozada resigned Thursday amid criticism of their handling of recent clashes between government troops and rebels, including one incident that left eight police officers dead, CNN reported. Opposition legislators have criticized Otárola and Lozada, saying they did not do enough to protect government forces. Lawmakers had intended to take up a measure on Saturday to censure the cabinet officials. The police officers were

“If my presence has been considered a force preventing national unity, I feel proud to step aside.”

— Alberto Otárola

killed during an operation to rescue 36 gas workers who had been kidnapped in April by Shining Path rebels. One of the officers in "Operation Liberty," César Vilca had been left in the jungle when a government helicopter took off during a clash with the Shining Path. Vilca's father recovered his body several days later. "All of Peru has seen that [the government] didn't do anything to look for them," said Vilca's friend, Robert Vargas. "If they had gone there, as his father did, they would have found him alive." The helicopter also left behind a wounded police officer who then spent more than three weeks walking to a military base in Cusco. During his resignation speech, Otárola said the helicopter pilot acted appropriately when he left the scene of the clash. Eighteen other troops could have been killed if the pilot had not done so, added Otárola. "Now is not the time to search for those responsible in the past, but rather to make decisions that address the lack of equipment for our troops. It is our duty to respond to

the valiance and courage of our soldiers who risk their lives daily," he said. "Let my resignation signify to the great national unity that the country needs to close ranks around the armed forces. If my presence has been considered a force preventing national unity, I feel proud to step aside." The abduction of the gas workers, who were all freed, happened after authorities announced that they had largely defeated the Shining Path.

**Economic News****Brazilian Senate Clears Way for Beer Sales During World Cup**

Brazil's Senate approved legislation Thursday that clears the way for the sale of beer during World Cup matches in 2014, BBC News reported. The measure does not specifically allow the sale of alcohol during the matches, but it does authorize the country to fulfill the requirements of FIFA, soccer's governing body. FIFA had demanded the change because Budweiser is a sponsor of the World Cup. President Dilma Rousseff is expected to approve the legislation. In 2003, officials banned the sale of alcohol inside stadiums to curb violence. Senators who support allowing beer sales during World Cup games pointed out that the measure does not amount to an overturning of the 2003 law. "Violence in stadiums has decreased a lot because of the ban against alcoholic beverages," said Sen. Lindberg Farias. "They will only be able to sell them during the World Cup; we're not going to allow it in general." However, some lawmakers said allowing beer sales during the matches is the wrong move. "FIFA's demand doesn't make sense because the most important thing is that alcoholic advertisement is freely available," said Sen. Humberto Costa. "To liberalize the use of alcohol, imagining that 10,000 or 20,000 beers sold in a match would change a company's economic sit-



Rousseff  
File Photo: Brazilian Government.

uation is absurd." Brazil and FIFA have also been at odds over reduced-price tickets. Students and retirees are allowed half-price tickets to sporting events in Brazil. However, FIFA balked at allowing such discounts for World Cup games. Instead, it has agreed to allocate 300,000 tickets for students, retirees and minority groups. The lower house of Brazil's Congress approved the legislation in March. Earlier this week, officials of FIFA and the Brazilian government appeared to reach consensus on their points of contention during a meeting in Zurich.

## Company News

### América Móvil Announces Deal to Acquire Simple Wireless

Mexican mobile phone giant **América Móvil** on Thursday announced that its U.S. subsidiary, **Tracfone Wireless**, will acquire U.S.-based **Simple Mobile**, which has more than 1 million subscribers, the Associated Press reported. The Mexico City-based company, which is controlled

*A person familiar with the deal told Reuters that the offer was approximately \$100 million.*

by billionaire Carlos Slim, said it expects the acquisition of Simple Wireless to close before the end of the second quarter. It did not announce the price for the acquisition, but a person familiar with the matter told Reuters that the offer was approximately \$100 million. A mobile virtual network operator, Simple Wireless resells or bundles radio spectrum or wireless network space, the AP reported. The announcement came just two days after América Móvil announced that it was offering 2.6 billion euros (\$3.4 billion) to acquire another 23.2 percent of Netherlands-based phone carrier **KPN NV**.

### Featured Q&A

*Continued from page 1*

umbrella repair and natural fruit peeling. This bizarre list of permitted private service sector activities will not drive the economic development of the country. Cuba's GDP today is made up primarily

“These are not reforms to unleash the market's 'invisible hand,' but rather to reaffirm the Castros' clinched fist.”

— José Azel

by tourism, the services of doctors abroad, nickel and a handful of agricultural exports. Hernández's stated goal seems mathematically impossible given a private sector permitted only in subsistence-level activities. An impediment to real reforms is simply that without inspired democratic leadership, the set of long-held Marxist economic assumptions will not be swapped for another set of economic beliefs. These are not reforms to unleash the market's 'invisible hand,' but rather to reaffirm the Castros' clinched fist.”

**A** **Lorenzo Perez, member of the Association for the Study of the Cuban Economy and former deputy director of the Middle East and Central Asia Department at the IMF:** "An expansion of Cuba's private sector will certainly strengthen the economy. The realism of moving half of the economy to the private sector over a five-year period will depend on the measures taken to attain this goal. While positive steps have been taken in recent months, the measures up to now have been too timid or contradictory to attain this goal. A significant expansion of the private sector would

require the opening of most sectors of the economy to private initiatives, respect for private property and the rule of law, freedom for markets to operate and the establishment of a sustainable macroeconomic framework. The activities opened to the private sector are too few (some 200 activities) and continue to limit most private professional activities, thereby negating possible benefits from the country's well-educated labor force. Insufficient institutional arrangements have been adopted to establish clear property rights and promote the creation of private companies. For example, land distributed to farmers has only been leased, while the creation of companies with unlimited capacity to hire labor is not envisaged. Markets are not operating freely; a substantial amount of food production has to be sold to the state at fixed prices, the private sector cannot carry out most foreign trade activities and a heavy tax burden discourages private investment and hiring. A sustainable macroeconomic framework does not exist with public finances and the balance of payments depends on politically-motivated financial relations with Venezuela. No effective measures have been taken to restructure the external debt with most industrialized countries, including negotiations with the United States to settle political differences. As a result, Cuba continues to be isolated from the international economy and organizations."

**A** **Carmelo Mesa-Lago, distinguished professor emeritus of economics and Latin American studies at the University of Pittsburgh:** "The plan to generate half of GDP from the non-state sector requires that 1.8 million workers are transferred from the state sector by 2014, tantamount to 35 percent of the labor force. In 2006-2010, the non-state sector shrank. Under Raúl's reforms, the government dismissed only 140,000 unneeded state workers in 2011 (14 percent of the target). In that year, there

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**Featured Q&A***Continued from page 3*

were 357,000 self-employed people (7 percent of the labor force) out of which 209,600 were new and only 17 percent had been unemployed. In addition, from 2009 to 2011, 147,000 agricultural producers were granted usufruct contracts in unused state land (2.9 percent of the labor force), but much less in 2011 alone. Finally 1,500 cooperatives in production and services were created in 2011; the number of members has not been released but assuming 4 members per cop there would be 6,000 (0.1 percent). In summary, perhaps 300,000 jobs in the non-state sector were created in 2011 (5.8 percent of the labor force), which means that 1.5 million non-state jobs must be created in the next three years to reach the 1.8 million target, at an annual average of 500,000. That is impossible at last year's growth rate. Thus, the structural reforms must be accelerated and deepened, for example, through significant tax cuts in the non-state sector, an expansion of self-employment to university graduates and the elimination of bureaucratic impediments. If this were the case and the targets of state worker dismissals and non-state job creation were met, then the economy would probably be strengthened. The state would save a lot on wages and the private sector, which has proven to be more efficient than the state sector, should increase production and productivity. But a lot of 'ifs' must materialize."

**A** **Uva de Aragón, associate director of the Cuban Research Institute at Florida International University:** "It isn't an easy goal, but it could be attainable if there is: 1) a change of mentality and acceptance that actors in the non-state economic sector have a right to profits, and that the creation of a middle class would be healthy for the country; 2) a transparent legal framework; 3) a tax code based on profits, with a moratorium of at least two years for new busi-

nesses; 4) expansion of the areas in which the non-estate sector can grow; 5) reduction and eventual elimination of bureaucratic red tape; 6) access to tools and raw materials, in a timely manner

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“Where will the capital come from?”

— *Uva de Aragón*

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and at reduced costs; 7) sustainable markets, which will require among other things higher salaries and pensions for remaining state employees and retirees, respectively; 8) significant advance in technology; 9) training of Cubans in business practices; 10) restructuring of monetary policies (the disparity between salaries in Cuban pesos and cost of products in convertible pesos cannot be maintained) and 11) capital. Where will the capital come from? Can a climate of stability be created to entice foreign investors? Will they allow Cubans in the diaspora to invest, even if only as partners with their relatives and friends? As changes take place, can the state continue to provide a safety net—education, healthcare, social services—for most Cubans? The changes needed are so deep they cannot be done too quickly; but a slow pace is as dangerous. Will Cuba find the needed steady rhythm to transform itself? I personally hope it does."

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*The Advisor welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org) with comments.*

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