

IDE Research Bulletin

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Revolutionary Cuba's Quest for Survival: Comparison with Vietnam

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This project was aimed to study the current macro- and micro- economy and social politics of Cuba, by comparing with the case of Vietnam. Both Cuba and Vietnam are remaining communist regimes since the disintegration of the Soviet Union of 1991. All the papers deal principally with post-Soviet era (1991-present), but if necessary in case of Vietnam, it extends the analysis to the second half of the 1980s, when Vietnam launched Doi Moi reforms. Cuba and Vietnam are quite different in its development paths in political, social, and economic points of view. While Vietnam has been enjoying much higher economic development than Cuba, particularly via the introduction of foreign direct investment, Cuba has accomplished much higher social development than Vietnam. Although one might have a tendency to look that Vietnam is more advanced in development than Cuba, the comparison could not be so simplified, because Cuba also have some advancement that Vietnam has been unable to accomplish, especially in the arena of the social development. Furthermore, our comparison of the development of institutions in Cuba and Vietnam is complex, because in some areas Vietnam is better than Cuba, but in other areas Cuba is better than Vietnam. This project is to show Cuba's position in development studies by contrasting with Vietnam, and therefore, all the participants are specialists of Cuba. Yet at the same time, this project is aimed to present one study to show the varieties of communist regimes.

This project has several policy implications. In the area of macroeconomics, we consider that Cuba has many aspects to learn from Vietnam's experiences. Vietnam succeeded in completing the modernization of monetary system and the unification of convertible and non-convertible currencies. Especially these days Cuba specialists have argued the possibilities of the unification of convertible and non-convertible currencies. The Cuban government has been attempting but has never been able to accomplish the unification. Vietnam successfully realized this unification in the late 1980s. Vietnam suffered from hyperinflation for two years after the unification, but it survived thanks to the fact that Vietnam had already launched rather drastic market-oriented reforms. While Cuban government declared that they would also realize the unification shortly, in 2012, it would be difficult to accomplish it because Cuba has not yet launched decisive market-oriented reforms. The shock from the

unification, principally hyperinflation, would drastically drop the living standard of ordinary citizens, who have been suffering from economic crisis since the fall of the Soviet Union. Cuba may well postpone continuously the unification, because further economic crisis would weaken the people's support for their revolutionary government.

The comparison of economic and legal institutions of both countries is more complex. Mauricio de Miranda of our project compared the two countries in the viewpoints of governance and corruption. He used the World Bank's governance index. The result is that Cuba has better points than Vietnam in "corruption" index and "political stability and absence of violence" index. On the other hand, Vietnam is better than Cuba in "public service, practice of politics" index and "regulatory quality" index. Furthermore, Vietnam has better legal institutions than Cuba. When we look at more detailed comparison, both sides have some governance index to learn from each other. Dr. de Miranda compared the two countries during the year 1997-2014, when both have index data. For example, in "Control of Corruption" index, Cuba had 62 to 71 in percentile rank, while Vietnam had 26-40 respectively. On the contrary, in "Regulatory Quality" index, Cuba had 4-10, while Vietnam had 8-17. These fact means that Cuba has been better in corruption index, while Vietnam has been better in regulatory quality, and that it is not applicable in our case a general assumption that Vietnam with much higher economic growth does not necessarily has better governance. Furthermore, we found that Vietnam (as well as China) has relatively bad points in governance. We concluded that it has recorded high economic growth not because it has a better governance, but we should say that Vietnam succeeded in this high economic development in spite of poor governance.

In social development, Cuba has been much more advanced than Vietnam both institutionally and with accomplishment. In United Nations Development Program (UNDP) Human Development Index, Cuba ranks 59th in 2013, and 44th in 2014. Vietnam ranked 127th and 118th respectively in this index. Vietnam has 6-9 times greater population than Cuba (depending on the year, as Vietnam has been expanding the population while Cuba has been starting to shrink the population), but the number of the primary schools in Vietnam is only double of that of Cuba, and the number of physicians are almost the same (while the population size is 9 times larger) between the two. As social development is usually a paramount accomplishment of socialist countries, we could judge that Cuba has been able to establish more orthodox Marxist-Leninist nation than Vietnam from a viewpoint of "social contract" in which

the state is responsible for a certain level of living standard of the people (workers). The principle that the state takes responsibilities for maintaining or raising the living standard of the people is one of the main policy goals for communist states, when it aims to realize an egalitarian society. Cuba could accomplish this goal to much more extent than Vietnam, for the reasons as follows:

(1) Cuba received much larger amount of Soviet economic assistance than Vietnam. According to US government data, during the decade of the 1980s Cuba received three or four times as much assistance from the Soviet Union as Vietnam. For the difference in the population size of both countries, the benefit per capita that Cuba received from the Soviet Union was 16-17 times as much as that of Vietnam. Cuba could utilize this generous Soviet assistance for social development. (2) Of course, the leadership factor has a good point as Fidel Castro decided to dedicate this resource to social policy, not for the military or more personal objectives. Yet it is also true that during the interviews with Vietnamese professors in Hanoi, they told us that their government also wanted to spend more budgets for social development, but that they had not had enough resources, partly because they had to put priority to recovery from long-time wars, and also because they had received less quantity of resources from the Soviet Union. (3) Cuba has never had to confront the United States through real wars. This historical fact has affected the resources of the government that could have been spent for social development. Vietnam's situation was much closer to a level of the people's subsistence and survival of everyday life after 1975 until 1986.

The article of Pavel Vidal Alejandro is to create a macroeconomic model to show how GDP growth rate fluctuates according to balance of payment constraints. He applies BPCG model which was proposed by A.P. Thirlwall. We can state that all of GDP components by the sides of supply and demand, for the case of Cuba as for Vietnam, exports extant as the main contribution.

Among the components of aggregate demand, the BPCG model highlights the role of exports, because it is the only demand component that can expand without damaging the equilibrium in the balance of payments.

$$y = \frac{\theta x + (1 - \theta)(ef + e - px) + (\theta\eta + \phi + 1)(px - pm - e)}{\xi} \quad (1)$$

Equation (1) expresses that the growth rate of the real national income is determined by the growth rates of the real exports of goods and services (X), by the net external inflows of capital in real terms ($ef + e - px$) and by the terms of trade ($px - pm - e$). At the same time, Equation (1) reflects that the economic growth is given by the income-elasticity of the demand for imports ξ .

Pavel Vidal's article shows:

- (1) The BPCG model achieves a higher adjustment of Cuba's GDP growth (57 %) than Vietnam (32 %). Additionally, for Cuba's estimated elasticity for exports and external financing, are higher. In both countries these two variables are statistically significant.
- (2) Exports account for part of the differential between Cuban and Vietnamese GDP growth in the early years of reform, but thereafter greater international opening and other factors not related to the balance of payments, have a greater impact. These other factors would be connected to changes the Vietnamese government has been implementing as part of the reform boosting domestic forces of economic growth.

The article of Mauricio de Miranda Parrondo is aimed to examine institutional reforms of the two countries from the micro-economic viewpoints, applying the theories of Dani Rodrik and Douglas North. The political institutions of Cuba and Vietnam have many common grounds, such as no division of powers, and no channels for the people to send their demands to the leaders. Also, state ownership is recognized in major and strategically important sectors of the economy in both countries, and the government has stronger control over the economy. Yet Vietnam has a tradition of separation of political powers among the Party, State and the government than Cuba where those three powers are concentrated in one person. Second, the paper analyzes the major institutional (legal) reforms exercised in Cuba and Vietnam. The legal reform has been more elaborate in Vietnam than in Cuba, and Vietnam has more continuous process of the reforms than Cuba. Third, the paper compares economic performance of both countries. The GDP growth rate, transformation of the economic structure, from agriculture to manufacturing sector, and foreign direct investment in Vietnam has been much higher than Cuba. The more advanced institutional reforms in Vietnam have resulted in better economic performance and structural changes in its economy, compared to Cuba.

The article of Kanako Yamaoka is aimed to see the differences in political regimes from viewpoints of social contract model developed in Soviet studies. The fundamental question is to see why the communist regimes survived after the disintegration of the Soviet Union. At the same time, it is aimed to explore that there is a wide variety of communist regimes, as Cuba and Vietnam are very different in social contract analysis. The social contract means that while the communist regime offers its people a certain level of living standard through social policy, the people also offer the regime a passive acceptance and obedience. This give-and-take relation is defined as a “social contract” between the regime and the government. This paper is to see whether the regimes of Cuba and Vietnam have a social contract, and if so, what kind of social contract each has. In order to see it, the paper analyzes leadership discourses of the periods of the 1990s and 2000s, and social institutions prepared and reformed in those periods. The author considers that Cuba has more Soviet-styled social contract than Vietnam, and Vietnam’s social policy is closer to capitalist social security and welfare programs, especially after the reforms started.