CUBA, CHINA, AND THE LONG MARCH TO THE MARKET 1

Miguel, better known as Chino, gestured enthusiastically toward his new armchair. A carpenter by trade, he had always made his own furniture, but this was a piece to be proud of. It contained the best available fabric and timber, affordable thanks to his new job. Since 2011 he had been working in a nearby marketplace, selling pipes, valves, and spare parts for home plumbing repairs. Chino took me to the small courtyard where his concrete cubicle stood alongside ten or so others, which sold everything from ground coconut to T-shirts (figure 1.1). A promotional sign indicated his professional versatility: "Se realiza todo tipo de trabajo a domicilio y en el puesto, gracias" (I provide every kind of service in-house and in-store, thank you).

Over the bustle of animated negotiations, Chino explained that he had acquired about half of the items on sale in his cubicle through official government-licensed suppliers, and the rest illegally through a network of friends working in state factories. Everybody in the courtyard, he said, relied on the black market for about half of their supplies because "otherwise none of this would be possible. Unfortunately our system is broken, because it only works if you steal things. The newspaper says Raúl [Castro, Cuba's president since 2008] is going to create a wholesale market . . . that's why he went to China again to find suppliers." I had known Chino for a decade, but I had never previously encountered him with money

FIGURE 1.1 Chino and his wares, Havana. Photo by the author.

in his pocket and optimistic about the future. In the absence of a legal supply chain, though, he would continue to operate under the table and under the threat of surprise inspections.

Chino's uncertainty about the trajectory of Cuba's development and China's role in it is shared by observers around the world. Critics argue that in contrast to China's economic liberalization over the past three decades, Cuba's commitment to "updating the socialist system" constitutes a justification for maintaining the fifty-year-old status quo, and that "nothing much will change" (Azel 2011). Others perceive real change under Raúl Castro, describing the suite of reforms announced by his government in 2011 as "a significant realignment of the paternalistic relationship that has existed between the State and its citizenry since the revolutionary period began in 1959" (Laverty 2011, 4). Even Freedom House, which has long doubted the sincerity of the Cuban government's policies, finds that "the opening of a private sector, while still limited, is driving genuine change in Cuba" (Moreno and Calingaert 2011, 25).

The global financial crisis deepened efforts to shift the contours of Cuba's post–Fidel Castro economic landscape, its impact transmitted through the island's sensitivity to foreign credit, export earnings (particularly from nickel), remittances, and tourism (Mesa-Lago and Vidal-Alejandro 2010, 690–91). Cuba's response was unveiled in the April 2011 Communist Party Congress: a series of 313 reforms called the *Lineamientos de la política económica y social del partido y la revolución* (Economic and social policy guidelines of the party and revolution; República de Cuba 2011).

A prominent feature of the *Lineamientos* is an attempt to build synergies between large state enterprises, small private actors like Chino, and suppliers for both. As in China, the goal is not to replace the state with the market, but to create a more liberal blend of state authority and market incentives capable of integrating aspiring entrepreneurs into existing hegemonic structures. Through this process the Cuban government hopes to scale back its share of spending from 95 percent of gross domestic product (GDP) to around 40 percent by 2017 (Frank 2012). This optimistic goal resonates with the advice of Chinese policy researchers in a recent issue of the Cuban journal *Temas*, who argue that the optimal developmental path is one that prioritizes gradual opening under the "supreme guidance of the state" (J. Yan 2011, 13; also see Shi 2011). China is not simply an example for Cuba, but an active player in the reformulation of the Cuban system. China helped Cuba survive the collapse of the Soviet Union and upgrade basic industrial infrastructure, and by 2014 Cuba's GDP (in purchasing power parity) had rebounded to $234 billion (World Bank 2015b). As noted in the introduction, China is now Cuba's second largest trading partner, with annual bilateral trade reaching $1.39 billion in 2014. The dollar amount has fluctuated considerably since reaching a peak of $2.3 billion in 2008, but it is up from just $314 million in 2000 (figure 1.2; United Nations Commodity Trade Statistics Database 2015). Commercial agreements have been accompanied by advice about trade and investment liberalization, conveyed repeatedly to Cuban officials by their Chinese counterparts ever since Fidel Castro's 1995 meeting with Chinese Premier Li Peng in Beijing (Y. Cheng 2007a and 2007b; Jiang 2009). As Chino indicated above, Cuba's emerging entrepreneurs continue to rely on the black market, a problem their government hopes to address in part through inbound supply of Chinese consumer products for the wholesale market.

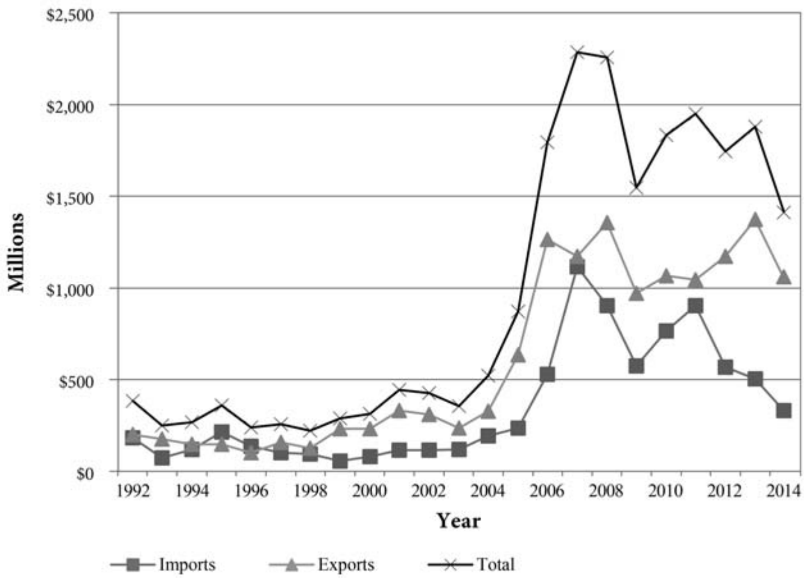

FIGURE 1.2 China's trade with Cuba, 1992–2014. Source: United Nations Commodity Trade Statistics Database 2015.

Ideological affinity is no longer the prime mover of Sino-Cuban engagement. As a former Cuban diplomat in Beijing noted, "we can no longer knock on China's door and ask for favors the way we used to. Political trust is still important in our relationship, but now it's a matter of pragmatism, because the Chinese insist that the numbers have to add up" (Omar Pereira Hernández, interview, May 28, 2012). Cuba's de facto ambassador to China during the Cultural Revolution, Mauro García Triana, described the situation this way: "The Chinese are very clear about one thing: they're not going to be benefactors for Cuba like the Soviets were. I was once told in no uncertain terms by a Chinese diplomat: 'Our relations with Cuba have to be mutually beneficial or they will not work'" (interview, January 11, 2007).

Political solidarity continues to shape the contours of Sino-Cuban cooperation, but the ideological foundations of the relationship are shifting away from doctrines of top-down control. This shift reflects a common development trajectory: centralized governance once sought to command economic development and the social interactions it entails. As Lenin put it, "trust is good, but control is better." More recently, appropriately regulated private sectors have been gaining credibility in both nations as experimental policies open new ground for small businesses and the independent exchanges they require. China and Cuba are grappling with this transformation in their own ways, in the process redefining the balance of vertical and horizontal power that underpins their domestic development and bilateral relations.

This chapter's first section outlines the changing nature of Sino-Cuban cooperation since the establishment of diplomatic relations in 1960, from state-to-state deals premised on political ideology to strategies for expanding the private sector. It then considers bilateral cooperation in oil production, electronics manufacturing, transportation, and education. State management has enabled a high degree of coordination among these sectors, but unrealistic expectations of political solidarity on the part of Cuban negotiators have also produced tensions with increasingly market-oriented Chinese negotiators. The chapter's final section examines the reforms proposed by Cuba's 2011 *Lineamientos*, particularly their approach to decentralization, employment, and the informal sector. While China's earlier liberalization has provided inspiration and insight for this process, the chapter concludes that an important next step will be to permit cooperation between independent Chinese and Cuban citizens. This will require both governments to acknowledge that, in spite of Lenin, trust is sometimes better than control.

THE CHANGING BASIS OF SINO-CUBAN RELATIONS

Political affinities between Cuba and China date back to the early years of the Cuban Revolution. On September 2, 1960, Fidel Castro declared that Cuba would sever ties with Taiwan; this was done on September 28, making Cuba the first Latin American country to establish diplomatic relations with the People's Republic of China. In the first half of the 1960s, China provided economic and military aid to Cuba, supporting its repelling of the Bay of Pigs invasion (People's Republic of China Ministry of Foreign Affairs 1987, 365–66). In return, Cuba supported China's bid to restore its status in the United Nations. Bilateral trade was initiated and regulated through a noncash system of annual quotas, codified in 1960 in the first five-year trade and payment agreement. The agreement was eminently political, with Premier Zhou Enlai proposing that China would buy one million tons of sugar from Cuba (at the inflated price of $100 million) and pay for it with industrial equipment. Ernesto "Che" Guevara recognized the added value of Zhou's offer: "This [proposal] is not tenable from the economic point of view, but we raised it from the political point of view" (Ministry of Foreign Affairs of Cuba 1960, 5).

Ideological differences and rivalry between the communist parties of China and the Soviet Union (known as the Sino-Soviet split) produced tensions—though never a rupture—in Sino-Cuban relations from the middle of the 1960s to the early 1980s (Zhu, Mao, and Li 2002, 319). To remain economically viable in the face of pressure from the United States, Cuba sided with the Soviet Union, and in 1967 the Chinese ambassador was recalled from Havana after Castro called Mao Zedong "a senile idiot" (Garcia Triana, Eng Herrera, and Benton 2009, xxi). The 1975 war in Angola, in which Cuba and China backed opposing factions, and China's invasion of Vietnam in 1979 further strained bilateral relations. At the time of the invasion Castro called Deng Xiaoping a "caricature of Hitler" (ibid., xxi) and denounced China's aggression during a speech in Havana's Plaza de la Revolución, prompting the Chinese delegates to stand up in unison and leave.

As China ceased its policy of antagonism toward countries aligned with Moscow in the early 1980s, a confluence of political and economic interests motivated Beijing's rapprochement with Havana. In 1983 Cuba's minister of foreign trade, Ricardo Cabrisas, visited Beijing to negotiate an agreement enabling Chinese students, diplomats, and military officials to visit Havana (signed in 1984) and to expand the 1960 trade and payment agreement to accommodate the exchange of 100,000 tons of Cuban sugar for Chinese manufactured products (signed in 1988). Chinese leaders recognized that a key problem for Cuba was its dependency on oil imports. In 1985 Cuban oil output was 870,000 tons, enough to meet only 10 percent of domestic demand; the rest was provided at a heavily subsidized rate by the Soviet Union. The disintegration of the Soviet Union forced Cuba to start paying market prices for oil, which seriously hampered its economic growth and drained its foreign purchasing capacity. An exchange of Cuban and Chinese foreign ministers in 1989 focused on initiating cooperation in oil production, a goal that—as discussed below—remains a bilateral priority.

Cuban officials watched with trepidation as Eastern European citizens rose up at the end of the 1980s to challenge the Soviet system. Against all odds, the Castro government survived the so-called end of history, though with severe economic casualties. The withdrawal of Soviet support and the evaporation of trade with the Soviet bloc precipitated a 75 percent reduction in Cuba's import capacity and a 35 percent decline in GDP. China played an important but little-known role in seeing Cuba through this tumultuous period. The Chinese Communist Party had also come under domestic pressure for change at this time, but it emerged intact in part through its 1989 crackdown in Tiananmen Square and in part through a decade of sincere commitment to opening the economy, improving living standards, and creating jobs.

Arriving in Havana in June 1989, just days after the Tiananmen Square incident, Chinese Foreign Minister Qian Qichen was warmly received by Castro. The gesture was deeply appreciated in Beijing, since every other country on Qian's itinerary had canceled his visit. As Cheng Yinghong notes, China's relationship with Cuba became "one of the most important Sino-foreign relations in the eyes of the post-Tiananmen Chinese leaders" (2007b, 727). The show of solidarity was mutually beneficial: in 1993, a time when most of the world believed the downfall of the Cuban Revolution was imminent, Chinese President Jiang Zemin broke the island's isolation with a state visit and an offer of financial assistance. According to a Chinese diplomat I interviewed in Beijing (who requested anonymity), Jiang conducted the visit to "save Cuba's revolutionary project," expressly against the advice of China's increasingly pragmatic Communist Party.

The basis for Sino-Cuban cooperation was shifting in step with global change. Without Soviet support Cuba could not sustain its 1988 accord with China to exchange sugar for manufactured products or the encompassing trade and payment agreement that for three decades had underpinned bilateral barter transactions. As Castro discovered during his first visit to Beijing in 1995, ideology would no longer trump economics. Inadequately briefed by Cuban diplomats in Beijing, he found Chinese officials to be far more pragmatic than he had expected. Publicly, communist ideology was heralded as an enduring linchpin of bilateral relations, but privately Premier Li Peng advised him to liberalize the Cuban economy. Jiang tellingly arranged meetings with Castro both in Beijing and in the

Shenzhen Special Economic Zone, the heartland of China's liberalized export economy. Shortly after, on January 1, 1996, China ended the trade and payment agreement with Cuba.

As Cuba's vice president, Raúl Castro showed more interest than his brother in effecting domestic economic reforms and in building a pragmatic relationship with China. According to a former employee of the Cuban embassy in Beijing, Raúl's 1997 "week-long learning trip" to China actually consisted of a month of research into Chinese approaches to industrial reform, privatization, and urban development. As the evidence collected by Hal Klepak (2010) shows, the military institutions Raúl crafted on his return to manage operations in tourism and agriculture were subjected to essentially the same pressures as Chinese firms: to produce, be accountable, and make a profit. Raúl's efforts to this end were assisted by visiting Chinese advisors, such as a specialist appointed by Zhu Rongji, the future premier, to share insights into China's experience with foreign investment and outreach to expatriates (Y. Cheng 2007b, 729). Another visitor was Mao Xianglin, a special envoy of the Central Committee of the Chinese Communist Party, who developed action plans for expanding Cuban consumer markets. This involved the establishment in 1997 of a bicycle factory with Chinese capital and technical expertise and a facility for producing electric fans and household consumer goods. Mao described this strategy as an incremental process:

> I would hesitate to say that our Cuban manufacturing operations are entirely commercial, because what we're doing is broader than that. We're trying to help Cuba to incrementally upgrade its technical ability. If our products prove popular and useful then we assist by setting up factories. . . . It is interesting that China learned from the United States how to manage its economy, and now Latin America looks to China as a teacher of socialism. Today we are a global village, but for the village to be harmonious there has to be mutual understanding and respect. That is why we are helping Cuba to reach its goals. . . . Using Chinese expertise Cuba could come to produce electronic goods for sale to Latin America. (interview, December 14, 2007)

The mutual understanding pursued by Mao in Cuba was based not on orchestrated quotas and artificial prices, as had been the case until 1996, but on the goal of modernizing Cuba's infrastructure to enable the country's integration into international markets. To this end, Jiang visited again in 2001, providing a loan of $200 million to update Cuban telecommunications with Chinese products and a $150 million line of credit to buy Chinese televisions (Erikson and Minson 2006). He also pledged to support Cuban production of rice, soy, sorghum, maize, and sugar for sale to the Chinese state, but the slow pace of Cuban land reforms limited this prospect. Cuba's sugar exports to China nevertheless had grown from $91 million in 2001 to $210 million in 2014 (United Nations Commodity Trade Statistics Database 2015).

The Chinese Communist Party elite was privately less enthusiastic about Cuba than Jiang was, not least because the slow recovery of the Cuban economy had delayed the repayment of loans. In 2003 Fidel Castro made a second visit to Beijing to explain. Together with Jiang, he prepared a schedule of monthly payments from the National Bank of Cuba and a series of strict fiscal requirements to be imposed on Cuban enterprises. The plan's strength was its diplomatic timing. In the context of China's looming leadership transition, it provided Jiang and his allies with a tool to advocate continued support to Cuba. The Cuba lobby was further strengthened by Castro's symbolic power: long revered in China as a revolutionary icon, his public praise of the Chinese system provided relief to a government facing growing concerns about its ability to deal with domestic inequality and advance the socialist cause. Jiang, General Secretary Hu Jintao, incoming Premier Wen Jiabao, Zhu, and other key figures all publicly expressed their solidarity with Castro (*People's Daily* 2003a and 2003b).

The reelection of U.S. President George W. Bush in November 2004 generated diplomatic common ground for Cuba and China. Having become China's president in March 2003, Hu visited Havana the same month that Bush was reelected. Bush's hard-line position on Cuba led to media commentary that for Castro there was "no better time for the visit" (Reuters Havana 2004). Hu affirmed the bilateral relationship with a thinly veiled reference to the United States, stating that China and Cuba "are fraternal brothers . . . passing the test of changing and adverse international circumstances" (quoted in Lam 2004, 3; also see Murray 2004). The visit yielded agreements in education, public health, biotechnology, telecommunications, earthquake detection, solar energy research, cancer treatment, vaccine production, nickel mining, and oil exploration. China pledged to invest $500 million in Cuba's nickel sector, and although Venezuela emerged as the leading financier of the Las Camariocas ferro-nickel plant near the city of Moa, by 2014 China had consumed $3.8 billion worth of Cuban nickel—nearly all that had been produced since 2004 (United Nations Commodity Trade Statistics Database 2015). The visit also indicated a shift in economic thinking: Chinese electronic products imported by Cuba such as washing machines, televisions, rice cookers, air conditioners, and refrigerators would now be assembled on the island (see below).

Visiting Cuba again in November 2008, Hu offered extensions on the repayment of previous loans, a donation of $8 million for hurricane relief, and a credit line of $70 million for health infrastructure (*Granma* 2008). In another apparent reference to the United States, he stated that "the Chinese people will, as always, support the just struggle of the Cuban people in safeguarding state sovereignty and opposing outside interference" (quoted in *Xinhua* 2008). According to a member of Hu's delegation, China offered thirty-seven investment projects on the understanding that Chinese technicians, investors, and their families would take up residence in Cuba (interview, November 21, 2008). Whether such an influx of Chinese employees would be viewed favorably by Cubans or provoke hostile reactions as it has elsewhere in Latin America would remain unknown, since only a small number of the projects was approved.

In June 2011 Xi Jinping, China's vice president, and Jiang Jiemin, president of the China National Petroleum Corporation (CNPC), visited Cuba to sign thirteen agreements ranging from investment in oil and gas to banking and finance. Underpinning the first Five-Year Plan for Sino-Cuban cooperation, the accords demonstrated China's long-term commitment to assisting Cuba through its reforms. As the economist Richard Feinberg noted at the time, "some observers opine, albeit with some exaggeration, that China has become Cuba's IMF [International Monetary Fund]!" (2011, 42). The director of the Latin America Institute of the Chinese Academy of International Relations, Wu Hongyin, had this to say of Xi's visit: "The deepening of reform in Cuba and the broadening of liberalization measures will call more attention among Chinese companies. This, in turn, will increase Chinese-Cuban economic cooperation, and create more opportunities for both nations in important economic sectors such as agriculture, telecommunications, infrastructure, services, energy, among others. Future economic relations will be closer" (quoted in *Cuba Standard* 2011).

Just as Fidel Castro had traveled to Beijing to meet incoming President Hu and Premier Wen in 2003, Raúl Castro went to China to meet incoming President Xi Jinping and Premier Li Keqiang in July 2012. The visit secured agreements that the Chinese government would boost tourism to Cuba and provide digital television and telecommunications technology, financial and banking services, infrastructure, and equipment for the health sector. It also consolidated cooperation in agriculture through Chinese provision of fertilizers, tractors, and irrigation equipment. Export contracts are a common feature of Chinese bilateral agreements, but as was the case during Fidel Castro's 2003 visit, the deeper value for the incoming government was the Cuban leader's ringing public endorsement of China's scientific progress, humanitarianism, economic stability, and faithful pursuit of socialism. As Cheng writes, "Cuba has been perceived as the most unyielding and thus the most admirable anti-American hero who, as the Chinese government has introduced to its people, sets an example of the defiance of 'international pressures' and of survival against all odds. In this way the image of Cuba has facilitated China's newly emerging nationalism. The hardliners, old Maoists and new leftists have looked upon Cuba as the example of the socialism purer than China's" (2007b, 728; also see Y. Cheng 2012).

Political solidarity continues to serve a diplomatic purpose in Sino-Cuban relations as was evident during Xi's 2014 visit to the island, which he commended for "persisting on the socialist path, firmly safeguarding the sovereignty of the state" (quoted in Pérez 2014). The comment was accompanied by a commitment from China Minmetals Corporation to purchase $600 million of Cuban nickel, illustrating pragmatic substance beneath the diplomacy.

For over three decades ideology permeated Sino-Cuban relations, starting with grandiose commitments such as the 1960 trade and payment agreement and Zhou Enlai's willingness to buy overpriced Cuban sugar. Political solidarity continued to prevail through the doctrinal disputes of the Sino-Soviet split and rapprochement, marked by centrally planned bartering of sugar for manufactured products. Castro's support for China through the Tiananmen crisis and Jiang's endeavor to "save" the Cuban Revolution after the Soviet collapse demonstrated the depth of trust between the two countries. The nature of bilateral relations began to change in the mid-1990s, when China terminated the trade and payment agreement and began advising Cuba to pursue economic reforms. For two decades this advice has focused on the gradual liberalization of markets and the empowerment of private actors to stimulate productivity and reduce the burden on the state. It is only since Raúl Castro assumed the presidency in 2008 that Cuba has shown genuine interest in implementing these suggestions.

Although liberalization implies a greater role for the private sector and civil society, Cuban interactions with China remain notably devoid of contact between nonstate actors. All aspects of formal engagement are designed and managed through governmental accords, limiting the potential for cooperation between the two nations to keep pace with developments within them. Interactions between emerging Cuban small businesses, cooperatives, and nongovernmental organizations and their more established Chinese counterparts would provide a broader basis for building trade, understanding, and trust. The formulation of legal guidelines for regulating such exchanges would also enable both sides to more effectively contain informal connections between the two (a point discussed in chapter 3).

A prerequisite for the emergence of more heterogeneous forms of Sino-Cuban engagement is legal authorization—particularly from the Cuban side—to develop autonomous partnerships, conduct trade, and hold independent conferences and forums. As the Cuban private sector gains strength, to forbid such activities is to invite unregistered trade, clandestine negotiations, and political dissent born of oppositional solidarity. Esteban Lazo Hernández, a member of Cuba's Politburo, predicts that the growth of private initiatives between 2012 and 2017 will see the state's share of GDP production cut in half from its current level of 95 percent (Frank 2012). The Cuban government will tread a dangerous path if it does not permit civil liberties to keep pace with this shift. For the time being, cooperation with China in everything from oil to education remains the preserve of the state.

THE SEARCH FOR CUBAN OIL

The rapid development of the Chinese economy has provoked a global quest for oil. Sino-Cuban onshore oil cooperation was first envisioned in 1989, several years before oil and natural gas fields were identified in a 112,000-square-kilometer maritime area under Cuban jurisdiction in the Gulf of Mexico. Quickly attracting international interest, the offshore area was designated as an exclusive economic zone (EEZ) and divided into fifty (later fifty-nine) blocks, each spanning approximately 2,000 square kilometers. Foreign capital and technology were introduced through joint venture contracts in seventeen (later thirty) of the blocks.

In 2004 fuel imports cost Cuba $1.31 billion, a significant figure considering that at the time Cuba's GDP amounted to $32 billion (Economist Intelligence Unit 2008, 48–50). That year, ahead of President Hu's visit, the Chinese enterprise Sinopec signed a "Memorandum on Blocks No. 1, 2, 3 and 4" of the EEZ with the National Petroleum Company of Cuba (CUPET), and in January 2005 the Shengli Oilfield Administration Bureau (a division of Sinopec) signed a product-sharing contract for prospecting in a further three blocks. Hu's visit paved the way for the Great Wall Drilling Company, a subsidiary of CNPC, to commence onshore operations in Varadero in 2005, producing thirteen million barrels of oil over the subsequent seven years. During Hu's second visit, in 2008, CNPC and CUPET expanded their projects in oil and gas field development, engineering and technical services, and the export of Chinese equipment to Cuba (China National Petroleum Corporation 2008).

The U.S. Geological Survey estimates that Cuba's Gulf of Mexico fields contain 4.6 billion barrels of crude oil and 9.8 trillion cubic feet of natural gas (USGS 2005). Cuban sources have estimated that the island's maritime oil reserves exceed 20 billion barrels (compared to Mexico's 11.7 billion), and that the exploitation of these reserves will place it within the top twenty oil-producing nations ("Cuba Claims Massive Oil Reserves" 2008). In June 2011, during Xi and Jiang's visit to Havana, CUPET and CNPC signed a new framework agreement granting the latter five blocks at the western edge of the EEZ (numbers 19–22 and 30), adjacent to the maritime border with Mexico (China National Petroleum Corporation 2008). Exploratory drilling in the EEZ by the Spanish firm Repsol commenced in January 2012, despite U.S. security and environmental concerns (Council on Hemispheric Affairs 2011; Hutchinson-Jafar 2011; Piñón 2011, 24).

The successful extraction of Cuban oil would significantly redirect the island's development trajectory. As a BBC report put it in early 2012, "this is a key moment for Cuba. . . . Substantial deposits of oil, and most likely gas, would transform this struggling economy into an energy exporter" (Rainsford 2012). Pressure to end the U.S. trade embargo, or at least adjust it to permit cooperation in the oil sector, would mount, since "the United States would find it difficult to accept being sidelined without a piece of the pie, especially with regard to gas reserves that could reduce energy costs in some southern states" (Ravsberg 2012).

At the end of 2011 the Chinese-built (and Italian-owned) Scarabeo-9 Ultra-Deepwater Rig arrived in the EEZ, designed specifically to comply with U.S. trade sanctions against Cuba that limited components to less than 10 percent U.S.-made. Repsol (Spain), Petronas (Malaysia), Gazpromneft (Russia), and Petróleos de Venezuela (Venezuela) each leased Scarabeo-9 to drill in the EEZ. All failed to achieve results, citing the compact nature of the underlying rock as unsuitable for oil and gas extraction. In November 2012 the Scarabeo-9 departed Cuba but was immediately replaced by the Songa Mercur, a Soviet-built platform owned by Songa Offshore of Norway and leased for one year to the Russian oil giant Zarubezhneft for $88 million. Refitted in Trinidad and Tobago to replace its U.S.-made components (including five generators from Caterpillar, mud pump motors from General Electric, and cementing equipment from Halliburton), the platform commenced drilling off the coast of Ciego de Avila and Villa Clara Provinces.

Zarubezhneft continues to prospect in the EEZ with the support of another Russian state enterprise, Rosneft, which has agreed to build a base at the Port of Mariel to relay equipment and personnel to offshore rigs (Gibson 2014). Should Zarubezhneft or any other company strike oil, China's CNPC has positioned itself to take advantage of the event. Anticipating an eventual discovery, CNPC subsidiary Huanqiu Contracting and Engineering Corporation has entered a joint venture with the Cuban-Venezuelan enterprise Cuvenpetrol and an Italian subsidiary of the French oil engineering company Technip to upgrade a refinery in Cienfuegos. The renovated facility will be capable of increasing production from 65,000 barrels per day to 150,000. Using Venezuelan reserves as collateral, Huanqiu is the main financier of the $5.5 billion project, which also involves building a gasification plant to process Venezuelan—and potentially Cuban—liquid natural gas (*Cuba Standard* 2011).

As shale gas becomes globally available and the Organization of Petroleum Exporting Countries (OPEC) tries to compete by oversupplying the world with crude oil, energy prices have declined by nearly half to their lowest point since 2009—and with them Cuba's dreams of becoming an oil giant. In January 2015 Venezuelan President Nicolás Maduro visited Saudi Arabia to request that OPEC reduce its production ceiling of thirty million barrels per day because oil revenue subsidizes his government's hallmark social programs. It also underpins Venezuela's Petrocaribe oil distribution program, whose supply to Cuba diminished from 100,000 barrels per day in 2013 to around 70,000 at the end of 2014 (Pitts 2014). Cuba's oil supply is protected to an extent by its reciprocal provision of some thirty thousand health-care workers to Venezuela, but Maduro's opponents have pledged to rescind the oil-for-doctors program if elected. To manage this risk the Cuban government is once again reevaluating its foreign relations, including with the United States. The diplomatic rapprochement announced by Presidents Barack Obama and Raúl Castro in 2014 is likely to stimulate a growing presence of U.S. firms in Cuba, including in the oil sector. There they will find Chinese counterparts whose state-backed trade and investment activities will pose competitive challenges.

The Cuban and Chinese governments view their oil cooperation as national priorities and manage it entirely through state enterprises. This is logical considering the required capital outlays, which private firms even in China would have trouble raising, but state control of core industries also reflects a political strategy. As Joshua Kurlantzick writes, "The Chinese government wants to control the entire process, from taking commodities out of the ground to shipping them back to China, because it does not trust world markets to ensure continuous supplies of key resources. It is purchasing stakes in important oil and gas firms abroad, constructing the infrastructure necessary to get those industries' resources to port, and building close relations with refiners and shippers" (2008, 200). By linking distinct sectors into an integrated system, the Chinese government has attained a high degree of control over production chains around the world (Ellis 2005, 193–212; Hira 2007, 87–96). As the next section shows, this approach is evident in Sino-Cuban projects that connect electronics manufacturing with the education and transportation sectors. Coordinating these initiatives has involved a high degree of top-down oversight but also some hard lessons for Cuban negotiators, whose faith in ideological solidarity has been shaken by the pragmatism of their Chinese counterparts.

THE SUM OF THEIR PARTS: ELECTRONICS, TRANSPORTATION, AND EDUCATION

The diversity of Chinese projects in Cuba distinguishes them from Spanish and other foreign investments, which have focused on enclave sectors like hotel construction and tourism services. Recent Chinese projects include a marsh gas extraction facility, a sheep-rearing farm, a reservoir fishery, a sugar biofuel power station, and three pesticide production plants. The China specialist Arsenio Alemán notes that Chinese initiatives in Cuba are designed to complement each other across sectors. For instance, Chinese light manufacturing, transportation upgrading, and port redevelopment projects are designed to function as a unified system of domestic production, shipping, and prospective export to Latin American and Caribbean members of the Bolivarian Alliance for the Americas (interview, January 10, 2012; also see Frank 2006).

Cuba's capacity for foreign trade will grow significantly with the renovation and expansion of the Port of Mariel. Expected to become the largest shipping hub in the Caribbean, the port will handle more than two million cargo containers annually and accommodate the "post-panamax" (extra large) vessels that will pass through the Panama Canal when it has been widened. Mariel's first phase was completed in January 2014 and inaugurated by Castro and Brazilian President Dilma Rousseff, whose government loaned Cuba $682 million for the $950 million project. Cuban Foreign Trade and Investment Minister Rodrigo Malmierca has spoken of Mariel's significance for Chinese exporters, which he anticipates will use it as a distribution hub for markets in the Caribbean, Central America, and Mexico, none of which can accommodate post-panamax cargo ships.

A special economic zone adjacent to the revamped Mariel Port could also become a focal point of Chinese activity. In September 2013 Castro signed a decree permitting foreign firms to import goods duty free into the zone, and to remain exempt from taxation on profits for ten years. Unlike previous regulations that have required foreign investors to form joint ventures with the Cuban state, the new framework permits investors 100 percent ownership and contracts of up to fifty years. The decree served as a basis for the 2014 revision of Cuba's general Foreign Investment Law (last updated in 1995), which now protects investors against the nationalization of their assets, exempts them from personal income and labor taxes, and guarantees a profits tax ceiling of 15 percent preceded by an eight-year grace period. In the Chinese pavilion at the 2013 Havana International Trade Fair, Malmierca told representatives from sixty-five Chinese enterprises that "the Chinese companies that today produce in China and bring their goods here could produce here in Cuba, in this special zone . . . with many incentives" (quoted in "Cuba Seeks Chinese Investment" 2013).

The Havana fair has long attracted Chinese firms interested in Latin American markets. Since the early 2000s, Chinese state enterprises such as Haier and ZTE have dominated the fair's electronics exhibits. The kiosk of one regular exhibitor, China Putian Corporation, has for several years been adorned with a banner that confidently outlines a regional strategy: "China Putian Corporation was founded in 1980. It is an extralarge state-owned enterprise directly under the management of [the] Chinese central government. . . . China Putian Corporation will regard Cuba as a platform so as to develop its business in Latin America." The ambition of state enterprises like China Putian to conquer Cuban markets and then use them as a springboard into Latin America is characteristically optimistic but, for the time being, uncharacteristically impractical. For one thing, Cubans have yet to embrace Chinese brands. In the absence of affordable alternatives, they have become familiar with Chinese televisions, rice cookers, and other appliances, but these products live notoriously short lives under local conditions. The extensive circulation of spare parts expertly recovered from antique Russian and U.S. models has done little to service the sleek, energy-efficient, but incompatible Chinese versions.

A longer-term hurdle for China's industrial ambitions in Cuba is the inability of the latter's markets and service sectors to provide capital goods, technical support, and capable employees. Aware of these deficiencies—

and emerging opportunities to address them—in 2004 President Hu delivered his main Cuban speech at the leading information technology training facility, the Universidad de Ciencias Informáticas (University of Information Science). Proposing to link Cuba's higher education system with existing Chinese projects, he declared that thousands of the computers on campus had come from China and been bought at subsidized prices, and that Cuba's growing expertise in information technology should feed into electronics manufacturing. This goal soon took concrete form in a three-story assembly plant for the production of rice cookers and television sets carrying the Chinese brand Panda. The project proved successful, stimulating an agreement during Hu's second visit, in 2008, to establish a joint venture (signed in 2009) between the Grupo de la Electrónica (of the Cuban Ministry of Information and Communication) and the Chinese electronics firm Haier to manufacture electro-domestic products (refrigerators, air conditioners, etc.), and computer equipment in Cuba (Cubaencuentro 2009).

The Grupo's director, Ramiro Valdés Menéndez, had been Cuba's minister of information, and in 2009 was appointed by Raúl Castro as one of several vice presidents. He is a committed advocate of cooperation with China, and through his efforts, electronics has become a key nexus of bilateral collaboration. However, the management of resulting projects exclusively through state channels, and Valdés's blend of political and commercial responsibilities, have generated suspicions about the rationale for Sino-Cuban electronics cooperation. The Cuban-American communications consultant Manuel Cereijo argues that "there are three main areas of concern for us in the new and dangerous axis formed by China and Cuba: radio frequency weapons, computer technology, missile capabilities. The problem with the Chinese Cuban rapprochment [*sic*] is that it is driven by . . . mutual hostility towards the United States" (2001).

Cereijo (2010) asserts that China has set up Cuban listening posts in the towns of Bejucal and Lourdes to monitor U.S. telecommunications. Similarly, the Association of Former Intelligence Officers alleges that the Chinese government is operating a former Soviet facility at Lourdes to engage in "cyber warfare" against the United States (2006). The evidence for this, though, is circumstantial and easily exaggerated. An image published by Cereijo of "golf ball-shaped radar domes: Bejucal base Cuba" drew international attention in the early 2000s, but on closer inspection the image turned out to be of the Echelon surveillance station operated by the U.S. National Security Agency at Menwith Hill in England (Ratliff 2006).

Less newsworthy but more verifiable is Chinese involvement in Cuban transportation and logistics. Cooperation in these sectors is often praised in both countries, but below the surface, differing expectations about state management, ideological solidarity, and the role of the market have caused headaches. In 2006 the China Export and Credit Insurance Corporation (Sinosure) provided a $1.8 billion revolving credit line to upgrade Cuban transportation infrastructure, and the same year the Cuban government announced that contracts totaling more than $2 billion had been signed to improve the island's road and rail networks. Five hundred Chinese freight and passenger train cars were ordered for the rail fleet, with twenty-one locomotives entering service in 2009. By this time, over 1,500 fuel-efficient cars from the Chinese manufacturer Geely had been shipped to Cuba, largely for use by the police and security services (Pérez Pizarro 2009b).

The most significant development in this sector was Cuba's 2008 bulk purchase of 1,000 energy-efficient Chinese buses, adding to an initial fleet of 400 purchased in 2005 (figures 1.3–1.6). Rather than deliver complete vehicles, the Chinese state enterprise Yutong shipped components from its factory in Zhengzhou for assembly in Havana. This reduced the shipping costs by around 15 percent and promoted skills transfer through the training of Cuban personnel by a team of thirty visiting Chinese technicians (Pérez Pizarro 2009a). Two hundred of the buses were in circulation by midyear and the other 800 several months later. In late 2008 Rosa Oliveras of the Group of the Integrated Development of the Capital noted the positive impact: "When the Special Period [in Time of Peace] hit us, the vehicles and spare parts we had imported from the Soviet bloc fell out of production, and our transport system was so damaged that the mobility of Havana's citizens was reduced to between 20 and 30 percent. Until recently people had to wait at bus stops for two or three hours and were forced to work half days, and sometimes not at all. We couldn't have carried on like this. The Chinese buses have saved our city, and actually the whole country, from a very grave situation" (interview, November 18, 2008).

FIGURES 1.3, 1.4, 1.5, AND 1.6 Over the hump: Chinese-made Yutong buses and their predecessors, known as the "camellos" (camels). Photos by the author.

En route from Havana to Santiago de Cuba I experienced the impact of the Chinese buses firsthand, and I recorded the episode in my research diary:

NO DEJES EL CAMINO POR VEREDA (DON'T TAKE SHORTCUTS)

An hour after it was supposed to depart, we're told the train to Santiago de Cuba has technical problems and is out of service. The transport officer blares at us (two hundred or so) through a megaphone: we'll be taking a bus instead. People chatter and laugh: "Better call to say we'll get there late . . . at least we'll get there . . . coño maybe it's one of those new buses . . ." We're led out of the station and around the corner to see a gleaming Yutong bus, and the scramble for seats begins. Those who fight their way in first sit near the front, looking happy with themselves and commenting that the blue seats are soft and good for sleeping. I get one near the back and settle in. I'm woken by bumps. It's 2:15 AM so we've been going four hours. The bumps are getting worse, more like flying through a storm than driving on a road, and it's too dark outside to see what's going on. The man sitting next to me, probably in his sixties, can see I'm perplexed and offers an explanation: "Looks like we're taking a shortcut." I ask him what he thinks of the new buses, and now he looks perplexed too: "They're well built, though the seats are

too small . . . must have been made for Chinese passengers. These bumps are nothing compared to last time. Cuban roads are in very bad condition, especially when you get off the highway."

—En route to Santiago de Cuba, February 27, 2006

The Chinese buses enabled Cuba to stay mobile, but in 2011 the initiative hit an ideological roadblock. Having entered service en masse in 2008, the buses were subjected to relentless use, often on unpaved roads, which caused many to break down simultaneously in 2010. According to an official close to the project, Cuban negotiators incorrectly assumed that political solidarity at the ministerial level would materialize in complimentary maintenance and replacement parts for the Cuban fleet. Their Chinese counterparts, meanwhile, felt that they had shown sufficient solidarity by providing Cuba with a loan to buy the buses in the first place. The setback was a stark reminder of the point conveyed to Fidel Castro by Li Peng in 1995: political trust would no longer subsume economic pragmatism.

As ideology becomes subordinated to pragmatism, Cuba and China have developed new projects to maintain common ground. People-to-people ties have become more important, propelled by high-level agreements in education and health. Academic exchanges between China and Cuba date back to the early 1960s, when 150 Chinese students were sent to Cuba to study Spanish. The program was suspended in the mid-1960s when relations became strained and reinitiated on a small scale in 1984, following the landmark visit of Foreign Minister Ricardo Cabrisas to Beijing. Two decades later, during President Hu's November 2004 visit to Cuba, the two countries announced a program of annual scholarships for thirty Cuban students to visit China and twenty Chinese students to reciprocate. In 2006 the program was expanded to a hundred scholarships each way, plus a special initiative to host a thousand high-school graduates from central and western China to learn about Cuba's medical system. Li Jianmin, the deputy secretary general of the China Scholarships Council, which funded many of these students, described China's approach: "Look where the students come from: overwhelmingly from the western provinces of China, because that's where our central government is trying to develop infrastructure and social programs. So these [newly trained] doctors will return from Cuba to western China and fill an important need. In the meantime, a significant number of Cuban doctors are in western China, filling the need for the short term" (interview, July 5, 2007).

Educational exchanges with Cuba, particularly in medical fields, give the Chinese government access to high-quality training and services at low cost. They also create a strong human bond between the two nations, evident in Premier Wen's emotional praise for the Cuban doctors who responded to the Wenchuan earthquake in May 2008. Cuba's medical activities in China extend into the training of local technicians to manufacture biopharmaceutical products in Beijing (anticancer drugs), Changchun (interferon), and Xinjiang and Shandong (drugs for blood diseases). These initiatives have resulted in the sale of jointly produced, owned, and marketed pharmaceuticals in both countries. A Cuban-Chinese anticancer vaccine, Cimavax, was approved for European and Asian clinical trials in early 2012, marking a key prospective return on this joint investment ("China and Cuba Co-develop New Anti-cancer Vaccine" 2012).

During his 2008 visit to Cuba, President Hu spoke at the Tarará Student City, where some three thousand Chinese students of medicine, tourism, and Spanish were residing. His speech confirmed China's intention to see five thousand Chinese students graduate from the program by the end of 2011, with the aim of building a human platform for long-term cooperation. The goal was met and surpassed: by 2014, over nine thousand Chinese students had graduated. The number of Cuban students in China has been smaller, totaling around 130 in 2014. However, the University of Havana's Confucius Institute has helped increase the numbers, preparing 535 students to sit the Chinese government's *Hanyu Shuiping Kaoshi* (汉语水平考试) International Chinese Proficiency Test in 2012. Most of the students are from Cuban state enterprises that have projects in China, such as a rice cultivation initiative financed by the Cuban Ministry of Agriculture. As well as training the students in Chinese, the institute teaches them how shared cultural and political values have underpinned the history of Sino-Cuban cooperation. The institute's director, Arsenio Alemán, notes that students learn about the changing nature of the Sino-Cuban relationship, including its growing reliance on concrete economic outcomes (interview, January 10, 2012).

Implicit in the institute's curriculum is the message that trust between Cuba and China requires more than political ideology. It also requires pragmatism, as became evident in the misunderstanding over spare parts for the Yutong buses, and in Malmierca's recognition that the best way to draw Chinese investors into the Mariel project is through tax concessions and operating incentives. The Cuban government has become more pragmatic, articulating a reform agenda that draws on insights both from China's successful economic transition and from a somewhat less successful experience at home. The next section considers how these insights are informing recent efforts to decentralize economic management, generate employment, and contain the informal sector. These long-neglected problems are integral to a key goal of the *Lineamientos*: to foster commercial linkages between large state enterprises and emerging private actors. Their resolution implies a new balance of state and market forces, and policies that encourage rather than erode trust.

BALANCING THE FORCES: DECENTRALIZATION, EMPLOYMENT, AND THE INFORMAL SECTOR

When Ricardo Alarcón—then president of Cuba's National Assembly—visited Beijing in 2010, he publicly recognized the relevance of China's economic evolution to Cuba's development. Raúl Castro had already expressed this sentiment during his visits in 1997, 2005, and 2012, which focused on labor market reform, the integration of state and private enterprises, and the expansion of domestic markets. In China's experience, particularly since joining the World Trade Organization in 2001, these transformations were achieved through state oversight of market reform, an approach that Chinese officials have persistently advocated to their Cuban counterparts.

Under the stewardship of Deng Xiaoping in the late 1970s, the Chinese government implemented pilot programs to introduce market structures into the planned economy (Devlin 2008, 129). Reforms were "incremental and gradual, with national policies decided only after evaluating the results of local experiments" (Dickson and Chao 2001, 6). Contrasting with Fidel Castro's dictum "not to create individual millionaires but to make the citizenry as a whole into millionaires," Deng Xiaoping pledged to "let one part of the populace become rich first" (quoted in Y. Cheng 2007b, 729). Differences over this sensitive issue have long been buried beneath a shared commitment to what both countries call "socialism with local characteristics," but the Cuban government now acknowledges that China's controlled introduction of private initiative provides useful insights.

As U.S. and European markets falter, President Xi Jinping has identified nationally led growth as imperative for maintaining employment and social stability in China. However, his administration's attempt to shift the drivers of growth toward internal consumption is hindered by large, export-oriented state enterprises, which enjoy preferential access to rebates, loans, and subsidies. In contrast, small private firms face restrictions on acquiring credit and employing workers. The result is a high level of employment in state enterprises, whose health and pension benefits make them widely attractive to employees but economically unproductive. In comparison, small companies that could provide products and services that add value to the economy currently have little capacity to attract, employ, and maintain staff. To address this problem the Chinese government is ramping up spending on dedicated health and welfare facilities, freeing up consumer credit, and promoting the provision of paid vacation to employees, all of which will enable citizens to become less dependent on state enterprises, seek more productive jobs, and generate disposable income. The Chinese government predicts that as private investment grows, its own level of investment (particularly in infrastructure and heavy industry) will decline from 45 percent to 25 percent of GDP. Calling for "reform and opening up," the reduction of "undue emphasis on formality and bureaucracy," and the eradication of "corruption and bribe-taking" (quoted in "China Confirms Leadership Change" 2012), Xi's November 2012 presidential acceptance speech might just as well have been delivered in Havana as in Beijing. Cuba is also attempting to streamline its overburdened public sector, expand domestic markets, contain the black market, and as noted above, reduce the state's current virtual monopoly of GDP. Consultation with China on these issues has become a focal point of bilateral dialogue, for instance through the regular summit meetings of Cuba's Ministry of Science, Technology, and Environment (CITMA) and the Chinese Academy of Social Sciences. According to a senior CITMA official, these meetings have increasingly focused on strategies for reducing citizens' dependence on the state (Juan Luís Martín, interview, November 16, 2012).

Among the insights that Cuba has derived from China—with varying degrees of attentiveness—are the gradual sequencing of reforms under the management of a state-appointed reform commission (Laverty 2011, 65; Lopez-Levy 2011a, 9, and 2011b, 43–44), the adaptation of socialist principles to national conditions (Mao et al. 2011, 199), the military management of commercial activities (Klepak 2010), the attraction of investment from emigrants (Ratliff 2004, 21–22), and the testing of liberalization in target territories prior to wider implementation (Hearn and Alfonso 2012).

The Cuban private sector is growing in size and capacity, particularly through the 2014 opening of the housing and automobile markets and through the 2012 authorization of independent cooperatives in transportation, construction, fishing, restaurants, and repair services. A critical ingredient in this process is the confidence of citizens that their work will be rewarded, and that any benefits generated by partnerships with state-owned enterprises will be shared. Cuban policy makers have observed China's approach to building public faith in the reform process, as outlined in the state newspaper *China Daily*: "Market discipline and incentives drive labor productivity improvements, while a government 'helping hand' protects labor welfare via job creation and higher wages. . . . Ensuring a 'win-win' situation—which, among other positives, should help assuage worker resistance to the privatization phenomenon—is important for any government wanting to create vested interests that support an agenda of reform" (Amess, Du, and Girma 2011).

The Cuban government's attentiveness to China's experience was sharpened by the global financial crisis and by spikes in international food and oil prices in 2008 and 2011. Its strategy was initially published in the draft *Lineamientos* in November 2010, which was debated during the following six months and reissued in revised form following the sixth Communist Party Congress in April 2011. The resulting 313 recommendations show growing, albeit tentative, acceptance of market forces to complement Cuba's state-dominated system of trade and investment. Reflecting both external pressures and the more liberal approach of President Raúl Castro, the final document states that private property, long considered antithetical to socialism, would now be permitted on the condition that it is not "concentrated" (República de Cuba 2011, 5 and 11).

While China has provided Cuba with useful insights, the *Lineamientos* also draw heavily on domestic experience. As the political scientist Rafael Hernández notes, "many of the concepts and proposals in the document cover themes that were already being debated" (Hernández et al. 2011, 27). For instance, new provisions entitling small farmers and agricultural cooperatives to greater autonomy in selecting crops, managing budgets, and sourcing inputs (*Lineamientos* numbers 178–84) build on legislation passed in the early 1990s that permitted farmers to sell their produce in designated urban marketplaces. Similarly, the reformist ethos of the Special Period, evident in the authorization of private taxis, home restaurants (*paladares*), and small trading in clothing and artisanal goods, has reemerged in the *Lineamientos*' endorsement of self-employment (*cuentapropismo*).

Much of the legislation authorized by Fidel Castro in the early 1990s to diminish the impact of the Soviet collapse were later deemed excessive and rescinded. Two decades later, though, Raúl Castro has strong support in the National Assembly and appears determined to leave behind a legacy of profitable economic management (Ritter 2011). The resilience of the current strategy is bolstered by the involvement of the Revolutionary Armed Forces in key sectors of the economy, leading Eusebio Mujal-León to conclude that "these reforms could reduce the weight of the state and create conditions for the emergence of private property and a 'social market' economy" (2011, 159). To achieve this outcome, the *Lineamientos* attempt to confront the long-standing challenges of decentralization, employment, and the black market.

Decentralization is critical for leveraging the range of potentials offered by Cuba's diverse socioeconomic geography. This geography is now set to diversify further, requiring locally appropriate policies to address growing inequalities and maximize human capacities (Torres Pérez 2011). The *Lineamientos* advocate local solutions to national problems, employing the words "territory," "territorial," "local," or "municipal" no fewer than thirty-four times (Hernández et al. 2011, 29). The document's introduction, for instance, identifies the need to "effectively promote the initiative harbored by the territories to empower, in a sustainable way, their own economic development" (República de Cuba 2011, 8).

Talk of decentralization in Cuba has long evoked suspicions of corruption, since the delegation of resources inevitably multiplies opportunities for abuse. Previous moves to devolve executive authority—such as the constitutional reforms of 1992 and Decree Law 91 in 2000, which divided Havana into ninety-three (subsequently 105) Popular Councils—were therefore not accompanied by the devolution of economic resources (Fernández Soriano 1999). The 2011 proposals do not recommend the dissolution or retrenchment of the state, but they go a step further than previous reforms by postulating more adequately resourced local governments. A combination of political and economic decentralization, they suggest, will enable local governments to more effectively serve citizens' interests.

Few citizens' interests are as urgent for Cuban policy makers as employment. Recognizing that a greater degree of economic liberalization holds the best promise for providing jobs, the *Lineamientos* establish the legitimacy of private initiative: "socialism signifies equal rights and opportunities for all citizens, but not egalitarianism" (República de Cuba 2011, 5). The 1974 constitution provides a legal basis for this assertion, guaranteeing access to employment for all Cubans without specifying the public or private status of their work. *Lineamientos* numbers 31 and 32 therefore face no legal obstacle in shifting the burden of responsibility for employment away from the public sector: "The quantity of subsidized entities will be reduced to the minimum number necessary to guarantee the fulfillment of assigned functions. . . . Subsidized entities that are capable of covering their own expenses with their earnings and generating profits will become self-financing entities, without neglecting their assigned functions and attributes, or will assume, with prior approval, the status of companies" (13).

Critical to this process is greater interdependence between state enterprises and small businesses operating in their vicinities, which could provide staff, intermediate inputs, and services. The Politburo member responsible for reforming inefficient state-owned enterprises, Marino Murillo, has described the strategy this way: "If an institution has . . . $200 million to import, and a local producer can produce what it plans to import, this body can directly pay that local producer with the approved funds" (quoted in Frank 2013). Rigid centralized supply and demand quotas have long impeded the formation of such vertical synergies. This has been the case not only for heavy industry enterprises, such as Cubaniquel in the nickel sector and CUPET in oil, but also in more dynamic industries like tourism. The hotels and clubs lining the beaches of Varadero, for instance, "have become enclave economies, whose linkage to their surrounding territory is negligible, and the the spillover effects of these investments, and the dynamics of their growth, barely register in the territory" (Hernández et al. 2011, 33).

Tourism will continue to underpin Cuba's development, and therefore represents a key opportunity to build state-society synergies. Two decades ago, in the wake of the Soviet collapse, Andrés Oppenheimer summed up the political trauma associated with the sector's growth: "The Revolution's ideological principles were bent every which way in the bid for new tourist dollars" (1992, 286). In the words of a tour operator in Havana, "the Cuban government calls the Special Period a cancer, for which tourism is the chemotherapy: it can work, they say, if it doesn't kill us!" (interview, April 25, 2003). Ideological trauma yielded economic results, and in 2002 Eusebio Leal Spengler, director of the Office of the Historian of the City of Havana, stated that "for every person employed in tourism, ten people live from their income" (interview, April 29, 2002).

Tourist arrivals in Cuba shot from 300,000 in 1990 to 1.77 million in 2000, and to 2.85 million in 2013 (figure 1.7). The sector has attracted interest from the Chinese government, which approved Cuba as an ideologically sound destination for its citizens (the first country in Latin America to achieve this status) during Fidel Castro's 2003 visit to Beijing. Cuba soon established a tourism office dedicated to China and in 2007 signed an "Operational Plan for Chinese Group Tourists Visiting Cuba." That year, for the first time, the number of Chinese tourist arrivals in Cuba exceeded 10,000 (growing to 22,218 arrivals in 2013; Oficina Nacional de Estadísticas e Información 2014). According to Omar Pereira Hernández, former director of tourism at the Cuban Embassy in Beijing, the tourism office has focused on Chinese package tours to Cuba, which are growing in size and frequency and will grow further if direct flights are established. China Suntime International holds a 49 percent stake in a $150 million tourism development project on Havana's Marina Hemingway, and community leaders in Havana's Barrio Chino have proposed the construction of a hotel to cater to tourists from China's growing middle class (see chapter 3). Conversely, the Gran Meliá Shanghai hotel, featuring Cuban artwork and the Havana Night Cuban Cabaret, was recently completed with Cuban investment (amounting to 51 percent own-

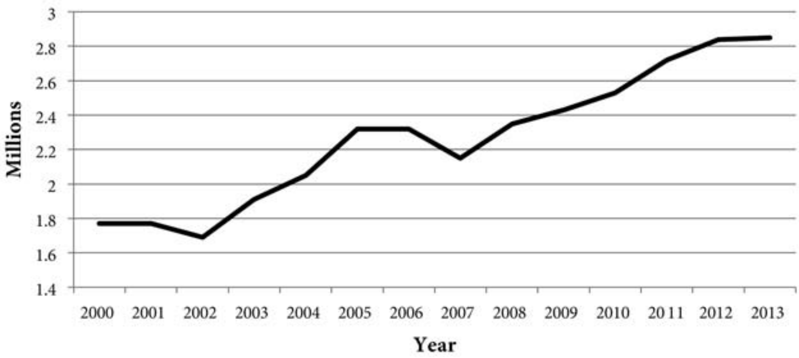

FIGURE 1.7 Tourist arrivals in Cuba, 2000–2013. Source: Oficina Nacional de Estadísticas e Información 2014.

ership), targeting Asian travelers wishing to experience a taste of Cuba close to home.

To more effectively link tourism (and other sectors) to Cuba's emerging private sector, the *Lineamientos* stipulate greater flexibility for state enterprises to select suppliers and for small businesses to cater to their needs. *Lineamientos* numbers 262–66 note that tourism could generate new jobs and tax revenue in lodging and restaurant services, and that policy makers will "study mechanisms for supplying tourist facilities that take advantage of local productive forces" (República de Cuba 2011, 33–34). For this strategy to succeed, the list of 178 private occupations approved in early 2011 (and expanded to 199 in late 2013) will need to be further extended to accommodate the skills and capacities of Cuban employees. Lodging and restaurant services may be a logical starting point, but they are a far cry from the skills accrued by graduates of specialist institutions like the Colegio Universitario San Gerónimo in heritage management and urban development (discussed below). As the economist Juan Triana argues, "It would be a strategic mistake to limit, in the name of development, the growth of the nonstate sector to jobs or occupations that produce products or generate services of low added value. This would undermine an important part of the considerable investment made by our country in human development over more than fifty years" (Hernández et al. 2011, 33).

By mid-2014 approximately 470,000 Cubans were registered as self-employed or working for a self-employed individual, compared with

150,000 in 2010. Most self-employed Cubans occupy positions in the basic services sector and improvised retail markets, their rise up the value chain inhibited not only by the narrow selection of authorized jobs, but also by the absence of an affordable and reliable supply chain. One component of the supply problem is a lack of financing available to private businesses for purchasing raw materials and inputs. The appearance of the word "credit" eleven times in the *Lineamientos* signals the state's recognition of this obstacle. Cubans have been permitted to take out bank loans since 2011, but until recently they were required to provide liquid collateral, such as a guarantor with sufficient savings to cover the loan amount. Poor public uptake of the loans led the government to relax this condition in December 2013, decreasing the minimum amount from 3,000 to 1,000 pesos ($67) and permitting the use of jewelry, works of art, and even livestock as collateral. Foreign banks such as Canada's Bank of Nova Scotia are exploring opportunities in the Cuban credits and loans market but have been discouraged by the limited growth capacity of small businesses (Simon 2011).

Cuba's underdeveloped credit market has hindered the expansion of small businesses and their supply chains, but a more encompassing obstacle is ideological antagonism toward the accrual of private property (Mesa-Lago 2013). Policy adjustments under Raúl Castro favor greater entrepreneurship and self-sufficiency, but the *Lineamientos* do not specify the extent to which private actors will be permitted to stock their back rooms and expand their activities. Instead, *Lineamiento* number 3 offers a general principle of conduct: "in the nonstate system, the concentration of property will not be permitted" (República de Cuba 2011, 11). This tension is borne out in Cuba's new tax code, which introduces a long overdue graduated system of sales, personal income, public service, and payroll taxes but maintains tight deductibility limits and crippling overall rates. As a recent report from the Center for Democracy in the Americas observes, "taxes are a delicate issue within the Communist Party. Conservative party members demand maximum wealth distribution and measures to avoid inequality, whereas moderates are more inclined to listen to economists and *cuentapropistas* [self-employed people] who argue excessive taxes will stymie growth in the non-state sector. With several adjustments made thus far, it appears Raúl Castro's government is searching for the middle ground on the issue" (Laverty 2011, 40).

Functional supply chains are essential not only for the viability of private businesses and the creation of jobs, but—as Chino demonstrated at the beginning of the chapter—for containing the black market. It is difficult to distinguish among investments, gifts, and remittances as opportunities for private enterprise expand in Cuba, generating an acute need for start-up capital and supplies. Authorized by the Obama administration to travel and send remittances to relatives, Cuban Americans are thought to have financed over half of *cuentapropia* activities in 2010 (Meo 2011). According to an International Monetary Fund economist Rafael Romeu, "The renewed visits of Cuban Americans have come at a critical time for the Cuban economy, because these are not traditional tourists—they have strong linkages to the real economy. They are assumed to be financing an important part of the investment necessary to start Cuba's budding microenterprises through visits to Cuba and remittances. The latter are estimated to be at least $500 million, and perhaps exceed $1 billion annually" (Romeu 2012, 66).

Alongside remittances and gifts, undeclared investments and resources—from cash to computer hardware—are also streaming steadily into Cuba. The official response has been to limit the pace of liberalization through heavy taxation on remittances and the prohibition of unlicensed reselling of clothing and other consumer goods brought into the country by Cuban American and other visitors. Seen from the top down, the strategy is to study the impact of liberalization on the flow of goods and services and adjust policies accordingly. From the bottom up, though, time is money. The prolonged absence of legal supplies has forced Cuba's new entrepreneurs to rely on finances and inputs acquired illegally either from family overseas or from *socios* (well-placed business partners) in state factories. In this environment, broader legalization of frontline retail activities—a move often advocated by foreign commentators—might be counterproductive, as it could deepen the underlying illicit wholesale market.

Functional supply chains would diminish the appeal of the black market, but tight capital controls have inhibited foreign investors from supporting this process. The former Cuban diplomat Carlos Alzugaray Treto notes that the European Union (EU) has long been willing to get involved: "As Cuba's ambassador to the EU I often heard that as soon as the Cuban government is ready to support the expansion of small businesses, the EU will be ready to provide credit for everything from small private loans to large logistics projects. This is still the case, but now the Chinese are filling that space on more favorable economic terms. . . . The Chinese are [also] less insistent about political conditions" (interview, November 25, 2012).

Furnishing Cuba with credits to finance the purchase of Chinese exports was an approach promoted by Jiang Zemin during his 2001 visit to Cuba. Credits and loans have since enabled Cuba to acquire Chinese products ranging from home appliances to farm machinery at low cost. Demand for Chinese supplies will increase as Cuban private businesses expand, a point Cuba's Vice President Miguel Díaz-Canel discussed with his Chinese counterpart Li Yuanchao in Beijing in June 2013. Díaz-Canel's visit secured an unspecified Chinese "donation" and interest-free credit for the purchase of Chinese agricultural equipment.

As Jiang discovered, the repayment of the credits that enable Chinese sales to Cuba will require the latter's economic diversification and growth. However, the state-centric solutions that characterize Sino-Cuban cooperation may hinder—rather than help—the development of Cuba's private sector. Chinese trade credits enable the Cuban state to act as a surrogate for the market, distributing tractors to farmers, buses to the Ministry of Transport, and refrigerators to the masses according to centrally governed supply quotas. In this controlled environment, the prospect of greater enterprise autonomy, interdependence between emerging businesses, private credit, GDP growth in the nonstate sector, and loan repayments to China will remain limited.

State-centric cooperation with China may nonetheless be a necessary first step for subsequent liberalization, as it could help to set Cuba's nascent private businesses on a legally sustainable course. Retail and services with formal channels of supply, such as those established with China, are more amenable to regulation and auditing for tax compliance and can therefore be more easily demarcated and extracted from the black market. As frontline retailers become less dependent on informal sources of supply, these sectors are more likely to be authorized for private management. The periodic extension of the Cuban government's list of approved professions reflects this strategy of controlled economic opening. According to José Barreiro, an official in the Labor Ministry, the list's expansion to 199 occupations in September 2013 resulted from the government's ability to securely supply equipment and basic inputs (A. García 2013).

Chinese suppliers have been closely involved in Cuba's sequential economic opening. Following Hu Jintao's 2004 visit, Chinese mobile phones, DVD players, computers, and other appliances were approved for sale through Cuban government outlets to authorized individuals. By 2008 the chain of supply from Chinese factories to Cuban retailers was well established, enabling Raúl Castro to mark Hu's second presidential visit by authorizing the unrestricted sale of these products to the Cuban public. Similarly, since 2009 the Chinese automobile manufacturer Geely has supplied the Cuban police and security services and is now expanding into Cuba's newly liberalized automobile market. The establishment of regulated supply chains with Chinese support is enabling the controlled opening of sectors that would otherwise remain stocked largely by the black market.

The liberalization of sectors conducive to Chinese exports serves the interests of both governments. For Cuba it provides a secure mechanism for stocking the nation's wholesale warehouses for the emerging private sector. For China it opens new export markets and an opportunity to recover unpaid loans. A businessman accompanying Hu's 2008 delegation put it this way: "We are hoping to see new opportunities for trade and investment in Cuba. . . . If some market factors can be added to the Cuban economy, Chinese enterprises will have more business opportunities" (interview, November 21, 2008). To expand the range of goods and services they provide to Cuba, Chinese exporters clearly wish to see Cuba's private sector grow.

Chinese support for market-oriented policies in Cuba contrasts with the centralized development programs that once underpinned bilateral cooperation. The history of Sino-Cuban relations nevertheless shows that state and market approaches can sometimes complement each other, and that China's creation of a mixed economy over the past three decades can provide useful insights. Cuba's *Lineamientos* indicate an official disposition to allow greater autonomy and empowerment at the grass roots, but it is not yet clear if this disposition will influence the way bilateral cooperation is structured. To complement existing state-led programs with more heterogeneous, nonstate forms of interaction would first require the Cuban and Chinese governments to trust their private sectors to focus their interactions strictly on commercial pursuits and steer clear of politics. Experiments along these lines have previously been conducted—for instance, in the mid-1990s, when small-scale trade was authorized between autonomous Cuban importers and Chinese exporters to service the stores and restaurants of Havana's Barrio Chino. As chapter 3 shows, Cuba's Chinese associations have since drawn inspiration from that early experience to foment contemporary partnerships with Chinese investors. However, they are still a long way from gaining the trust and leeway they seek from the Ministry of Justice and the other government institutions that are responsible for them.

Whether through microsocial connections or macroeconomic agreements, the gradual shift away from top-down management envisioned by the *Lineamientos* will shape the contours of Sino-Cuban interactions. Greater space for free enterprise does not imply the erosion of the Cuban state, which is taking great care to embed the island's budding entrepreneurs in its hegemonic structures. The likely result is a hybrid system of small private businesses that are more vertically integrated with large state enterprises, stricter (and clearer) regulation of supply chains, and a less pervasive black market. China's development will continue to generate insights for Cuba, not least as the Xi administration attempts to open domestic markets, stimulate internal consumption, and scale back the power of large state enterprises. The slow process of exploring, deciphering, and operationalizing insights from China may test the patience of ordinary Cubans, but they are more likely to trust their government's judgment if they can sit back, like Chino, in self-made comfort.

CONCLUSION

The pros and cons of Cuba's reform agenda are currently being debated throughout Cuba, in civil society publications like *Temas* and *Espacio Laical* and in organizations like the Association for the Study of the Cuban Economy. Differences of opinion abound, but there is consensus that a more mixed economy is in the making and that its consolidation will require new approaches to decentralization, employment, and containment of the informal sector. In practical terms this means broader capacities for economic governance at the provincial and municipal levels, a wider range of authorized private occupations, and supporting structures of commercial wholesale activities that respect what *Lineamiento* number 12 calls "the absolute observance of legality" (República de Cuba 2011, 11).

Among the stakeholders with a vested interest in Cuba's reforms is the Chinese government, which negotiated the first Five-Year Plan for Sino-Cuban cooperation in 2011. With considerable economic and political incentives conditioning the bilateral relationship, Fidel and Raúl Castro, Ricardo Alarcón, and numerous other past and present Cuban leaders have publicly recognized the appeal of China's approach to reform. Gradualism, experimentation, and the incorporation of market forces into state structures of authority are principles that sit well with the Cuban leadership. It must be noted, though, that the aspirations of Cuban people to fill more sophisticated jobs may ultimately test their willingness to follow China's lead. Any attempt to emulate the low-skilled manufacturing that provided the basis for China's remarkable growth may prove to be at odds with these aspirations. As the Cuban anthropologist Yenisel Rodríguez writes, "we are not so economically desperate that a *maquiladora* can bring us the taste of liberation" (Hernández et al. 2011, 39). These words may soon be put to the test in the Mariel Free Trade Zone, and Chinese investors will be watching.

How China will influence the trajectory of private initiative on the island is a key question for the future. On the one hand, state-centric accords with China enable the Cuban government to supplant the market by controlling access to wholesale activities. On the other, the tight regulation and stability of Chinese supply chains has enabled the insulation of some sectors from the black market—a precondition for their subsequent deregulation. In this sense, integration with China is helping Cuba to create the necessary conditions for economic opening.

Implementing policies that support rather than impede the emergence of private initiative is a challenge faced as much by district-level administrators as by national lawmakers. Unless overarching policies create opportunities for employment and improved livelihoods, commercial regulations will fail to earn the trust and compliance of citizens. Until recently this has been the case in Cuba, which is evident in the existence of an informal sector that pervades most aspects of daily economic life. As Chino showed at the beginning of the chapter, citizens are willing and able to "provide every kind of service in-house and in-store." There is no shortage of work ethic, but to entice Chino and his network of suppliers out of the black market will require more sophisticated jobs, supply chains, and development policies.

Cuba's emerging entrepreneurs want to shape their own futures, and this desire is becoming especially acute in the Chinese diasporic community. Commercial networking has long been one of the community's strengths, but the informal connections and trust that underpin its networks are creating unprecedented policy dilemmas. As these networks extend across the Pacific, the need for improved state-society communication is nowhere more pressing than in the Chinatowns of Cuba and Mexico. Chapters 3 and 4 will consider recent attempts in both countries to harness the expanding economic connections and capacities of resident Chinese communities. First, though, chapter 2 examines how China's impact is forcing the Mexican government to rethink the role that large elite enterprises and small businesses play in national development. As in Cuba, there is a growing awareness in Mexico that industrial policies must build trust from the bottom up.