

Cuba's Reforms Create Low-Wage Sponge

by Kevin Edmonds

For over 50 years the island of Cuba has defiantly stood its ground in the Caribbean, rejecting a capitalist economic model in favor of a system that has served the needs of its people first and those of the international economy a distant second. As a result of this determination, the Cuban model has been hailed for its successes in social and cultural development—particularly in the fields of healthcare and education. During the 1980s and 1990s when the Washington Consensus was at its peak in the hemisphere and was restructuring neighboring economies such as Jamaica, Haiti, and the Dominican Republic along free market lines, Cuba maintained its self-determination by staying outside of the reach of the International Monetary Fund and the World Bank.

A key aspect of the economic restructuring which spread across the majority of Latin America and the Caribbean was the implementation of export processing zones, or EPZs. The International Labor Organization (ILO) defines EPZs as “industrial zones with special incentives set up to attract foreign investors, in which imported materials undergo some degree of processing before being (re-)exported again.” After studying the macroeconomic and social effects of EPZs for nearly 30 years, the ILO has criticized this model of development, arguing that it places downward pressure on wages and labor stan-

1991—the Cuban state reorganized itself along pragmatic lines, opening itself up to increased international tourism. By 1994, tourism revenues surpassed those of Cuba's traditional sugar exports, making international tourism Cuba's most important source of income. While the decision to open up to international tourism was criticized as a return to the bad old days of foreign exploitation under Fulgencio Batista, the Cuban government was heavily involved in the emerging tourism industry, arguing that the influx of foreign income was now the lifeblood of the Cuban economy. With EPZs, the same line of thought can no longer be argued.

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dards in what they refer to as “the race to the bottom.” Additionally, the geographically isolated nature of EPZs makes workers especially vulnerable, as the zones “present employers the opportunity to circumvent worker's rights with impunity.”

It is primarily for these reasons that Cuba's decision to establish a 465 square kilometer EPZ at the port of Mariel, 45 kilometers west of Havana, has been met with a great deal of concern. The shift of the primary port facilities from Havana to Mariel is part of a massive project that seeks to turn Mariel into Cuba's most important hub for cargo and light manufacturing. The \$900 million project has largely been funded by Brazilian capital and will be managed by the Singaporean firm PSA.

It appears that the decision to construct the Mariel EPZ is in reaction to the earlier economic reforms undertaken by Raul Castro that have created a large amount of unemployment. For example, in 2010 alone, Raul Castro announced that one million workers in state-owned firms would lose their jobs in order to streamline the Cuban economy; workers were encouraged to become entrepreneurs or find employment in the private sector. Thus it is likely that the adoption of the export processing zones will act as a low-wage sponge for the significant amount of surplus labor created by the increasing liberalization of the Cuban economy.

During the last major economic crisis faced by Cuba—which came about with the fall of the Soviet Union and ushered in the “Special Period” starting in

Unlike the regulated and heavily state-owned tourism model, the adoption of EPZs provides a space similar to export processing zones elsewhere in the world where foreign corporations pay no tariffs on imported material and machinery, and where they enjoy a 10 year tax holiday where they may transfer all of their profits abroad without paying any property or sales taxes. The Cuban government has publicly defended the EPZ project, stating that “the Zone will function on the basis of special policies with the goal of promoting sustainable economic development by stimulating international and domestic investment, as well as technological innovation and the concentration of industry.”

It must be noted that this is not the first time that Cuba has tried to adopt this economic model. In 1997, Cuba briefly experimented with the establishment of four export processing zones, but they garnered little international interest due to the ongoing US embargo. However, this most recent decision to

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construct EPZs is a significant jump that embraces some of the most controversial and arguably damaging aspects of the now discredited Washington Consensus. The ILO has demonstrated that unless EPZs have significant backward and forward linkages to the rest of the host economy, they are of little economic benefit. At worst they are simply a site where cheap and often female labor is exploited.

Whether the construction of the EPZ at Mariel will be an isolated occurrence or the start of a shift towards a Chinese/Vietnamese EPZ-based economy remains to be seen. Perhaps the decision to turn over a portion of Cuban territory to the demands of international capital is an overture of economic reform intended to bolster relations with the US. What is clear is that if Cuba does decide to embrace EPZs as a major part of its economy without establishing numerous economic linkages to the domestic economy, the pro-capital policies that are demanded by this model will pose a significant threat to Cuba's progress in the areas of genuine and sustained human

development. If Cuba, like so many others who have embraced the EPZ model, is not careful on this new economic path, it may end up sacrificing its self-determination and human development only to receive increased levels of poverty in return.

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