

Spiralling Debt. Cuba in the Straight Jacket of International Creditors

By [Daniel Munevar](#)

Global Research, January 14, 2016

[CADTM](#) 7 January 2016

Last December, Cuba reached a historic agreement with the Paris Club to restructure its debt, following the default of the Caribbean island in 1986. According to the group of creditors [\[1\]](#), Cuba's debt totalled 11 billion dollars in 2015, including charges accumulated through interest and penalties following default. [\[2\]](#) The terms of the agreement provide that the Paris Club must write off the interest accumulated, totalling 8,500 billion dollars. Cuba, for its part agreed, to pay 2.6 billion (corresponding to the original principal) over the next 18 years. [\[3\]](#) Furthermore, the agreement provides a grace period for interest payments until 2020 and a rate of 1.5% from that year until the debt is fully repaid. [\[4\]](#)

While it is clear that the amounts involved in this agreement are significant, to fully understand its implications, we need to comprehensively analyze the context of the Cuban economy and its debt. What lies behind the agreement and who benefits from it? To respond to these questions, reference may be made to three interrelated issues:

- ▶ The process of external re-positioning that the Cuban economy is currently going through;
- ▶ The role played by debt restructuring within this process; and
- ▶ The radical changes that are occurring in the island's monetary and financial system.

In the case of Cuba's external re-positioning, a cursory glance at its economic history shows that the crises that have shaken the island from the colonial era are directly associated with excessive dependence (in trade and financial matters) on a bilateral partner. This patronage that began with Spain in the sixteenth century, was repeated once again with the United States in the nineteenth century, followed by the Soviet Union from 1959 and finally with Venezuela during the last decade. In the past, the breakdown in relations, associated with independence, revolution and economic collapse, has forced Cuba to embark on a complex process of economic re-orientation. More recently, the economic deterioration that Venezuela has experienced, has led the island's authorities to initiate a new process of repositioning with a view to reducing economic traumas associated with a possible collapse of relations with that South American country. This includes not only re-establishing relations with the United States but also an aggressive strategy for diversifying Cuba's trade and financial relations.

Within this strategy, the settlement of legal disputes on the Cuban debt plays a central role in helping attract foreign capital and the country's re-inclusion in international financial markets. Both creditors and Cuba are aware that the negotiations on the country's debt, that reached around 25 billion dollars in 2015 including charges for default [\[5\]](#), provide a

unique space to discuss the conditions and benefits that international investors can receive in exchange for access to fresh capital to modernize the Cuban economy. As was the case in Latin America in the eighteenth century, creditors are using debt as a vehicle to obtain trade and investment advantages. In this sense, re-establishing diplomatic relations with the US and the prospect of a gradual weakening of the blockade on the island, have created some sort of race between international investors to obtain the best conditions for accessing the island's market in high growth sectors as varied as tourism, mining and the pharmaceutical industry.

It is in this context that the series of debt agreements that Cuba concluded with its international creditors in recent years may be understood. In 2011, Cuba concluded an agreement with China to restructure a 6 billion dollar debt. [\[6\]](#) In 2013, the island reached an agreement with Japanese creditors to restructure 1.4 billion dollars in debt. The agreement, similar to the one reached with the Paris Club, involved writing off 80% of the debt and paying the remaining 20% over a 20-year period. [\[7\]](#) In November of that same year, Cuba concluded another agreement with Mexico to write off 70% of a 500 million dollar debt, accepting to pay the remaining amount over a period of ten years. [\[8\]](#) Later on, in February 2014, Cuba negotiated with Russia to cancel 90% of the country's debt, estimated at 35.2 billion dollars. [\[9\]](#) In return, Cuba offered to pay over a ten-year period the remaining 3.2 billion dollars of the debt, a legacy of the times of the Soviet Union. [\[10\]](#)

In each of these agreements, including the one with the Paris Club, concessions on trade and investment by Cuba, played a central role in obtaining the aforementioned debt cancellation. Two facts under the Paris Club agreement illustrate this point. First, Spain's active participation as the principal sponsor of the agreement with the Club. This is explained, to some degree, by the active presence of Spanish companies on the island, notably in the tourism sector, and therefore by the interest of the Spanish government in protecting their position in a scenario of increased competition from US companies. [\[11\]](#) Second, France's decision to receive 230 million of a total of 470 million dollars in debt, in the form of joint investments projects with the participation of the French Development Agency. [\[12\]](#) This shines the spotlight, on the one hand, on the cost benefit calculation made by creditors who are willing to cancel public debts to benefit the interests of private investors with interests in Cuba. On the other hand, the growing significance that Cuba assigns to reducing the obstacles on access to external financing, in the form of pending legal disputes on its defaulted debt, to facilitate the process of economic reorientation.

It is precisely this final issue on which the Cuban economic authorities must be focusing at this point. This is due to the announcement made in October 2013 to eliminate the dual monetary system that has been existed in the island since 1994. This was introduced as part of an adjustment process, the so called "Special Period", that followed the collapse of the Soviet Union in 1991. Put simply, in the dual monetary system, the salaries of workers are paid in the national currency while imported goods, available in the country's shops, are only sold in foreign currencies. The implicit aim of this system was to limit access of households to imported goods and thus facilitate the process of allocating the scarce hard currency available to the country. By definition, eliminating this mechanism and its potential impact on the demand for imported goods, requires Cuba to have access to external financing in order to achieve two main objectives: first, to stabilize the country's international reserve currencies, the amount of which is unknown and second, to finance the payment of the aforementioned imports in a sustainable way.

Thus, the measures that Cuba has adopted on its debt represent a clear link between the

transformation of the island's external and domestic sectors. On reaching agreements with its creditors, it would appear that Cuba is confirming its intention to follow a similar process of economic liberalization to that of China, where the participation of foreign investment played a central role in facilitating the development of economic sectors specialized in tradable goods and services. The key to the success of this process is rooted in the skill of Cuba's economic authorities to balance the incentives offered to foreign capital with protecting and perfecting particular characteristics and social achievements, of the Cuban economic model.

Taking into account Cuba's high level of educational attainment, as well as the high level of development in sectors such as medical services and pharmaceuticals, the Caribbean country would be wrong to under-estimate its leverage in the liberalization process. It is precisely the special characteristics of the island, which make of it an attractive destination for investment. To discard them in the pursuit of a magic formula for development dictated from abroad would be the worst course of action. In this regard, we must stay optimistic, given that if Cuban history proves something, it is its people's ability to smile and to adapt themselves to new settings and situations.

Translated by Anoosha Boralessa in collaboration with Daniel Munevar.

Notes

[1] This refers to the 14 countries that form a special group for Cuba within the Paris Club: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Italy, Japan, Holland, Spain, Sweden, Switzerland and the United Kingdom. Among these, Cuba's main lenders are France, Spain, Japan and Italy. ABC. (2015). The Paris Club is cancelling 7,730 million of Cuba's debt. 1,709 million of this is owed to Spain. Retrieved January 1, 2016, from http://www.abc.es/economia/abci-club-paris-condona-8500-millones-deuda-cuba-1709-millones-corresponden-espana-201512122123_noticia.html

[2] AFP. (2015). Cuba seals "historic" debt pact with Paris Club. Retrieved January 1, 2016, from <http://news.yahoo.com/cuba-seals-historic-debt-pact-paris-club-222619519.html>

[3] El Nuevo Herald. (2015). El acuerdo entre Cuba y Club de París sobre deuda impulsará crecimiento. Retrieved January 1, 2016, from <http://www.elnuevoherald.com/noticias/mundo/america-latina/cuba-es/article49812140.html>

[4] Reuters. (2015). Exclusive - Cuba's debt deal: Easy terms, but severe penalties if late again. Retrieved January 1, 2016, from <http://www.reuters.com/article/us-cuba-debt-exclusive-idUSKBN0TY23C20151215>

[5] Economist Intelligence Unit. (2015). Progress made in Paris Club debt negotiations. Retrieved January 1, 2016, from <http://country.eiu.com/article.aspx?articleid=1253242309&Country=Cuba&topic=Economy&subtopic=Forecast&subsubtopic=External+sector&u=1&pid=1053748089&oid=1053748089&uid=1>

[6] Reuters. (2010). China restructures Cuban debt, backs reform. Retrieved January 1, 2016, from <http://www.reuters.com/article/cuba-china-debt-idUSN2313446920101223>

[7] Reuters. (2013). Russian-Cuba debt deal creates waves among creditors. Retrieved January 1, 2016, from <http://www.reuters.com/article/cuba-debt-russia-idUSL1N0C592Z20130314>

[8] CNN. (2013). México condona 70% de deuda a Cuba. Retrieved from <http://www.cnnexpansion.com/economia/2013/11/01/mexico-condona-70-de-deuda-a-cuba>

[9] The Guardian. (2014). Russia writes off \$32bn Cuban debt in show of brotherly love. Retrieved January 1, 2016, from <http://www.theguardian.com/world/2014/jul/10/russia-writes-off-cuban-debt>

[10] Ibid.

[11] ABC. (2015). El Club de París condona 7.730 millones en deuda a Cuba de los que 1.709 millones corresponden a España. Retrieved January 1, 2016, from http://www.abc.es/economia/abci-club-paris-condona-8500-millones-deuda-cuba-1709-millones-corresponden-espana-201512122123_noticia.html

[12] Havana Times. (2015). Credits in Sight: Cuba Reaches Historical Agreement with Paris Club - Havana Times.org. Retrieved January 1, 2016, from <http://www.havanatimes.org/?p=115505>

Daniel Munevar is a 30-year-old post-Keynesian economist from Bogotá, Colombia. From March to July 2015 he worked as a close aide to former Greek finance minister Yanis Varoufakis, advising him on issues of fiscal policy and debt sustainability. He was previously fiscal advisor to the Ministry of Finance of Colombia and special advisor on Foreign Direct Investment for the Ministry of Foreign Affairs of Ecuador. He is considered to be one of the foremost figures in the study of Latin American public debt. He is member of CADTM AYNA.

The original source of this article is [CADTM](#)
Copyright © [Daniel Munevar](#), [CADTM](#), 2016

[Comment on Global Research Articles on our Facebook page](#)

[Become a Member of Global Research](#)

Articles by: [Daniel Munevar](#)

Disclaimer: The contents of this article are of sole responsibility of the author(s). The Centre for Research on Globalization will not be responsible for any inaccurate or incorrect statement in this article. The Centre of Research on Globalization grants permission to cross-post Global Research articles on community internet sites as long the source and copyright are acknowledged together with a hyperlink to the original Global Research article. For publication of Global Research articles in print or other forms including commercial internet sites, contact: publications@globalresearch.ca
www.globalresearch.ca contains copyrighted material the use of which has not always been specifically authorized by the copyright owner. We are making such material available to our readers under the provisions of "fair use" in an effort to advance a better understanding of political, economic and social issues. The material on this site is distributed without profit to those who have expressed a prior interest in receiving it for research and educational purposes. If you wish to use copyrighted material for purposes other than "fair use" you must request permission from the copyright owner.

For media inquiries: publications@globalresearch.ca