



FROM PLANNED ECONOMY TO MARKET ACTIVATION – ECONOMIC DEVELOPMENT IN CONTEMPORARY CUBA

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Abstract:

The Cuban economy has been delayed in unproductivity for over two decades. Living standards have deteriorated, the revolution's notable achievements in universal health, education and in social equality are eroding; the old-fashioned productive methods are suffering from de-capitalization and technological uselessness, and the nation's balance of payments is becoming critical. The present research tries to investigate the economic evolution, the economic strategy and development of the Cuban socialist market economy from now on. Market relations are formed in each economy under the influence of the dominant relations in the economic-society and non-economic, and reflect them. We conclude that it was a error to reject the market economy, and asserts that the Cuban economy moves toward an economic model so that makes it compatible the planned direction with the action of the law of value, that macroeconomic and microeconomic factors are integrated into a systemic vision of development, and that the transition to the new economic model will be a gradual complex and controversial progression.

Keywords: economic development, planned economy, economic evolution, economic strategy, socialist transition

1. Introduction

In the numerous guidelines of economic and social policy of the Party and adopted at the Sixth Congress of the Communist Party of Cuba (PCC, 2011) Revolution states that *"the socialist planning system will continue to be the main way of management of the national economy and it should become methodological, organizational and control aspects; the planning takes into account the market will influence it and consider its characteristics"* (p. 10). A very controversial issue for decades has been the consideration of the market and their role

in socialist economies, so many questions aroused. Of particular interest is the analysis of the content and significance of economic policy regarding the role played by the market in the Cuban economy and its relation to the socialist project that has defined so far.

From a theoretical and methodological perspective, research argues the need and role of the market in the current Cuban economy and the premises to be created for the market to exert an active influence on the Cuban economy and its main challenges set out.

The work is structured in two parts: first the role of the market in the contemporary economy and its expression in different economic models under consideration (including the socialist market economy in China); in the second the necessary premises are valued to develop the market's role in the Cuban economy and the market-state relationship and development in the new conditions.

The market as a universal pattern of relations between producers and economies today

Commodity production arose long before capitalism and the natural economy which overcame early for their advantages and increased productivity. These new possibilities for the development of production and society contribute essentially to the development of modern economy. The market presupposes a certain organization, in which relations between specialized and independent producers are manifested in the act of buying and selling labor products. So the social recognition of the work is done indirectly, in the area of exchange and not in production, where it is incorporated or materialized.

It can be said that commodity production (and with it, market systems) arises from the historical evolution of humanity, a cultural evolution of thousands of years, subject to further amendments and not eternal, due to the dialectical logic of development. In retrospect, it can be seen that has accompanied mankind to this day, but in each slave society, feudal or capitalist has been subordinated to the specific objectives of the mode of production that has acted. It is, by definition, only a "*form*" and not a "*mode*" of production.

In capitalism, it acquired its peak and became the general movement of capitalist relations of production; the capitalist content of these relations is of a commercial form, but always subject to obtaining the maximum gain. The dominant forces are not commercial producers, but large transnational corporations, whose performance undermines the basis of commodity production. Market relations are formed in each

economy under the influence of the dominant relations in the economic-society and non-economic, and reflect them. They retain relative independence that allows them to actively influence the results and efficiency due to the economic incentives that are able to offer the most efficient and prone to innovation producers.

In the current scenario, the market has become universal pattern of link between producers and economies; is today an inseparable element of any developed economic system, and the conditions for their existence depend, in turn, of political, economic and social operating in the national and global levels.

Referring to Sen (1998), globalization has stated that: *“It is difficult to achieve some economic prosperity without resorting to exchange opportunities and expertise which offer market relations [...] The main problem is not globalization itself, or the use market as an economic institution, but inequality that prevails in global institutional arrangements, which produces, in turn, an unequal distribution of the dividends of globalization.”*

In each country, under the influence of the dominant relations of production in society and strategies and political processes, a form of organization and economic performance that reflects the tradeoffs between socio - economic system, the state and the market is established. Conventional economics recognizes the presence of several models based on the predominance of private ownership of the assets and the existence of laws that underwrite economic defense of the rights of private property transactions: market economy, mixed economy, neoliberal and social market. As Sen (1998) argues, *“there is no economy in the world today that is not a mixed economy.”*

The major limitations of the private sector to meet certain basic social needs have resulted in that there is virtually no country in which the State renounces to exercise regulatory functions in the economy or conferring entirely the duty to address social problems to the market. Among other factors, this is due to the high degree of monopolization of world production and vulnerability and instability of capitalist economies.

Some authors (Stiglitz, 1995) brandish as reasons for state intervention ignorance of the laws of economics; the advisability of altering the distribution of income resulting from the market; the need for stabilization of the economy; reducing the social costs generated by fluctuations (above or below); and finally, the existence of market failures: for example, the presence of anti-competitive practices, positive or negative externalities, lack of insurance to prevent serious social phenomena, the existence of public goods, imperfect information and incomplete markets.

The optimal degree of state intervention in the economy is the subject of great controversy in the (particularly in underdeveloped, for reasons of economic, political and ideological) capitalist countries. Under the influence of Latin American

structuralism, and heat on the international stage set up after World War II, the prevailing view that in economies whose weakness is the external fragility the state will have to lead the pursuit of development and accelerate its growth and industrialization, well distant from market failures identified in the conventional type hypothesis.

Given the failure of what some consider the extreme variant of mixed economy - the neoliberal model in Latin America, some authors have proposed transition to the model of social market economy, which they define as a competitive, socially oriented, economy from a national political compromise that enables reconcile two principles: the free initiative and social progress, as a result of market performance (Auping, 1992, pp 57-58.). Judging from its formulation, is an attempt to replicate the European model of general welfare (which little or nothing remains today). This model has been implemented in former socialist countries, such as Belarus.

This and other economic models reveal that since Adam Smith argued the existence of the "*invisible hand*" of the market to defend the dominant interests in society, and to this day, not just with one hand; in fact, modern economies employ the two: the invisible markets and other clearly visible, the State.

Never before it had foreseen the possibility to defend the welfare of society as a whole would emerge a successful model of socialist market economy; on the contrary, the idea that commodity production was exclusive of capitalism and disappear during the socialist construction clinching. In a letter to Engels, dated January 8, 1868, Marx warned that: "...any form of society can prevent one way or the other [in one way or another] that the available working time of society regulates production. But such regulation would not be achieved through direct and conscious control of society over their working time, which is not possible without social property (Marx and Engels, 1983, p. 199). Statements like this opened the possibility that many Marxists we were to assume that the mediating role of the market would no longer be necessary in the socialist economy with the establishment of social ownership and management planned to scale the whole society. This premonition has not been confirmed by the practice so far. With regard to the role of the market in socialist construction, they can identify various viewpoints. On the one hand, the criterion that the market presupposes instability and anarchy (characteristics of capitalism) and, consequently, is alien to socialism system for which the work takes on a directly social character as a result of social ownership and planning.

It is also contemplated that the underdevelopment can be overcome through planning and the use of economic incentives would be detrimental to the formation, as socialist consciousness if this could be formed outside and regardless of how it generates wealth. While on the other hand, it is commonly thought that the

contemporary market, despite its many manifestations of instability, has organized institutions that supported state regulation. It is even assumed as the remedy for all the ills of socialist economies, otherwise not operating objective criteria on rationality nor substantiated stimuli.

Although the market is not a specific form of change and inherent in capitalist production, circulation, and ignoring the essential features that distinguish, some researchers warn a tendency to assess the inclusion of market mechanisms in the economy of socialist countries (as in the case of China, for example), as if it meant the renunciation of socialist ideals and the return to capitalism. The fear that this might happen has effectively slowed the development of the productive forces of socialist economies; Examples of this are the experiences of former socialist camp. Failure to establish the necessary distinction between capitalism and market has led to oversizing permanently the role of macroeconomic factors and consequently led to the rigidity and excessive centralization of economic decisions, economic voluntarism and paternalism, and he has stopped the expansion of microeconomic factors and their use for the benefit of society (Hidalgo-Gato, 2012).

The socialist market economy

The role of the market in the course of the socialist economy has been expressed in experiences known by different economic models: centralized planning (or state socialism), decentralized, market socialism (or refurbished model), and initially applied for Chinese reform: the dual model and the flexible dual (Gonzalez, 1995).

The model of greater significance today is the socialist market economy, implemented in China and also, with some differences, in Vietnam. It is not intended to copy that model the country; it is rather to reflect on an experience that shows significant progress in the state's ability to govern the market in favor of socialist goals, as well as its main theoretical foundations.

National congresses XII, XIII and XIV of the Chinese Communist Party (CPC), made in the years 1982, 1987 and 1992, respectively, were decisive for the ventilated issues and definitions adopted (Diaz Regalado, 2007, pp. 347- 355). It was strategically the definition that the country was in the primary stage of socialism, which would last long (about a hundred years), and follow a socialist road with Chinese characteristics, thus freeing them from bondage respect to the Soviet typologies previously established. In this direction, it was considered wrong willingness to take the class struggle as the key link and the decision to make economic construction in the center of the work of the Party and the state was adopted. It was determined that the main

contradiction of their society was given by the growing material and cultural needs of the people and the backwardness of social production, so that henceforth be considered profitable that which favored the development of productive forces, comprehensive strength of the country and raising the welfare of the population.

As a postscript, the XIV Congress of the CPC (1992) defined as an objective of the reform, the establishment of a system of socialist market economy, which has been ratified purpose in subsequent conferences. The discussions clarified that public ownership would be the cornerstone sustainer of the socialist character of society, and that both planning and market represent major economic instruments. The decision that China would be a socialist market economy aims to gradually establish the market as the central mechanism for allocating resources, purpose for some could be considered a heresy. It is not surprising that some of those who judge what happened in China have considered such decisions as a waiver of socialist ideals and the return to capitalism, especially since there has emerged a layer of rich and very rich, although not exercising state control.

The economy of this Asian country has a variety of types of property; including the socialist (public ownership) occupies the leading position: it is the pillar that supports the socialist character of the nation, operates in key economic sectors, while it is managed very varied and unsuspected ways so far (as is the case equity property regime: the *accionalización*). Given the insufficient development of its capital market, China set out to bridge the gap between the bank and nonbank financing their businesses and thereby improve the health of the domestic financial system and decrease overweight loans. The government has not lost sight of the principle of state control over key sectors in its economy and has understood the adoption of the capital market as a necessary support for growth; all of which reflect the maturity and gradual financial globalization (Villaverde, 2011) conditioning.

Being defined as a pillar and core strength of the socialist market economy, the state company underwent a structural reform to optimize its performance in the new conditions, eliminating a number of disadvantages of the prevailing design: long and heavy tax burden, excessive personnel, obligation to provide social welfare services to their workers (including retirement pensions), technological obsolescence and high debt. Consequently, the extraction of profit by paying taxes was replaced, were separated business functions of state, some operations at prices set by supply and demand were made, and the contract system was established with the State. Gradually, companies began to account for their income. As a postscript, the Bankruptcy Act (Regalado, 2001) was enacted. Since 1995, an indication of Den Xiao Ping, the criterion of "*maintaining large companies and release the small*" was established, which resulted in

the State retained 500 of the largest firms in the country and would allow that minors were leased and even privatized. (Yang, 2008). Later, the stock system was incorporated; so that the State began to exercise control over the actions without possession. Much of the success of FDI in China has been due to the collaboration between national companies (state-owned largely) and foreign companies.

The Chinese model has not given up planning, which should be set at national level and rationally strategic goals of economic and social development. Indeed, one of the achievements recognized in the report delivered by Hu Jintao at the XVII Congress of the CPC was the successful implementation of the Tenth Five-Year Plan and the smooth running of the XI Plan. In his report, Hu said the development of the market economy under the conditions of socialism has been a theoretical contribution to the development of Marxism and the shift operated in that country (the planned economy to the socialist market) has opened a new situation for the development of economy, politics and culture.

Premises of market activation in the Cuban economy

The current Cuban economic model to the Sixth Congress of the PCC, despite having some traits, is heir to the Soviet experience. Material based on proportionality, made it possible for the country to undertake major structural changes such as tourism development and biotechnology between the late eighties and early nineties. The few exchanges on commercial basis with other countries and untying the international market led to the generalization of administrative methods of management and control of the economy. Commodity-money forms played a purely passive as a result of the nationalization of the economy and the high degree of centralization of economic decision-making role, not only business, but also individual, as has been the case of food rationing and other personal property, some of which were not amenable to buying and selling.

The few experiences in Cuba using the market fell mainly to the field of personnel marketing goods, from agricultural production carried out by private producer's consumption. Free markets in agricultural products that were created in the eighties were quickly eliminated because of their high prices, but were reopened in the most difficult moments of so-called Special Period, to alleviate acute food shortages caused by the crisis nineties.

Agricultural production is, according to several researchers of the Cuban economy, economic activity has shown more strongly the need to establish a new economic model. This is indicated by the shortcomings of the previous model to

improve the welfare of the population, their inability to mobilize the benefit of society the diversity of actors who carry out agricultural production, intense migration from rural to urban, and paper production in the external imbalance of the country; all in significant conditions of idle or underused areas of agricultural land. Rightly Cuban specialists hold the view that "*without a takeoff of Cuban agricultural sector is unlikely that the country can engage in a dynamic growth and development*" (Garcia et al., 2014, p. 24).

The "Economic Resolution of the V Congress of the CCP" (PCC 1997) was a clear evidence that the organization had matured the idea of opening the market space under state regulation. The decision taken at this conference to move towards a planning that has the market has been correct and spinal cord, and also constitutes a challenge: representing outrun the criterion of directly social character of labor in the Cuban economy. Enrolled productive goals in the Plan on the basis of administrative decisions do not guarantee the usefulness, rationality and cost recovery work invested in production; nimbly warn not allow changes in the structure of needs and preferences, and opportunities in international trade.

The Cuban economy is characterized by heterogeneity of technical and production conditions among producers even among state enterprises and consequently are different levels of productivity. The relative economic isolation of producers and thus, the non-coincidence of private economic interests with general are revealed not only in production for domestic consumption, but also to foreign trade. The central planning body can warn the requirements and major trends of the Cuban economy, its branches and regions; however, not able to respond to the enormous wealth of options and circumstances that occur daily in the national and international economy, nor to reconcile directly the economic interests of all participants in social production, both as producers and consumers.

The market is not formed spontaneously, and not by decree, but requires the creation of the premises necessary for its action; it implies recognition of diverse forms of ownership and management, equal rights and competition, as well as the reduction (to the extent necessary) centrally defined prices. We will have to separate state and business functions, and circulation of a single currency able to fulfill the functions of money, through which labor costs are expressed and can measure the efficiency of producers effectively. Equally important in this regard is the organization of a productive, commercial and financial system that provides diversity of choice to economic actors as well as the recognition of the status of commodity producers to nationals in respect of its links with the external economy. It is necessary to establish a monetary policy that its components consider a system of exchange rates based

economically and also determine the criteria for working capital, ie, that provides the basis for the realization of the commercial product.

The decisions adopted by the Sixth Congress of the PCC are important steps in so far as they are directed towards creating the conditions and assumptions necessary for the market to be taken into account in the Cuban economy. Among other determinations implemented during 2013 and so far in 2014 are recorded: the changing relations of state enterprises with the state budget; the easing of social objects of these companies by Resolution No. 134 of 2013 (Resolution No. 673 had the same impact on agricultural production cooperatives); experiments new systems marketing of agricultural products; the beginning of the restructuring of wholesale trade; creating experimental nature of many cooperatives non-agricultural (2); the Mariel Special Development Zone and the enactment of a new Foreign Investment Law (3); the timetable for monetary and exchange rate unification; regulations for direct sale to the tourism of agricultural products; the entry into force of the concept of "state order"; and approval by the National Assembly of a new labor code (Sanchez, 2014).

The solution of the contradictions arising from the almost total state control of the economy is projected based on the recognition and promotion of the diversity of forms of property, without the (state) public property ceases to play the key role in the national economy. The Cuban state has taken the decision not to administer more business and has changed the management model (state) public ownership in important sectors such as the sugar industry, the medical-pharmaceutical and biotechnology industries, among others. Without giving up its rights as owner, it is proposed to delegate management companies and maintain control and regulation function with primarily economic methods (PCC, 2011, pp. 11-12).

The changes in this area are undoubtedly the most complex. Many companies are undercapitalized and suffer from technological obsolescence. The allowance for losses to state enterprises amounted to 1,828 million pesos in 2012, representing 4% of total current budget expenditures. In the absence of such losses, the budget deficit would be reduced more than doubled (Diaz, 2014). Following the new transformations it has been established that those who retain the status of unprofitable be closed or transferred to other forms of management. In addition, companies will be gradually freed from social functions such as ensuring full employment, since the cooperative and private sector will gradually raising its contribution to this end. Through the directives of the 2014 Plan, state enterprises retain up to 50% of profits is allowed, are released to provide the amount of amortization, they are allowed to sell at prices of supply and demand surplus after completing the government order, and administrative limits on the maximum wage are removed. From now on, wage systems companies will be

approved by higher business organizations to which they belong direction. They may also have some of the profits after taxes, because of which will create funds aimed at the development, investment and stimulating workers.

The measures implemented in the field of state enterprises have not yet led to the rise of its economic performance, but generally indicate a correct path to business autonomy (Diaz, 2014). The experience of the reform of state enterprises in China (Regalado, 2001) and Vietnam (Tran, 2007) suggests that in Cuba will also be a gradual and complex process. Changes in this area are inseparable from other yet to be realized. In addition, unlike these countries, this process is undertaken in a country without financing from international institutions, and conditions of economic and financial warfare by the US government.

Market regulation, the functions of the state in the economy and development in Cuba

...with the belief that neoliberal influence market forces, its naturalness and spontaneity are able to put the Cuban economy in perfect order and pulses would be sufficient supply and demand for that would reduce prices is inevitable. All this is a dangerous illusion. Prestigious international authors have stressed the idea that "there is no theoretical reason to believe that in the early stages of market development, by themselves, will reach efficient outcomes" (Stiglitz, 2004).

Experience shows that typical of underdeveloped economies like Cuba, structural rigidity can be removed with the help of the market, but at a high social cost. As a small country, blockaded by the United States without abundant natural resources, and threatened by climate change in their condition archipelago, Cuba must face many challenges that cannot cope through market transactions. The economy needs to undertake two types of structural changes: not only those relating to the organization and mode of functioning of the economy; is it also necessary a change in the production structure and pattern of international specialization.

Defined as one of the objectives of the changes currently being implemented (PCC, 2011), the development demands the structural transformation of the economy from a conception that understands development as a special kind of growth can ensure that the economy grows constantly on the basis of continued momentum of its capabilities, for the benefit of the majority of the population. Such are the premises that would allow international integration on rational and efficient basis. Translated into contemporary language, is reaching an endogenous and sustainable development,

economic and social, whose scope supposed "*growth and structural changes must go together*" (Figueras, 2014, p. 1) and in accordance with the opportunities to show the international economy.

The structural transformation should substantially reduce the deficit nature of the economy by sectors, according to the prospective analysis; facilitate their long-term growth, from the ability of these sectors to produce goods with higher added value, which can be placed in the international market with favorable gains to the national economy. Such a transformation does not proceed spontaneously, but is the result of a sustained national intentionality in time, reflected in a strategy of long-term development.

For an underdeveloped country like Cuba, creating dynamic value is as or more important than assigning static value, insofar as it involves an expansion of the production-possibility frontier and productive use of factors of production underused or not used. In the long term fit many options on the market can provide signals, but by itself, through the transfer of resources through the price mechanism cannot promote the correct structural composition corresponds to national objectives, nor attained within a reasonable period of time.

The use of market relations enables mobilize microeconomic factors of growth and development (economic interest, personal and collective initiative and innovation capacity) promoted in business, in a process that also depends on the decisions taken at that level and get compensation to producers through the economic results achieved. This first group of factors should be integrated other macroeconomic reasons, among which emphasize stability, social cohesion and assigning a key part of available resources based on priorities of public interest (Hidalgo-Gato, 2012). The primacy of state public ownership is the key in this process, as it enables the State to exercise an influence on the magnitude of the accumulation and sectorial distribution of long-term investments). Moreover, this form of property charges an added importance in macroeconomic stability and a factor of social cohesion, sovereignty and independence. No country has historically taken the modern economic growth without strategic focus. Virtually all cases of successful economic development reveal the presence of state intervention and improvisation in an industrial strategy. In order to devise an appropriate strategy for growth in developing countries, the new consensus advisable to include the quality of institutions, especially the regulatory framework, sphere it is for the State. For more incentives are to be amended, its effect will depend on the creation of organizational and institutional conditions that must function in the desired direction. In this sense, it is necessary to change the notion historically formed planning understood as the process of allocation of resources by the state. So that planning will

be conceived as a synthesis of five basic functions: exploration, strategy, coordination, regulation and evaluation. Prospecting for long-term exploration in all dimensions of development: economic, social, environmental, technological and territorial, among others; the strategy for defining roads and policies aimed at the development, including the investment policy of the State; coordination between different policies and instruments; regulation and institutions that make feasible definite changes; and evaluation, finally, public policies implemented to correct them promptly when necessary.

Judging by the current definitions of economic policy in Cuba (PCC, 2011), the market mechanism partially act in the allocation of resources and will be an average operational performance of the Plan determinations. It is not expected to natural resources, state enterprises and educational, scientific, and technical institutions to be buying and selling. Ongoing measures are aimed at promoting indirect planning mechanisms to manipulate market conditions through fiscal, monetary, sectorial policies, among others, though it should not be dismissed as a basis for projecting future regulations.

Conclusion

Denying the role of the market and the action of the law of value has been one of the errors of socialism. Humanity so far not been able to replace commodity production by another form of organization and, in the context of globalization, the Cuban economy cannot try. The decisions of the Sixth Congress of the PCC represent, on the one hand, a turning point in relation to the idea that the market is an enemy of socialism and, on the other, try to establish the degree of compatibility between the conscious regulation of economic processes and social and action of the law of value.

It is not that the market begins to govern Cuban society, but to make it functional to socialist advance, since the socialist state is the owner of the basic means of production and can devise a system of management of the economy able to trace frames market action to not let your free will. But its purpose is not reduced to maintain the market order and macroeconomic stability; the state should frame the economy as a development strategy in tune with the interests of the majority, having an arsenal of instruments outstrip the market, which in the long term myopia has been recognized by many theorists.

The theoretical system of socialist construction in Cuba cannot be terminated; it should be in constant development. Therefore, he is called to be rethought and updated on the basis of linkage with practice, and should be away from the "bibliolatry". Today

is understood, for example, that the notion of planning configured historically in the past is not the only instrument of management of the economy.

A systemic vision of development requires macro-economic factors of growth and integration of developing and reinforcing other on the microeconomic environment, linked to the economic interests of participants in social production and the decisions of economic agents (especially to the millions of individual decisions that are taken daily and remain hidden behind macroeconomic variables, such as GDP). The transition from centrally planned system to another force that takes into account the market and its features will take some time. It is not a spontaneous or consensual, but complex and, without doubt, contradictions generator process; It is a long learning and legitimizing the use of predominantly economic, indirect methods.

Raising the economic culture of the public sector employees and employers (state or not) is a requirement to assimilate and implement changes in the Cuban economic model. In parallel, the development of a system appropriate to evaluate performance in terms of value, monetary-financial economic indicators (national and regional) is required.

The state enterprises depend largely on exports, labor income of most workers and the supply of raw materials, energy and other inputs to other non-state forms of ownership. Structural reform in this area is vital, but difficult to achieve in unison in the more than 3,000 existing state enterprises, given the limited financial capacity.

It requires focus the attention of the restructuring process of state enterprise system in economically stronger companies and better able to influence the growth of the economy, with the aim of providing them with a specific model of management that allows them to deploy their potential and fulfill their missions. For the rest of state enterprises will have to apply all kinds of variants of forms of management and ownership, including privatization.

The transformation of the management model of the agricultural sector should combine market relations and not to recognize market participants, effectively throughout the cycle, its status as commodity producers. The transformation in this sector should also include actions of government support aimed, on the one hand, to face the low prevailing level of technology and weak productive and housing infrastructure in some rural areas, and secondly, to raise economic culture the sector. Elements commonly little considered until today, as the territorial approach of agricultural change and the role of the rural family, take on special importance in the present.

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