

Economic Reform in Cuba and China

Adrian Hearn

Despite significant differences in economic and demographic scale,¹ the governments of Cuba and China have confronted a comparable “dual” challenge as they open their economies to foreign investment. (UNCTAD, 2005; United Nations Population Information Network, 2005) The first part of this challenge has been to promote greater interdependence and collaboration between foreign multinationals and local enterprise; the second part has been to build stronger links between state and non-state actors to promote civic participation and social stability. The governments of both countries have confronted this challenge not by replacing the state apparatus with market forces but by encouraging their coexistence. (Hearn, 2004; Foster, 2002; March Poquet, 2000; Dilla Alfonso et al, 1999; Goldstein, 1995; The goal has been to harness local creativity, initiative, and social capital within the framework of nationally integrated, state-guided commercial initiatives that both facilitate economic growth and consolidate political support. Economic reforms were introduced in China long before—and have advanced well beyond—those adopted in Cuba, though the recent decentralization of economic governance in Havana’s historical zone, by far the most progressive economic plan in contemporary Cuba, has proven itself to be a viable model for other urban centers.²

Comparing political and economic decentralization in Cuba and China reveals how societies in transition from centralized governance can derive a range of advantages from their social and political legacy. Socialism in both countries brought about strong popular nationalism, but the scarcity of

1. By 2003 China had accumulated inward FDI stocks of US \$571,471 million compared to US \$79.9 million in Cuba; China’s population currently exceeds 1,315,844,000 compared to Cuba’s 11,269,000.

2. The success of Old Havana’s economic decentralisation program has prompted similar initiatives in the cities of Santiago de Cuba, Camagüey, and Trinidad.

resources and consumer goods also produced resilient networks of informal commerce and black market exchange. One of the most intriguing developments in recent years has been the evolution of these circles of unofficial cooperation into semi-official networks capable of open engagement (and in some cases integration) with state and commercial institutions. In Cuba this has occurred mainly at the grassroots level, where unregistered neighborhood groups and associations that were previously not recognized in the official scheme of the Revolution have begun to work in legally sanctioned partnerships with state urban development institutions. By comparison, in China networks of informal cooperation and professional solidarity (or *guanxi*) have assumed an increasingly open and predominant role in the growth and development of the Chinese investment and manufacturing sectors since the mid 1980s.

During the mid-to-late 20th century informal exchange networks in both countries were shaped largely by the attempted socio-economic omnipresence of the state. Although economic governance has been significantly decentralized and liberalized since then, informal practices continue to be shaped by the ongoing authority of state institutions particularly in the areas of commercial coordination, community development, and market research. Indeed, state participation in the economy has been a critical feature of Cuban and Chinese development strategies, yielding outcomes in social and economic programs that cannot be easily dismissed. As Jean Oi notes, in an era of global privatization and state downsizing, the productive capacities of public-private collaboration are often overlooked:

There has been a rush to get government out of the economy, but a minimalist state is not necessarily the answer. The goal should be more effective government. Instead of thinking that there must be either state or market, one should instead look at the interaction of state and market and the adjustment of state actions. As a number of observers have pointed out, even in the classic statements of laissez faire economics, there is a crucial role for states to play...Not all state intervention is Leninist...China's experience suggests that one should disaggregate the "state" into its component parts to distinguish between levels of government and the incentives for different levels to perform. There is a need for strong state capacity, but this capacity should exist at both the local and the central levels. (Oi, 1995: 1146-47)

Like China, Cuba since the early 1990s has experimented with the decentralization of administrative authority to provincial and municipal governments to more effectively address emerging local needs and support diversifying productive capacities as foreign direct investment (FDI) accrues in specific, often relatively isolated, industrial sectors.³ A key challenge has been to implement locally integrated programs capable of stemming social

fragmentation and inequality at the grassroots before they evolve into political discontent. Strategies for accomplishing this have focused on building commercially viable, socially inclusive, schemes linking local industry to the foreign business sector. There is a strong social dimension to this economic strategy arising from the extension of opportunities for economic development to the neighborhood level, thereby encouraging popular participation and consolidating political support at the grassroots.

FDI Regulation and National Stability

Until the late 1970s, most developing countries sought to leverage domestic benefits from foreign trade through ownership controls and import tariffs. These strategies have become less viable because of the increasingly stringent structural adjustment conditions of international financial institutions, the membership requirements of the World Trade Organization, and proliferating Free and Preferential Trade Agreements. (Lee, 2004; Kyaw, 2003; Collier and Dollar, 2002) Although the global economic landscape has transformed in fundamental ways, the design and implementation of appropriate regulatory frameworks that harness the power of market forces remains perhaps the most salient economic challenge for developing countries.

The renewed interest of investors in the East Asian region in the wake of the Asian financial crisis of the late 1990s has brought important opportunities for economic growth, but as Leonora Angeles has argued, East Asian governments have an important role to play in managing these opportunities:

The crisis may prove a blessing if exporting firms respond to the crisis by substituting local materials for imported products. Such a move could be aided by national development plans aimed at reducing the import-dependence of export firms by providing incentives to integrate their operations with domestic enterprises, by procuring their supplies from local sources, by helping upgrade the quality of local products, and by improving local technological capabilities and human resources. (Angeles, 2003: 211)

Such legislation could create local jobs and, importantly, enable domestic exporters to respond to overseas demand free from dependency on imports. Consequently, reforms of this sort carry growing relevance for developing countries as “harder” national protection strategies, such as ownership controls and trade tariffs, are progressively dismantled. Efforts to integrate and “embed” foreign capital into domestic economies through structures of insti-

3. Phases of economic decentralisation and opening in Cuba have typically been followed by periods of re-centralisation and reassertion of state authority. This pattern roughly coincides with the electoral cycle of provincial (2.5-year) and municipal (5-year) governments, which have tended to demonstrate their legal weight early in their tenure by reigning in the more progressive initiatives of their predecessors.

tutional management and state authority in some ways resemble the import substitution methods adopted in the 1960 and 1970s by governments throughout Latin America and East Asia. Import substitution industrialization and state economic planning were relatively successful in consolidating national economies in Latin America and East Asia in the 1960s and 1970s, but by the mid 1980s the best prospects for further growth appeared to lie in privatized production and distribution, a diminished state, and competitive international integration. (Lowenthal, 2000) Consequent economic liberalization programs generally boosted GDP figures, but also exacerbated social inequalities and popular disaffection, prompting a cautious suspicion of unregulated trade in both regions. This suspicion persists, driven by what Evelyn Hu-Dehart identifies as a core tension between economic growth and responsible economic management:

What responsibilities do governments and especially the international organizations and policy-setting bodies that facilitate globalization, such as the WTO and IMF, have to ensure minimum wage and workplace standards, including environmental and health regulations? And if these organizations do not address these issues, then who will do so for them? (Hu-Dehart, 2003: 251)

Commentators ranging from social activists to government officials openly recognize that while the global free market has produced GDP growth figures around the world, growth has not been distributed uniformly. The point was highlighted by former Clinton Labor Secretary Robert Reich, who remarked that “the challenge for those of us who believe that free trade and global capital are essentially good things if managed correctly is to avoid the backlash by developing progressive strategies to overcome the widening inequalities and the environmental depredations.” (Hu-Dehart, 2003: 255) Globalization’s backlash, manifested in intensifying street protests such as those that now routinely accompany economic summits from Seattle to Sydney, can indeed pose a political menace for today’s image-conscious governments (and their labor secretaries in particular). But the political implications of mass protest are far more menacing in one-party systems where governments stake their very legitimacy on their claim to represent and protect popular interests. As Cuban and Chinese authorities adapt socialist principles to the requirements of global business, they therefore harbor a fundamental interest in linking foreign capital to local growth and popular participation.

The existence of collaborative links between state institutions and informal popular associations in Cuba and China has until recently been minimal amidst official concerns about the potential emergence of robust, autonomous, civil society groups that could feasibly undermine state authority. Since 1989 however, economic reforms have prompted a more flexible atti-

tude toward independent social networks and associations insofar as these facilitate economic growth and social welfare. (Goodman, 2002; Fernández Soriano, 1999) More effective cooperation between state and non-state actors has become crucial to the political stability not only of Cuba and China, but of developing countries more broadly as the effects of economic globalization intensify. This is evident in instances of violent insurgency and terrorism in Latin America and East Asia over the past 20 years, which have been fuelled largely by the conviction of marginalized social sectors that their governments are not doing enough to include them in national economic initiatives. Noting a pervasive and widening income gap across Latin America, Abraham Lowenthal identifies the link between economic inequality and social instability:

The social and political ramifications of this economic record are alarming. Unemployment and underemployment are up and real wages are falling. Labor conflicts and social protests are expanding. Street crime, kidnapping for profit, and the sale of children are rising. Rejection of established authorities and institutions is growing...if unaddressed, this polarization could become social and political dynamite, especially where resentment about gross inequalities is heightened by rampant corruption, crime, and personal insecurity. Programs to alleviate extreme poverty, improve tax collection, facilitate credit for micro-enterprises, and provide broader access to social services are thus all crucial for Latin America's future. (Lowenthal, 2000: 43, 54)

It is into volatile, chronically stratified scenarios such as these that popular protest movements (both legal and illegal) have emerged in Venezuela, Peru, Brazil, Argentina, Uruguay, Cuba, and Bolivia, demanding broader economic inclusion as a political priority. In the East Asian region, popular demands for economic reform and land redistribution have also intensified, in many cases evolving into armed insurgencies, as in contemporary Irian Jaya (West Papua), the Philippines, Southern Thailand, Myanmar, and Indonesia's Aceh province. (Pritchard and Hearn, 2005; Dewitt and Hernandez, 2003; Dupont, 2001; Tan, 2000) Well aware of the destabilizing potential of popular disaffection, the Cuban and Chinese governments have made serious attempts, as they open to foreign investment, to engage economically and socially with previously unregistered groups to pre-empt the emergence of political opposition.

Cuba

Economic linkage schemes in contemporary Cuba revolve around the country's expanding tourism industry, which relies heavily on European venture capital. One of the island's principal tourist destinations is the municipality of

Old Havana, which houses approximately 102,831 residents in 4.4 square kilometers, making it one of the city's most densely populated zones. (ONUSP) In 1994 the Cuban government created the tourist agency Habaguanex, administrated by the Office of the Historian of Havana, to reinvest profits from Old Havana tourism into the municipality's neglected infrastructure. The Office of the Historian has successfully brokered commercial partnerships between local producers and multinational enterprises, and achieved generally high levels of local enthusiasm for neighborhood development programs.

The director of the Office of the Historian since 1967 is Dr. Eusebio Leal Spengler, who now functions as Old Havana's equivalent of mayor. A writer of poetry and researcher of Latin American history, Dr. Leal argues that tourism has been an important characteristic of the city for centuries. While the Office's rapid construction of hotels, entertainment venues, and shops that operate exclusively in Cuban Convertible pesos (or CUCs) is resented by many locals who get paid in Cuban national pesos, he views these developments as:

...a recuperation of the capacities the city has historically enjoyed. I calculate that for every Cuban employed in tourism, 10 people live. The point is to use tourism as a mechanism for development...It's very hard to create ways for foreigners and Cubans to mix in clean, healthy environments. Most Cubans really do want genuine cultural interchange, and we're looking for ways to promote this...We're trying to preserve schools and houses, create jobs, and encourage true participation, for which we've created dynamic fiscal structures that allow reinvestment of profits in the historic center. (Leal Spengler, 2002)

Following the collapse of a dilapidated Old Havana convent in 1993, Dr. Leal exercised extraordinary diplomatic skill in arranging the implementation of these fiscal structures through Decree Law 143, which made the Office of the Historian the first state institution in Cuba able to control spending, profits, and general economic management at the municipal scale. Autonomous financial management liberates the Office of the Historian from the orthodox economic model that requires other municipalities to surrender their incomes to centrally governed ministries, which budget according to national, rather than municipal, priorities. It is a move toward decentralized administration of resources that many progressive Cuban politicians and social commentators would like to see applied to their own municipalities, notwithstanding the diversification of living standards—Old Havana is a case in point—that this implies.

Tourism in Havana generates profits that the Office of the Historian redistributes to under-resourced sectors such as Internet development and urban community agriculture programs, but tourism has also played a role in stimu-

lating domestic commercial activity. While Old Havana hotels sell Coca-Cola and Western brand designer clothes (Adidas and Benetton among the most popular), they also sell nationally produced items, such as coffee, cigars, rum and a range of artisan products. The commercial marketing of domestic products is possible because foreign investment laws in Cuba require 51-percent state ownership in joint venture initiatives, which then actively establish commercial links with domestic producers. Government-sponsored neighborhood development projects have also sought to market locally produced pottery, clothing, and folkloric musical theatre to the tourism sector. While these projects have not done away with racial discrimination in the CUC (previously U.S. dollar) economy, in which employers have typically favored Cubans with lighter skin (De La Fuente, 2001; Hammond, 1999), strategic state regulation and industrial linkage has effectively pre-empted the expansion of enclave, segregated industrial sectors, which have characterized the tourism industry in the rest of the Caribbean. (McDavid and Ramajeasingh, 2003) The Office of the Historian's work in Old Havana, which has been recognized by UNESCO, reflects the Castro government's determination to collaborate with foreign investors on its own terms, an attempt that has so far confuted the apocalyptic predictions of most international analysts since the early 1990s.

While the exile, suppression, and containment of dissidents has figured into Cuban domestic policy, in recent years there has been a shift of focus toward greater state engagement with vulnerable sectors of the population, particularly if these exhibit high levels of social solidarity. State-administered initiatives have increasingly sought to stimulate economic growth through the marketing of local products to foreign tourists by building cooperative, economically viable links with community groups whose local allegiances and social capital might otherwise pose a threat to state authority.

This dual social and economic strategy is evident in decentralized initiatives that have begun to collaborate openly with Afro-Cuban religious kinship networks, which are strongly rooted in the urban centers of Havana, Santiago de Cuba, and other Cuban cities. Official concerns about the capacity of Afro-Cuban religions to mobilize popular political opposition, which date back to colonial fears of slave insurrection (such as Haiti's in the late 1790s), manifest today in the scrupulous policing—and occasional prohibition—of large scale Afro-Cuban ceremonial gatherings.⁴ Furthermore, state organizations like the Group for the Integrated Development of the Capital (GDIC) and the Office of the Historian of Havana have explicitly attempted to build cooperative relations with Afro-Cuban religious leaders to introduce health and education resources (such as anti-drug pamphlets, literacy tuition workbooks, etc.) into pre-existing networks of mutual aid and exchange.

Their objective has been to incorporate unofficial circles social solidarity into official structures of governance, or as the GDIC puts it, to “formalize the informal.” (Coyula, et al, 2001) The economic thrust of these programs is to introduce community-produced theatre and dance performances to the tourism market, which despite raising local concerns about cultural appropriation, has generally succeeded in strengthening state relations with previously unrecognized non-state actors. (Hearn, 2004)

In 2003 the Office of the Historian expanded its administrative reach into the suburb of *Barrio Chino* (Chinatown), in the municipality of Central Havana. Like its projects in Old Havana, the Office’s work in Barrio Chino has relied on a combination of local economic participation and foreign financing. Local ethnic Chinese, most of whom are now third generation Cubans and beyond, have been granted the right to set up restaurants and small catering outlets in the hope that this might stimulate the local economy and draw tourism into the neighborhood. To further promote tourism in the neighborhood the Office of the Historian has assumed responsibility for restoring sites of cultural relevance, such as the Pacifico restaurant and the Continental cinema, which screened Chinese films up until its closure soon after the onset of the economic crisis in 1993.

Revenue for these projects has been generated increasingly from joint ventures with Chinese firms, some which have taken a close interest in Cuba as a manufacturing platform, particularly in the IT and pharmaceutical industries, for the Latin American market. Over 10 years ago Dr. Leal presented his vision for Barrio Chino at a conference entitled “Tourism and its Importance for the Understanding History and the Culture of the People”:

In less than just a few years Barrio Chino will reappear; there will reappear Chinese people from one side to the other. They will start to cook at home and start to bring the traditional restaurants back to life...I know very well that it’s not a matter changing it [the neighborhood] or adorning it; it’s a matter of making it

4. Many practitioners of the Afro-Cuban religion *Santería* view the public promotion of the state-affiliated Yoruba Cultural Association of Cuba as an attempt to bring ceremonial occasions, such as the reading of the socially influential *letra del año* (letter of the year), into an officially controlled environment. Another interesting example of a politically sensitive ceremonial activity is the yearly street procession for the *Virgen de la Caridad del Cobre* near Santiago de Cuba, which brings together believers in Christian and Afro-Cuban religions. John Kirk writes that the 1961 march to El Cobre “was intended by many as a show of force in political as well as religious terms” that escalated into an anti-revolution protest and the subsequent expulsion of 130 Christian priests from the island. See Kirk, John M., *Between God and the Party*, Tampa: University of South Florida Press, 1989, p.102. In the politically turbulent year of 1990, the specter of popular religious unity once again triggered official concerns that the procession to El Cobre might become an organized anti-government protest, resulting in its suspension. See Eckstein, Susan E., *Back From the Future: Cuba Under Castro*, New Jersey: Princeton University Press, 1994, p.122. On the road to El Cobre in 2001 I observed an abundance of police officers, many equipped with video cameras, indicating that to some extent the same fear persists.

live, and life always comes from the inside out. (Chiu Wong and Salgado, 1993: 7)

Coupled with emerging interest from China in economic collaboration with Cuba, the Office of the Historian's recent assumption of economic administration and tourism promotion in *Barrio Chino* will likely bring Dr. Leal's vision one step closer to reality.

The growth of Cuba's tourism industry has been the basis for industrial linkage schemes throughout the island, but it has also been the basis for concern in Caribbean countries that have until recently dominated the market. The Caribbean Tourism Organization (CTO) calculates that Cuba attracted 1,774,541 visitors in 2001, or 11 percent of total visitors to the Caribbean, and 1,850,410 visitors in 2004. (CTO, 2001; and CTO, 2005) The growth potential for Cuban tourism is enormous, particularly considering the number of North Americans who are expected to visit the island when U.S. government travel restrictions are one day lifted. Acutely aware of this potential, Caribbean nations have begun to show unprecedented interest in developing economic relations with Cuba, which some view as a potential buyer of consumer products and tourism investment, and others as a key partner in strengthening the region's strategic position vis-à-vis the U.S. and Europe. (González Nuñez and Verba, 1997) For its part, Cuba seems to have adopted a similarly rational approach to Caribbean relations, viewing its regional neighbors less as political allies in the conflict with the U.S. and increasingly as potential commercial partners.

Two and a half decades of intensive U.S. trade with the Caribbean (consolidated largely through Ronald Reagan's Caribbean Basin Initiative) have confirmed FDI as a driving force behind lower labor costs, fiscal incentives, and tax concessions. But economic restructuring in line with foreign capital has also generated social inequalities and economic fragmentation in the region. (González Nuñez and Verba, 1997) Regional rapprochement with Cuba, as articulated by the Caribbean Community and Common Market (CARICOM), would facilitate economic protection at a time when other economic blocs like NAFTA, the EU, and ASEAN are consolidating their strength by drawing investment capital inward to their respective common markets. Dealing with foreign business through an integrated multilateral framework has clearly become a CARICOM goal, and Cuba's recent admission into the Association of Caribbean States reflects regional confidence in its economic potential. That Caribbean cooperation with Cuba is progressing against the wishes of the U.S. government may also reflect growing regional self-confidence. The ultimate test of this confidence and cohesion will be whether the region can formulate a common policy for economic cooperation

and industrial linkage, implement it vis-à-vis foreign (particularly U.S.) investors, and openly acknowledge the level of state regulation this would require.

China

The comparative scenario in China exhibits a dramatically grander scale, but a similar concern with linking FDI to local participation through a regime of decentralized economic governance. The “Open Door” policy to foreign investment pursued by China since the early 1980s has profoundly affected both rural and urban communities. Rural village enterprises, which were central to China’s economic reform program in the 1980s, demonstrate some of the productive potentials of shifting managerial responsibilities previously held by the state into the hands of local actors. The state encouraged investors from Hong Kong, Taiwan, and other offshore Chinese communities to actively develop small and medium size companies in this sector. Although the resulting projects often recruited external professional managers and government officials, they were also strongly integrated into local kinship networks, resulting in growth initiatives that extended beyond specific companies or individuals into the wider population. (Whyte, 1995)

While Confucian family values may have played a role in this process, the institutional and legal reforms that allowed family structures to play a more active economic role should not be underestimated. From the late 1970s the government of Deng Xiaoping laid the foundations for economic growth through the gradual reorientation of state support away from the former industrial giant enterprises toward small and medium scale (often family-owned) initiatives, whose competitive edge was officially recognized in a global economy favoring rapid response to market conditions and internal cohesion within firms. It is easy to overlook the contribution of provincial governments in managing local industries, which Oi argues have never been privately owned, or even hybrid, but rather represent new forms of state enterprise subject to the managerial decisions of Party officials, many of whom have been in office during the Mao period. (Oi, 1995)

Tying the state to the success and failure of local industry, in part through government ownership and in part through taxation measures, has effectively provided incentive for local governments to see that money is made in their jurisdictions. Chinese local governments are no longer service-providers so much as economic actors that benefit from good business decisions and suffer the consequences of bad ones. As Oi writes:

Unlike the USSR, which undertook political reform before beginning the task of economic restructuring, and unlike the weak authoritarian states of Africa and

Latin America, China maintained its ability to rein in economic activity after reforms began. Not only is the political strength of a regime on the eve of reform crucial to determining its capacity to structure economic change, but a regime must also ensure that it retains sufficient capacity to control the course of reform. Unlike the former Soviet Union, China has tenaciously held on to its political power to decide the content and speed of reform. (Oi, 1995: 1147)

China's strong bureaucratic position cannot be wholly attributed to a legacy of political centralism. As Francis Fukuyama writes, the mandarinat at the core of Imperial China's administrative system "evolved over 3,000 years with distinctive rituals, exams, training, and meritocracy, so it is perhaps not surprising that contemporary Chinese societies know something about how to build a good bureaucracy." (Fukuyama and Marwah, 2000: 87) The cultural foundations of Chinese political organization, combined with the robust bureaucratic legacy of the Maoist system, left the central and local governments with impressive policy instruments and capacities that have proven much more effective than, for example, those of the Soviet system, which never decentralized authority to local governments or committed itself to building popular participation.

While the state has maintained a high level of industrial authority across a range of sectors (agriculture, transport, construction, IT, finance, etc.), the development of these industries from the early years of economic reform up to the present day has been strongly influenced by networks of professional solidarity, or *guanxi*. (Smart, 1993; Bian, 1997) *Guanxi* relations in China revealed their strength in the early 1980s as the state opened the country's economic infrastructure to private investment. Thomas Gold argues that the building and maintenance of cooperative, often ethnically-based, professional relationships was always important to the shortage economy of Communist China, but that institutional instability and uncertainty—resulting partly from the Cultural Revolution and partly from rapid economic liberalization in the early 1980s—opened *guanxi* networks to unprecedented public scrutiny. (Gold, Guthrie and Wank, 2002)

Circles of cooperation based in ethnic, professional, and other social connections continue to influence the trajectory of the Chinese economy, for example, in the paths they trace out for investment capital from overseas Chinese communities into mainland cities. As Alan and Josephine Smart have shown, the ability of business executives to establish connections with state officials is crucial when it comes to avoiding bureaucratic red tape, prompting the formation of new corporate partnerships between multinational investors, professional intermediaries in Taiwan and Hong Kong, and state officials on the mainland. (Smart and Hsu, 2004; Smart, 1997; Smart and Smart, 1991) These connections are, of course, mutually beneficial since they

set up what David Wank has called “symbiotic clientelism” structures that serve the economic interests of business executives through access to licenses and permits, and the political interests of state officials whose legitimacy depends on the economic performance of their territories. (Wank, 1998)

As regional officials compete to advance territorial interests, the nation’s political leadership in Beijing is left with the task of defending its own legitimacy by maintaining national cohesion and a degree of provincial equity. (Ding, 1994)⁵ Popular dissatisfaction about growing inequalities between Eastern and Western provinces since the 1980s and the widening of this inequality with intensifying FDI in Shanghai and other urban centers has on several occasions threatened to escalate into ethnic and political conflict. To minimize this possibility the Chinese government’s current campaign to “Open Up the West” has taken significant steps toward integrating foreign investment into underdeveloped, ethnically distinct rural provinces under the decentralized supervision of local governments. (Goodman, 2004) Beyond the inevitable consolidation of *guanxi* relations around these developments, the integration of marginalized, potentially volatile, social sectors into legally sanctioned initiatives is a key strategic goal. A recent article in *The Economist* notes that the past few years have seen an upsurge in the number of protests triggered by emerging economic disparities, prompting President Hu Jintao to stress his concern for the disadvantaged—and to placate political hardliners—through tighter regulation of foreign investment (particularly in media) and by naming Cuba as a good model for blending social principles with political control. (*The Economist*, 2005) While the governments of both countries struggle to balance the requirements of global capital with domestic political agendas, both have recognized the potential benefits of incorporating the social capital of previously unofficial networks into officially administered development and commercial initiatives.

Conclusion

Like Britain in the 19th century, the East Asian newly industrialized countries in the mid 20th century, and the Southeast Asian “tiger” economies at the century’s end, Cuba and China have sought to balance state and market through specifically ascribed roles, rather than replacing the prior with the latter. The evidence from both countries suggests that effective state participation in economic affairs requires a level of decentralization able to accommodate active collaboration with local non-state actors. With the aim

5. According to Xueliang Ding, the notion of legitimacy in China is based more on popular opinion and moral support (*ren xin*) for the political order than is generally true in Western countries, where more emphasis is placed on legal procedures and structures of public accountability.

of promoting local creativity and entrepreneurship, this kind of decentralization is precisely what both governments have endeavored to accomplish. As a result, rather than empowering independent civil society and the private sector to gradually assume the responsibilities the state, Cuban and Chinese development strategies have sought to assimilate local interest groups and networks of popular solidarity into structures of official authority.

The models of decentralized governance taking shape in Cuba and China may represent a qualitatively new variety of state economic planning with potential international appeal. Even the typically conservative *Newsweek* magazine reports that in indicators from oil consumption to housing policy, Chinese regulatory approaches may offer an attractive alternative to free market strategies:

The sense is that China is making the right moves. Contrast, for example, China's apparently effective effort to reduce oil demand to the Bush administration's newly passed energy policy, which has done nothing to reduce U.S. demand. Consider, too, the contrasting approach to housing bubbles, which continue to loom in the United States as Washington watches from the *laissez-faire* sidelines, but are already shrinking in China, as Beijing slaps on rules to restrain lending and speculation. It's conceivable that if these trends end badly for the United States but well for China, other nations will begin looking more closely to Beijing-style states controls as a model. (Lu, 2005: 40-41)

While China and Cuba differ in economic and demographic scale, the nation-building efforts of both have relied on similar attempts to stimulate economic growth by incorporating the creative capacities and social capital of informal associations and networks into state-led initiatives. Produced in part by the dynamics of centrally governed shortage economies, informal circles of exchange and solidarity are tentatively beginning to show their productive potential in the formal sphere. By attempting to harness informal initiative, whether based in professional networks, popular religion, or community associations, both governments have acted to address the dual challenge of linking foreign investment to local industry while building stronger links between state and non-state actors.

It remains to be seen to what degree the economic reforms that are currently unfolding will conserve the political regimes of Cuba and China or incite their further transformation. The administrative expansion of the economic model pioneered in Old Havana by the Office of the Historian into other Cuban cities and municipalities, such as *Barrio Chino* (Chinatown), indicates official confidence in decentralized management and local participation. Indeed, *Barrio Chino* deserves close ongoing scrutiny not only because of the high level of local ethnic entrepreneurship that has been permitted to take hold there, but because of its unique position as a point of entry

for Chinese investment into the country. A crucial strategic issue will be whether Cuban and Chinese economic collaboration, founded on the common challenge of adapting centralized models of governance to the requirements of foreign investment capital, may serve as a platform for both countries to deepen their relationships not only with each other but also with Latin America more broadly.

Bibliography

- Angeles, Leonora C. 2003. "Development, Security, and Global Restructuring: The Case of Philippine Export Manufacturing Industries." In *Development and Security in Southeast Asia*, David B. Dewitt and Carolina G. Hernandez (eds). Hants, U.K.: Ashgate.
- Bian, Yanjie. 1997. "Bringing Strong Ties Back in: Indirect Ties, Network Bridges, and Job Searches in China." *American Sociological Review*. 62: 266-85.
- Caribbean Tourism Organization (CTO). 2005. "Stay Over and Cruise Arrivals—2004 YTD." <http://www.onecaribbean.org/information/category-browse.php?categoryid=242>. Accessed May 2005.
- Caribbean Tourism Organization (CTO). 2001. "Tourist Arrivals by Market 2001." <http://www.onecaribbean.org/information/document-view.php?rowid=178>. Accessed May 2005.
- Chiu Wong, Alejandro and Eradio Salgado Baez. 1993. "El Barrio Chino de La Habana: Una Legendaria Opcion Turistica." Paper delivered at the 3rd Ibero-American Symposium on Tourism, Havana.
- Collier, Paul and David Dollar. 2002. *Globalization, Growth and Poverty: Building an Inclusive World Economy*. Washington: World Bank/Oxford University Press.
- Coyula, Mario, Miguel Coyula and Rosa Oliveras. 2001. *Towards a New Kind of Community in Havana: the Workshops for Integrated Neighborhood Transformation*. La Habana: GDIC. [English edition translated by Adrian H. Hearn].
- De La Fuente, Alejandro. 2001. "Recreating Racism: Race and Discrimination in Cuba's "Special Period,"" *Socialism and Democracy* 15(1):65-91.
- Dewitt, David B. and Carolina G. Hernandez (eds). 2003. *Development and Security in Southeast Asia*. Hants, UK: Ashgate
- Dilla Alfonso, Haroldo; Armando Fernández Soriano and Margarita Castro Flores. 1999. "Movimientos Comunitarios en Cuba: Un Análisis Comparativo," *Cuban Studies*, 28:100-124
- Ding, Xueliang. 1994. *Post-Communism and China*. Hong Kong: Oxford University Press.
- Dupont, Alan. 2001. *East Asia Imperiled: Transnational Challenges to Security*. Cambridge: Cambridge University Press
- The Economist*. "Hu's In Charge." Issue 376(8440):19-20, August 2005.
- Fernández Soriano, Armando 1999. "Realidades, Retos y Posibilidades de los Municipios Cubanos en el Fin de Siglo." In *Gobiernos de Izquierda en América Latina*. Beatriz Stolowicz (ed.). México, D.F.: Universidad Autónoma Metropolitana, Unidad Xochimilco: Plaza y Valdés

- Foster, Kenneth. 2002. "Embedded Within State Agencies: Business Associations in Yantai," *The China Journal*. 47:41-65
- Fukuyama, Francis and Sanjay Marwah. 2000. "Comparing East Asia and Latin America: Dimensions of Development." *Journal of Democracy* 11(4):80-94.
- Goldstein, Stephen M. 1995 "China in Transition: the Political Foundations of Incremental Reform." *The China Quarterly*. 144:1105-1131
- Gold, Thomas, Doug Guthrie, and David Wank. 2002. "An Introduction to the Study of Guanxi." In *Social Connections in China: Institutions, Culture, and the Changing Nature of Guanxi*, Gold, Guthrie and Wank, (eds). Cambridge: Cambridge University Press.
- González Nuñez, Gerardo and Ericka Kim Verba. 1997. "International Relations between Cuba and the Caribbean in the 1990s: Challenges and Perspectives." *Latin American Perspectives*, 24(5):81-95.
- Goodman, David S.G. 2004. "The Campaign to "Open Up the West": National, Provincial, and Local Perspectives." *The China Quarterly*. 178: 331.
- Goodman, David S.G. 2002. "Regional Interactions and Chinese Culture: Openness, Value Change, and Homogenisation." Paper for Universidad de Guadalajara—University of Technology Sydney Project: The Social Impact of Regional Integration in the Pacific Rim. Sydney: UTS
- Hammond, Jack. 1999. "The High Cost of Dollars," *NACLA Report on the Americas*, 32(5):24-25.
- Hearn, Adrian H. 2004. "Afro-Cuban Religions and Social Welfare: Consequences of Commercial Development in Havana," *Human Organization* 63(1):79-88
- Hu-Dehart, Evelyn. 2003. "Globalization and its Discontents: Exposing the Underside." *Frontiers* 24(2 and 3):244-260.
- Kyaw, S. 2003. "Foreign Direct Investment to Developing Countries in the Globalised World." Paper prepared for the Development Studies Association Conference, University of Strathclyde, Glasgow, Sept. 10-12, 2003.
- Leal Spengler, Eusebio. 2002. Interview with author, Havana, April 29, 2002.
- Lee, Roger. 2004. "The Marginalisation of Everywhere? Emerging Geographies of Emerging Markets." In *Remaking the Global Economy*, Jamie Peck and Henry Wai-chung Yeung, (eds). London: Sage.
- Lowenthal, Abraham F. 2000. "Latin America at the Century's Turn." *Journal of Democracy*, 11(2):41-55
- Lu, Melinda. 2005. "China Slows Down." *The Bulletin [Newsweek]*. 123(6484):40-41.
- March-Poquet, José M. 2000. "What Type of Transition is Cuba Undergoing?" *Post-Communist Economies*, 12(1): 91-117.
- McDavid, Hilton and Diaram Ramajeessingh. 2003 "The State and Tourism: A Caribbean Perspective," *International Journal of Contemporary Hospitality Management*, 15(3): 180-183.
- Oficina de las Naciones Unidas para los Servicios a los Proyectos (ONUSP), 2001. Programa de Desarrollo Humano Local: Lineas Dierectrices, Fase 3, La Habana: Programa de Las Naciones Unidad Para el Desarrollo (PNUD)

- Oi, Jean C. 1995. "The Role of the Local State in China's Transition Economy." *The China Quarterly*. 144: 1132-1149.
- Pritchard, Bill and Adrian H. Hearn. 2005. "Regulating Foreign Direct Investment: Southeast Asia at the Crossroads." In *Regulation and Competitiveness: Explaining Foreign Direct Investment Flows in Southeast Asia*. Singapore: Institute of Southeast Asian Studies (ISEAS). Pp. 1-22
- Smart, Alan and Jinn-Yuh Hsu. 2004. "The Chinese Diaspora, Foreign Investment and Economic Development in China," *The Review of International Affairs*, 3(4): 544-566.
- Smart, Alan. 1997. "The Emergence of Local Capitalisms in China: Overseas Chinese Investment Patterns of Development." In *China's Regions, Polity, and Economy: A Study of Spatial Transformation in the Post-Reform Era*, Si-ming and Wing-shing Tang, (eds). Hong Kong: The Chinese University Press. Pp.65-95.
- Smart, Alan. 1993 "Gifts, Bribes, and Guanxi: A Reconsideration of Bourdieu's Social Capital." *Cultural Anthropology*, 8(3): 388-408.
- Smart, Josephine and Alan Smart. 1991. "Personal Relations and Divergent Economies: a Case Study of Hong Kong Investment in South China." *International Journal of Urban and Regional Research*. 15(2): 216-233.
- Tan, Andrew. 2000. *Armed Rebellion in the ASEAN States*. Canberra: Australian National University
- UNCTAD, 2005. World Investment Report 2004. Accessed at www.unctad.org/en/docs/wir2004_en.pdf, August, 2005.
- United Nations Population Information Network, 2005. Accessed at <http://esa.un.org/unpp/>, August 2005.
- Wank, David. 1998. *Commodifying Chinese Communism: Business, Trust, and Politics in a South Coast City*. New York: Cambridge University Press.
- Whyte, Martin King. 1995. "The Social Roots of China's Economic Development." *The China Quarterly*. 144: 999-1019.