A COMPARATIVE ANALYSIS OF THE IMPACT OF ECONOMIC REFORM ON THE QUALITY OF LIFE IN CUBA AND VIETNAM

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INTRODUCTION

> "We had anticipated finding Cubans infected with a psychological and cultural malaise that we had long associated with our travels in socialist societies. We found the opposite: infectious warmth, vitality, joy and musical energy." (Herndon and Michaelis, 2001).

This is the real Cuba, a beautiful nation with lively people, bustling tourism, and joyful enthusiasm. Venders sell food and clothing in tourist areas for dollars, and service providers earn incomes in multiples of former state paid salaries. Farmers are no longer working only for the state; once their quotas are fulfilled, they grow crops of their own choice for sale at lucrative prices in private urban markets. Residents line the city streets, eager to talk with foreigners and share their rising expectations.

Similarly, visitors to Vietnam can't help but notice the energy of its people. People are up before sunrise, urban shops open at daybreak, and bicycles and motorcycles compete with cars and cyclos (bicycle-driven passenger vehicles) along crowded urban streets. In the words of Cu (1996), "The [reform] policy … has encouraged the creativeness, dynamics, [and] diligence of the Vietnamese laborers, [and] made the economy bustle with activity". As stated by Marr (1995), it is "like seventy-two million Rip van Winkles trying to make up for lost time".

Both Cuba and Vietnam are pursuing largely successful transitions from centrally planned economic systems to ones more amenable to the market. The Vietnamese term for this transition is 'doi moi', or 'renovation'. The Cuban term is more generic: 'liberalization'. The changes are most evident to outsiders in the flow of Western business and tourists into these countries, though the United States' role is limited, as we shall see.[1]

Cuba and Vietnam are only two of the many countries that are pursuing transitions from socialist to market-based economies. Other countries include those in Eastern and Central Europe (including the newly independent republics of the former Soviet Union), China, and Mongolia. Other centrally planned countries experiencing varying degrees of reform include Cambodia, Laos, Algeria, Nicaragua, Tanzania, and North Korea. In addition, much of the rest of the less-developed world is engaged in a transition from socialist-type policies to capitalist, market-oriented ones.

The economic reform policies of most less-developed countries (LDCs) and the other transition countries of the world are designed to reduce their economies' reliance on extensive government intervention and move toward greater reliance on the marketplace. These economic reforms are designed to stabilize economies (reducing inflation, budget deficits, and trade deficits), create greater production and efficiency, and generate economic growth and export earnings. They generally include policies such as decontrol of prices (moving away from government-controlled prices toward market-determined ones) and privatization (the sale of government-owned land and enterprises to the private sector), along with reduced government spending and social expenditures as shares of gross domestic product (GDP). While the reforms may be successful in generating economic growth and efficiency, at least once sufficient time has elapsed; they often have negative repercussions for the quality of life of their citizens.

Despite these generalizations in the global experience of capitalist transition, it is *the purpose of this paper to show that the economic reform in Cuba and Vietnam is largely unique*. And while their transition differs from other countries' in terms of focus, strategy, and background, *the primary distinction is the emphasis on a high quality of life of their citizens.*

In contrast to reform in much of Eastern and Central Europe, the reform process in Vietnam and Cuba has focused primarily on economic change, rather than a combination of economic and political reform. The Vietnamese and Cuban governments are still dominated by the Communist Party. However, extensive and successful economic reforms have taken place in both countries, and have set the stage for at least modest political change. Some even believe that "both are moving together" in Vietnam (Cu, 1996). Still others wonder whether this trend might also occur in Cuba.

Nevertheless, the first distinct characteristic of Cuba and Vietnam is that they both have communist political systems and socialist economic ones.

Second, in their movements from socialism to capitalism, or more technically, from socialist-type policies to capitalist-type ones, Vietnam and Cuba are devising their own strategies. Hence the policies of privatization, for example, are not the same as in Chile or Russia or most other countries engaged in economic reform. And third, whereas the financial crises that motivated the economic reforms of most less-developed countries developed steadily over the periods of oil crisis, declining terms of trade, and debt crisis in the 1970s through 1980s, the crises in Vietnam and Cuba were more sudden and brought on in part by the collapse of the Soviet empire in 1992.

The final distinctive characteristic of Cuba and Vietnam is remarkable and cannot be overstated. Despite the relative poverty of both countries, the people of these countries experience extremely high quality of life. As will be shown, indicators of quality of life in Cuba and Vietnam, such as life expectancy, infant mortality rates, and literacy rates, are largely on par with those of the developed countries of the world. *High quality of life is and has been the goal of the Cuban and Vietnamese governments, and indeed should be considered as objectives of global economic reform in particular, and economic development more generally.* For what benefit is there from high GDP and rapid economic growth if they do not translate into the well-being of the masses of people?

ECONOMIC BACKGROUND

The 1999 gross domestic product per capita (in purchasing power parity) was estimated at $1,700 for Cuba and $1,850 for Vietnam (Table 1)[2] . This placed both countries on par with each other economically, and among the middle-income less-developed countries of the world.

Agricultural production in both countries consists largely of primary commodities (defined as unprocessed agricultural products and raw materials), including paddy rice in Vietnam and sugarcane in Cuba. Both countries also produce coffee and other food products and have been beset by problems of declining terms of trade in primary commodities that have affected most LDCs since the 1980s. (This means that the prices of the countries' exports have declined relative to the prices of their imports.) Vietnamese agriculture represents 26 percent of GDP, whereas agriculture constitutes only 7 percent of GDP in Cuba (Table 1). Indeed, the significance of the agricultural sector is one of the major differences between the economies of the two countries. Similarly, some 67 percent of the labor force works in agriculture in Vietnam, whereas only 23 percent of Cuba's labor force works in the agricultural sector. (The larger labor share than output share in agriculture in both countries is typical of most LDCs where agricultural productivity is low.) The dominance of agriculture in Vietnam's economy is typical for many of the South and Southeast Asian countries, such as Thailand, Laos, Cambodia, Bangladesh, and India; but not the more urbanized countries of South and East Asia, such as the Philippines, Malaysia, and Singapore. Less emphasis on agriculture is much more typical of the Latin American countries such as Cuba, where agriculture also tends to be more mechanized than in Vietnam. Nevertheless, it is fair to say that agriculture is extremely important to Cuba as well as Vietnam, representing the majority of their exports. Sugarcane has traditionally been the mainstay of the Cuban economy.

Industrial production represents 36 percent of GDP in Cuba and 33 percent in Vietnam (Table 1). Industrial production in both countries consists of processed foods, mining, cement, fertilizer, machinery, and other products. Finally, the services sector (56 percent and 41 percent of GDP in Cuba and Vietnam respectively) is of ever-growing significance in both countries, particularly in terms of tourism.

Rural-urban migration is an issue in both Vietnam and Cuba. The largest city in Vietnam is Ho Chi Minh City, formerly Saigon, and its second largest city is Hanoi. Cuba's largest city is Havana; its second largest is Santiago de Cuba. Some fear that the transition to a market economy will encourage extensive rural-urban migration in Vietnam, with "Ho Chi Minh City becoming another Bangkok" (Cu, 1996). Can and Quy (1994) warn that with rapid projected urbanization in Vietnam, "the shortage in infrastructure and technological conditions for housing, water, energy supply, public service, health care, (and) educational and cultural activities could become acute". The Vietnamese government is carefully addressing the problem of rural-urban migration, with plans to limit movement of people to central cities and encourage movement to the suburbs. There are migration restrictions in Hanoi and limits are imposed on the heights of new central city buildings (though taller buildings are allowed in the suburbs). Fears of rural-urban migration of over-urbanization are similar in Cuba. The Cuban government uses its housing policy as one means of limiting migration into Havana and its agricultural policy to encourage farmers to remain in the countryside.

Along with increased urbanization in both countries is the issue of deforestation. Deforestation in Vietnam has been occurring at an average annual rate of

1.4 percent per year over 1990 to 1995 (Table 1). According to Can and Quy, "Deforestation has led to serious impacts on water resources, soil erosion, loss of wildlife, and deterioration of landscape and climatic factors". The United Nations and other agencies have been financing reforestation efforts, and the reforestation rate was 29,000 hectares per year over the period 1980-89 (UNDP, 2000), and over 100,000 per year more recently (Can, 1996). Cuba is facing similar deforestation problems, with a rate of 1.2 percent per year over 1990-1995. Other environmental issues include the pollution of Havana Bay and the threat to wildlife populations from over-hunting.

International debt remains a problem for both Cuba and Vietnam, amounting to $31.2 billion and $22.4 billion respectively, and official development assistance per capita amounts to $7.20 for Cuba and $15.00 for Vietnam (Table 1).

Despite Vietnam and Cuba's status as poor nations, income distribution is thought to be relatively equal. Nevertheless, data for Cuba is unavailable and Vietnamese data is somewhat dated. In 1993, Vietnam's Gini Coefficient, which is a measure of inequality, was 36 (World Bank, 2000). Roughly two-thirds of the developing world has a higher Gini Coefficient, indicating greater inequality in those countries. The poorest twenty-percent of the Vietnamese population received almost eight percent of total income, while the richest twenty-percent of the population received 44.0 percent. (In contrast, in 1999 the poorest twenty percent of the U.S. population received 3.7 percent of total income, while the richest twenty percent received 49.3 percent, U.S. Census Bureau, 2000.) Many Vietnamese people are concerned that income distribution is worsening with the transition to a market economy, with the rural sector and the indigenous people becoming relatively worse off. Similar concerns about income distribution exist in Cuba.

HISTORICAL BACKGROUND

Vietnam. Citizen attitudes toward economic reform vary widely among the transition economies, depending in part on non-economic factors such as politics and history, including relations with the super-powers of the United States and the former Soviet Union. In the case of Vietnam, nationalistic efforts to remove the Chinese, Japanese and French colonizers led to support for the communist government. The 1975 victory in the "American War" presented a favorable context for the Vietnamese people to rebuild their country and to try to catch up to the economic progress of the rest of the world. (The end of the war brought strained relations with the United States, however, that are only recently being appeased.) The shortcomings of the socialist industrial model became evident to the Vietnamese by the later 1970s and early 1980s as the nation experienced slow growth and high inflation, and this heralded the beginning of economic reforms in 1986. The collapse of the Soviet empire in 1991 further disrupted the Vietnamese economy, and while many people opposed the reforms out of fear of worsening inequality (Cu, 1996), there seems to be recognition that economic reform is necessary for achieving economic growth. Nevertheless, the Vietnamese people believe that the redistribution of the benefits of growth will also be necessary in order to assure equality. In the colorful words of Le (1996), "This is really a deep-rooted revolution in all aspects of social life, whose aim is to overcome poverty and backwardness, to build a rich and strong country, a just and democratic society so as to ensure a comfortable life and happiness for people … and a culture bearing rich national colours." Reform is thus undertaken with enthusiasm, though the Vietnamese still rightfully refer to their economy as a 'socialist market system'.

Relations with the United States have improved greatly since the end of the war in 1975. The U.S. trade embargo with Vietnam was lifted in 1994, and in 1995 full diplomatic relations were restored between the two countries. The United States reopened the U.S. embassy in Hanoi in 1996 and the two countries exchanged ambassadors in 1997. In July 2000, a landmark trade agreement normalized trade relations with the United States, and in November of that year President Clinton visited Vietnam in a symbolic show of the new friendship and relations between the two countries.

Cuba. While Cuba's relationship with the United States seemed to shatter with the 1959 Cuban Revolution, "The conflict between Cuba and the United States did not begin in 1959. Rather, it gained momentum and [merely] became visible then" (Oceguera, 2001). In other words, the U.S. had always had economic self- interests in Cuba. These were evident by United States involvement in the Spanish-American War of 1898, which brought about Cuban independence, and strong U.S. investment and business activity in Cuba through the early 1950s. U.S. investment was particularly heavy in the sugar industry, and the United States eventually dominated Cuba's financial, agricultural, and industrial sectors.

Nevertheless, subsequent to the Cuban Revolution, Castro's policies clearly and visibly clashed with U.S. interests. Castro led extensive left-leaning economic and social change, including nationalization of farmland (70 percent), industry (90 percent) and banking (100 percent) (Sanchez, 2001). This heightened the conflict between Cuba and the United States and the U.S. responded by breaking off relations and imposing a trade embargo in 1960. Relations further deteriorated and reached crisis proportions with the Bay of Pigs invasion in 1961 and the Cuban Missile Crisis in 1962. Cuba shifted its trade to the Soviet bloc nations and received extensive aid from the Soviet Union throughout the 1970s and 1980s. Cuba's economic growth was steady, and important advancements were made in education and public health care throughout that time period.

The effects of the 1991 Soviet collapse were devastating for the Cuban economy, heralding the period of time known in Cuba as the 'Special Period'. Most critical was the breakdown of Cuban trade with the Soviet Empire, stemming from the Soviet Union's economic decline and the disruptions in supply and transportation networks. The Soviet Union had been responsible for 85 percent of Cuban trade, including Cuban imports of petroleum, vital consumer goods, spare parts, and inputs for production processes. Cuba's exports had consisted chiefly of primary commodities, and Cuba fell from first to fifth place in world sugar exports. National output declined by 40 percent in the first two years of the crisis (partly because petroleum and other inputs were unavailable). Sugar production fell to a 30-year low and continued dropping. Buses in Havana that had been making 10,000 trips per day were reduced to 2,000 per day (forcing workers to travel 4-6 hours just to get to work and back). People were forced to live without air conditioning, fans, freezers, and elevators. Power outages were frequent. Food shortages arose, since 50 percent of all food had been imported. Agriculture was transformed, with some fifty percent of tractors replaced by non-petroleum-consuming oxen (forcing Cuban agriculture to resemble Vietnamese-type farming). Furthermore, Cuba no longer received assistance or advice from its former mentor, the Soviet Union. In other words, Cuba was forced to revive its economy without help or support from the outside (Sanchez, 2001).

United States-Cuban relations worsened during the Special Period. In 1992, the terms of the U.S. trade embargo were tightened with the passage of the Torricelli Act. Following the 1996 Cuban shooting down of two U.S. civilian planes over or near Cuban territorial waters, the U.S. further tightened the terms of the embargo with the Helms-Burton Act in 1996. Antagonism between Cuba and the United States softened somewhat in 1998 after Pope John Paul II visited Cuba. However, relations were strained once again in 1999 when child refugee Elian Gonzalez was held in Miami by Cuban-American relatives and prevented from returning to Cuba. The boy eventually returned to Cuba, and some observers believe that Miami's Cuban-Americans experienced a loss of credibility as a result of their role in the situation. The same observers feel that the position of the U.S. public has also softened towards Cuba as a consequence of the humanization of Cuba via Elian and his family. While U.S.-Cuban relations faced a setback with the election of conservative U.S. President George W. Bush, the shifting of Senate leadership with the departure of Senator James Jeffords from the Republican Party in June 2001 will perhaps serve to improve relations between the United States and Cuba. As of 2001 and 2002, efforts have been underway in Congress to ease the travel and trade bans with Cuba.[3]

Regardless of United States-Cuban government relations, Cubans themselves seem supportive of increased contact with the people of the United States, so far mostly limited to academics, journalists, and humanitarian workers. The general attitude of the Cuban people also seems enthusiastically supportive of Castro, dating back to his role as revolutionary hero and continuing today as economic planner. As such, Cuban people approve of the current economic reforms, as well as the ideals of relatively equal income distribution and alleviation of poverty promoted by their leader.

ECONOMIC REFORM

Generally speaking, the economic reform policies undertaken throughout the LDCs and transition economies can be categorized as follows. Stabilization policies include efforts to reduce budget deficits and inflation rates, primarily through reductions in government subsidies to enterprises, other forms of fiscal contraction (budget cuts and tax increases), and monetary restrictions. Liberalization policies include price decontrol (for products, currency, and interest rates) and deregulation (of production, trade, and investment). Privatization policies include rural land reform and the establishment of private enterprises (the creation of new enterprises, both joint ventures and entirely private ones), and the sale of government-owned enterprises to the private sector. The concept of privatization is sometimes broadened to include the notion of restructuring and streamlining government-owned enterprises to ensure greater efficiency. Both Vietnam and Cuba have undertaken many of these reforms, though as mentioned before, they did it 'their way' as opposed to using the standard policies of much of the rest of the world.

A major difference between the economic

reform of Cuba and Vietnam vs. the rest of the countries undergoing reform is the early social commitment of the Cuban and Vietnamese governments in dealing with the economic challenges. This is typically referred to as a "safety net" (or lack thereof) in the context of early economic reform in other less-developed and transition economies. The safety net, of course, was crucial to efforts to maintain high quality of life throughout the Special Period in Cuba and the economic reform that continues today in both countries.[4] Nevertheless, the combination of poverty in Vietnam and the competing demands on limited resources seem to be harming Vietnam's safety net and is of concern to many Vietnamese who continue to see its provision as an important role for government.

The economic reforms in Vietnam and Cuba encompass the agricultural, service, and industrial sectors, as well as government fiscal and monetary policy and policy with respect to currency, exchange rates and government services.

AGRICULTURE

Vietnam. Vietnam's first systematic program of economic reform began in 1986. The initial policies focused on changes in the rural sector, including changes in land tenure, decontrol of farm prices, and removal of regulations on sales of agricultural output. Prior to this, production took place on collective farms, and agriculture was heavily taxed through a combination of price controls and restrictions on procurement. Renovation policy makers recognized peasant households as independent economic units and allocated stable, long-term land use rights to peasants, who were free to transfer, exchange, mortgage, or lease the land. Peasants were given the right to decide what to produce and to sell their produce on the market.

Given the significance of agriculture to the Vietnamese economy, the initial reform of the farm sector led to important successes. Higher farm prices and the deregulation of farm sales created incentives for production, and agricultural output climbed. According to Hieu (1996), average paddy yields increased from about 2.1 tons per hectare in 1980 to 3.6 tons per hectare in 1994, and land under paddy cultivation increased by 600,000 hectares. Vietnam went from being a large importer of rice to being the third largest world exporter of rice in just a few years.

One element that eased the transition from communal farming to family farming is the labor-intensive nature of Vietnamese farming. (It is easier to divide land and groups of workers into smaller units than it is to divide capital such as tractors and machines. Indeed, this was one of the difficulties in transforming capital intensive Soviet agriculture.) Yet despite the labor-intensity of Vietnamese agriculture, efficiency gains in the agricultural sector enabled expanded farm output while still freeing up farm labor to move into industrial and service jobs.

The same agricultural reforms led to higher incomes of Vietnamese farmers and a drop in poverty rates in the rural sector. In addition, programs of rural development include rural credit, commercial income-generating opportunities, provision of water, and development of transportation infrastructure that links rural villages to urban markets. All of these should improve rural conditions and thereby encourage rural residents to continue their important role in agricultural production.

Cuba. Liberalized agricultural markets were first introduced in Cuba in 1994. While many farmers continue to sell their quotas of agricultural production to the Cuban government and the Cuban government continues to set prices, there are also many changes. Farmers may sell any surplus agricultural products at freely operated farmers' markets at relatively high, uncontrolled prices. Other farmers are free to produce and sell entirely for these private markets. These farms are legal, and the farmers pay taxes to the government. Additionally, the Cuban government is offering incentives to farmers by paying them partially in dollars and by finding rural employment for farmers' wives. These agricultural reforms are serving to expand agricultural production and incomes, and it is hoped they will stem the tide of migration to Cuba's cities. Thus while private ownership of land does not exist in Vietnam and Cuba in the sense that it does in other market economies, and while agricultural prices are not entirely liberalized in Cuba, the free market portions of the agricultural sectors are nevertheless significant.

SERVICES

Vietnamese economic reforms spread to the non-farm sectors in 1989. They developed in Cuba, along-side the agricultural reforms, in 1994 and thereafter. In Vietnam's service sector, many providers were deregulated and prices were decontrolled.

In Cuba, liberalization of the service sector took place as the government sought to ease the peoples' unemployment and loss of income resulting from the Soviet crisis. Along with inflation and consequent declining real wages, many Cubans were forced into seeking additional income in any way they could, including sales of personal property and provision of various services. The Cuban government chose to legalize this personal sale of goods and services, in order to help meet the needs of people in this time of trouble. Thus began an important avenue of privatization and decontrolled prices, as the government permitted market demand and supply to rule these sales and their prices.

TOURISM

Tourism is a particularly important example of services in Vietnam and Cuba. Both countries needed to expand production in order to create employment opportunities and exports, as well as generating income and hard currency earnings. Yet both countries were largely inexperienced in sales to free and foreign markets. Services and products needed immediate high quality in order to satisfy foreign citizens and there was no real time for learning by doing in the production process. One solution was to take on foreign partners, specifically partners with knowledge, experience, and existing suppliers. As early as 1989 in Vietnam and beginning in 1995 in Cuba, the governments of these nations carefully considered areas where foreign partners would be allowed to enter into joint ventures with the Cuban government. One obviously strategic area was tourism, which is a source of production, employment, and hard currency earnings. Tourism in both countries is promoted and expanding, with hotel construction underway in major cities and complementary restaurants, transportation, and related services and businesses developing rapidly. Resorts are developing along the beautiful shores of Vietnam's Mekong Delta while visitors walk in Hanoi's Lenin Park. Tourists swim at Cuba's Caribbean beaches and climb the paths of the Sierra Maestra Mountains. Along with each step, generous tourist dollars are invigorating local economies.

INDUSTRY

Vietnam. The Vietnamese reforms of 1989 and the Cuban reform of 1994 expanded to include liberalization and privatization of the industrial sectors. In Vietnam, most product prices were decontrolled very quickly, [5] and regulations governing production and investment were reduced. New private businesses were encouraged, with some sixty thousand small and medium-sized private businesses created by 1996 (Cu, 1996) and over 800,000 small private businesses established by 1998 (World Bank, 2000). Joint ventures of foreign and domestic partners with the Vietnamese government have also been established. Even some of the larger industrial enterprises of the north, heavily damaged during the American war, were restored and slated for privatization. Subsidies to many state-owned enterprises were eliminated, and the operations of these enterprises were streamlined for greater efficiency. [6]

Despite these changes, it is clear that Vietnam is taking a slow pace toward privatization. The state continues to own a large share of the nation's enterprises and industrial production remains concentrated in state-owned enterprises (including the public-private joint ventures.) Many administrative controls remain, including restrictions on business entry. Many state-owned enterprises are still not fully efficient, the competitiveness of their products is low, and their technology is outmoded. The government has also continued to favor state-owned enterprises, making it easier for them to borrow money, for example, and to obtain business licenses. According to Levine (1998), "private enterprise remains shackled by official attitudes and policies … (entrepreneurs) must operate in an environment of uncertainty". The extent and success of privatization therefore remains mixed.

Cuba. Cuba's experience with the industrial sector is of shorter duration than Vietnam's, and the Cuban approach to liberalization of the industrial sector is probably even more cautious. Prices were decontrolled more gradually, and outside of the tourist industry (for example, taxi driving and restaurants) privatization has taken place with reluctance. Rental housing has been privatized, whereas owner-occupied housing has not. Joint ventures between the Cuban government and foreign investors now amount to around 400. Overall, 76 percent of Cuban labor is estimated to work in the state sector (1996), with the other 24 percent is in the non-state sector (CIA, 2000).

In addition to privatization, the Cuban government has also focused attention on streamlining and restructuring existing industry to enhance its efficiency. These efforts include downsizing, decentralization, and self-financing. As of 1998, 71 percent of Cuban public enterprises reported gains, in contrast to 29 percent in 1993. Nevertheless, the public enterprises taking losses (especially those in agriculture, notably sugar) rely heavily on government subsidies (Sanchez, 2001).

Effects on Employment. The elimination of subsidies and the streamlining of state-owned enterprises that took place in Cuba and Vietnam were not without cost. Some five thousand Vietnamese enterprises were lost (three thousand of these were merged to other state firms, and two thousand actually shut down). As a result, some 900,000 workers (one-third of all industrial workers) lost their jobs during the time period 1988 to

1992 (World Bank). However, as part of the Vietnamese government's social commitment, many workers were given financial allowances to facilitate their search for new jobs. And, jobs were quickly restored by the rapidly expanding private economy, enabling employment to expand along with output. Much of this expansion was in the labor-intensive manufactured goods in which Vietnam has a comparative advantage, and efficiency was enhanced in both privately owned and state-owned enterprises.

Similarly in Cuba, the government struggled to maintain the living standards of workers and their families who lost employment with the Soviet crisis. Some 90 percent of all workers had been employees of the government, and the unemployed among these initially continued to receive wages of 90-100 percent of previous levels. By the third year of the crisis, those still unemployed were still receiving 30-50 percent of previous wages. Agriculture, tourism, services, and increased privatized and joint venture production continue to absorb unemployed labor.

Indeed, the pattern of privatization is one that is unique to Vietnam and Cuba. It is a cautious one, with the goal of avoiding the massive unemployment created in other transition economies. It retains an important role for the state, and emphasizes efficiency over privatization.

Fiscal Policy

Vietnam and Cuba both struggle to control inflation through fiscal and monetary policy. In terms of fiscal policy, Vietnam has battled to implement a fair and efficient tax system, but as with other less-developed countries (and developed ones), this has shown itself to be difficult. Vietnam has also struggled to keep government spending under control by restricting subsidies to businesses and by charging user fees for education and health care. Many are concerned that the latter signifies some shift away from government commitment to social services and the poor. Vietnam's 1998 budget deficit was a mere 1.1 percent of GDP (World Bank, 2001).

Cuba, on the other hand, saw its budget soar in excess of 30 percent of GDP at the beginning of the Soviet crisis. The budget deficit has now stabilized at about 2 percent of GDP (Sanchez, 2001). Cuba is also struggling to develop a fair and efficient tax system. While the private sector has been helpful in absorbing unemployed labor throughout the economy, it has only been somewhat helpful in terms of generating government tax revenue. Cuba has an income tax, especially on U.S. dollar earnings, but the tax is easily evaded. Cuba is looking to Canada for assistance in establishing its tax system.

Cuba's commitment to basic social services remains at the forefront of the budget, with the government spending 52.4 percent of GDP on social assistance, housing and community services, public health, and education. Spending on social security has increased in recent years. The government's commitment to providing social services to all, including the most remote people, is expensive and reduces opportunities for government spending in other areas.

Monetary Policy.

Both countries are also seeking to control inflation through monetary policy. Both have established new monetary and banking reforms, and have been reducing credits to industrial enterprises. Beyond reducing inflation, these have the secondary goal of encouraging greater efficiency in production.

Currency and Exchange Rate Policy

Vietnam's economic reforms include a unified exchange rate and devalued currency, plus decontrolled interest rates. Cuba's monetary system is more complicated. There are two types of pesos, old pesos and new pesos. Old pesos are non-convertible, are worth far less than the new pesos, and are the primary earnings of most Cuban workers. The new pesos are convertible, and pegged at a fixed exchange rate of one peso for $1 U.S. Dollars are now legally held and traded in Cuba. (If this were not the case, there would indeed be a thriving black market for dollars.) The new Cuban pesos are, of course, the desired Cuban currency. Since they are convertible, they can be used to buy imported goods and goods denominated in dollars. Their value is secure, unlike the old Cuban pesos.

ECONOMIC OUTCOMES

The impact of economic conditions and reforms in Cuba and Vietnam is shown in the economic indicators displayed in Table 2. Gross domestic product grew by a solid annual rate of 6.2 percent in Cuba and 4.8 percent in Vietnam in 1999. Vietnam's growth rate was even higher before the recent Asian crisis (an average annual rate of 6.1 percent over 1990-98, UNDP, 2000) Indeed, other countries hit by the Asian crisis are envious of Vietnam's substantial growth. While foreign direct investment per capita is substantial for Vietnam, the low level of investment in Cuba stems from some combination of high political risk and the U.S. embargo (see Brux, 2001). Nevertheless, Cuba outperforms Vietnam with its much lower unemployment rate. Fiscal and monetary reforms seem to be successful to controlling inflation, as well as maintaining low budget deficits in both countries, though Cuba's inflation rate is much lower than Vietnam's. Finally, while Cuba's trade deficit is substantial (the result of controlled exchange rates and the U.S. embargo), Vietnam's trade deficit is extremely low.

GOVERNMENT SOCIAL POLICY

Both the Cuban and Vietnamese governments have been committed to a social policy that meets the basic needs of all of their citizens, both before and during the periods of economic reform. This has included a commitment to the provision of education, health care, social services, and adequate incomes for their people, as well as a pledge to assure a relatively equal income distribution. These commitments are evidenced by the high quality of life referred to earlier. Nevertheless, economic reforms inherently mean higher prices to consumers, unemployment due to privatization and streamlining of state owned enterprises, emphasis on export earnings over food for domestic consumption, higher taxes, and lower government spending. All of these fly in the face of the needs of the poor, unless a strong safety net is imposed. We've seen that while both countries sought to maintain worker incomes despite unemployment, Vietnam has not maintained adequate employment opportunities. Maybe more significantly, through a combination of the Asian crisis, poverty, and restrained government spending, Vietnamese policy is not longer adequate to meet the needs of all the people. This is evident in the discussion that follows, as well as some statistical indicators of government social policy in Table 3.

Health. Cuba continues to demonstrate a strong commitment to the health needs of its people, with 100 percent of its population with access to health services (UNDP, 2000). Public health spending amounts to an astounding 7.7 percent of GDP and there is an extremely large number of doctors and nurses (Table 3). Immunization is near universal. In contrast, Vietnam is spending only 0.4 percent of GDP on public health care. This is down from 0.9 percent in 1990, indicating recently constrained resources. While immunization rates are high, the number of doctors per 100,000 population is much lower than in Cuba and the less-developed countries as a whole. Despite the existence of a public health care program in Vietnam, spending on health care by households is high. User charges have been introduced to the state health system, while services have declined. Patients admitted to public hospitals face additional fees, and drugs must be purchased on the street. Many Vietnamese people who can afford to do so are turning to privately provided health care, despite its lack of regulation by the government. The gap in accessibility to quality care is increasing between rural and urban residents and between the poor and the rich (Marr, 1995).

Education. Cuba also spends a great deal on education, amounting to 5.6 percent of GDP (far more than the average for the less-developed countries as a whole) (Table 3). Primary education is universal and about 70 percent of appropriate age students are in secondary education (well above the LDC average). Vietnam spends only 3.0 percent of GDP on public education, and while primary enrollment rate is universal, secondary enrollment is not as high as in Cuba (or the LDC average). Nevertheless, Vietnam still has a high literacy rate, thanks to an educational system established in the 1960s, which placed preschool and primary school facilities in almost all villages, made secondary schools accessible to those who passed entrance exams, and provided a range of technical colleges and universities. However, according to Marr (1995), "There is a strong sense among the public that the good of society has been sacrificed by allowing the education system to decline precipitously during the past decade or more". Along with other public goods, government spending on education has declined as a proportion of its budget throughout the 1980s. Spending on education has only recently increased, and the World Bank and foreign donors are assisting with this. New school fees remain a problem for many families, particularly the poor. There is concern whether education will remain accessible to rural students.

Safe Water and Sanitation. The percent of the Cuban population with access to safe water is extremely high, while access to sanitation is lower (Table 3). Vietnamese access to safe water is poor, despite a stated commitment by the Vietnamese government to improve this, especially in the rural sector. Nevertheless, access to sanitation in Vietnam is well above the LDC average.

Poverty. While it is often argued that there is no severe poverty in Cuba (no 'barrios marginales'), in fact many people are poor. This is especially evident in run down and over-crowded housing. In fact, housing is scarce in general. And while food and other consumer goods (such as soap and toilet paper) are provided as rationed items, these rations now represent a small share of a family's necessities. Nevertheless, the government provision of health care and education for all, as well as other services such as sanitation and clean water, assures a basic quality of life for people regardless of their incomes. As in other socialist economies engaged in economic reform, income is becoming less equally distributed in Cuba. This is especially evident between those who earn U.S. dollars (or new pesos), such as those in the tourism industry; and those who are unemployed or earning old pesos.

Despite significant reductions, poverty in Vietnam is still severe. While visitors are appalled by urban begging (it is common to see very little girls, perhaps holding a listless infant sibling, begging for money in tourist areas), poverty is actually more severe in the rural sector. The government has targeted its poverty programs to the poorest twenty-three percent of the population, and is determined to improve the quality of life in the rural areas. Poor women have also been targeted for special help.

SOCIAL OUTCOMES

As was stated earlier, the social outcomes of policy are more important than the economic ones, since these indicate the impact on the quality of life of people. [7] The economic indicators are only a means to an end. The social outcomes of government social policy, economic reforms, and the economic conditions of Cuba and Vietnam are revealed in Table 4. Cuba's infant and under-five mortality rates are approximately equal to the average for the high-income countries of the world. The literacy rates for Cuba and Vietnam are only slightly behind, and approximately equal literacy rates for men and women indicate the emphasis of government on the needs of women as well as men. Life expectancies in Cuba are approximately the same as the high-income countries, with Vietnamese life expectancies very close.

CONCLUSIONS

As stated, standard of living indicators in Cuba and Vietnam are on par (or close) with those of the much more prosperous high-income countries of the world, though Cuba's outcomes are superior to those of Vietnam. Cuba's commitment to social policy and a strong safety net are the reasons for its strong social outcomes. While there are concerns about the impact of economic reform in Cuba, especially in the areas of income distribution and housing, the consensus seems to support continuation of economic reforms and a strong safety net. Undoubtedly, normalization of relations between the U.S. and Cuba would go a long way to improving the economic and social well-being of the Cuban people. Vietnam, on the other hand, has experienced improved economic relations with the United States. Nevertheless, both the policy indicators of Table 3 confirm the voices of ordinary Vietnamese people who seem concerned over whether the traditionally strong social net will continue. Without attention by policy makers, the impact of economic reform will surely not meet the needs of all of the people.

ENDNOTES

1. Much of what follows is based on the author's participation in two international faculty travel seminars entitled "Contemporary Cuba" in Havana and Santiago de Cuba in June 2001 and "Contemporary Vietnam: Recovery, Renewal, and Recognition" in Hanoi and Ho Chi Minh City in July 1996. The Council on International Educational Exchange sponsored these seminars. Several Cuban and Vietnamese faculty members made presentations during the seminars, and those whose materials are included in this paper are referenced in the section that follows.

2. I am grateful to Angela Barber, University of Wisconsin – River Falls research assistant, for her assistance in constructing the tables in this paper.

3. In November 2001, following severe hurricane damage in Cuba, Bush and Castro agreed to permit sales of grain and other products by U.S. firms Cargill, Archer Daniels Midland, and others to Cuba. These are the first U.S. sales since the embargo was implemented, and constitute the first implementation of changes made in 2000 that permit such sales for cash. In the meanwhile, business and farm groups continue to lobby for easing trade restrictions with Cuba and The Freedom to Travel Campaign (a coalition of some fifty organizations across the U.S.) continues to lobby for easing travel restrictions to Cuba.

4. Not surprisingly, the Cuban safety net did tear a bit during the Special Period. Daily caloric intake dropped 33 percent between 1989 and 1993; many poor people went without meat for several years; and a mysterious epidemic of neuropathy affected the health of tens of thousands in 1993-94 (http://www.globalexchange.org). The point remains that quality of life continued as a national priority.

5. The Vietnamese refer to price decontrol as resulting in a 'one price system' (as opposed to the earlier system of official prices combined with illegal market prices).

6. The Vietnamese now use the term 'multi-sector

economy', meaning an economy consisting of private enterprise, public enterprise, and joint public-private enterprise.

7. Recent analysis by Brux (2001 and 1999) demonstrates that along with GDP per capita and possibly other economic variables, government social policy variables are important determinants of quality of life. In particular, regression analysis based on cross section data for a large number of less-developed countries indicates that access to safe water and primary school enrollment are significant determinants of infant survival.

Table 1. Economic Characteristics of Cuba and Vietnam, 1999*

	Cuba	Vietnam
Gross Domestic Product per capita (ppp) [a]	$1700	$1850
Composition of GDP by sector [b]		
Agriculture	7.4%	25.7%
Industry	36.5%	32.6%
Services	56.1%	41.1%
Composition of Labor by sector [c]		
Agriculture	23%	67%
Industry	24%	na
Services	53%	na
Urban Population as share of total [d]	77.1%	19.5%
Deforestation Rate (average annual) [e]	1.2%	1.4%
Total External Debt [f]	$31.2 billion	$22.4 billion
Official Development Assistance per capita [g]	$7.20	$15.00

Compiled by Angela Barber

* The year is 1999 unless otherwise noted.

Sources:

1. UNDP, 2000.
2. CIA, 2000.

Notes:

a. in purchasing power parity (2)
b. 1998: Cuba (2), Vietnam (1, Table 14, p. 208)
c. 1997 (2)
d. 1998 (1, Table 19, 224 and 225)
e. 1990-95 (1, Table 21, p. 232 and 233)
f. Vietnam (1998, 1, Table 18, p. 219), Cuba (1998, 2)
g. 1998 (1, Table 18, p. 219 and 220)

Table 2. Economic Indicators for Cuba and Vietnam, 1999*

	Cuba	Vietnam
Real Gross Domestic Product Growth Rate [a]	6.2%	4.8%
Foreign Direct Investment per capita[b]	$2.70	$24.48
Unemployment Rate [c]	6.0%	25%
Inflation Rate [d]	0.3%	4.0%
Budget [e]		
Revenue	$13.5 billion	$5.6 billion
Expenditure	$14.3 billion	$6.0 billion
Deficit	$0.8 billion	$0.4 billion
Trade [f]		
Exports	$1.4 billion	$11.5 billion
Imports	$3.2 billion	$11.6 billion
Deficit	$1.8 billion	$0.1 billion

Compiled by Angela Barber

* The year is 1999 unless otherwise noted.

Sources:

1. UNDP, 2000.
2. CIA, 2000.

Notes:

a. (2)
b. 1998 (1, Table 15, p. 211 and 212)
c. (2), Cuba: Dec. 1999, Vietnam: 1995
d. (2)
e. (2), Cuba: 2000, Vietnam: 1996
f. (2)

Table 3. Policy Indicators for Cuba and Vietnam (most recent available year)

	Cuba	Vietnam	LDCs
Health			
Public Health Spending (as percent of GDP) [a]	7.7%	0.4%	2.2%
Doctors per 100,000 people in population [b]	518	48	78
Nurses per 100,000 people in population [c]	752	na	98
Fully immunized infants: [d]			
Against tuberculosis	99%	98%	82%
Against measles	99%	89%	72%
Education			
Public Education Spending (as % of GNP) [e]	5.6%	3.0%	3.8%
Percent of appropriate age population enrolled in: [f]			
Primary Education	99.9%	99.9%	85.7%
Secondary Education	69.9%	55.1%	60.4%
Other			
Percent of population with access to safe water [g]	95%	56%	72%
Percent of population with access to sanitation [h]	66%	73%	44%

Compiled by Angela Barber

Sources:
1. UNDP, 2000
2. UNDP, 2001
3. Sanchez, 2001.

Notes:
a. Cuba: 1998 (3), Vietnam: 1998 (2, Table 6, p. 160), LDCs (1, Table 16, p. 217)
b. Cuba and LDCs: 1992-95 (1, Table 10, p. 191 and 193); Vietnam: 1990-99 (2, Table 6, p. 161)
c. Cuba and LDCs: 1992-95 (1, Table 10, p. 191 and 193)
d. Cuba and LDCs: 1995-98 (1, Table 10, p. 191 and 193), Vietnam: 1997-99 (2, Table 6, p. 160)
e. Cuba: 1998 (3), Vietnam and LDCs: 1995-97 (1, Table 16, p. 215 and 217)
f. 1997 (1, Table 11, p. 195-197)
g. Cuba: 1999 (2, Table 28, p. 238), Vietnam: 1999: (2, Table 6, p. 160), LDCs: 1990-98 (1, Table 4, p. 171)
h. Cuba and LDCs: 1990-98 (1, Table 4, p. 169 and 171), Vietnam: 1999 (2, Table 6, p. 160)

Table 4. Social Indicators for Cuba and Vietnam, 2000*

	Cuba	Vietnam	High Income Countries[e]
Infant Mortality Rate (IMR) [a]	7	31	6
Under Five Mortality Rate (U5MR) [b]	8	160	6
Adult Literacy Rate: [c]			
Male	96.5	95.3	99.9
Female	96.3	90.6	99.9
Life Expectancy (at birth): [d]			
Male	74	67	75
Female	79	72	81

Compiled by Angela Barber.

* 2000 unless indicated otherwise.

Sources:

1. UNDP, 2000 and 2001.
2. CIA, 2000.
3. World Bank, 2001.

Notes:
a. Number of infant (under age 1) deaths per 1000 live births (2)
b. Number of child (under age 5) deaths per 1000 live births, 1998 (1, Table 9, p. 187 and 188)
c. Age 15 and above, 1998 (1, Table 2, p. 167 and 168)
d. (2)
e. All data for the high-income countries is 1998, from sources 1 and 3.

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