

Interview - Emily Morris

Written by E-International Relations

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Emily Morris is a development economist and honorary research fellow at the UCL Institute of the Americas. Her diverse career has included work at the Economist Intelligence Unit, the London Metropolitan University and the Inter-American Development Bank. Her research focusses on recent economic history and contemporary debates on the political economy of development in Latin America and the Caribbean, with a focus on Cuba.

Where do you see the most exciting research or debates happening in your field?

I see them happening on the ground, within Cuba – for both academic research and daily debates among the population. We outsiders are just clumsily trying to eavesdrop on an extremely complex and profound process, in which economic reality and public perceptions shift daily and transformations take place on many dimensions.

How has the way you understand the world changed over time, and what (or who) prompted the most significant shifts in your thinking?

I have less interest than I used to have for grand theories and generalisations, and more interest in understanding the specific conditions in each place, and how they change over time. I think this just came from experience.

How do you think the Cuban economy will weather two external threats: the crisis of the Venezuelan government and the dampening of US-Cuban relations under President Trump?

The crisis of the Venezuelan government affects the Cubans mainly due its oil import dependence: the bilateral agreements provided Cuba with an important cushion against high oil prices. Now that the oil price is so much lower, Cuba's dependence on Venezuela is not so great. The Cuban economy has already suffered from Venezuela's troubles as oil deliveries have been cut, but the impact has not been catastrophic. In the event of the final collapse of the current Venezuelan government and termination of the bilateral agreements, the impact would be similarly negative but, all other things equal (including the continuation of the relatively low world oil price), it would be manageable as Cuba's dependence on Venezuela is not as great as it was.

The second threat – the dampening of US-Cuba relations – looks set to extend the life of existing US sanctions and perhaps reverse some of the relatively small opening the Obama's administration had allowed. This process is already started, and its effect is mainly to block, or at least delay, economic opportunities that would otherwise have emerged. This will depress Cuban economic growth, rather than cause an economic crisis. That said, the effect of dashed hopes on the morale of the Cuban public, and particularly the young, could be important, not least because it contributes to the 'brain drain' that the country has been experiencing in recent years, with damaging effects on long-term growth prospects.

What do you think will be the most important economic reforms for the Cuban government to make in the next five years and why?

My feeling is that exchange rate and price reforms will be the most important. The benefits from the gradual opening to free markets, development of a competitive private sector, and even the restructuring of state enterprises to

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improve efficiency, all depend on the existence of meaningful 'market signals': that is, economic actors need to be able to make decisions on the basis of prices that bear some relation to market conditions. The sudden liberalising of the exchange rate and prices would cause huge and damaging disruption, but a process of moving towards less fragmented markets and less distorted prices could have a strongly positive effect on efficiency and productivity.

How is Cuba doing in regards to sustainability, for example in agriculture or transport? Will the opening up of the economy impact sustainable development on the island?

The Cuban government officially has a strong commitment to environmental sustainability, but progress in this area depends on implementation of a clear vision and the availability of finance for investment in sustainable infrastructure and production technologies.

In the case of agriculture, there is a debate in Cuba between 'modernisers' who favour monocrop production of tradable products using chemical inputs, and 'agroecologists' who emphasise sustainability rather than short term crop maximisation. Both approaches currently coexist, and the future balance between the two will be determined by their results, and by which of them is capable of securing the finance needed for development. The opening to foreign investment and drive to earn hard currency may favour less sustainable agricultural methods (although the existence of an organic premium provides an incentive for sustainable agriculture), but it seems that the agroecologists are determined and becoming influential.

In the case of energy, Cuba remains very heavy dependent on imported hydrocarbons, despite some domestic oil production and a long-stated policy commitment to development of renewables. The problem here seems to be mainly one of lack of finance for the investments required to shift to renewable energy, with solar and biofuels (mainly sugar cane bagasse) the most promising sources.

In the case of transport, current provision is clearly inadequate: underinvestment over a long period has resulted in a serious shortage of transport for both passengers and freight. Again the policy commitment to sustainable transport is there, but implementation is held back by lack of resources. Despite some recent investments, railway transport remains very slow and unreliable, and the road vehicle fleet is old, fuel inefficient and heavily polluting. The official emphasis on improving rail freight for inter-provincial cargo and mass transport for urban passenger mobility is positive from a sustainability perspective. However, the opening to private business and expansion of foreign investment and tourism are generating new traffic that is boosting demand for fossil fuels, increasing urban congestion, accidents and pollution and widening inequalities in terms of access. The future of sustainable urban mobility depends on the development of a clear policy vision to counter this trend, with emphasis on public and non-motorized transport. There are signs that this is under way, but unless it is implemented soon it may be too late to prevent the private car from reshaping Cuba's cities.

How does the currency system of Cuba work and what does it mean for the island's economy?

There are two currencies: the Cuban peso (CUP) and 'convertible peso (CUC). The CUP is the currency in which official transactions within the domestic economy are denominated and state employees are paid (although they also receive bonuses in CUC). Basic goods supplied to Cubans as citizens (food through the ration book, subsidized utilities) are denominated in CUP. The average salary provides subsistence consumption if it is spent only in the CUP economy. The CUC is valued at par with the US dollar when exchanged for non US-dollar foreign currency, but a surcharge is imposed on exchange with the US dollar itself. It is the currency in which private sector businesses that cater for tourists (both formal and informal) mainly operate. In some shops that cater for tourists or sell mainly imported goods, all items are priced in CUC. In some shops and markets, both currencies are accepted, at the 'Cadeca' rate.

There are two exchange rates between the CUP and CUC. In the state sector, the 'official' exchange rate is CUP1:CUC1, but this is an accounting measure and is not used for personal transactions. In the private sector and for Cuban households (many of whom receive remittances in CUC) the 'Cadeca' rate of CUP24:CUC1 applies. This values the average Cuban salary at only around US\$30 a month.

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What this means is that because the CUP is severely undervalued at the Cadeca rate, the material incentives to work in the state sector are very low, leading to an exodus of skilled workers – an internal ‘brain drain’. Also, productivity in some parts of the new private sector is very low, due to the overvaluation of the CUC relative to CUP prices and wages, and there is a strong incentive for informal and illegal activity, including theft of goods from the state sector to sell at CUC prices. In the state sector, enterprises lack a meaningful measure of the relative value of internationally-traded and domestically-produced goods, so foreign exchange needs to be rationed rather than allocated by price. In short, the currency system is an important obstacle to progress on improving efficiency, productivity and economic growth.

What is your opinion on the rise of self-employed entrepreneurs in Cuba? Will their growth be able to continue in the future?

The rise of self-employed entrepreneurs has brought important improvements to the level of service in many areas in Cuba, and provides not only employment but also a very welcome outlet for creative innovation and enterprise. However, as noted above, the markets in which the entrepreneurs operate are distorted, so that some of the activities that have flourished are not efficient and are effectively subsidised by the state. Systems of taxation and regulation need to develop to become more effective and equitable. There is every sign that the self-employed sector will continue to grow and develop.

Cuban President Raul Castro’s term ends in 2018. Will Cuba be able to transition to a new generation of leaders who did not participate in the 1959 revolution, and what would it mean for the economic reforms already underway?

The process of transition to a new generation of leaders is already under way, and arrangements for the formal transition in 2018 are very clear. Within this new generation, like the old one, there are differences of opinion about the benefits and risks of the economic reforms. On balance, I would expect that resistance to reform is less entrenched among the younger conservatives, and support for them is stronger. Therefore the generational transition is likely to mean continuation of reforms, but the reluctance to take radical steps will still be there.

Are the political and economical changes that are happening today in Cuba similar to what happened in countries like the Soviet Union or maybe even China? Is there a use in comparing the Cuban case with the Soviet or Chinese one?

There are some aspects of the things that happened in Russia and China that are similar to changes happening today in Cuba, but in many fundamental respects the Cuban process is different. Therefore, Cuba has important lessons to learn – both positive and negative – from experiences elsewhere. Positive aspects include the potential benefits of experimentation and an ‘evolutionary’ approach in a process of liberalisation; negative aspects include the risk of corruption and potential impact of rapid change on the vulnerable poor. But it is also important to identify the very important specific characteristics of the Cuban case in order to identify what are the particular challenges and imperatives at any moment in the process.

You have worked as a researcher both in the academic world and outside of it. What do you see as major differences between the two, and what is your opinion of both?

I sometimes think my approach is too academic to be of direct use a commercial or policy environment, but too applied and business-focussed for academia. But I enjoy switching between the two. They are different disciplines, but the common feature is a need to question preconceptions and keep on trying to work out how things really are.

What is the most important advice you could give to young academics?

Only do it if you are driven by a desire to understand and a need to communicate that understanding. If that is the case, it’s the best job in the world – despite the negatives, which include a lot of hard work and frustrations.

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This interview was conducted by Tom Cassauwers. Tom is an Associate Features Editor at E-IR.