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A convertible enters Havana's Hotel Nacional Oct. 21, 2012. President Raul Castro wants to transform the country's Soviet-style command economy into one more in line with Asian Communism to allow private enterprise.

Reuters

HAVANA

Cuba legalizes business co-operatives

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Communist-run Cuba legalized non-agricultural co-operatives on Tuesday as the state continued to pull back slowly from its centrally planned economy in favour of private initiative and market forces.

The move was just the latest reform under President Raul Castro, who wants to transform the country's Soviet-style command economy into one more in line with Asian Communism where political control remains absolute, while allowing more space for the private sector.

Mr. Castro's reform push began after he took over ruling the Caribbean island from his ailing brother, Fidel, in 2008.

“The initial stage calls for the establishment of more than 200 associations of this kind (co-operatives) across the country, in sectors such as transportation, food services, fishing, personal and domestic services, recycling and construction and production of construction materials,” the Communist Party daily, Granma, said on Tuesday.

The newspaper said that the co-operatives would operate on an experimental basis through 2013, before becoming more generalized.

The new law, published in the Official Gaceta, allows for an unlimited number of members and use of contracted employees on a three-month basis.

Granma said the new law and regulations for the co-operatives took into account the experience of more than 1,000 private farming co-operatives established in the 1970s and 1980s, as well as a similar number of co-operatives that began leasing land from the state in the 1990s.

“Law and legitimacy go hand in hand: presumably, and with the future development of a serious wholesale market and access to credit, and a functioning transportation infrastructure, this new law will broaden economic opportunity across the board,” said Julia Sweig, a senior fellow on Latin America at the Washington-based Council on Foreign Relations.

Cuban authorities began discussing more than two years ago how to transform bankrupt small and medium-sized state businesses – plagued by pilfering, embezzlement and general inefficiency – into co-operatives.

The Communist Party adopted a sweeping five-year plan to “update” the economy last year, which included moving more than 20 per cent of the state labour force of 5 million people into a new “non-state” sector of private and co-operative businesses.

Raul Castro has already taken steps to deregulate in part small private businesses in the retail sector, lease small state shops and taxis to individual employees and fallow state lands to would-be small farmers in search of improved production and efficiency.

Mr. Castro, in a speech to the National Assembly a few months ago, said the new measures would “permit the state to forget about the administration of a set of secondary services and productions and concentrate on improving the management of the basic means of production which will remain as socialist state companies.”

The “non-state” sector, excluding farming, now amounts to some 400,000 small entrepreneurs and their employees.

Granma said the co-operatives could be formed by interested individuals who could rent state property or by the transfer of state businesses to their employees.

The co-operatives will function independently of state entities and businesses, set prices in cases where they are not fixed by the state, operate on a democratic basis, divide profit as they see fit and receive better tax treatment than individually owned businesses, Granma said.

The co-operatives’ potential should not be underestimated despite the myriad of obstacles still presented by the state-dominated Cuban economy, according to Richard Fineberg, a nonresident senior fellow of the Washington-based Brookings Institution and author of its recently released report, “The New Cuban Economy: What Roles for Foreign Investment?”

“This opens the door to exciting social innovations, potentially creating a large sector of the economy that would be neither entirely capitalist nor state-socialist but uniquely Cuban – grassroots, democratic, and productive,” he said.

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