

**XXXII**

**TECMUN**

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International Monetary  
Fund

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# Outline of the International Monetary Fund

The IMF was created in July of 1944 with representatives of 45 nations reunited in Bretton Woods, New England, United States of America. They agreed upon a framework for international economic cooperation after Second World War. The Fund started its labors on December 1945 with the signing of the “Articles of Agreement”. The International Monetary Fund is the only intergovernmental organism that has lending, assistance and surveillance functions. The surveillance function of the IMF consists in the inspection of the fulfillment of the payments and international transferences. On the other hand, the assistance function helps member countries to form solid institutions and to promote the knowledge about economic policies that may favor their country. Finally, the lending function is responsible of offering economic support to States by means of non-concessional and concessional loans.

## Topic A

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Emergency plan to avoid financial contagion due to the recent recessions and economic crises in Latin American countries

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Financial contagion is a phenomenon that has occurred in almost every economic crisis that spread across a region or even the world. Notwithstanding, it is not acknowledged until it has already happened, provoking even deeper recessions. Latin America is characterized by having emergent or in ways of developing economies. However, some countries in the process of having a more solid economy tend to plunge in economic crises. And, since Latin American nations have several trading treaties or just strong economical bonds —due to the globalization process— a recession usually affects more than one country.

That is the case of Venezuela, which is facing the worst economic crisis in its history that is also having repercussions in States like Colombia and Cuba. Coupled with that, Brazil is also passing through a two year long recession that starts to perturb Mercosur. It is important to take into account that if an emergency plan is not done, this economic problems could spread not only in Latin America, but in America itself.

Some of the International Monetary Fund objectives are to ensure financial stability and to promote economic development, so if one country happens to be involved in an economic crisis that affects others it is in order to act and use any of its functions to make sure that there is a financial cooperation among nations.

### ***Background***

What has happened recently in Brazil must not only be explained by the new policies that Michel Temer plans on instauring in the country, but rather leaning on the previous events that have originated the political crisis and the deepening of the economic recession that the country has been experiencing for years now. “A complex mixture of rising inflation, droughts and corruption scandals has engulfed the country.” (Sharma, 2015) This crisis aggravated because of the weak government which also brought weak policies and even more corruption to Brazil, originated by the period in which Dilma Rousseff, was president of Brazil from 2011 to August 2016, recent date on when she was left out of the charge after a long impeachment process originated by the corruption scandal of Petrobras. Brazil recently put in charge, after Rousseff stepped out, president Michel Temer, who has promised a profound set of changes to save the Latin American country from the deep recession it is experiencing at the moment and that has been leaving scars and effects not only in its domestic lifestyle but in the international arena as well.

On the other hand, the Venezuelan situation is a complex one. One of the reasons that economists tend to give to the recession in Venezuela is the way of government: twenty first century socialism. It is characterized by the possession of means of production and its administration in favor of all the population and not only one social class or a particular group. Nonetheless, socialism by itself is not the only cause of the crisis, because in that case Venezuela would have been in a recession since it started with that way of government. Coupled with that, Nicolás Maduro, president of Venezuela, used the political strategy of “populism” and started to hand out money that the government did not have.

### ***What is financial contagion?***

Financial contagion refers to an economic issue which first, affects either a country or a financial institution and then spreads to the rest of the economic sector and to other countries, which economy's were previously healed. Blaming financial crises on contagion has proved to be highly common among economists and politicians alike. For each of the international financial crises of the 1990s, financial contagion has increasingly received more credit, and some believe this to be an indispensable consequence of the new global economy. (IMF 1999, p. 66; Summers 2000, p. 6). Moreover, financial contagion has been studied and divided into two. Domestic, which is likely to be the fall of a local bank and the international, which occurs not only in the countries in way of development but also in the most developed countries. It consists in the transmission of a local crisis in one of the countries to others economies, through markets. To be considered a financial contagion it is necessary to be localized in a specific area, spread to other locations and assets and widespread financial distress, which refers to selling. Economists have identified various conditions that make contagion more likely to occur. According to Mark Whitehouse (2015). overspending and depending on foreign borrowing, since the financial system becomes vulnerable when banks and other institutions make investments using plenty of borrowed money.

To reduce financial contagion, the International Monetary Fund has suggested to erect barriers, limiting investors' ability to shift their money in or out of countries. On the other hand, it is said that those measures can forbid desirable investment and do less to protect a country's financial markets. And the most reliable, policy makers should try to make sure that their countries do not rely in a total way on borrowed money and that their financial institutions have wide capital to absorb, according to Kristin Forbes, an authority on contagion. An important case of financial contagion, and the one being regarded in this topic is the one happening in

some Latin American countries experiencing recessions or internal economic crises that are affecting others with which they establish relations, thus occasioning a regional conflict.

### ***What is a recession?***

According to the Oxford Dictionary, a recession is a period of economic decline during which trade and industrial activity are reduced, generally identified by a fall in Gross Domestic Product (GDP) in two successive quarters (*Oxford, 2016*).

Typically, economic recessions are followed or accompanied by a decrease in consumption, investment and production of goods and services, so usually this means that unemployment rises and inflation decreases, as a result of the reduction in consumption.

Recessions are caused mainly by high interest rates, high inflation, low liquidity and reduced wages, and all reasons are related to each other. High interest rates limit the amount of money available to invest (liquidity). This causes prices to rise and the purchasing power of money stays the same, limiting the amount of goods and services each person or family can acquire. Thus, consumer confidence is reduced, and a combination of all factors lays fertile ground for an economic recession.

### ***Brazil's recession***

The Federative Republic of Brazil has been experiencing a period of economic recession. "Brazil's worst recession in recent history continued into 2016, data from the Wall Street Journal showed, as rising unemployment and deepening political turmoil dragged the once-dynamic economy into its fifth consecutive quarter of decline." (Kiernan & Jelmayer, 2016). One of the worst sides to this recession, is the resentment it is causing to its root population, not only affecting Brazil's great businesses, but also the daily quality of life of a once prosperous and economically strong country.

The recession process in Brazil and the deepening that happened throughout 2016 has several origins, (including economic policies and the way the economy has been handled), but an important point is to observe its close relation to the people's experience with the government, especially with ex-president, Dilma Rousseff. During a series of polls, specifically the Datafolha, it was stated that "63% of respondents across the country said her government was "bad or terrible", with only 13% saying it was good or excellent." (BBC, 2016) This is related to a corruption scandal that had to do with the company Petrobras (Brazil's most

important and one of Latin America's largest oil companies). The wrongdoing originated because Petrobras, after years of being a privatized company, became part of a coalition with the government in Lula da Silva's period which ended in the year 2010. Given this, the leaders of Petrobras involved the company in suspected corrupt activities that also were thought to have monetarily influenced and funded the election campaigns in which Dilma Rousseff ran for president. "Before assuming the Brazilian presidency in 2011 she (Rousseff) was chairwoman of Petrobras between 2003 and 2010, when much of the corruption allegedly took place." (Leahy, 2016). The unconformity of the people with Rousseff's presidency also reflects the lack of confidence that Brazilians had regarding the transparency of their government. This is why this problematic that had been going on and had been noticeable especially since Dilma stepped into charge, led to a long impeachment process against her that started in December 2nd, 2015. The country exercised its democracy in a votation in favor of the destitution of a place in the government -as president and any other public charge- from that moment on and through the next eight years of the now ex-president Rousseff. The situation of Brazil's economic recession worsened because of this accusation. The problem with Rousseff gives away the political point of view that suggests Brazil's government as unstable and participant of corruption, which can consequently be reflected in a financial way. A State with economic and political instability means less attractiveness for foreign investment, as well as having less capability to establish bi or multilateral coalitions that can help the country's economy to progress. This whole problematic also led Brazil to be victim of a poor assessment in 2016 carried by the International Monetary Fund annually, which declared the country still deepened by its recession. The Rousseff scandal was only the last event that contributed to the economic crisis that had gradually been building up. "The most significant factors in explaining the decline in Brazilian GDP since mid-2014 have been adverse commodity price developments<sup>1</sup> and shocks to domestic factors, including domestic demand<sup>2</sup> spending in an economy, monetary policy and financing costs." (European Central Bank, 2016)

Brazil is a country that is characterized by being able to constantly establish relations with other states, especially regarding important niches, such as trade and tourism, thus, when watching it from a trade effect point of view, which is an activity that forms up a fundamental part of Brazil's economy, "the most affected by the state of Brazil's economy are its neighbors

<sup>1</sup> Prices which specifically in Brazil, have gained importance and have affected global trade as they fluctuate up and down and contribute to inflation.

<sup>2</sup> Aggregate spending in an economy that includes imports but not exports. (Business Dictionary, 2016)

to the south (Argentina, Bolivia, Paraguay, and Uruguay), three of which are, together with Brazil, full members of the Mercosur trade agreement<sup>3</sup>, and one is an associate member (Bolivia).” (Mauro & Zilinsky, 2016) Even though most members in America are being somehow touched by this problem, the most involved are these countries. They are being deeply affected because the alliances that they have been working on, suggest close work among them, and if one of the members, like Brazil, find themselves in crisis, it will directly affect its closest allies. However, a research also done by BBVA, suggests that Brazil’s situation may not be so intense to cause something as serious as a regional crisis, but will surely directly affect the countries with which it establishes contact.

### ***Venezuela’s recession***

In January 15 of 2016 Nicolás Maduro declared an economic emergency decree. This measure was taken after the expropriation and nationalization of oil and farming companies that Maduro initiated. In consequence, the good’s production did not satisfied the people’s necessities and thus the prices increased. To counter this, the government started to hand out bonds and subsidies, causing a public deficit. In an effort to undermine this deficit, more taxes were applied to companies and the National Bank started to print out more money, reducing its value and provoking inflation. In defiance of this, the government tried to set prices to first need products, notwithstanding, the costs were too low for companies to keep developing them. All of the above reasons caused an unprecedented economic crisis in Venezuela.

The financial contagion effect that Venezuela’s crisis has created can be visible in the oil exportation. Venezuela has a treaty called “Petrocaribe” in which it sells oil at a preferential price to Caribbean countries and those nations can even pay Venezuela with raw material. Nevertheless, Venezuela was severely affected by the oil crisis since in 2014 the income obtained for the exportation of “Petróleos de Venezuela” was 58.7 billions of dollars (OEC,2014) and in 2016 it was expected to be between 22 and 26 billions (Ballesteros, 2016). Due to that fact, Venezuela ceased to export the same amount of oil to countries in Petrocaribe -from exporting 230, 000 barrels daily now it sends only 100,000 (BBC, 2016). States like Jamaica bought 320,00 barrels of raw to Colombia to make up for the ones that did not arrived from Petrocaribe. Moreover, approximately 90,000 barrels are delivered on a daily basis from

<sup>3</sup> Regional integration that has had as a principal objective to propitiate a common space that generates commercial and investment opportunities through competitive integration of national economies to the international market. (Mercosur, 2016)



Venezuela to Cuba and if that amount was cut off, Cuban government would have to spend 1.300 millions of dollars to acquire the same quantity in other markets (BBC, 2016).

Colombia is the most affected country because of its closeness with Venezuela. Foremost, most of the first need goods are exported from Colombia to Venezuela, but because of Venezuela's exchange rate the Colombian badge loses its value against the dollar and the exportations do not represent any profit to the people that produce them. Also the greatest implications are on the border cities like "Cúcuta", were a large exchange of bolívares and Colombian pesos takes place. It is estimated that for every 1% of the bolivar's devaluation the unemployment raises 0.25% and that causes a diminishment of 1.13% of the region's exportations (Maldonado, 2015).

### ***Dollar appreciation and United States of America's relations - its implications in Latin America***

The United States Of America currency has notably increased through history, evolving from a regional economy to become the world's most powerful economy worldwide (according to the 2016 IMF's economy rank). Through this last decade the dollar has had important ups and downs, however, it has passed by different stages that have generated an appreciation for this currency, more notable during this year (2016) valuations (Porter, 2016). The dollar appreciation can principally be due to the economic development that the country has had during this last years. The United States figure of economic power has grown in an exponential way, their GNI has increased from the early 2000's to 2016 in a radical way, increasing on more than 7,000 billion USD (World Bank, 2016). These numbers evidenciate us the fact that the USA has raised its currency to an important level. Day by day, the dollar climbs on the international domain as well as reinforcements its bases for it to be sustentable.

There are strong relations between the United States and multiple Latin America, there is a big influence from the USA on all the region, but some other countries like Venezuela or México have a determining influence of it. There are gigantic economic relationships between both communities, some countries like Mexico or Venezuela have a dependence for their economies as they have important markets and treaties on those countries. The trade that USA has with these several countries is high and basic for the Latins. There are important relations by both sides, a critical fact from this the appreciation of the dollar. The economic relations that they do have, are being affected as the Latin currencies are losing value against the dollar. The instability from these countries cannot confront this appreciation without mishaps.

Lots of day by day examples can be mentioned of these, one of them is Mexican peso devaluation due to US dollar's appreciation. The power of Mexico's currency has suffered an extreme loss of value, "a dollar was valued by \$17 pesos by January of 2016, on December from the same year the dollar was valued at \$21 pesos" (BBC World, 2016). As the Mexicans, lots of Latin countries have suffered from important devaluations this year. This is a big problem for all the Latin community that will be very difficult to surpass without drops.

The economic struggle that America is facing can be promised to stabilise, a new president entering that means new economic policies and strategies. The just elected president Donald Trump is feared to cause a disequilibrium on the economy. He has said that the prices for the markets with other countries like China and Mexico would be increased, that was presented as a plan for restoring the economy on the US but, is it viable to? "The increment on these will only cause a terrific unbalance between all" (BBC, 2016). These increases might cause the lowering of commerce and quantity of products manufactured with the US from all countries and that would be a very difficult challenge for them. On the other hand, another proposal from this new president is to renegotiate the North American Free Trade Agreement (NAFTA). He declared that the taxes for importations to the USA from countries like Mexico would be increased (approximately on a 30%), he demanded that as well as threaten the US exit from this alliance if that would be accepted. This statement in general, can be critical for Mexico, it is expected its GDP to be lowered by 4.9%, unfortunately the growth of it has been around 2.5% each year (Forbes, 2016). An important part of the Mexican economy is based on commerce with The United States, an increase on the taxes for the importations would be catastrophic for a country like Mexico. Finally, the massive deportation is expected to cause the reduction in the production on lots of products which commerce is a vital to other countries. As we can see, the impact of this ideas that the just elected president Donald Trump can have a huge impact on economies that are based on the US commerce, creating a barrier that not all countries will be able to surpass successfully.

### ***Argentinian economy***

The economy of Argentina is one of the biggest economies of Latin America (Banco Mundial, 2016). But on having finished the administration spent from the chairwoman, Cristina Fernandez de Kirchner, it was indicated that "no other country in Latin America, except Venezuela, faces to worsening the inflation " (Parish Flannery, 2016). In 2016, the GDP of the country had a contraction of 1.5 %, the consequences that this might bring it would be major

unemployment and inflation of 30 %. In the first quarter of the year, the economic growth of Argentina decelerated 0,5% year-on-year. The new administration of the country has implemented such economic reforms as the exchange rate unified, to modernize the regime of imports, to decelerate the inflation, between others. The president of the country, Mauricio Macri, has planned to attract more investors to the country in order that the “economy stops being based on a model of consumption” (Devereux, 2016). Before taking these new decisions to make to advance the economy of the country, the president Macri had to take decisions to prevent the economy of the country from falling down in a crisis; the current president had to fight with the inheritance of a "country in recession, with the highest inflation" (La Nación, 2016). One way which the president tries to attract more investors to the country is by means of a forum that he did to promote the virtues with which it counts Argentina. Of equal form it exposed that it was necessary to raise economic policies for long term. The president Macri mentioned that they have " a plan of infrastructure and a plan of productively ". In 2016 he organized another Economic Forum and in 2018 Argentina will receive the G-20.

### ***Colombian economic situation***

Colombia’s economy in 2016 has seen the lowest growth in total GDP in the past 7 years. The Colombian economic growth was 2%, and many analysts predicted that Colombia would not reach the 3% mark.

The economy grew just 1.2% in Q3, according to production-based GDP data, marking the slowest quarterly growth since the global financial crisis hit in 2009. The dismal print was mainly driven by a prolonged truckers’ strike and subdued global trade. On 30 November, the Senate approved a revised peace agreement with the Revolutionary Armed Forces of Colombia (FARC, as it initials in Spanish), just a month after the original proposal was rejected at a plebiscite. Among other things, the new deal establishes greater government presence in rural areas dominated by the FARC, obliges FARC rebels to divulge their assets and provides judges with more authority if insurgents are found guilty of drug trafficking. However, these changes—among many others—have not served to appease critics led by former president and now senator Alvaro Uribe. The FARC now has a six month period to demobilize and form a political party.

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## *Glossary*

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### **A**

**Appreciation:** The act of recognizing or understanding that something is valuable or important, estimating the qualities of things and giving them their proper value.

**Asset:** a resource with economic value that an individual, corporation or country owns or controls with the expectation that it will provide future benefit.

### **C**

**Commodity price development:** A commodity is a basic good used in commerce that is interchangeable with other commodities of the same type. Those are most often used as inputs in the production of the other goods or services, which meet specified minimum standard (basis grade). Commodity prices have rebounded since the release of the *World Economic Outlook* (WEO), in 2016.

**Contraction:** The fact of becoming less in amount or quantity, smaller or shorter. A contraction also can refer to a restriction or withdrawal, as of currency or of funds available as call money.

**Currencies:** Something used as a medium of exchange, particularly; money. The specific type of unity for exchange is used in a particular country at a particular time.

### **D**

**Deceleration:** when the rate of something such as inflation or economic growth slows down.

**Devaluation:** A devaluation means there is a fall in the value of a currency. A currency devalues when its value declines in relation to one or more other currencies.

**Domestic demand:** Aggregate spending in an economy that includes imports but not exports. The total amount of money that is spent on goods and services by the people, companies and the government within a particular country, or that would be spent if the goods and services were available.

### **E**

**Expropriation:** Expropriation is the taking of private land without the consent of the owner by the government or by one of its agencies in the exercise of statutory powers.

### **G**



**Globalization:** A situation in which available goods and services, or social and cultural influences, gradually become similar in all parts of the world.

**Gross Domestic Product:** total market value of the goods and services produced by a country's economy during a specific period of time.

## I

**Impeachment:** Is the first of the two steps to remove the president, or the top of the government officials, from office. The process begins in the House of Representatives, where articles of impeachment can be introduced like any other bill or resolution. Commonly known in U.S. and Great Britain.

**Inflation:** a general increase in prices and fall in the purchasing value of money.

**Interest rates:** It is the amount charged, expressed as a percentage of a principal, by a lender to a borrower for the use of assets. They are usually noted on an annual basis (annual percentage rate).

## N

**Nationalization:** Takeover of privately owned corporations, industries, and resources by a government with or without compensation. Common reasons for nationalization include: (1) Prevention of unfair exploitation and large-scales labor layoffs. (2) Fair distribution of income from national resources. (3) To keep means of generating wealth in public control.

## P

**Populism:** political program or movement that champions the common person, usually by favourable contrast with an elite. Populism usually combines elements of the left and the right, opposing large business and financial interests but also frequently being hostile to established socialist and labour parties.

**Public Deficit:** Public deficit occurs when tax revenues are insufficient to fund government spending, meaning that the state must borrow money, usually in the form of government bonds.

## S

**Subdue:** to conquer and bring into subjection.

## **Topic B**

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Establishment of Cuban bilateral relations with the United States of America and Latin America and how they affect Cuba's economic liberation

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Throughout history, Cuba has been known to be a marxist-leninist State, in which the economy is mostly controlled by the government. Nonetheless, in recent years, Raúl Castro —president of Cuba— initiated a series of reforms which started an economic liberalization in the Caribbean island. It is important to notice that this does not mean changing the economic system that Cuba has used since Fidel Castro was president, but those reforms were described as a step to a “prosperous and sustainable socialism.” (López, 2016)

However, Cuba is part of a series of treaties with Latin American countries which may affect in the process of liberalization of the island. If a country accepts to be part of an agreement that repercutes in its economy and has to remove certain restrictions so that it works or accepts private companies to participate in it, then it carries consequences to the economy’s liberalization.

It should be stressed that the topic does not involve only Cuba’s economy, but how the bilateral relations it has established might affect other countries too. If Cuba becomes an attractive market to entrepreneurs, because of the new opportunity it represents, other nations may be disadvantaged. Moreover, if the understanding with United States is not completed because of the new administration, Cuba’s economy might lose opportunities to expand and will have to search new economic alternatives with other countries (which will have repercussions on them too).

### ***Cuba’s revolution***

When the presidential elections of 1952 were about to happen, the sergeant Fulgencio Batista organized a coup d’etat against Carlos Prío Socarrás (the president of Cuba in that moment) arguing that he intended to retain the presidency and that it was about time to end the corruption. Batista proclaimed himself as chief of State and set up a dictatorship with the support of the police force, the army and the labor unions. There were several protest movements against Batista, but he managed to suppress them easily. One of the most important initiated in July 26 of 1953, when a group of 200 men led by Fidel Castro —a lawyer that was candidate of the Orthodox Party— attacked the barracks of Moncada. Nonetheless, the assault was suffocated by the army and Castro was convicted to prison. (Gispert, Gárriz, & Gay, 1978, p. 219)

Thereafter, in 1955 Fulgencio Batista ordered a general amnesty due to international pressure and Fidel Castro was set free. Castro was exiled and thus moved to Mexico where he

organized a group of guerrillas along with Ernesto “Che” Guevara, who was an Argentinian revolutionary. The troop departed from Tuxpan, Veracruz in a boat named “Gramma” and arrived to Cuba the second of December of the same year. They fought against Batista’s regime with a labored but effective movement and in the middle of 1958 they managed to maintain formal combats against the army. Finally, in January first of 1959 Batista fled Cuba and Castro was named Prime Minister after José Miró Cardona resigned. (Gispert, et al., 1978, p. 220)

Fidel Castro began to establish a series of radical measures like the Agrarian Reform Law, which dictated the seizing of foreign companies (mostly American ones) and the nationalization of the most important industries and banks. This caused that the relations between United States of America and Cuba deteriorated and the ones with the Union of Soviet Socialist Republics strengthened. And, at the end of 1961, when Castro pronounced himself as a marxist-leninist, the US and Cuba broke diplomatic relations (Gispert, et al., p. 221), leading the thereof to impose a full economic embargo that included travel restrictions. This embargo has caused the loss of approximately \$1.126 trillions of dollars to Cuba’s economy (Al Jazeera, 2013).

Nowadays, the relations between United States and Cuba have begun to be restored. Barack Obama, ex president of US, reversed from of the restrictions to travel to Cuba and allowed telecommunications companies to provide service in the island. Also, Cuba was removed from the list of states that sponsor terrorism. Obama removed economic sanctions too so now it would be able to use credit and debit cards in Cuba, US insurance companies to cover people living or visiting Cuba and US companies to invest in Cuba. (Council on Foreign Relations, n.d)

### ***Economic reforms in Cuba***

Since Raúl Castro became Cuba’s president in 2008, a series of economic reforms have taken place. This reforms started the liberalization of some parts of cuban economy, managing to create an environment of competition and cooperation. Some of those reforms opened a greater opportunity for investment, like the one where a special economic zone was created in the port of Mariel, this “zone is supposed to circumvent bottlenecks and red tape failures of the traditional command economy and reduce the effect of destabilizing the dual currency system” (Lopez, 2016). Some other changes that aroused because of the reforms were the decentralization of agricultural sector, less restrictions for small business, liberalizing real estate markets and the removal of some regulations to travel abroad.

### ***Whats is economic liberalization?***

Cuba's economic system has, through the years, been known to work towards equality in a communist way. However, in a world in which globalization has reached its highest point in history, it is imperative for economies to modernize themselves and to adapt to the system that is going to keep them moving internally and globally. Therefore, Cuba has realized that its closed structure is not only able to fully adapt to the modern worldwide integration, but has also resulted counterproductive. Therefore, Cuba has recently decided to go on a more market-oriented administration, opening itself to more intervention from foreign investment and agreements than ever in its history.

Firstly, to understand how it affects Cuba, it is essential to define the term *economic liberalization*. "Economic liberalization encompasses the processes, including government policies, that promote free trade, deregulation, elimination of subsidies, price controls and rationing systems, and, often, the downsizing or privatization of public services." (Woodward, 1992). For a country that has never been used to a denotative difference among social classes, because its ideals work towards them not existing or contrasting in a vertiginous way, the liberalization process enables some of the most privileged sectors of society to play an important role in the economy and its sustent. Therefore, as Cuba noticed the importance of opening up to the world, the relations it began to establish enabled much more aperture to international trade and diverse ways of empowering its economy, but not letting its communist basis aside. "For now, the emerging Cuba might best be characterized as a public-private hybrid in which multiple forms of production, property ownership, and investment, in addition to a slimmer welfare state and greater personal freedom, will coexist with military-run state companies in strategic sectors of the economy and continued one-party rule." (Sweig, Rockefeller N & D, Bustamante, 2013)

### ***Relationship between US and Cuba***

The lack of diplomatic relationships between United States and Cuba have been notable throughout history, however, in a lapse of three years to now everything has changed. During Barack Obama's term, the relation concerning both countries, threw up a project popularly called as "The Cuban Thaw". Both presidents established bilateral relationships to reanimate the relation from their countries. The relation between both nations was presented officially when the president of the United States, Barack Obama, visited The Havana on March from 2016 —this had not happened for 88 years. The US president highlighted when he arrived to

give a speech to the Cuban people by saying: “By arriving here, we do not just surpass the distance but the barriers of history and ideology, the barriers of pain and separations”, this was cheered by the people as they were in front of a completely historical change.

The president on his speech, took out their previously negotiations with Raul Castro, the Cuban leader. He expressed the intentions of sharing plans and projects based on health, agriculture, education and infrastructure for both countries. They also revealed the just negotiated commercial treaties. On Obama’s visit to Cuba, both presidents talked and shook hands. Later on, both countries inaugurated an embassy on their respective countries from the other one.

This was very impressive for all the international community, but on the Cuban town was not totally accepted. Some of the people on the island did not agree with the alliance of both countries, right after the visit, people attended public places all around the country to manifest their disagreeance. Not every Cuban citizen agrees with their government proposal to establish an alliance. Although all these, the majority of the town is convinced that the alliance will bring a positive impulse for Cuba.

Despite the good relations between these countries, there is threat that can end up these. The just elected US president, Donald Trump does not support this alliance. In his proposals, he claimed that the negotiations are not in advantage for the US and so, should be renegotiated or ended. He expressed his ideas of closing up the Cuban embassy on his country. The ideals of the new president puts in risk all the new relations that these countries started to develop.

### ***Petrocaribe and how it affects Cuba’s economic liberalization***

Petrocaribe is an agreement in terms of energy cooperation, promoted by the government of the Bolivarian Republic of Venezuela, that was born on June 2005. One of their main objectives is to reduce the imbalance among the nations in the access to energetic resources by a new scheme of favorable, fair and equitable exchange among the Caribbean and Central American countries. Furthermore, Petrocaribe is envisaged as a multilateral organism, capable to assure the coordination and linkage of energetic politics related to hydrocarbons and further integration of the people in the region. This integration initiative counts with the participation of 18 countries, highlighting Cuba as a member of it.

Since its signing in 2005, Petrocaribe has been the framework for the constitution of 10 joint ventures in 9 of the 18 countries members of this initiative<sup>4</sup>. They represent one of the fundamental tools to move along in the construction of a regional and fair economic system, the actionists of these joint ventures are the governments. They have been a way to develop energy infrastructure projects, which have been gradually consolidated. Moreover, they have permitted the modernization of refinement centers leading to an industrial advance in these areas. Cuba's joint venture, member of Petrocaribe, Cuvenpetrol S.A. is an agreement between Venezuela and Cuba. It is involved in Camilo Cienfuegos' Oil Refinery Expansion Project in order to process crude oil in the international markets.

### ***How Petrocaribe works***

Venezuela offers oil agreements to member countries, which must pay 60 percent of the bill within 90 days. The remaining percentage can be financed in over 25 years at 1 percent interest, oil prices stay above \$40 per barrel. Countries may also offer goods and services to pay oil shipments. Nonetheless, Cuba has an agreement with Venezuela that allows an oil quota separated from Petrocaribe regular quotas.

All mentioned above, Cuba has participated in Petrocaribe for a long while now, in which they have been certainly benefited thanks to Venezuela. Being part of initiatives like this one opens doors for the international markets from Cuba, although there is only interference from Caribbean Countries in this particularly case. Since it began to establish more aperture to international trade and diverse ways of empowering its economy, but not letting its communist basis aside.

However, the actual and recent situation of Venezuela might affect the relations and trades among the Petrocaribe member countries. Caribbean governments that are members of this agreement would be prudent by beginning to adjust their budgets to take account of the loss of benefits derived from the oil arrangement. Venezuela's economic conditions made it tough for President Nicolás Maduro to continue the largesse of PetroCaribe started by his predecessor Hugo Chávez. "His Government needs to address its crucial fiscal problems as well as the performance issues that confront "Petróleos de Venezuela S.A." (PDVSA), which has been the

<sup>4</sup>Antigua and Barbuda, Bahamas, Belize, Cuba, Dominica, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Dominican Republic, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Saint Lucia Suriname, Venezuela.

source of financing not only for the social transformation measures under Chávez, but also for the PetroCaribe arrangements.” (Sanders,R. 2014) Maduro is politically committed to continue helping the Caribbean countries through the low cost loan of oil supplied by Venezuela. Withal he may be forced to choose between them or his own political fortunes. Cuba is affected by the crisis regarding the loans Venezuela was giving them in exchange for low-cost oil.

### ***Cuba and ALADI***

The Latin-American Association of Integration, ALADI, was created in the year 1980 (Itamaraty, 2016). It is an association created "to promote the economic and social development " (Itamaraty, 2016) of the countries that shape it. The current members who are in this association are: Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Panama, Paraguay, Peru, Uruguay and Venezuela. The ALADI arose due to the fact that the previous association, the Latin-American Association of Free Trade, was slightly flexible so in this new association they decided to add a clause where there is given them the "possibility of signing agreements only between two or more countries members " (Itamaraty, 2016). At present, near 70 % of the trade that there is between the countries member of the ALADI it has 100 % of tariff preference. Besides the agreements, this association uses the Agreement of Payments and Reciprocal Credits that makes possible the saving currency and diminishes the risk in the exports.

The incorporation of Cuba to the Latin-American Association of Integration, ALADI, was on August 26, 1999. Cuba having joined to the association, would allow it to increase its trade with other members of the ALADI. "To the moment of his incorporation Cuba had preferential agreements with ten of eleven countries member " (ALADI, 2016). Time after his revenue to the ALADI, Cuba had a growth in his GDP, unlike the majority of the rest of the countries members. Thanks to the flexibility with the one that counts the ALADI, it managed to do that the countries member were investing in Cuba and this way this one managed to be going out of the deficit that was having in his GDP, already for the year 2001 his GDP already was showing a growth.

### ***Cuba and ALBA***

The Bolivarian Alliance for the Peoples of our America (ALBA) is an integration project started by the governments of Cuba and Venezuela in 2004. The official declaration of the ALBA professes to be a “political, economic, and social alliance in defence of independence,



self-determination and the identity of peoples comprising it” (ALBA-TCP 2010a) and that “it goes beyond the narrow focus of trade which has tended to mark other regional agreements”. The platform was started by Cuban and Venezuelan presidents Fidel Castro and Hugo Chávez, and since then it has been a cornerstone in both Cuba and Venezuela’s foreign policy. One of the most important agreements of the ALBA is a joint implementation and ratification of 192 projects funded by Cuba and Venezuela, with an earmarked budget of \$800 million.

Among these projects, one of them establishes that Cuba’s medical support will help Venezuela build 600 health clinics, 600 rehabilitation centers and 35 centers fully equipped with top medical technology. Also, Cuba will send 30,000 healthcare workers and doctors to train 40,000 doctors and 5,000 healthcare workers, and educate 10,000 aspiring doctors and nurses. More than 100,000 Venezuelans are expected to receive treatment for ophthalmologic diseases.

In response, Venezuela commits to export 90,000 barrels of oil a day, in addition of other industrial products and scholarships and funding for Cubans to enroll in specialized energy-sector degree programs. Venezuelan assistance is expected to enhance Cuba’s energy sector, which is deeply underfunded.

Regional integration has proven to be critical to Cuba in order for its economy to grow. Also, Cuba has found an ideological ally in Venezuela and the other ALBA countries. Yet, the challenge to the current political system is unprecedented, as economic openness is contrary to the principles of socialism in the island nation.

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## *Glossary*

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### **A**

**Aperture:** process in which the economy adjusts to the new market realities and its social relations, as well as to the commercial and technological transformations in the world.

### **C**

**Coup d'état:** Translated as “blow of a state”. A sudden and decisive action in politics, especially one resulting in a change of government illegally or by force.

### **D**

**Decentralization:** The distribution of the administrative powers or functions of a central authority over a less concentrated area or several small ones. In this case, the diffusion of power from the government to other non-state actors (such as enterprises).

### **E**

**Economic embargo:** A legal stoppage of commerce, usually taken by one nation or group of nations to harm the economy of another nation or group, often to force a political change.

### **F**

**Fiscal problems:** A situation, person, or thing that needs attention and needs to be dealt with or solved, related to the public treasury, revenues or financial matters.

### **J**

**Joint-venture:** business association in which the partners share stock risks and benefits according to the agreed rates.

### **M**

**Marxist-leninist:** The doctrines of Marx as interpreted and put into effect by Lenin in the former Soviet Union and by Mao Zedong in China. Its goal is the development of a state into socialist republic through the leadership of a revolutionary vanguard.

### **P**

**Privatization:** To transfer from public or government control or ownership to private enterprise. Something that is privatized is made exclusive; delimited or appropriated.

### **S**

**Seize:** refers to the expropriation of companies by the government.

**Self-determination:** the right of the people of a particular place to choose the form of government they will have.

**Subsidy:** Money given as part of the cost of something, to help or encourage it to happen, generally a grant or contribution of money. In this case, the money is provided by the State.

## V

**Vertiginous:** A situation, person or thing characterized by or suffering from vertigo or dizziness; apted to change quickly because of instability.