



# REVOLUTIONARY MANAGEMENT

## The Role of the *Fuerzas Armadas Revolucionarias* in the Cuban Economy

Terry L. Maris, Ph.D.

**T**O THE OUTSIDE WORLD the Cuban-Soviet alliance of the Cold War era seems solid, but in fact, it has been steadily deteriorating for many years. When Portuguese colonial rule was overthrown in the 1974 Angola coup, three factions emerged in the quest for control of the country. Organized consistent with ethnic and racial characteristics, these three distinct rebel movements came forth: the Popular Movement for the Liberation of Angola, the Union for the Total Independence of Angola, and the National Front for the Liberation of Angola. The United States supported the National Front while the Soviet Union backed the Popular Movement. Given their previous experience in Africa, dating back to the 1960s, the Cubans were apparently tasked by their Soviet colleagues to represent their interests in the field.<sup>1</sup>

From the beginning of this intervention, it appears that Soviet and Cuban goals differed. The most thorough account is found in Piero Gleijeses' comprehensive book, *Conflicting Missions*.<sup>2</sup> Based upon access to previously classified documents, his interpretation of events differs on a number of counts. Most significant is his assertion that Fidel Castro decided to commit troops without consulting his Soviet counterpart, Leonid Breznev. The latter, engaged in strategic arms limitations negotiations with the United States, believed Cuba's action to be hasty and poorly timed.<sup>3</sup> This event was a bellwether of divergence of Cuban and Soviet interests and set the stage for further weakening in bilateral relations. Additional points of conflict soon developed that pulled the two nations further apart.

### A Conflicted Alliance

The degradation of the Cuban-Soviet relationship became more pronounced due to what were to become irreconcilable differences on several key issues. Most prominent was the widely divergent view of the Reagan administration held by the two countries. While the Soviet Union was inclined to seek a degree of rapprochement with the United States during Reagan's first term in office, Cuba was alarmed by the threat of his increasingly strident foreign policy toward Latin America. The Council for Inter-American Security produced a bold report in 1980 titled *A New Inter-American Policy for*

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PHOTO: Vedado neighborhood, Havana, Cuba, May 2009. (courtesy of the author)

*the Eighties*. This report, better known as the *Santa Fe Document*, was the core of Reagan's Central America foreign policy. It called for a militaristic approach in supporting friendly Latin American governments, with a transparent motive of lessening Cuba's influence in the Western Hemisphere by means such as the creation of Radio Marti and the Caribbean Initiative. Meanwhile, the Soviets ignored Cuba's concerns and publicly declared their intention to wean Cuba from its considerable dependence on Soviet military aid.<sup>4</sup>

The apparent prosperity of the Cuban economy in the 1980s was the result of a "sweetheart" arrangement between Cuba and the former Soviet Union. Commodity exchanges between the two countries operated not by the usual protocol of international trade, but by special arrangements. Cuba exported nickel and sugar to the Soviet Union, which paid in rubles at a price that was a significant multiple of the world market price. In turn, Cuba imported oil from the Soviet Union at prices well below market value. Most of these imports were used in Cuban industry, but a portion of them was sold to other countries at a profit. In addition to these substantial subsidies, the Soviet Union allowed Cuba to run up bilateral debt to an estimated \$23.5 billion by 1990.<sup>5</sup>

As both the Soviet's and the Council for Mutual Economic Assistance's economic fortunes began to decline, it became evident that the generous subsidies and trade agreements upon which Cuba had for so long depended would be adversely affected. With increasing fiscal and political problems in the Eastern Bloc, Cuba and the Soviet Union found less and less common ground. Once close allies in Angola, Cuba and the Soviet Union abruptly halted military cooperation in the war-torn African nation. Cuba launched several bold initiatives, including the Mariel boat lift of 1980, the introduction of the *Guerra de Todo el Pueblo* (The War of all People), the formation of the *Milicias de Tropas Territoriales* (Militia Territorial Troops), and the *Sistema de Direccion y Planificacion de la Economica*, the Soviet economic planning model.<sup>6</sup>

## The Special Period

Fidel Castro apparently foresaw an economic disaster forming on the horizon because, as early as January 1990, he gave it a name, the *periodo*

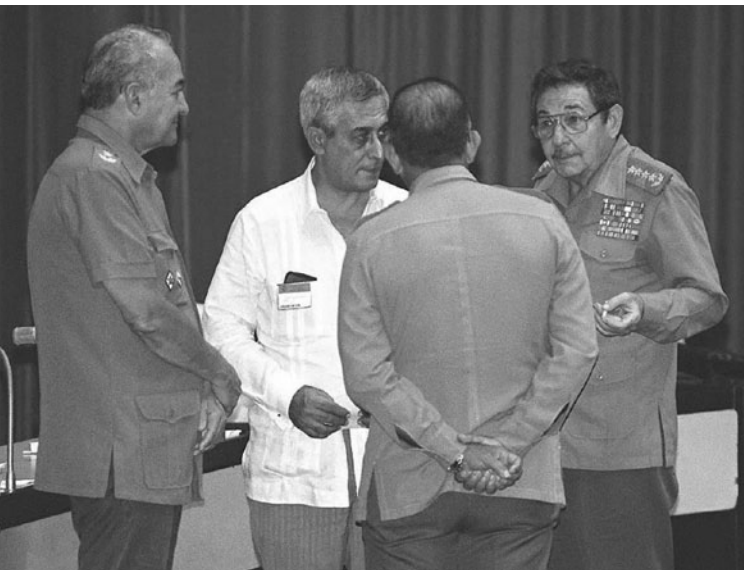
*especial* or "Special Period in Time of Peace." He publicly acknowledged Cuba's dependence on Soviet oil, saying that if those shipments ceased altogether it would essentially bring about a special period in time of war. However, if Cuba restructured its economy to facilitate certain imports and exports, the situation would not be as severe; therefore, it would be a special period in time of peace.<sup>7</sup>

In 1991 Cuba's economic foundation suffered serious structural damage induced by the rapid disintegration of the Soviet Union. The military solidarity of the Warsaw Pact and the economic stability of the Council for Mutual Economic Assistance imploded. As the Soviet Union broke apart, it became obvious that Russia could not sustain the huge subsidies upon which Cuba had become so dependent. The abrupt termination of the "oil-for-sugar" program led to immediate crises in Cuba. Energy-dependent sectors of the economy, such as agriculture, transportation, and manufacturing, experienced perilous drops in productivity.

Even prior to the "special period," Cuba had begun to explore new ways to improve its economy. Raul Castro, in his role as the minister of the Revolutionary Armed Forces, designed and implemented a novel education and training program. Under the direction of Raul's close friend, General Julio Casas Regueiro, high-ranking officers were carefully selected to attend some of the most prominent business schools in Western Europe to acquire the skills deemed necessary for the salvation of the Cuban economy.<sup>8</sup> In apparent contradiction of the tenets of socialism, the Cuban military quietly embraced the teachings of capitalism. These *Raullistas* were especially impressed with the wisdom of management guru Peter Drucker, world renowned consultant W. Edwards Deming, and Harvard Business School professor John P. Kotter.<sup>9</sup> In his book *The New Economics*, Deming is quoted as saying:

The prevailing style of management must undergo transformation. A system cannot

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AFP Photo, Adalberto Roque

Then Minister of the Cuban Revolutionary Armed Forces (FAR), Major General Raúl Castro (right), discusses the new Foreign Investment Law with other military and civilian members of the Cuban Parliament during a recess. On the left is General Julio Casas Regueiro, first deputy minister of the FAR, 29 July 1995.

understand itself. The transformation required a view from the outside.<sup>10</sup>

By 1993, the full impact of Cuba's economic decline was realized. Gross domestic product (GDP), adjusted for inflation, had fallen by 35 percent from its 1989 level, while GDP per capita was down by 42 percent over the same period. Inflation rose from 0.5 percent to 26 percent. The productivity of key industries dropped precipitously: fish and shellfish by 63 percent, sugar by 48 percent, nickel by 36 percent, and citrus by 32 percent. Exports declined by 80 percent and imports by 75 percent. These economic conditions led to the reintroduction of consumer-goods rationing, drop in the value of the peso, rapid growth of the black market, and widespread discontent among the Cuban people.<sup>11</sup>

## In Pursuit of Perfection

To replace the outdated and ineffective Soviet strategic management system, a totally new system was created: *El Sistema de Perfeccionamiento Empresarial* (the System of Enterprise Perfection). According to Latell, the system had three principal objectives:

- To promote greater self-sufficiency in the FAR and reduce its dependency on the USSR.

- To increase efficiency and productivity in military factories producing uniforms, small arms, and consumer goods.

- To provide a model that could be adopted elsewhere in the economy.<sup>12</sup>

Phyllis Greene Walker described the System of Enterprise Perfection as a logical extension and interpretation of Deming's concept of Total Quality Management. She describes it as "the notion of trying to reach perfection." In explaining how the Cubans applied Deming's work to their unique economic circumstances, she says of the System of Enterprise Perfection, "It has attempted to improve managerial control over enterprises in order to achieve greater efficiency and productivity. To be able to say what's different about the Cuban model, as opposed to what Deming writes of Total Quality Management I really can't say . . . the Cubans have . . . taken from his work what they deem relevant to their situation."<sup>13</sup>

Although it was obvious that the Soviet economic model had to be abandoned, Fidel and his advisors were hesitant to embrace the System of Enterprise Perfection model without reservation. They decided to apply the principles on a trial basis in one of the leading enterprises in the *Union de la Industria Militar* (the Military Industrial Union). The Ernesto Che Guevara factory in Manicaragua was selected as the test site. Under the leadership of Division General Julio Casas Regueiro, a group of "consultants," who came to be known as the *Grupo de Perfeccionamiento Empresarial*, proceeded to implement dramatic changes in the management and production processes at the plant. Results were so favorable that, within a year, system practices were applied to all 230 enterprises in the union.

As the revolution matured and evolved, the demarcation between the roles of the military and civilians became less clear. With the Revolutionary Armed Forces assuming a more prominent position in the rebuilding of the Cuban economy, three distinct types of soldiers have emerged in succession.<sup>14</sup>

Immediately following the initial success of the revolution, military officers formerly engaged in martial responsibilities were reassigned to commercial duties. Tasked with the goal of attaining economic self-sufficiency, these "civic-soldiers" assumed leadership positions predominately in agricultural and construction management.

Following the introduction of the system, yet another type of soldier emerged. Utilizing the latest management and organizational methods, the “technocrat-soldier” functioned much like most executives who had completed their formal business school education in the United States and other developed countries. Following initial and widespread success within the military-industrial complex, their management acumen quickly spread to other state enterprises. Prototypical of this type of soldier is General Julio Casas Regueiro, former deputy minister of the Revolutionary Armed Forces and currently the minister of defense.

The most recent type of soldier is the “entrepreneur-soldier.” This class of officers is currently the vanguard of the Cuban economy. Although some are loyal Raulistas, many more represent a younger generation, less motivated by political allegiance to the party than to the economic viability of their respective commercial enterprises. They are more likely to follow the teachings of Drucker than Marx.

## The Cuban Corporate World

The term “socialism” typically does not conjure images of large business enterprises, international finance, and governing boards. However, with the advent of System of Enterprise Practices over the past three decades, Cuban socialism has created a hybrid version of capitalism while continuing to embrace the revolution. Admittedly, the Cuban economy is quite small compared to those of developed nations throughout the world, but its growth has been remarkable given the circumstances within which it functions. The *CIA World Factbook* estimates that, for 2008, GDP was over \$54 billion with a real growth rate of 4.3 percent. A labor force of over 4.9 million is employed in three major sectors of the economy: services (60.6%), agriculture (20.0%), and industry (19.4%).<sup>15</sup>

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## Civilian Enterprises

The largest of the Cuban business enterprises is the *Corporacion de Industrias Mixtas de Exportacion*. Although exact figures are elusive, it purportedly consists of well over 1,000 separate enterprises with annual revenues exceeding one billion U.S. dollars. Among the many companies in its network are *Abdala*, a recording studio; *Havanatur*, a travel agency; *La Maison*, a fashion store; and *Rapiditos*, a fast food chain. Two large financial institutions are also included. *Banco Financiero Internacional* is a secret institution with approximately 20 branches in Cuba. Its clients are foreign firms that prefer to engage in transactions that are outside the review process associated with the National Bank of Cuba. A corollary financial institution is the *Banco de Inversiones*. The source of its capital is unknown, despite rumors of significant Israeli private-sector influence.

## Military Enterprises

The *Grupo de Administracion Empresarial* controls those businesses under explicit military management. Although the entire enterprise is overseen by Raul Castro, the “chairman” of *Grupo* is Julio Casas Regueiro. The “president” is none other than Raul’s son-in-law, Colonel Luis Alberto Rodriques Lopez-Callejas. The exact size of *Grupo de Administracion Empresarial* is not known outside the members of the top echelon of Cuba’s government. Its business interests are primarily with tourism and foreign direct investment. Representative of the vast number of lucrative businesses generating hard currency revenues are *Aerogaviota, S.A.*, air transportation; *Habanos, S.A.*, tobacco and rum; *Gaviota, S.A.*, hotels; *Sermar, S.A.*, shipyards; *Tiendas de Recuperacion de Divisas*, “dollar stores”; and the *Palacio de Convenciones*, events management.<sup>16</sup>

While it once had a peak troop strength of about 300,000 in 1990, the Cuban military now consists of only an estimated 45,000 personnel. Forced by macro-financial exigencies and direct orders from Fidel, the Revolutionary Armed Forces transformed itself from one of the most competent combat forces in the region to one of the most entrepreneurial corporate conglomerates in the Americas. Today, it is estimated that the military controls more than 60 percent of Cuba’s economy. With Raul’s interest

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in free market economics, coupled with the large number of senior government positions held by generals loyal to him, it is likely that military control of the economy will continue to grow.<sup>17</sup>

## An Unconventional Economic War

The small but determined band of fighters that launched the Cuban revolution with the attack on the Moncada Barracks in 1953 grew into a formidable guerrilla army that brought down a corrupt regime. Hardened by nearly six years of combat under the most austere conditions, a cadre of men emerged under the leadership of the young Fidel Castro. Today, a half-century later, several of these same men are now waging an unconventional economic war under the command of Fidel's younger brother, Raul. In some of their battles they have suffered losses (e.g., sugar), while in others they have experienced impressive victories (e.g., tourism). Exhibiting an enigmatic "order of battle," the *Fuerzas Armadas*

*Revolucionarias* is now engaged in full-scale combat, albeit a combat of debits and credits rather than bullets and bombs. The tactical and strategic choices it makes will definitely impact Cuba and the world of global commerce for many years to come.

Colonel Alex Crowther of the Strategic Studies Institute postulates five possible post-Fidel scenarios. From most to least likely they are—

- Stable succession.
- Stable transition.
- Unstable succession.
- Unstable transition.
- Chaos.

Crowther is of the opinion that, with Raul Castro unquestionably in control of the government, a stable succession has already occurred. However, the question is, "Who will succeed Raul?" Whoever it may eventually be, it is likely that the selection process has already begun under the watchful eye of the Cuban senior military leaders. Just as "the FAR took political and administrative control after



AP Photo, Javier Galeano

**Cuba's President Raul Castro sits next to Fidel Castro's empty chair during a session of the National Assembly of Popular Power, Cuban Legislature, in Havana, 1 August 2009. Cuba suspended plans on for a Communist Party congress and lowered its 2009 economic growth projection.**

the collapse of the Batista dictatorship” (during the Special Period), they will almost certainly orchestrate the next “change of command.”<sup>18</sup>

Economic and political change in Cuba is imminent. Experts disagree exactly when and how it will occur, but not *if* it will occur. Under the most plausible scenarios, the FAR will play a major role in deciding who will lead the country in the post-Castro era. Although many among the world media appear to have only recently noticed the presence

of senior Cuban military officers in prominent commercial enterprises, a group of Cuban expatriates, analysts, and scholars have been watching their rise to power over the past three decades. There are too many independent variables to be able to make an accurate and valid forecast regarding the near future of Cuba. However, a thorough examination of Cuban history reveals an *evolution* of the revolution that personifies the principles of both strategic and military management.<sup>19</sup> **MR**

## NOTES

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