Cuba - Decades Late, Cuba Approves Serious Market Reforms

Prosperity is good in itself, though China and Vietnam show it doesn't necessarily lead to political freedom.

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A woman watches Cuban Prime Minister Manuel Marrero presenting a package of pro-market reforms in Havana, June 18.

For more than six decades, Cuba has been one of the few places on earth where the disastrous economic policies of the socialist experiment persisted.

Today, lights are out across much of the island, amid widespread privation. More than one million people have fled Cuba since 2021, according to independent estimates. At last, Havana seems to be conceding what the rest of the world figured out a generation ago: The market works, however imperfect it is. Central planning doesn't.

On June 18, Cuba's National Assembly unanimously approved a package of 176 market-oriented reforms, the most far-reaching economic overhaul since the 1959 revolution. For the first time, private companies will be permitted to employ more than 100 workers, private banks will be allowed to operate, foreign investors will no longer be required to form joint ventures with the state, and Cubans will be able to own multiple businesses simultaneously. The state monopoly on foreign trade—a pillar of the economy since Fidel Castro's nationalizations—has been dismantled. Fast-food chains can set up shop in Havana. President Miguel Díaz-Canel acknowledged that the mistake wasn't raising these reforms, but "having postponed them." He cited China and Vietnam when announcing the emergency package, noting that it had been shaped by the countries' experiences.

In 1978 China was one of the poorest countries in the world, with a per capita income a fraction of what it is today. Deng Xiaoping, confronting the ruins of Maoist central planning, asked a question that should have embarrassed every Marxist economist in Havana: Why can't a socialist country have a market economy? He didn't wait for an answer. He created Special Economic Zones, decollectivized agriculture, invited foreign investment, and let the market price goods and services. Over the following 40 years, China maintained an average annual growth rate of about 9.4%. It became the world's second-largest economy while keeping the Communist Party in control of the government.

Vietnam drew similar lessons from a different crisis. In the mid-1980s, Hanoi was beset by hyperinflation and food shortages. The Communist Party of Vietnam in 1986 launched a program called Doi Moi, or renovation. It was a shift to what the party labeled, oxymoronically, a "socialist-oriented market economy." The effort legalized private enterprise, opened the country to foreign investment, and decollectivized agriculture, while maintaining single-party political control. Vietnam, once dependent on food imports, became one of the world's top rice exporters, ending extreme poverty.

There are other examples for Cuba. Laos introduced its own New Economic Mechanism in the late 1980s while retaining the Leninist state. Even Mikhail Gorbachev's Soviet Union attempted the turn toward markets under *perestroika,* though that effort was, as economists have noted, too incoherent to produce results before the state itself dissolved. In every case, the ideology was the last thing to change, if it changed at all. The economies moved first. The party labels stayed. And the people became more prosperous.

Cuba has long been failing economically, with the regime itself acknowledging the decline. The economy contracted a cumulative 15% over the past six years, according to the World Food Program. Power outages last year went on for 20 hours a day in parts of the island. A nationwide blackout in October 2024 left the entire country dark for days.

One catalyst for Havana's reform package was the Trump administration's maximum economic pressure campaign, including sanctions on Cuban officials as well as a May executive order targeting those who did business with the regime and effectively cutting off Venezuelan oil shipments after Nicolás Maduro's removal from power. Cuba's leaders hope the reforms might buy it time with the U.S. The speed of the process confirms as much. The announcement, the Central Committee's endorsement and the National Assembly's approval all happened within a week. For a regime that spent decades deliberating the smallest market liberalizations, a week is capitulation dressed in revolutionary jargon.

But the measures passed on June 18 are economic reforms, not political ones. Cuba remains a one-party state whose regime outlaws political pluralism, bans independent media, and suppresses dissent. Economic opening and political opening aren't the same, and authoritarian regimes have repeatedly demonstrated that they can pursue one while rejecting the other.

And yet. History doesn't move in straight lines. Vietnam opened its markets in 1986 and joined the World Trade Organization in 2007. It remains a one-party state. But a Vietnamese middle class now exists that didn't two generations ago. Prosperity doesn't automatically produce freedom, but it changes what people are willing to tolerate. The reforms Havana just approved create the conditions under which a Cuban middle class could emerge. Private banks, private companies of meaningful scale, foreign investment and diaspora capital are the preconditions for an independent economic base. Although not always, an independent economic base can lead to political demands that a government can't simply starve into submission.

Havana still endures rolling blackouts. Political prisoners are still in their cells. June 18 wasn't a revolution. It was an admission—forced by hunger, darkness and a U.S. government that decided to press rather than accommodate—that 67 years of one economic idea had yielded 67 years of misery. That is a beginning. What comes next depends on whether this economic opening leads to prosperity and freedom—and whether Cuba's people will wait for both.

Mr. González is chief advocacy officer at the Human Rights Foundation.