

# BTI 2008 | Cuba Country Report

<b>Status Index</b>	1-10	<b>4.37</b>	# 95 of 125	
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scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Bertelsmann Transformation Index (BTI) 2008. The BTI is a global ranking of transition processes in which the state of democracy and market economic systems as well as the quality of political management in 125 transformation and developing countries are evaluated.

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## Key Indicators

Population	mn.	11.3	HDI	0.83	GDP p.c.	\$	5,700
Pop. growth <sup>1</sup>	% p.a.	0.2	HDI rank of 177	50	Gini Index		-
Life expectancy	years	77	UN Education Index	0.93	Poverty <sup>3</sup>	%	-
Urban population	%	75.5	Gender equality <sup>2</sup>	-	Aid per capita	\$	7.9

Sources: UNDP, Human Development Report 2006 | The World Bank, World Development Indicators 2007 | OECD Development Assistance Committee 2006. Footnotes: (1) Average annual growth rate 1990-2005. (2) Gender Empowerment Measure (GEM). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

The transfer of power from Fidel Castro to his brother Raúl in July 2006 marks the end of an era in Cuba. Although officially declared to be only a “temporary” transfer necessary due to Fidel Castro’s severe health problems, it seems highly unlikely that he will return to the position of power he enjoyed for 46 years. While the precise state of the leader’s health remains subject to speculation, his failure to appear in public at the military parade held in Havana on 2 December, 2006 served to underscore the change from a highly personalized brand of socialism to a more bureaucratic type of single party rule. It came as no surprise that Fidel delegated his powers to Raúl Castro, his younger brother and first deputy in all offices in party, state and military. More remarkable was the extent to which the regime was successful in managing this transition in an orderly fashion, without any visible signs of unrest on the streets or ruptures within the elite. In economic policy, the Raúl Castro administration has signaled a shift to more rational economic administration, departing from the increasingly voluntarist approach taken in recent years. While still timid, a course of controlled and gradual reform measures aimed at more efficiency seems to be in the making. However, the basic framework of the state-socialist economy is not subject to change.

Politically, Raúl Castro does not present himself as the supreme “Commander-in-Chief” of the revolution, as did Fidel, but rather as the *primus inter pares* of a bureaucratic socialist administration. He has reinforced the role of the formal institutions of the state and the Communist Party, whereas personalist, Fidel-centric structures and their protagonists have lost influence. The military, while powerful, remained rather discrete, and Raúl stressed its subordination to the Communist Party. While Cuba’s post-Fidel leadership has made a point of avoiding excessively aggressive rhetoric and has refrained from spectacular repressive measures, there are

no indications that this indicates a drive for political liberalization or incipient democratization process. However, even if the post-Fidel era is marked by an indubitable commitment to an authoritarian type of state socialism, after 46 years of extremely personalist rule by the same historic leader, the current drive to de-personalize and re-institutionalize Cuban politics is of great importance - as much for the present socialist regime's functional ability as for any future prospects of democratization.

## History and Characteristics of Transformation

Cuba's present political system is the direct result of the revolution led by Fidel Castro in 1959 and its subsequent turn towards socialism. As a consequence, Cuba features a strong state and an authoritarian political regime, which has, for nearly half a century, been led by a charismatic and seemingly omnipotent leader. In the "process of institutionalization" of the 1970s, at the height of Cuba's alliance with the Soviet Union, a new constitution and formal political and economic structures were established that closely resembled those of "actually existing socialism" in Eastern Europe. Until today, Cuba remains a single-party regime, where the number of candidates is equal to the number of seats in National Assembly elections. The Communist Party vets in advance all National Assembly candidates as well as all possible appointees to top managerial, administrative and professional positions. However, in contrast to Soviet socialism, the personal leadership of Fidel Castro as the "Comandante en Jefe" ("Commander-in-Chief") of the Cuban revolution has without question superceded any and all formal institutions.

In response to the sudden loss of its socialist allies and trade partners after 1989, the government adopted a severe austerity program while instituting a number of market-oriented reforms. These included welcoming foreign direct investment in partnership with state firms, and in 1993/94, at the peak of the economic and social crisis, authorizing free agricultural markets as well as self-employment, albeit both under substantial regulatory constraints. Perhaps the most significant market reform was never formally announced: a greatly increased tolerance toward black market activities. A further step with far-reaching implications was the legalization of the U.S. dollar, which resulted in a monetary dualism in which the U.S. dollar became the country's de facto hard currency. Remittances from emigrants became a key source of foreign exchange in the struggle for economic survival, as much for the state as for individuals.

Since the mid-1990s, parallel to the stabilization and gradual recovery of the economy, this "summer of reform" has come to a halt. The government retreated from elements of both trade liberalization and managerial autonomy for state enterprises, and in 2004 it returned to the ban on the circulation of the U.S. dollar. Once again, ideological

campaigns became dominant, culminating in the so-called “Battle of Ideas,” an expression that became the leitmotif of Fidel Castro’s last years in power. This return to a voluntarist approach of “perfecting socialism” was marked by attacks against the “negative tendencies” associated with the earlier market reforms instituted in the mid-1990s. Moreover, it brought about the emergence of new parallel structures led by young Party cadres who were personally backed by Fidel Castro, which increasingly competed with the functions of the formally established institutions of the Party and state.

A key factor in Cuba’s recent development has been the ever closer alliance with Hugo Chávez’ “Bolivarian Revolution” in oil-rich Venezuela. Cooperation arrangements – such as Cuba’s exports of medical, educational and other highly-skilled labor force in exchange for sustained oil shipments on highly preferential terms – have boosted the Cuban economy. As a consequence, living standards which had so dramatically fallen in the early 1990s, improved visibly. Politically, the consolidation of Chávez’ rule and the success of left-wing presidents with a radical agenda in Bolivia and, potentially, Ecuador and Nicaragua, underscores the failure of Washington’s goal of isolating Cuba. History, according to the reading in Havana, is back on the revolution’s side. As a consequence, economic as much as political needs for far-reaching market reforms or democratization have greatly diminished. At the same time, the ongoing hard-line position of the U.S. government maintains a level of threat that constitutes a strong cohesive force for the Cuban elite and remains a key element of its political legitimization.

The Raúl Castro administration “provisionally” in power since July 2006 has publicly stressed a maximum of political continuity. However, it has halted the voluntarist “Battle of Ideas” and sidelined some of its major protagonists who had counted on Fidel Castro’s personal support. Instead, Raúl Castro has pursued a return to the formal bureaucratic institutions of state socialism, in which the Communist Party is the supreme political authority. In so doing, Raúl Castro refers directly to the institutionalization process of the 1970s. Regarding rule of law, the mid- to late 1970s represented a period in which both the executive branch and the Communist Party were more diligent in abiding by their own laws and procedures than had ever been the case before or would be thereafter. Regarding economic policy, the Raúl administration has raised a number of issues such as economic efficiency and increased autonomy for economic actors – which had been at the core of the pro-market reforms instituted in the early 1990s. In particular, Raúl Castro constituted the driving force behind the opening of agricultural markets in 1994, a measure long opposed by Fidel. As such, much of the current economic debate in Cuba is about whether and to what extent his government will take up the reform process aborted in the mid-1990s.

## Transformation Status

### I. Democracy

#### 1 | Stateness

The Cuban state possesses and exercises a monopoly on the use of force throughout the entire territory. The last internal war ended in 1966. The only large-scale non-violent public riot in decades took place in the summer of 1994, and it was dispelled within hours. Since 1990, violent crime has increased somewhat, especially in Havana. Compared to other Latin American countries, however, Cuba's crime rates remain very low. The state also enforces a compulsory military service law. As an island state, the territorial boundaries of Cuba are not questioned. The only exception to this is the U.S. naval base at Guantánamo Bay that is subject to a century-old treaty arrangement, but which, in principle Cuba claims to be part of the Cuban territory. However, throughout the course of the revolution, this dispute has not surfaced as a major issue in Cuban-U.S. relations. Even when the U.S. use of Guantánamo Bay as a prison camp with extraterritorial (and, legally, highly problematic) status after 9/11, Cuba maintained a low profile on the status of Guantánamo Bay as such, despite joining the international criticism of the human rights abuses said to occur there.

Monopoly on the use of force

All groups in society accept the nation state as legitimate. Cuba is a racially heterogeneous society but persons across the color spectrum fully identify as Cubans. Since 1912, Cuban law has prohibited the organization of political parties based on race. While the issue of citizenship is virtually uncontested as regards residents of the island, the large-scale emigration that has taken place since 1959 complicates this issue. The adoption of U.S. citizenship by most émigrés combined with an ongoing sense of belonging to Cuba may in the future raise the question of their participation in political and social affairs on the island (including issues such as dual citizenship), which has the potential to become an object of serious political dispute.

State identity

After the 1959 revolution, the state became vigorously secular, to the extent that in the past state-sponsored atheism could be regarded as a functional equivalent to "religious dogma" as measured by its interference in social and political life.

No interference of religious dogmas

Discrimination against religious believers was declared illegal at the 1991 party congress and through the 1992 revision of the constitution. The Communist Party, no longer formally atheist, officially admits religious believers. Informally, however, a certain level of discrimination against religious believers remains, limiting chances for promotion to top management positions or other offices. Approximately one fifth of Cubans tell pollsters that they belong to a community of faith. The state owns and operates all schools, health care institutions, cemeteries and other social institutions.

The state has a differentiated and comprehensive administrative structure throughout the country, making it possible for it to extract and allocate state resources on a broad basis addressing a wide range of social and economic issues. The state's capacity (or willingness) to prevent the growth of an illegal economy and to enforce labor discipline was weakened in the 1990s, but has significantly increased in recent years.

Basic  
administration

## 2 | Political Participation

Political participation takes place in the framework of an authoritarian brand of socialism. Cuban citizens regularly are called to elect Deputies to the National Assembly, but they do so within a one-party system. Cuba has had single-party but multi-candidate municipal elections since 1976. The state-sponsored electoral commissions that nominate candidates prevent any opposition or independent candidate from running. Furthermore, individual candidates cannot campaign, rather, only the party is authorized to campaign. The electoral law requires that the number of assembly candidates be equal to the number of seats. Deputies are arranged on ballots by district. In the 2003 election, nonconformist voters (whose ballots are blank or void, or who vote selectively rather than for the entire official list, as "recommended" by the authorities) numbered just over 988,000 (12% of the electorate). The National Assembly of the People's Power ("Poder Popular") typically meets twice per year, for one to three days, while its various commissions meet throughout the week preceding each Assembly meeting. The National Assembly principally ratifies decisions taken by government and party executives. Votes are ordinarily recorded as unanimous. National Assembly commissions do at times question officials, and National Assembly deliberations may cause the executive to amend or delay the formal submission of a bill.

Free and fair  
elections

There are no democratically elected rulers according to the normative definitions of the BTI. With the transfer of power from Fidel to Raúl Castro, the personalistic style of rule is giving way to a much more legal-bureaucratic brand of authoritarian socialism.

Effective power  
to govern

Article 54 of the Cuban Constitution guarantees that “workers, both manual and intellectual, peasants, women, students and other sectors of the working people have the rights to assembly, demonstration and association” but holds that it is the state-sponsored social and mass organizations which “have all the facilities they need to carry out those activities.” In practice, therefore, the right of assembly is restricted to these official organizations. Beyond the state-sponsored social and mass organizations, during the 1990s a wide range of purportedly “non-governmental” organizations sprung up in social, cultural and other fields, some of them striving for a remarkably high degree of autonomy. This trend was curtailed by the government in the second half of the 1990s. Though the government did not dissolve these organizations, it did secure more tightly its control over them, thus eroding their freedom of action. Despite state repression, these organizations were able to initiate discussion about the potential role of civil society within the framework of state socialism, which could be revitalized at any time the overall political climate would allow for it. Additionally, Christian churches sponsor a number of civic groups. Regarding political opposition, Cuban law recognizes no opposition political party or other organizations which it has deemed “anti-socialist.” While small dissident groups are tolerated, they are systematically monitored by state security. If the state deems necessary, harassment and prosecution can follow this monitoring, and selectively they do, in order to underscore the state’s repressive potential. The biggest challenge to this model of state control occurred in spring 2002 when dissident Oswaldo Payá and his Proyecto Varela (Varela Project) gathered some 11,000 signatures demanding a national political referendum, delivered to the National Assembly, in exercise of the right of petition guaranteed by the constitution. The government countered this with its own state-organized referendum, mobilizing the entire voting age population to endorse a constitutional amendment defining the socialist character of the Cuban state as “irrevocable.”

Association /  
assembly rights

For ordinary citizens there is a strong gap between private and public life. Cubans express opinions quite freely in private and on the streets, however few fail to express the “right opinions” (or sign declarations or join state-sponsored demonstrations) when this is called for by the authorities at their workplace or in their locality. The state exercises monopolistic ownership and control over television, radio and newspapers. Within the rather rigid framework of state socialism, the degree of tolerance regarding the possibility of discussing controversial issues varies, in certain cases it is remarkably open compared to other, similar contexts. In the mid-1990s, the government authorized some church-affiliated magazines which discuss religious and other public issues, but with a very limited capacity for outreach to the public.

Freedom of  
expression

### 3 | Rule of Law

Cuba's political system rejects a separation of powers in the liberal sense. Formally, the constitution grants the National Assembly supreme powers. At the same time, Article 5 of the constitution defines the Communist Party of Cuba as "the highest leading force of society and of the state." In reality, the assembly is subordinate to the executive branch and Communist Party leadership, which until very recently translated into the highly personalistic leadership of Fidel Castro as the supreme "Comandante en Jefe de la Revolución Cubana." As a consequence, Cuba's political system has no meaningful checks and balances in the formal sense. However, Fidel Castro established numerous and often informal parallel structures which competed with formally-established bodies for power and served as counterweights in a sui generis version of a domestic balance of power. With the transfer of power to Raúl Castro, the personalized nature of the executive has lost influence, as have many of these parallel structures, resulting in a marked strengthening of Cuba's formal institutions.

Separation of powers

The judiciary is institutionally differentiated but its decisions and doctrine are subordinate to political authorities. Members of Cuba's Supreme Court are nominated by the executive and elected to terms of two and one-half years by a simple majority of the National Assembly. The National Assembly may recall judges at any time. The Ministry of Justice controls the budget and administrative personnel of the courts. According to the constitution, the Supreme Court is subordinate to the National Assembly, and no court can declare a law unconstitutional. Politics ensure the subordination of the courts on matters of high interest to the leadership, but the courts exercise their authority more freely in most nonpolitical criminal and civil cases. Corruption in the courts is rare.

Independent judiciary

Officials who commit unauthorized acts of abuse against persons are usually punished according to established laws, but may slip through loopholes if politically convenient. It must be noted that the highest political authority— that is, Fidel and Raúl Castro – are absolutely exempted from any threat of sanction. While past judgments (e.g., the discrimination of homosexuals) have been publicly recognized as erroneous, the highest official ultimately responsible for these judgments, Fidel Castro, did not have to publicly justify or apologize in any way, let alone be held accountable to them. In recent years, quite a number of top officials in the state and party were dismissed on charges of corruption, and several were prosecuted and convicted. At the same time, charges of corruption also represent a formidable mechanism for discharging or punishing government or party leaders deemed excessively independent. In addition, charges of corruption also serve to maintain a level of threat within the elite apparatus sufficient to ensure that they do not deviate from the official line. The lack of an

Prosecution of office abuse



independent mass media, effective opposition parties, or independent courts (or at least transparent court proceedings), however, makes it virtually impossible to determine the degree to which corruption charges have truly been motivated by the fight against corruption or, instead, were designed to serve a political purpose.

The rights to physical integrity and security are well respected, and Cuban citizens seldom have reason to fear for their life or other types of physical violence. Gender and racial discrimination are outlawed, and these laws are generally enforced. However, Cuba's tourist police tends to harass Afro-Cubans who associate or befriend foreigners more than Cubans of lighter skin, based, perhaps, on the presumption that Afro-Cubans are automatically engaged in prostitution or other illegal activities. There is little redress against these practices. Officially, freedom of religion is guaranteed. While official respect for freedom of religion has increased, however, the exercise of religious beliefs outside of church or temple walls remains constrained. As noted above, however, many of the civil liberties – such as freedom of assembly and expression – are structurally absent in BTI terms. Therefore the rights granted are guaranteed or protected only within the stipulations of the socialist framework. Indeed, Cuban reality certainly does not live up to even these limited standards, such as that expressed in Article 54 of the constitution that “the members [of the social or mass organizations] have full freedom of speech and opinion based on the unlimited right of initiative and criticism” within these organizations, insofar as authoritarian structures exert a powerful influence, meaning that anyone articulating dissent is walking on thin ice. Manifest acts of repression are typically selective and essentially serve to display the state's commitment and capacity to use the force necessary to contain any political challenge at an early stage. The last major episode of such official repression occurred in spring 2003.

Civil rights

#### 4 | Stability of Democratic Institutions

There are no established democratic institutions according to the normative definitions of the BTI. The Communist Party's overarching role reduces the capacity of state institutions to operate administratively according to prevailing professional standards. However, these state institutions can be considered quite stable, and they have a strong and comprehensive presence throughout the nation's territory. While they are inefficient in certain areas, in others – such as preventing natural disasters – they perform remarkably well. In the future, the National Assembly's formally impressive powers could facilitate a democratic transition, if political circumstances were to change. Theoretically, the National Assembly is able to dismiss the entire Supreme Court, the Council of State, and the Council of Ministers by simple majorities.

Performance of  
democratic  
institutions

The existing institutions are not democratically legitimized following the normative definitions of the BTI.

Commitment to democratic institutions

## 5 | Political and Social Integration

There is no party system as such. Cuba's single-party political system, formalized in Article 5 of the constitution, has proven remarkably resilient, surviving the collapse of ruling eastern European communist regimes and the Soviet Union. After trends toward a weakening of party institutions in recent years, the transfer of power to Raúl Castro has greatly strengthened the centrality of the Communist Party to the Cuban political system.

Party system

Interest groups are not independent from the government but rather state-organized or state-controlled. However, aside from their obvious function as "transmission belts" running top-down for state policies, the official social and mass organizations also function, to some extent, as a "bottom-up" mechanism for communicating perceptions of the population to the leadership. As such, these organizations are rather non-transparent and limited by overall authoritarian structures. Nevertheless, in a limited sense, these organizations do serve as an important channel of communication and participation within the system of state socialism. Communication via the official Cuban Confederation of Workers (CTC) has, for example, been a factor in preventing the imposition of direct income taxes or extending the market economy to state enterprise workers. Similarly, the network of existing NGOs do play a role in mediating between society and the political system despite their limited autonomy. This role would likely expand quickly if the overall political climate were to allow it. The only major nationwide institutions that do enjoy a relatively high level of autonomy are the churches and their institutions, as in the case of the Roman Catholic Bishops' Conference. Beyond this, institutions truly independent of the state are small and weak. It should be noted that Cuban dissidents have come to use the Spanish term "independiente" to connote the meaning "oppositional."

Interest groups

Public support for the norms and procedures of democracy is impossible to determine, as no reliable data is available.

Consent to democratic norms

Participation in independent civic associations remains modest, in part as a result of state and party discouragement. However, relationships of trust and social capital play an important role in day-to-day life. Family ties of all sorts have increased in importance in recent years, as have the social ties attached to religious communities. Also, insofar as much of the black market functions through social relations, this can be interpreted as a form of social capital, as can remittances from and the multiple contacts to relatives who have emigrated. The latter is of key importance also for future prospects for emigration ("chain migration").

Associational activities

## II. Market Economy

### 6 | Level of Socioeconomic Development

Compared to international standards, Cuban society is highly egalitarian. This holds true despite the economic crisis after 1989, which brought about a severe decline in living standards and a rise in socioeconomic inequalities. While the current levels of inequality seem high compared to the highpoint of Cuba's socialist path in the 1970s and 80s, they are still a far cry from the profound and deeply rooted inequalities of other Latin American societies. In the 1990s, the crucial factor accounting for the rise of social inequality was access to U.S. dollars, typically either through links to the dollarized sectors of the Cuban economy (tourism, joint-ventures) or through remittances from emigrated relatives. Because the Cuban diaspora is disproportionately white, Cuban blacks are less likely to benefit from this important source of income. However, even if these factors have resulted in visible differences in consumption levels, no sector of the population is structurally marginalized to the extent that it does not form part of the key elements of societal integration such as work, school and public attention. Against this background, many international measures of poverty tend to be misleading. Income figures in U.S. dollars, for instance, do not take into account the wide spectrum of provisions Cuba's state socialist economy delivers "in kind" or distributes in such a highly subsidized form that monetary income is not the key to access. Housing, for instance, is not a significant cost item for most Cubans. Additionally, the entire population has access to free universal coverage in health and education, as well as to the "libreta," a highly subsidized food rationing system. As a consequence, official Cuban think tanks speak of a "population at risk" rather than of poverty, and data for the share of the population in this sector show an increase from 6.3% in 1985 to 14.7% in 1995 to 20% in 2002. While no accurate figures are given, it has since declined significantly due to the increases in social expenditures made possible by the economic recovery and the alliance with Venezuela. The ideological campaigns against the "new rich," the ban on circulating the U.S. dollar and other measures taken in recent years have also contributed to a relative reversal of the tendencies described above. Infant mortality is very low by global standards. Life expectancy is at the European and North American level. In international standardized tests, Cuban schoolchildren outscore all other countries in Latin America by a wide margin. There is a gender gap in income, but significantly less so than elsewhere on the continent since a much larger share of the female

Socioeconomic  
barriers

population is integrated into formal labor relations, and child care and education are provided for by the state. While socio-structural factors are not nearly as decisive as elsewhere, it should be noted that political loyalty forms an important factor for upward social mobility. It may also be noted that all said above holds true only if the emigrated Cubans are not taken into account. If they are accounted for, societal inequalities are tremendous. In present-day Cuba this is reflected profoundly in the enormous importance of remittances from emigrants to their families on the island.

Economic indicators		2002	2003	2004	2005
GDP	\$ mn.	-	-	-	-
Growth of GDP	%	1.8	3.8	5.4	-
Inflation (CPI)	%	8.8	0.6	1.3	<b>7.0</b>
Unemployment	%	3.3	2.5	1.9	<b>1.8</b>
Foreign direct investment	% of GDP	-	-	-	-
Export growth	%	-15.6	18.0	32.5	<b>-3.6</b>
Import growth	%	-14.7	12.0	14.3	<b>42.4</b>
Current account balance	\$ mn.	-	-	-	-
Public debt	\$ mn.	-	-	-	-
External debt	\$ mn.	-	-	-	-
External debt service	% of GNI	-	-	-	-
Cash surplus or deficit	% of GDP	-	-	-	-
Tax Revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	20.7	26.4	-	<b>24.3-</b>
Public expnd. on edu.	% of GDP	8.9	9.2	9.6	<b>9.8</b>
Public expnd. on health	% of GDP	5.4	5.3	5.5	-
R&D expenditure	% of GDP	0.6	0.7	-	-
Military expenditure	% of GDP	-	-	-	-

Sources: The World Bank, World Development Indicators 2007 | UNESCO Institute for Statistics | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security | Economist Intelligence Unit, Country Report Cuba (different editions)

## 7 | Organization of the Market and Competition

The Cuban economy is state-centered. Market mechanisms remain very limited and important sectors of the political elite – chief among them Fidel Castro – regard them as inevitable concessions that ought, if possible, to be reversed rather than as helpful complimentary elements to the socialist economy. With this philosophy dominating policy in recent years, the number of lawful micro-enterprises was deliberately reduced through restrictive measures, no new licenses are being issued, and tolerance of black and informal market mechanisms has decreased. The agricultural markets opened up in the early 1990s still function, but they are closely regulated by the state and account for only a modest fraction of the country's total agricultural output. Approximately 11% of productive land is in the private sector, over 36% in semi-private cooperatives, and the remainder in state farms. Moreover, the private and cooperative sectors are strongly dependent on state planning and have only limited autonomy. The transfer of power from Fidel to Raúl Castro is likely to prompt some change. In the past, Raúl Castro has been much more inclined to increase the autonomy of economic actors. Indeed, it was Raúl Castro, not Fidel, who announced the opening of free markets in the 1990s. A new debate on reforms in the agricultural sector and on improved conditions for cooperatives has emerged. As of this writing, however, these changes in climate have not yet been translated into a policy shift.

Market-based competition

Since the state monopoly over all economic activities can be regarded as the ideal of Cuba's state-socialist economy, there is no interest in erecting safeguards against this. The government's management of concessions requires foreign firms to collaborate with Cuban state enterprises. This is a cartel-promoting policy, and represents a deliberate effort to create oligopolies even in sectors with highly competitive international markets. At the same time, the government has deliberately created a situation of competition between different state or quasi-state firms in a number of areas, including such strategic sectors as Internet provider services.

Anti-monopoly policy

Cuba has a very trade-dependent economy. In the 1990s, Cuba had to insert itself newly into the capitalist world market. The government granted considerable discretion to state enterprises in managing foreign trade, and foreign firms managed their own transactions. In 2004, however, the government retreated from such liberalization. It reduced the number of state firms authorized to engage in foreign trade, centralized purchases of an extensive list of "strategic products," and prevented state firms from retaining their earned foreign exchange, obligating them to exchange those funds at the central bank. State control over foreign trade has also increased in recent years, as Venezuela emerged as Cuba's key trade partner, with strong state participation on both sides and politically

Liberalization of foreign trade

motivated barter arrangements on preferential terms. Both countries founded ALBA (Alternativa Bolivariana para las Américas) as an “anti-neoliberal” integration scheme. ALBA gives explicit preference to trade of state-owned companies.

All banks are owned by the state. There is very limited transparency on the transactions of these banks. There is no capital market.

Banking system

## 8 | Currency and Price Stability

Cuba has a multiple exchange rate system. The regular Cuban Peso (CUP) circulates side by side with a “convertible Cuban peso” (CUC) pegged to the U.S. dollar (USD) and substituting it since the ban of USD circulation in late 2004. The USD had circulated freely for domestic transactions between 1993 and 2004. It remains lawful for Cubans to receive USDs (remittances, tips) but they must exchange them into convertible pesos and pay a 10% tax (transactions involving other foreign currencies are free from such tax). The monetary duality remains highly visible in Cuba’s economy, with separate shops and cafeterias for regular pesos and others with prices denominated in convertible pesos. The latter feature import goods and are of significantly higher quality and wider choice. The regular peso, which Cubans receive as their wages, fluctuates in a relatively free exchange rate market, subject to a central bank “dirty float” with remarkable stability. Since the mid-1990s, the government has maintained the exchange rate in the range between 25 to 30 pesos per USD (i.e., the exchange rate between the regular and the convertible peso), reaching 24 at the end of 2006 and with a tendency towards further appreciation of the Cuban peso. Government policy suggests that a strategy for the unification of the two Cuban currencies is being developed, however this seems to be subject to a prolonged process of gradual alignment with full unification being a still distant perspective. Annual inflation rates, high in the first half of the 1990s, are currently in the single digit range. The consumer price inflation for 2006 is estimated at 5.1%. The Central Bank does not have autonomy. Recent policy changes have increased its role in the management of the economy.

Anti-inflation /  
forex policy

In the context of high growth rates and a surge in state investment and rising household incomes, macroeconomic stability has become a priority task for economic and monetary authorities. These seek to keep monetary demand and supply in balance through the use of interest rates, credit controls, price adjustments, and influence over the quantity of goods and services available. Budget management has been professional since the mid-1990s. The budget deficit is low. While the Raúl Castro administration is less likely than that of Fidel’s to abandon macroeconomic stability goals in favor of unbacked social expenditures, institutional safeguards for a stability policy remain weak. In the

Macrostability

mid-1990s, the government began the establishment of a modern tax system. Cuba stopped servicing its international financial debt in 1986. In recent years, China became an important source of fresh credits on soft conditions.

## 9 | Private Property

Private property rights are weak. Cuban citizens have the right to own a house and their personal belongings. Many Cubans who lived in rented housing prior to the revolution became owners through a highly attractive buying scheme offered by the state. Private sale of apartments or houses is not allowed. The threat of state confiscation of property constitutes a powerful disincentive to illegal activities, such as the unauthorized renting of an apartment to foreigners or the use of privately owned cars for unauthorized taxi services. Private ownership of the means of production is kept to a minimum. The single most important exception is in agriculture, where private property of land has been respected for small farmers. However, there is no full autonomy in its use.

Property rights

Cubans cannot create business firms that hire non-relatives. The opportunities for self-employment (“trabajo por cuenta propia”) that emerged in the early 1990s have been stunted, activities of this sector are deliberately kept at a low level, and few new licenses are issued. However, none of the legal basis for self-employment has been formally retracted, and with the transfer of power to Raúl Castro, many scholars on the island see the potential for a revitalization and gradual expansion of this sector. Business Article 15 of the 1992 constitution allows the executive committee of the Council of Ministers to grant property rights to selected foreign firms. In the 1990s, a number of important state companies were transformed into joint ventures with capitalist partners and hence partially privatized. At present, there is little dynamism in this regard. New joint venture arrangements with principally Venezuelan and, to a lesser degree, Chinese partners are set up in a different spirit, with the foreign partners normally consisting state or state-controlled enterprises.

Private enterprise

## 10 | Welfare Regime

Cuba provides free health care and education, from childrens’ day care to an extensive university system, subsidized food provisions, and cafeterias for state enterprise workers, and unemployment compensation for the entire population. While in these regards Cuba’s social safety net is without equal in Latin America, limitations do exist as a result of Cuba’s economic strength. As the universal coverage pension system is paid in regular pesos (CUP), it was greatly affected by the decline in the real purchasing value of the Cuban currency. State think tanks recognize a portion of the population “at risk,” however recent social

Social safety nets

expenditures have targeted these groups specifically. Cuba's fertility rate has fallen below the replacement level since 1978; pension financing will become a severe problem as the population ages. The health system is gradually recovering from the quality erosion it had suffered in the 1990s. The recent surge in exports of medical services to Venezuela and other countries has led to some shortages in the domestic sphere. Some medicines are difficult to get without resorting to the black market or convertible currency. In education, the monetary duality has led many qualified staff to migrate into sectors such as tourism with better pay. In spite of these shortcomings, the standards of social safety in Cuba must be regarded as very high for a Third World country.

Cubans of all social backgrounds enjoy considerable equal opportunity in the workforce especially in white collar professions. Women constitute a majority of physicians. Racial differences in access to primary and secondary education are minimal. Gender inequalities appear in top political and managerial jobs. With the crisis of the 1990s, racial inequalities reappeared due to unequal access to the population's key source of hard currency, remittances from emigrated relatives. However, the state has taken a number of measures to counter these effects. While religious tolerance has greatly increased, religious believers still face some amount of informal discrimination in access to higher offices. In politics, an at times formal, at times informal quota system guarantees the desired percentages of participation of blue collar workers or women, starting from Party membership to seats in the National Assembly or cabinet posts. This, however, stops at the highest level. It is noteworthy that in the key moment of Fidel's delegation of powers in July 2006, there was not a single woman in the first line of leaders to steer the country in his absence. Rather than social background, a key limitation regarding equality of opportunity is political loyalty. Open disapproval of Party institutions or state policies are likely to severely affect upward mobility, access to university education or to leadership positions.

Equal opportunity

## 11 | Economic Performance

Economic growth has picked up strongly during the period under review. While official data boast a two-digit annual growth rate, this is based on a sui generis method of calculation which limits its value for international comparisons. When measuring Cuban performance against international standards, the Economist Intelligence Unit comes up with an estimate of 9.5%, confirming Cuba's exceptionally strong growth in recent years. The driving force behind this growth are major trade agreements, investments and credit lines from Venezuela and China, who have become Cuba's main sources of imports. In particular, trade arrangements with Venezuela have boosted non-tourism services, mainly medical services, to become a major foreign currency earner. Additionally, high

Output strength



international nickel prices compensated for the continued decline of Cuban sugar production, reaching a record low level of 1.14 m tons in 2005/06. The negative trade balance is largely offset by the growth of services. In 2005, Cuban officials reported a small surplus in the current account balance which had been chronically negative in the past (though at a manageable level). Since population in Cuba is flat, there is no significant gap between the GDP and GDP per capita growth rates.

## 12 | Sustainability

Growth and distribution, rather than ecological considerations are the government's prime concerns. Although the Ministry of Science and Technology's name was changed to include the word "Environment," the institutional framework for environmental matters is still weak. Dam construction, poor soil management policies, and Stakhanovite campaigns have long caused environmental damage. In the early 1990s, urgent tourism development became a new source of environmental damage. However, more recently, Cuban scientists have succeeded in introducing environmental concerns into tourism project design and assessment. In the last two years, Fidel Castro has personally put energy saving high on the nation's economic agenda. In nationwide campaigns, energy-saving light bulbs have been installed and distributed to private households, while large-scale imports of new household electronics from China aim to further reduce domestic energy consumption. However, it is difficult to assess how much these policies translated from the specific areas of use dealt with in the public campaigns to an overall economic model based on reduced energy consumption. However, it is difficult to assess how much of these policies addressed in public campaigns have been translated into an overall economic model based on reduced energy consumption. At present, strong economic growth and increased consumption levels of the population (e.g., increased public transport and the virtual end of the cuts in power supply) tend to imply a corresponding increase in overall energy consumption.

Environmental  
policy

Education and science are high priorities of the government. There is a widespread and solid network of institutions for basic and advanced education, and for applied scientific research. Cuban science centers have an excellent reputation and are internationally competitive, particularly in the areas of medicine and biotechnology. While introducing these products into the international market had long been a hurdle to yielding financial returns on the huge investments made in these fields, new international partners such as Venezuela and China, and to a smaller extent other Third World countries, have become important markets for exports of medical supplies. Cuba has also made

Education policy  
/ R&D

strong investments in the IT sector in recent years. Obsolete equipment is gradually replaced. Although the general limitations on Internet use for Cuban citizens remain problematic for a broadly based high-tech strategy, educational and research facilities tend to be well-connected to the Internet for professional purposes. The U.S. embargo blocks the crucial market for certain products and significantly limits possible joint ventures with companies from the advanced capitalist nations. Finally, migration of expert personnel to other sectors of the economy or abroad remains a problem. There are no private institutions for education and research.

## Transformation Management

### I. Level of Difficulty

With Fidel Castro being at the helm of government since 1959, it is next to impossible to disentangle structural difficulties from those resulting from the regime's policies. Cuba scores high on stateness indicators, and despite the fact that certain sectors of the population can be categorized as "at risk," no sectors of society are excluded from social life or public institutions. The labor force is highly qualified, broad administrative structures are in place and have nationwide presence. Parts of the physical infrastructure suffer from lack of investment and technological modernization. Cuba has an attractive geo-strategic location. Historically, it has few resources, but nickel is becoming increasingly strategic and oil exploration in territorial waters has brought promising results. Income levels are very low if measured in international hard currency. While governance capacity was constrained in the course of the 1990s by the sudden failure of a development strategy built on the expectation that Soviet subsidies would continue indefinitely, the alliance with Venezuela and the recovering economy have enabled the state to continue its pursuit of a governance model it calls "perfecting socialism" with renewed energy, reversing earlier pro-market measures. Cuba can no longer be regarded as politically isolated. However, nearly half a century of U.S. embargo has posed a severe hindrance for economic development in numerous ways. Given U.S. claims to political tutelage over the island dating back to the Republic's very foundation in 1902, the case may well be made that this in some way is a "structural" difficulty. In addition, the existence of a large emigrant community which possesses significant economic and politic strength greatly affects policy-making in Havana. For a project of reform "from above" these external factors constitute severe constraints on governance capacity.

Structural  
constraints

Civil society was moderately strong before the revolution. The policy of the current political regime in this regard has been to restrict the autonomy, or even to prohibit, civil society institutions beyond weak faith communities and churches. Since 1990, some civil society organizations have resurfaced and a wide range of NGOs have been established, albeit under much state control and with very limited autonomy. Oppositional groups such as "independent

Civil society  
traditions

journalists” or “independent libraries” are weak, and while they claim to be institutions of an authentic civil society independent from the state, in effect they function as substitutes for oppositional political parties, rather than as bridges between social and political spheres. There is a range of social organizations within the churches, but these remain weak. There are sharp differences between political and religious authorities, particularly Roman Catholics and Pentecostals, but the struggle is not equal. Currently, only 3% of Roman Catholics attend church every Sunday. Afro-Cuban religions such as the Santería are much more popular, but their organizational forms are weak. Nevertheless, the social ties around these can also be regarded as elements of the fabric of Cuban civil society.

Despite racial inequalities and persistent racist attitudes in interpersonal relations, there is no visible manifestation of politicized racial conflict. Race-based associations are illegal. There are no apparent irreconcilable ethnic or religious conflicts. At present, social cleavages on the island are minimal. This, however, could change rapidly in a transformation scenario. The profound social cleavages of pre-revolution Cuba have been “exported” to the United States through the large-scale emigration of upper and middle class sectors. The makeup of social cleavages on the island would look very different if the emigrant community were to be factored in, especially given the fact that the exiles are predominantly “white”. Should they return, social cleavages would deepen radically and are a cause of concern for the future.

Conflict intensity

## II. Management Performance

### 14 | Steering Capability

The strategic priorities of Cuba’s political leadership are clearly spelled out in the sense that all policies are subordinate to the goal of political regime survival – in the state’s words, “to preserve the accomplishment of people’s power because from it all other accomplishments depend.” Economic logic is subordinated to this political logic, and the Cuban government has repeatedly demonstrated that it will sacrifice economic gain should it incur political costs. This overarching prioritization of political concerns runs counter to the points of reference guiding the BTI, which explains the low rating given, which otherwise would be a solid 10. The resulting authoritarian leadership mechanisms allow the formulation and forceful implementation of priorities declared to have strategic

Prioritization

value, these being either economic (e.g., the emphasis on biotechnology, social expenditures, etc.) or political (e.g., the alliance with Venezuela, ideological campaigns). Commitment to strategic priorities has been maintained over periods of crisis. Material dependency on Venezuela has been growing in past years but does not constrain the government's ability to set strategic perspectives.

The Cuban government is not implementing any democratic political reforms in the sense envisioned by the BTI. Economic pro-market reforms carried out in the 1990s have been largely stunted. However, the government of Raúl Castro – effectively in power since July 2006 – has signaled that it may take up the aborted reform agenda.

Implementation

Somewhat in some contrast to his image, Fidel Castro's political management is as much driven by principles as by creative adaptation to changing circumstances. In the 1990s, facing severe economic crisis and the non-viability of its former development model, the leadership broke through erstwhile political taboos by welcoming foreign firms and international tourists, permitting free-market transactions, and even accepting circulation of the U.S. dollar. In the current decade, however, following sufficient economic recovery and stabilization, the leadership has retreated from its instituted reforms of the decade prior. This is significant insofar as the administration had felt compelled to adopt the reforms in question in response to an external shock, not because leaders thought that they or their policies had been mistaken. Again, the new trends under the Raúl Castro signal learning capacity in its course to de-personalize and re-institutionalize the political system, and are likely to chart a new course in economic matters, too.

Policy learning

## 15 | Resource Efficiency

The personal preferences of Fidel Castro have had an extraordinary influence on the allocation of resources, effecting dramatic shifts over time which have often been executed through parallel structures with much inefficiency due to overlapping competencies, lack of continuity, and disregard for professional experience. This has started to change with the transfer of power to Raúl Castro and his much stronger commitment to bureaucratic rationality and respect for formally established institutions, which is reflected in the fact that he introduced the term “efficiency” into the official discourse as a new buzz word. Cuba continues to allocate extraordinarily high levels of funding to health, education and sports, which are regarded as social goals in themselves not subject to criteria of economic efficiency, and also as political goals with a high-profile showcase function for the government. However, with the recent cooperation agreements, which have boosted the export of Cuban high-qualification services in precisely these sectors to Venezuela, Cuba's high investments are bringing

Efficient use of assets

unexpected returns as key hard-currency sources. Appointments to senior managerial, administrative and professional jobs, as well as admissions to the university, formally and explicitly require political capital. For top appointments, appointees are normally vetted by the Communist Party. Regulations are ordinarily set centrally in Havana. There was some significant de-concentration of rule making in the early to mid-1990s, especially in the Basic Industries Ministry, accelerating with the dismissal of the long-serving Basic Industries Minister, Marcos Portal, in late 2004. There has been a trend towards re-centralization across various economic and social sectors in 2003 and 2004. Under Raúl Castro there are certain indications that the pendulum will swing back somewhat, but such a shift has yet to materialize in any significant way. Cuba's unemployment rate remains in the low single digits. The government sustains high levels of formal employment even though workers have little to do on the job, as massive dismissals would create social and political problems. Disguised unemployment is one explanation for Cuba's low productivity, and labor discipline is rather poor in many official workplaces.

The hierarchical political system allows for the high-handed resolution of conflicting interests, which are subordinated to overarching policy goals. However, coordination has been problematic both as a result of bureaucratic inefficiencies as well as for deliberate political reasons. This has been visibly demonstrated in recent years when Fidel Castro fostered a broad parallel structure under the umbrella slogan of "the battle of ideas." Here the transfer of power to Raúl signals significant change, as mentioned above. While the Fidel-led government has been very able in coordinating its use of resources to achieve political objectives, it frequently failed to resolve conflicts between "mere" economic objectives. The dual exchange rate policy, for example, helps to explain the sugar industry's bankruptcy: sugar mills exported in dollars, which they were then compelled to exchange into pesos at one-to-one, but had to use dollars to import spare parts and replacement machinery and equipment. The "chain of non-payment" of enterprise liabilities also provides powerful incentives against coordination.

Policy coordination

Government corruption seems to have grown substantially since 1990, thanks to the iron triangle of corruption formed by sufficient levels of economic growth, high levels of state intervention in the economic sector, and discretionary mechanisms of decision-making. However, in international comparison, corruption levels still must still be considered low. The state has pushed forward broad anti-corruption campaigns, which have led to the dismissal of a number of leading officials in state or party functions and enterprise managers. The auditing office has become an important element in this drive. It remains unclear, however, to what degree anti-corruption charges also serve other purposes of politically motivated dismissals. Most of the "integrity mechanisms" related to

Anti-corruption  
policy

transparency as understood by the BTI are poorly developed or absent in Cuba, which explains why the rating given here is lower than it would be, were one to focus solely on the extent of corruption and state efforts to counter it.

## 16 | Consensus-Building

Within the official structures, no political actors can be seen as working toward building a market-based democracy, although there are varying degrees of willingness to accommodate more market mechanisms and more pluralist spaces within the existing system. The extent to which some might envisage reforms beyond this framework remains open to speculation as any such statement would be beyond the permitted discourse among the ruling elite. Opposition leaders tend to speak out in favor of market-based democracy, but their social base at present seems small. While this might change in the future, should channels for articulation and communication to the population be opened up, at present, the main articulation for market-based democracy comes from external sources in the form of foreign governments and the Cuban émigré community, which reaches out to the island via Radio Martí and other communication channels. However, the BTI's concept of political actors refers essentially to domestic actors.

Consensus on goals

The reform-minded forces within government aim at effecting reforms within the state-socialist system, not at overcoming it. If this is the case regarding economic reforms, it is even more so regarding politics. Since democratization as understood within the BTI framework would mean systemic change, the government as well as the entire political elite function as veto actors. Again, whether some might have a hidden agenda in which they would be willing to opt for regime change is impossible to say with any certainty. It may be safely assumed that if they were to articulate such a position in any way, they would immediately lose their position. As far as the opposition is concerned, the situation as described in 16.1 (Agreement on Goals), applies here as well.

Anti-democratic veto actors

The political leadership succeeds at sustaining its unity. It effectively prevents the emergence of racial, regional or religious cleavages, and it keeps socio-structural cleavages low. As such, the key cleavage is political in nature. The leadership strives to keeping the political realm as polarized as possible, declaring opposition “illegal” and describing dissidents as “enemies of the revolution,” all of whom, it alleges, are agents of the U.S. government. Since the government has been successful at limiting the reach and diffusion of opposition activities at a very early stage, it has in effect prevented an escalation into manifest and violent conflict. Emigration of the politically disaffected to the United States has served as a key pressure valve, reducing the conflict level on the island. At the same time, if one were to regard emigrants as part of the national conflict, this emigration pattern has produced a profound cleavage, as

Cleavage / conflict management

the conflicts between Cubans on the island and in the diaspora would be difficult to reconcile.

Few legal social organizations are sufficiently independent from the state to be seen as representing an authentic civil society. Opposition groups that claim to be truly independent civil society actors are seen as unlawful and are intermittently tolerated and repressed. The political leadership makes use of the social and mass organizations it sponsors to inform its decisions at times, but frequently ignores this information and formulates policies autonomously.

Civil society participation

Because the current leadership of Fidel and Raúl Castro is directly and personally responsible for the revolutionary process since 1959, past injustices are directly linked to present-day leaders. Therefore, both Cubans living in exile as well as the government use this past as weapons in their ongoing power struggle. On both sides, the willingness for reconciliation only exists insofar as each actor believes themselves to be in the position to set the conditions for it. Even relatively balanced approaches such as the “Task Force on Memory, Truth and Justice,” initiated by Mariféli Pérez-Stable from the United States, could not escape political polarization, as the Cuban government saw it as a mere instrument of the U.S. policy aimed at destabilizing and overthrowing the regime. Given this structural conflict and the issue being what legal implications any reconciliation process could have for current Cuban leaders, no overarching reconciliation process seems possible at present. Key instances of past injustices related to the violent aspects of the revolutionary process include the executions after 1959, the anti-guerilla warfare up until 1965, the Bay of Pigs, or more recently the sinking of the “13 de marzo” boat by the Cuban coast guard or the shooting of two civilian airplanes in 1996. It should be noted that the government has taken important reconciliatory measures to groups discriminated during the revolutionary process, namely religious communities or homosexuals, and that these measures have been acknowledged by the victimized groups. However, these measures did not include any formal excuses or restitutive measures, but were articulated through symbolic actions and a new rhetoric and changed practice. Also, they do not provide any opportunity for the formerly discriminated groups to articulate demands.

Reconciliation

## 17 | International Cooperation

The political leadership certainly seeks to foster international support, and the material impact of the close alliance with Venezuelan President Hugo Chávez is enormous. While other similar support is not used for a reform agenda according to the definition employed by the BTI, it has helped improve economic performance and significantly raised the population’s consumption levels. In this sense, international aid has the effect of improving political performance rather than to prompt for policy change. Official cooperation from the EU has been

Effective use of support



banned by Fidel Castro on the grounds that it is linked to unacceptable political interference. Non-government donations are possible but in many cases cooperation with Western NGOs has become increasingly difficult and is closely monitored. External advice even by non-state actors is generally suspected of undue political interference.

Since the government rejects reform policies aimed at creating a market-based democracy, it obviously does not seek to build international confidence for these. Fidel Castro has used unpredictability towards international partners as an important source of power. Even if it meant incurring high costs, he fell out with the EU and a number of Latin American governments in often spectacular ways – such as publicizing confidential telephone conversations as in the case of Mexico. Cordial economic and even political relations with other countries are sacrificed to avoid the appearance of granting outsiders a say in Cuban domestic politics, resulting in a chronic pattern of fluctuation in its relations to Western countries such as Canada or the EU. At the same time, Cuba has fulfilled a mediating role in a number of third country conflicts (e.g., the negotiations between government and guerrillas in Colombia) in which Cuba's constructive and reliable role was praised, even by its political opponents. The transfer of power to Raúl Castro has brought about some change in this area. Raúl has used a comparatively moderate tone towards the United States and has avoided dramatic conflicts with the EU. Instead, while insisting on a strict notion of sovereignty, he portrays himself as a reliable partner for international cooperation even across the political divide, as long as this cooperation is not targeted directly or indirectly at regime change. Migration and the fight against drugs could become important testing-grounds for this approach.

Credibility

Cuba is active in the United Nations family of organizations, often playing a leadership role. It has successfully led the revitalization of the non-aligned movement. It cooperates well with the Caribbean Community (CARICOM), whose members, individually and as a group, are among Cuba's most reliable international political supporters. Cuba champions regional integration in the form of the ALBA project, conceived as an "anti-neoliberal project." Initiated by Fidel and Hugo Chávez, Bolivian President Morales has joined and Nicaragua's Daniel Ortega has announced his intention to follow suit. This regional integration is at the same time regionally divisive since it presents a relatively open challenge to the previously-existing integration schemes. Cuba has intensified its policy of deploying physicians and other health care personnel to Latin American countries. While the bulk of these efforts go to the ALBA partners, Cuba has also sent medical contingents to countries whose leaders show no ideological sympathy to Havana. In Haiti, Cuba's medical personnel continued to provide health care services even during the U.S. occupation of Haiti in early 2004 and thereafter.

Regional cooperation

## Strategic Outlook

Cuba is currently in the midst of a political scenario few would have thought possible after 46 years of Fidel Castro's highly personalist rule, namely, leadership succession within Castro's lifetime. Before undergoing emergency surgery in late July 2006, Castro signed, for the first time ever, a "temporary" transfer of power, delegating his leadership functions in party, state and military to his brother, deputy in all his offices and General of the Army, Raúl Castro. Given that, at the time of this writing, six months had passed since the transfer of power, it seems that this transfer of power may be here to stay, despite the fact that the 80-year old leader is showing signs of gradual recovery. A return to the political status quo ante seems highly improbable. While his health may recover and he might continue to hold his titles for some time to come, our prognosis is that the era of Fidel as the supreme and unquestionable leader – standing above all institutions – has passed. Under Raúl Castro, Cuba's political system is transiting from "one-man rule" to "one-party rule," that is, from the highly personalistic model of "charismatic socialism" witnessed under Fidel to one of "bureaucratic socialism" in which the formally established institutions effectively serve as the backbone of the political system. In particular, the Communist Party, which Fidel increasingly sidelined as an institution in recent years, has been returned to political centrality.

While Fidel's ill health inevitably creates some level of uncertainty, neither regime change nor open or violent conflicts are expected for the near future. The economic situation will remain stable or improve as long as the alliance with Venezuela maintains its present dimension. Elite cohesion will be high as long as political change is perceived as threatening present positions. The hard-line policy of the United States serves to underscore this threat, as does the existence of a strong Cuban emigré community, which is expected by many to compete for positions and resources in a post-communist Cuba. U.S. policy, to a large extent formally established in the so-called Helms-Burton law, which severely limits the executive's range of action, therefore remains as much an economic as political obstacle. In particular, it excludes any possibility of policy change as long as either Castro brother is in power.

The Raúl Castro government seems aware of the fact that it needs to substitute the specific resources of Fidel Castro's charismatic leadership model by generating its own legitimacy resources not merely resulting from being "Fidel's heirs." The single most important means to do so can be an improvement in living standards and consumption levels for the population at large. To achieve this, the Cuban government is likely to return to the model of

controlled and gradual reforms that was implemented during the 1990s, introducing some market mechanisms and fostering economic efficiency. Political reforms in favor of more pluralism are much less likely.

As such, key factors for Cuba's development in the coming two years are:

whether the alliance with Hugo Chávez remains at its present level; whether economic improvements are sufficient to keep the Cuban population calm without necessitating an increase in the use of coercive measures; whether intra-elite competition remains within the new leadership's control; and whether the U.S. government turns away from its uncompromising hard-line policy. After more than 46 years of Fidel's rule, the implications of the task undertaken by the Raúl administration to de-personalize and re-institutionalize Cuban socialism should not be undervalued. They are a key condition for the survival of the present political system in the post-Fidel era, while at the same time they represent essential elements on which any future government more committed to a free-market democracy BTI terms will have to build.