

# BTI 2012 | Cuba Country Report

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scale: 1 (lowest) to 10 (highest)    score    rank    trend

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

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### Key Indicators

Population	mn.	11.3	HDI	0.776	GDP p.c.	\$	-
Pop. growth <sup>1</sup>	% p.a.	0.0	HDI rank of 187	51	Gini Index		-
Life expectancy	years	79	UN Education Index	0.876	Poverty <sup>3</sup>	%	-
Urban population	%	75.7	Gender inequality <sup>2</sup>	0.337	Aid per capita	\$	10.4

Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

Army General Raúl Castro (born 1931) has firmly secured his position as head of the Cuban state, army and Communist Party apparatus. Fidel Castro retains a low-key position as retired icon of the Cuban Revolution, but does not intervene in domestic politics. Even as a formal review of Fidel's last public role as first secretary of the Communist Party remains pending, de facto the post-Fidel succession can be considered concluded.

Raúl Castro's concern for the cohesion of elite groups and for securing his internal power base meant naming old guard cadres to leadership positions and postponing long-announced reforms. However, in September 2010 a comprehensive reform of the economic system was started, moving the country toward a model of market-socialism inspired by the Vietnamese and Chinese model. Driven by the regime's severe financial troubles, the reform seeks to decrease state spending; 500,000 state employees will be laid off and a gradual dismantling of the rationing-card system has begun. In turn, the non-state sector will be expanded; for the first time, so-called self-employment arrangements are now allowed to hire non-family workers, effectively the start of small private enterprises. Particularly in services, leasing schemes seek to transfer state activities to cooperatives or private groups. In agriculture, more autonomy for producers has been promised. However, the institutional framework for the private sector is still weak and often contradictory. In general, the process is still incipient, and implementation and its results difficult to assess. The dual currency system remains untouched so far, massively distorting economic incentives and coherence. The frozen accounts of foreign trade partners are gradually being made available again. The Communist Party Congress in April 2011 – the first after a 12-year-lapse – ratified the economic reform course.

China, rather than Venezuela, has become Cuba's lender of last resort, and reportedly China has been pushing the government to reform. In international politics, the Raúl Castro government has professed moderation, seeking diversified relations. While the antagonism with the United

States persists, minor steps toward normalization have been taken. Domestically, the regime has somewhat widened the space for debate within official institutions. Political opposition remains repressed while individual dissidents are tolerated. In 2010, about 50 political prisoners were released into exile in a deal mediated by Cuba's Catholic Church.

## History and Characteristics of Transformation

Cuba retains a strong state and an authoritarian political regime, founded by Fidel Castro and his comrades as an outcome of revolutionary victory in early January 1959. In this single-party political regime, the Communist Party vets in advance all National Assembly candidates as well as all candidates for appointments to top managerial, administrative, professional and elective posts. The state owns and operates all mass media.

In the 1970s, at the height of its alliance with the Soviet Union, Cuba made a transition from a rebel regime to a "lawful" authoritarian regime. A new constitution was enacted in 1976, a National Assembly was elected and began to convene that year, multicandidate, single party elections were held for municipal offices and the courts began to hear criminal and civil cases according to the rule of law. In 1975, the Communist Party held its first congress. While Fidel Castro remained the primary political figure, never before had the government and the Communist Party made such efforts to abide by their own laws and procedures.

As a result of the collapse of the Soviet Union and the loss of Soviet subsidies, from 1990 to 1993 gross domestic product fell by approximately 30% and international trade fell by three-quarters. In the early 1990s, the Cuban government adopted some limited market-oriented reforms. One was to welcome international tourism and foreign direct investment in partnership with state firms, principally in tourism, oil, mining, tobacco and other export sectors. These joint ventures were required to hire all their Cuban labor force from a government agency. The government authorized agricultural markets and some self-employment, both under considerable regulatory constraints, and greatly increased its tolerance toward black market activities. A further step with far-reaching implications was the legalization of the U.S. dollar as legal tender, which resulted in a monetary dualism. The acceptance of remittances from the Cuban diaspora became a key source of foreign exchange.

Since the second half of the 1990s, parallel to the stabilization and gradual recovery of the economy, Fidel Castro retreated from a policy of market opening and personalized power once again, thereby weakening the regime's institutional underpinnings. The government curtailed the autonomy of state enterprises, whose executives had to get permission from the Central Bank before writing a check for \$5,000 or more. Lawful options for self-employment decreased and the U.S. dollar was substituted with a domestic "convertible peso." In this context, ideological campaigns became dominant again.

The political economy in this period of authoritarian rule rested on a new relationship with the government of President Hugo Chávez in Venezuela. Cuba received petroleum at a deep discount from international market prices and paid for it mainly by dispatching to Venezuela tens of thousands of Cuban health care personnel, teachers, sports coaches, intelligence operatives and other service providers. These transactions led the Cuban economy to return to a period of growth from 2004 to the first half of 2008. With Fidel Castro stepping down and Raúl Castro succeeding him in office, the government acknowledged the need to diversify trade relations and to put the economy on a more sustainable development path. This has included improving material living conditions on the island and restoring value to peso salaries.

According to the nation's constitution, the Communist Party is the "guiding force in state and society." However, Fidel Castro's personal leadership has always been paramount, and in the mid-1990s a process of deinstitutionalization began, with campaign-style parallel structures growing. Since Raúl Castro assumed power in 2006 due to Fidel's failing health, these parallel structures were dismantled. Power now rests on the three pillars of the army, the state apparatus and the Communist Party. The party congress scheduled for April 2011 highlights the reinstitutionalization of Cuban socialism.

The world economic crisis in 2008 hit Cuba hard. Increased international food prices (up 53% over 2007), a decline in the international price of nickel, which is Cuba's principal goods export, by 41% and a devastating hurricane season in 2008 halted the economy's growth in the second half of the year. Pressured by a liquidity crisis, the government froze foreign assets and imposed a drastic cut on imports. However, a comprehensive response to the economy's structural problems was postponed until the start of serious reform efforts in September 2010.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

The state possesses and exercises the monopoly of the use of force throughout the entire territory. The last war on Cuban soil ended in 1966. The last, large yet non-violent public riot took place in the summer of 1994. Violent crime has somewhat increased since 1990 but, compared to most of the world, Cuban cities remain safe. As an island state, the territorial boundaries of Cuba are not questioned. The only exception is the U.S. naval base at Guantánamo Bay, which is subject to a century-old treaty arrangement. Cuba has a long-standing claim for the return of the base to Cuban sovereignty. However, this dispute so far has not surfaced as a major issue in Cuban-U.S. relations.

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 since 1959 complicates the issue. The adoption of U.S. citizenship by most émigrés, combined with a sense of belonging to Cuba mixed with the political and economic claims made by the United States may in the future raise challenging questions about émigré participation in political and social affairs (including issues such as dual citizenship).

The Roman Catholic Church was disestablished when the United States conquered Cuba in 1898. The syncretic Santería constitutes Cuba's most widespread religion, but is hardly institutionalized and does not have a hierarchical nationwide organization. The state is secular and it owns and operates all schools, health care institutions, cemeteries and similar social institutions. About a fifth of Cubans tell pollsters that they belong to a community of faith and a majority expresses some religious belief. Through the revision of the 1992 constitution, lawful discrimination against religious believers was abolished, and the Communist Party no longer bans

Question  
Score

Monopoly on the  
use of force  
10

State identity  
9

No interference of  
religious dogmas  
10

religious believers from its rank and file. However, religious believers are still denied certain rights informally, especially with regards to promotion to top management positions or administrative jobs.

In recent years, and particularly since Raúl Castro succeeded his brother Fidel as head of state, the government has sought increased contacts with the Catholic Church, whose public role has notably increased. This was highlighted in the church's mediating role in the 2010 release of political prisoners. The government may be more bent on taking the church's positions on social issues into account more than before, but at present it would be an overstatement to ascribe it an influential role in politics. Given present trends, this however may well change.

The state maintains an extensive administrative structure, making it possible to broadly extract and allocate state resources. This includes universal coverage with social services such as health and education, though in deteriorating quality. However, its capacity is limited when it comes to economic matters. It cannot prevent the existence of a broad-based illegal economy, nor is it always able to provide adequate implementation of the regulatory framework for legalized non-state activities, an issue that has become more important since the beginning of structural economic transformation started by Raúl Castro in September 2010. The Raúl Castro reforms have encountered considerable bureaucratic resistance. Dismissals from state employment have been slower than were announced. Implementation of granting of use-rights for land in the countryside has also been slow. Income tax payments have been remarkably weak.

In emergency situations, most notably the recurrent devastation from hurricanes, the state and military display a remarkable capacity to efficiently evacuate large numbers of people as well as restore damaged public facilities.

## 2 | Political Participation

Political participation takes place within an authoritarian brand of socialism, which allows only one party, the Communist Party of Cuba (PCC). There are no competitive democratic elections. Cuban citizens vote for National Assembly deputies. The electoral law requires, however, that the number of National Assembly candidates be equal to the number of seats. Electoral commissions chaired by Communist Party officers nominate candidates. Votes cast blank or voided, or for some but not all the candidates on official lists for National Assembly elections are officially counted and reported, though there is no way of independently verifying such data. According to official data, in the January 2008 National Assembly election, nonconformist voters (who left ballots blank, voided them or selectively voted instead of for the official list as a whole) numbered 1.1 million, exceeding 13.4% of the votes cast. The government exercises its monopoly

Basic  
administration  
9

Free and fair  
elections  
1

power over the mass media before each election. The National Assembly meets typically twice a year, each time for one to three days, though its commissions work for the week preceding each Assembly meeting. Votes are ordinarily recorded as unanimous. Assembly commissions at times question officials sharply and Assembly discussions may cause the executive to amend or delay a bill. Although the December 2010 Assembly meeting saw franker debate and more self-criticism than usual, this remained largely restricted to economic matters regarding Raúl Castro's reforms. The political structures or issues of post-Fidel leadership succession have not been addressed. Despite some distension toward dissidents, there is no suggestion yet of the introduction of pluralism in the electoral system.

Political representatives are not elected democratically.

Effective power to govern

1

Whereas the constitution guarantees the right of assembly (Article 54) except as prohibited by law, in practice, freedom of assembly "from the bottom up" is extremely limited. The constitution defines the Communist Party as the leading force in state and society; as a result the Communist Party sponsors mass organizations for workers, women young people and so on, as well as professional organizations such as writers' or journalists' unions. The Communist Party makes it very difficult for any independent associations to operate, to the extent that the term "independiente" is widely regarded as a synonym for "opposition." State security harasses and at times imprisons opposition leaders. In 2002 and again in 2003, Oswaldo Payá and his Proyecto Varela gathered 11,000 and 14,000 signatures, respectively, on two petitions demanding a national political referendum. Christian churches sponsor a number of civic groups. There are social gatherings of sub-culture groups which are in principle tolerated, but control and harassment are common. Assembly, even by dissidents, is largely tolerated as long as it remains confined to private homes; the crucial step for state repression is when assemblies seek public spaces or take to the streets. While dissident bloggers can hold regular meetings in their homes, they suffered harassment when acting on the streets. A major exception was in 2010 with the de facto toleration of regular public marches of the so-called Ladies in White, demanding the release of their imprisoned family members from jail. In a church-mediated move, the government agreed to release the political prisoners when most agreed to go into exile with relatives, thus also ending the marches.

Association / assembly rights

2

The state exercises monopoly ownership and control over television, radio and newspapers. Some officially sponsored magazines, such as Temas, discuss salient public questions with considerable, albeit still limited, freedom. Since the mid-1990s, the government has authorized church-affiliated magazines that also address public issues but within the constraints of censorship and limited circulation. Since Raúl Castro's call for reform and self-criticism, the margins of debate within state

Freedom of expression

2

media have notably widened. Also, there has been a greater freedom of expression at university-sponsored conferences and workshops, and a greater scope for publication of critical views in magazines such as *Temas* or church-sponsored publications than was the case in previous years. However, no structural change regarding access to or use of media has been enacted. All criticism is limited to the articulation of overall loyalty to the political system as such.

Of increasing importance is the eroding effect of the Internet on the state media monopoly. A scene of independent bloggers has sprung up which has quickly gained worldwide visibility, and Cuba's award-winning pioneer blogger, Yoani Sánchez, has become one of the most prominent public figures of Cuba's opposition. Also for a variety of non-conformist artists, the Internet offers a forum with considerable international reach and repercussions.

### 3 | Rule of Law

There is no separation of powers in the liberal sense. The constitution vests supreme power in the National Assembly, though it is in fact subordinate to the power amalgam of the state executive, the Communist Party leadership and the armed forces, which until very recently translated into the individual leadership of Fidel Castro. As a consequence, there are no meaningful "checks and balances" in the formal sense. With the transfer of power to Raúl Castro, leadership has become less based on the individual leader and more on institutions. The parallel structures of government established under Fidel in the "battle of ideas" campaign have been dismantled. The military has gained visible influence over the executive.

Separation of powers

1

The judiciary is not independent, as its decisions and doctrines are subordinate to political authority. The executive nominates Supreme Court justices, while the National Assembly elects them and may remove justices and other judges by simple majority. Judges nominally serve for life. The constitution subordinates the Supreme Court to the National Assembly. No court may declare a law unconstitutional. However, the courts discharge their obligations adequately in most non-political criminal and civil cases, and appeals are available. Corruption in the courts is rare.

Independent judiciary

2

As a rule, corrupt officeholders are severely prosecuted if their behavior goes beyond the margins of accepted petty corruption or privileges for leading cadres. In late 2010, some important prosecutions included corrupt officials in hospital administration, thus revealing problems of poor performance even in the health care sector. Cuba's official press now covers the punishment of corrupt officials prominently. However, there is no transparency in any of these cases. The lack of an independent mass media, normally operating opposition parties or independent courts and parliamentary commissions makes it impossible to determine the extent

Prosecution of office abuse

5



of corruption or the veracity of claims. Some “corruption” trials have, in fact, been vendettas against officials who have fallen out of favor. In some cases, officials are removed from office without any reason given and conjecture and rumor of the defendants’ (supposed or real) wrongdoing fills the information gap.

One notorious case was the dismissal of top cadres Carlos Lage and Felipe Pérez Roque. While the two men were never given a formal trial, a video circulated within the ranks of the Communist Party faithful which showed instances of corruption as one of their unpardonable faults. However, the political overtones in the act of removing a potential government “reformist” faction were so overwhelming that the corruption claim was simply considered a distraction from the real political reasons for the dismissal. There was no prosecution beyond sanctions pronounced within Communist Party structures, when in effect public officials should be held accountable by public courts.

In a strong-state authoritarian regime, there is little effective protection of civil rights and personal liberty. Notably, freedom of assembly and freedom of expression are severely curtailed. There is, however, general equality before the law among citizens regardless of gender. Racial discrimination is outlawed, though Cubans of color are disproportionately present in the prison population. The numbers of persons imprisoned for “political crimes” fell below 200 in 2010 according to dissident counts; however, the release of 50 prisoners in 2010 was linked to most of the prisoners accepting exile rather than achieving civil rights at home. Official tolerance for the freedom of religion has widened, but freedom to exercise religious beliefs outside a place of worship remains constrained. Civil rights are at times seriously violated, though the duration of such violations has shortened. The last major episode of official repression occurred in 2003. After Raúl Castro assumed the role of head of state in February 2008, Cuba signed two major U.N. human rights documents, though ratification is still pending. An important change is the strengthening of the norm against the death penalty. Both the executive and Cuba’s Supreme Court have confirmed that the absence of death penalty enforcement in recent years stems, at least for the time being, from an explicit policy decision. The death penalty has not been enforced since 2003, yet only in 2010 did the Supreme Court publicly reverse a death penalty sentence to replace it with prison time. As Raúl Castro’s daughter, Mariela Castro, heads the National Center for Sexual Education (CENESEX), since Fidel’s retirement major public awareness campaigns have been launched against discrimination based on sexual preference, while police officers have received training to help prevent abuse against homosexuals.

Civil rights  
3

#### 4 | Stability of Democratic Institutions

There are no established democratic institutions according to normative definitions. Looking ahead, the National Assembly's formally wide-ranging powers could help facilitate a democratic transition; the Assembly can dismiss the entire Supreme Court, the Council of State and the Council of Ministers by simple majorities. The constitution's bill of rights, purged of its exceptional clauses, would conform well to the Universal Declaration on Human Rights.

Performance of democratic institutions

1

Cuba is ruled by an authoritarian regime. Only opposition groups openly support pluralist democratic procedures.

Commitment to democratic institutions

1

#### 5 | Political and Social Integration

There is no political party system, as such. The constitution's Article 5 mandates a single-party system that has proven remarkably resilient. The transfer of power to Raúl Castro has decreased the regime's single-leader focus and strengthened its institutions, namely the state, the military and the Communist Party. The long-overdue Sixth Communist Party of Cuba (PCC) Congress was scheduled for April 2011, and the main topic at the congress will be the ratification of economic reforms. It may also include political leadership issues, most prominently among these the question whether Fidel Castro will eventually step down as First Secretary of the Central Committee of the Communist Party, the last formal political position he maintains.

Party system

1

In addition to the PCC Congress, Raúl Castro has announced a Communist Party conference to be held later in 2011. This would be the forum to decide on personnel issues, such as naming a new Central Committee, if this should be excluded from the Party Congress' agenda. In February 2011, party cells at the local level began to name "pre-candidates for Central Committee membership," thus confirming that a new leadership will be set in place at some point in 2011.

Interest groups as normally understood do not exist, except for the Roman Catholic Bishops' Conference and perhaps the Ecumenical Council of Protestant churches. Institutions truly independent of the state are small and weak. State-controlled organizations serve as top-down channel of communication as well as organizational frames of cooptation and control of groups in society. As such, they also constitute a frame for societal feedback and limited bottom-up participation within the system of state socialism, to which state policies at times effectively react (although mostly without admitting so). With the onset of reforms under Raúl Castro, the role of such organizations has increased as a number of them have

Interest groups

2

begun to articulate the interests of their constituency more honestly than before. Particularly noteworthy is Raúl Castro's public recognition, evident in Cuba's mass media, of the role of the Roman Catholic Cardinal Archbishop of Havana in mediating both the greater respect of the Ladies in White marches (requesting that marchers not be assaulted with rocks or fruit) and the freeing of political prisoners.

Cuba is ruled by an authoritarian regime. There are no reliable data available concerning Cuban citizens' approval of democracy.

Approval of  
democracy

n/a

There are no reliable public opinion surveys that measure trust among Cuba's citizens. Cultural, environmental or social associations are, except for dissident and faith-based organizations, not independent from the state but usually seek to widen their permitted scope of influence within the existing political framework. Available evidence suggests that the economic crisis, the erosion of legitimacy of official institutions and growing social inequalities have contributed to a severe decline in interpersonal social trust. The two exceptions are family ties, the significance of which has greatly increased over the past 20 years, and religious communities, of which many have seen a notable growth.

Social capital

4

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Question  
Score

Compared to the profound and deeply rooted inequalities in other Latin American societies, Cuban society after the 1959 revolution became highly inclusive. Key social services such as health and education became accessible to everyone regardless of income, race or gender, and housing reform greatly decreased the spatial segregation of society. However, new inequalities have surfaced following the economic crisis which started in 1989 and the monetary dualism (i.e., the introduction of the U.S. dollar, first, and later of the convertible peso). Officially published data on the Gini coefficient are calculated excluding the impact of hard currency and thus deliberately miss a key element of society's rapidly increasing inequalities.

Socioeconomic  
barriers

6

The 2010 Human Development Index did not calculate a rank for Cuba due to the unavailability of internationally comparable income figures, but the data it does include shows continuing strong performance in health and education, in which traditionally Cuba receives a comparatively high ranking. Most international measures of poverty – referring to income per capita – tend to be misleading. Given the wide spectrum of provisions offered by Cuba's state socialist economy

(housing, subsidized food, health and education) monetary income is not the only key to access. As a consequence, official Cuban think-tanks rather speak of a “population at risk” than of poverty. According to these sources, before the start of recent economic reforms about one-fifth of Cubans were considered “at risk,” or claimed a monthly income below \$4, grew no food and receive no remittances. The monthly median salary in 2009 was about \$17. The majority of Cubans without significant access to dollars live in hardship, even if health care and schooling are provided free of charge. Infant mortality is very low by global standards, and life expectancy is at European and North American levels.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	58603.8	62704.8	-	-
GDP growth	%	7.3	4.3	-	-
Inflation (CPI)	%	-	-	-	-
Unemployment	%	1.8	1.6	-	-
Foreign direct investment	% of GDP	0.1	0.0	-	-
Export growth	%	13.8	3.8	-	-
Import growth	%	-1.1	7.6	-	-
Current account balance	\$ mn.	-	-	-	-
Public debt	% of GDP	-	-	-	-
External debt	\$ mn.	-	-	-	-
Total debt service	\$ mn.	-	-	-	-
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	35.0	33.4	-	-
Public expnd. on edu.	% of GDP	11.9	13.6	-	-
Public expnd. on health	% of GDP	10.4	12.0	11.8	-
R&D expenditure	% of GDP	0.44	0.49	-	-
Military expenditure	% of GDP	-	-	-	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

## 7 | Organization of the Market and Competition

Until very recently, market-based competition had been limited to the informal market and a small yet lawful market economy that has evolved since the early 1990s. However, in September 2010 the Raúl Castro government launched major economic reforms that downsized the state's direct economic role and have given the private sector and market forces a much greater role, presumably following the Chinese or Vietnamese state model. However, these reforms are still new and much of the needed institutional framework is still being worked out. Although the reforms mark a watershed in Cuban economic policy, by all international standards the market sector remains limited and with a precarious legal base, while state intervention remains strong.

Market-based  
competition  
2

A key element of the reforms is the expansion of lawful self-employment, through the granting of 70,000 additional licenses by December 2010. Self-employed business owners may for the first time now also hire employees outside their own family, which in effect changes the character of self-employment to essentially micro-businesses or small businesses. In agriculture, idle state land has been leased to private farmers, and the state's heavy influence over product marketing is gradually being reduced. However, it is still unclear how much autonomy the private sector will be allowed to have. Since the mid-1990s, hard currency shops have offered a wide array of consumer goods, but all are run by the state and prices are set by the state. This also applies to the sale of cell phones, computers and DVD players, which have since become legal after the transfer of power from Fidel to Raúl Castro. The recent reform drive comes along with gradual improvements for external trading or joint-venture partners.

The state holds a monopoly on many core sectors of the economy. Where the government makes concessions to foreign investors, these deals often create or protect monopolies or oligopolies even in sectors (e.g., tourism) where market structures would facilitate competitive outcomes. At the same time, the government has deliberately stimulated competition between different state or quasi-state firms in a number of areas, as well as between different international joint venture partners.

Anti-monopoly  
policy  
2

In the 1990s, the government granted discretion to state enterprises to manage foreign trade, and foreign firms managed their own transactions. While in 2004 the government reduced the number of state firms authorized to engage in foreign trade, centralized purchases and prevented state firms from retaining revenue in foreign currency, under Raúl Castro's leadership the situation has gradually returned to more decentralization. Cuba depends on the world market to export its key products such as nickel, and especially services such as tourism and health care.

Liberalization of  
foreign trade  
2

State control over foreign trade remains high. While Venezuela emerged as Cuba's key trade partner for products such as oil in return for Cuban health services exports, China has become Cuba's most important new creditor. A strong focus on the alliance with Venezuela and its state-centric trade agreements in the framework of the Bolivarian Alternative for the Americas (ALBA) is gradually giving way to more diversified economic relations. Particularly in trade with China, trade is not only a state affair but marked by Chinese entrepreneurial logic, demanding a certain amount of liberalization of Cuba in return. Cuba has been a member of WTO since 20 April 1995. However, to date no trade policy review has been done.

The state owns all banks. There is no capital market. The Cuban banking sector is highly opaque. The Central Bank acts as both banking regulator and shareholder of much of the Cuban banking system, which includes eight commercial banks and a number of non-banking financial institutions.

Banking system

1

The most important bank for international transactions, the Banco Financiero Internacional, does not publish its records nor does it report to the national accounts system. The Cuban state operates banks in third countries, for example, the Havana International Bank, which is registered in London. Other banks are kept secret, with the argument that otherwise they could not fulfill their functions of circumventing the U.S. embargo against Cuba.

The banks also make up part of the Cuban regime's strategic currency reserves, to draw on in case of urgency. In 2009, the government froze foreign companies' bank accounts in Cuba and stopped payments on many of its international obligations, including payments for imports, repatriation of the profits of international joint venture partners and the like, seriously injuring the reputation of the state banks. Since mid-2010, a process to gradually release foreign bank accounts has begun.

## 8 | Currency and Price Stability

Foreign exchange policy serves political purposes; there is no independent central bank. The key problem is the maintenance of the country's two currencies, the Cuban peso (CUP), which is used to pay Cuban workers and for retail transactions, and the convertible peso (CUC), with a value approximately equal to the U.S. dollar, for transactions in hotels, restaurants and well-stocked retail stores.

Anti-inflation /  
forex policy

4

Since the mid-1990s, the Cuban inflation rate remained in the single digits. However, in 2009–2010 economists sounded the alarm on rising inflationary pressures that threatened currency stability. As a result, the government's economic reform measures announced in September 2010 explicitly seek to counter

inflationary pressures by downsizing state spending and cutting deficits. At the same time, eliminating subsidies and expanding markets will result in price rises, so inflation control will be a key concern in the foreseeable future.

The dual currency system is the institutional foundation of Cuba's markedly widened inequality in the 2000s. Restructuring the country's currency market is a mid- to long-term policy goal and not an immediate reform subject.

In 1997 Cuba reformed its banking sector and the Banco Central de Cuba became the new central bank. It has no autonomy from the state, however. The President of the Central Bank serves ex officio as a member of the Council of Ministers of Cuba. Its founding president, Francisco Soberón Valdés, brought increased professionalism and economic rationality to the institution. He stepped down in 2009, however, reportedly due to discrepancies with the government about the policies needed for monetary stability.

Cuba last reported in 2007 that its foreign debt totaled \$17.8 billion, but most analysts agree the total now exceeds \$21 billion, or close to 50% of the country's gross domestic product, and 30% more than yearly foreign exchange revenues. Since 2008 Cuba has failed to pay trading partners in time, and pressed by a severe liquidity crisis, began freezing foreign investors' hard currency accounts. In 2010, part of the reform process sought to gradually open accounts and restore investor confidence. Severe import cuts lowered the external deficit, while China has become the country's most important lender, allowing Cuba to reschedule credit obligations. Cuba stopped servicing its international financial debt in 1986 and is among the highest debtors to the Paris Club of governments.

As far as one can tell from data made public, budget management has been solid since the mid-1990s and the budget deficit as a percentage of gross domestic product was 4% or below until the 2008 financial crisis, when it rose to 6.7% of GDP. A key indicator for macrostability in Cuba is the informal dollar-peso rate, which after skyrocketing in the early 1990s has been kept more or less stable, around \$1 to CUP 25 for more than a decade.

## 9 | Private Property

Property rights are weak. Cuban citizens have the right to own homes and personal items, yet the private sale of apartments or houses is not allowed. However, barter trade for apartments and houses has been allowed for some years, and often money payments, while illegal, are included. Private ownership of the means of production has long been kept low with the single exception of agriculture, where privately

Macrostability  
5

Property rights  
2

held land was allowed and secured for small farmers. However, recent reforms have expanded the possibilities for self-employment, which also include the use of private property for small businesses such as restaurants or services, and also for the leasing of land and urban facilities. However, legal foundations remain weak. The threat of state property confiscation is a powerful disincentive for illegal economic activities, such as the unauthorized renting of an apartment to foreigners or the use of privately owned cars for unauthorized taxi services.

Recent reforms have expanded the concept of “self-employment” to small-scale businesses, in which for the first time Cuban citizens can now hire non-family labor. Restrictions are plenty, however, and it remains to be seen how much dynamism Cuba’s emerging private sector will be allowed. Private “companies” are beyond what is currently allowed or even debated to be allowed.

Private enterprise  
2

Article 15 of the 1992 constitution allows the executive committee of the Council of Ministers to grant property rights to selected foreign firms that join Cuban state enterprises in joint ventures. These hybrid firms have a dominant role in sectors such as tourism, mining, petroleum and natural gas. In the 1990s many such partnerships were with companies from Europe or Canada; more recently Venezuelan and Chinese firms have become important. Joint ventures with international companies other than China and Venezuela fell in the past 10 years.

## 10 | Welfare Regime

Despite the country’s profound economic crisis since 1989, state social services have remained essentially in place. Cuba provides free health care and education, access to athletic facilities, subsidized day care and a comprehensive pension system. While Cuba’s social safety net is in many ways without equal when compared to other Latin American countries, its quality has been continuously deteriorating. Health and education systems have both suffered greatly from the economic crisis and the drain of its workforce to better remunerated sectors. All monetary benefits, such as pensions, have seen a massive decline due to the loss of value of the Cuban currency and the ever-increasing importance of hard-currency stores to obtain essential products. This has eroded the universal coverage pension system, as the minimum pension has become equivalent to approximately \$8 per month.

Social safety nets  
6

The implementation of the economic reform drive announced in September 2010 is bound to increase social inequalities substantially, as state subsidies are cut, rationing card distribution will be gradually eliminated, 500,000 state employees are set to lose their jobs and market mechanisms will play a much greater role in the allocation of resources than before. It still is very much unclear to what degree social protection mechanisms will persist and shield the losers of reform from



poverty. Unemployment provisions have been limited to mere transition payments. The severance payment for an individual who has worked 19 years in a position is for only one month, and there is no announced supplementary unemployment

compensation. The maximum severance payment is five months for anyone who has worked longer than 30 years. It is unclear what sort of social safety net will remain in place for those permanently unemployed.

Rather than an individual's social background, a key limitation regarding equality of opportunity is political loyalty. Open disapproval of the system is likely to severely affect upward mobility. Aside from this, there is considerable equality of opportunity, although gender and ethnic imbalances remain highly visible in top administrative functions. White-black racial differences are minimal in access to primary and secondary education. Women constitute a majority of students in most university degree-granting programs, including medicine. While gender inequalities appear in top political and managerial jobs, racial inequalities exist in the professions. Because the Cuban diaspora is disproportionately white, Cuban blacks are less likely to benefit from the population's key source of hard currency, remittances from emigrated relatives. Also key resources for legal small business, such as houses, are disproportionately in the hands of the descendants of the former white middle and upper class. Comparative research, which involved public opinion interviews, on verbally expressed racism in the United States, Puerto Rico, the Dominican Republic and Cuba ranked Cuba as the worst. While religious tolerance has greatly increased, religious believers still face some amount of informal discrimination in access to higher offices.

Equal opportunity  
8

## 11 | Economic Performance

In 2009, Cuba suffered a liquidity crisis that brought an end to the country's period of growth from 2004 to 2008. Foreign investors' accounts were frozen and imports cut by 30% which, adding to structural problems and low efficiency, led to production declines. Sugar production fell to a historic low and revenues from remittances, tourism and nickel exports suffered due to the international crisis. Service exports to Venezuela, though still important, have not grown. Debt is estimated to have passed \$20 billion, or close to 50% of GDP. In contrast to the triumphalism of only a few years ago, the Raúl Castro government is frank about the country's highly precarious economic situation to convince the Communist Party faithful that comprehensive pro-market reforms are the only option to secure the revolution's survival. The bleak picture is exacerbated by inflationary pressures and excessive state spending.

Output strength  
5

As a first result of cutting imports and recovering world market prices for exports, Cuba for 2010 reported a trade surplus of \$3.9 billion. However, not until

September 2010 did the Raúl Castro administration begin a far-reaching reform drive, which includes cutting 500,000 state employees and cutting subsidies, with

the expansion of general market forces and the encouragement of small businesses. Implementation of the reforms so far has been slow, and the impact on macroeconomic performance cannot yet be assessed.

## 12 | Sustainability

Environmentally sustainable growth receives sporadic consideration, yet in general environmental policy lacks an autonomous institutional framework and is subordinate to economic growth. Dam construction, poor soil management policies, and Stakhanovite campaigns, or campaigns aimed at overachieving on the job, have long been sources of environmental damage. Accelerated tourism development in the early 1990s compounded such damage. At times, though, the lack of industrial inputs (e.g., chemical fertilizers) or the sheer neglect of farmland has decreased environmental damage caused by agriculture. Cuban scientists have succeeded in introducing environmental concerns into tourism project designs and assessments, and the Ministry of Science and Technology has changed its name to include the title, “Environment.” Notwithstanding shortcomings in environmental regulation, the Environmental Performance Index, which assesses “ecosystem vitality” and “environmental health,” ranks Cuba in ninth place out of 163 countries.

Environmental  
policy  
5

Cuba spends a large percentage of its state budget on education and has done so for decades. According to the World Bank’s World Development Indicators, public expenditure on education was 13.6% of GDP in 2008, by far the highest amount worldwide. However, Cuba has also been a worldwide example of extremely low economic return for its vast investment in education. Cuba has a large network of basic, secondary, and higher education institutions and many significant research institutions. However, the quality of the educational system has suffered severely, from elementary level to university, due to lack of resources and poor pay which has drained the system of qualified teachers. Moreover, research is hindered by the limitations on Internet use, and, in some disciplines, by restrictions on pluralist debate. The recent reform measures aimed at scaling down state expenditures also affects academic institutions and will reduce the number of students in higher education. The transformation of research into useful products remains a problem; for example, Cuba has long invested huge sums in the development of biotechnology with few commercially significant results. This vast investment in human capital began to pay off in the mid-2000s with the massive export of Cuban health care, education and sports services to Venezuela in a barter arrangement for Venezuelan oil shipments. This sort of services exports has since been expanded to

Education policy /  
R&D  
8

other countries. According to UNESCO, R&D expenditure was 0.49% of GDP in 2008, ranking fourth among Latin American countries behind Brazil (1.02% in 2007), Uruguay (0.64%) and Argentina (0.51% in 2007).

## Transformation Management

### I. Level of Difficulty

As the present government represents a direct line to the more than half-century long revolutionary government, it is difficult to distinguish precisely what is the result of the current leadership's actions and what are structural constraints. However, the present government's capacity is still constrained by the sudden failure in the early 1990s of a development strategy based on the expectation of indefinite Soviet subsidies. In this state-centric, bureaucratic model of socialism, economic efficiency was not a priority. With regard to the reform drive initiated by Raúl Castro, the legacy of this model, its disregard for economic incentives, its lack of legality and widespread poor work ethics can be regarded as structural constraints. Many administrative structures are not adequately prepared for a more market-friendly course, and neither is administrative staff. Across-the-board bureaucratic resistance to reform was evident especially in 2010, even as Raúl Castro's willingness to enact reforms increased.

Structural  
constraints  
7

Externally, dependence on support from Venezuela and President Hugo Chávez and thus on the vagaries of world oil prices remains highly problematic, even though the government has been seeking diversification. A key constraint remains the U.S. trade embargo. Although sanctions on people-to-people contacts such as family visits and remittances have been lifted, and numerous loopholes in the embargo legislation have emerged, the bilateral conflict still weighs heavily and denies Cuba of its "natural" first market for imports, exports, and services, including tourism.

Cuba traditionally has few natural resources other than nickel and beaches, but in recent years domestic oil production has risen and off-shore oil exploration has caught the attention of the global oil industry. Cuba seasonally suffers with the effects of destructive hurricanes which, such as in 2009, can severely damage infrastructure and disrupt agriculture.

Civil society before the 1959 revolution was moderately strong. The political regime since then has undercut its autonomy and prohibited independent civil society institutions outside the churches. Dissident organizations remain weak, not least due to severe restrictions on their activities. Aside from official mass organizations sponsored by the regime, since the 1990s a wide array of associations

Civil society  
traditions  
7

has been established that readily wear the label of “non-government organizations” but whose autonomy is limited by the state. Nevertheless, in recent times NGOs have been seeking more space for debate and a place to articulate their interests. In 2010 the Roman Catholic Church emerged as a mediator with the state, successfully facilitating respect for dissident groups and the freeing of political prisoners. Sub-cultural groups, such as musicians and rappers, have emerged as part of a larger collective identity, though with low levels of institutionalization. An independent blogger scene has become a prominent pillar of civil society, with links both to open dissident groups and to actors in the established intellectual scene who seek more autonomy and wider margins of debate.

Cuba’s central cleavage is political, based on loyalty to the socialist system rather than social. Despite certain race-based inequalities and a clear under-representation of Afro-Cubans in the political and technocratic elite, there is neither politicized racial conflict nor violent incidents. Associations based on race are illegal. Social cleavages were minimized by the revolution, and though social inequalities are markedly increasing, social stratification is still low by international comparison. As the profound social cleavages of pre-revolutionary Cuba were “exported” to the United States through the large-scale emigration of predominantly white upper- and middle-class groups, they are present in Cuba’s transnational relations. These groups’ potential return to Cuba would change the makeup of social cleavages of Cuban society radically.

Conflict intensity  
3

## II. Management Performance

### 14 | Steering Capability

The political leadership’s long-term priority is the preservation of Cuba’s authoritarian regime. Although Raúl Castro didn’t succeed with the suggested agenda of economic reform during his first years in office, he has since consolidated power sufficiently so as to embark on a major reform drive, which started in September 2010. A Communist Party congress has been called to ratify this new tack toward a market-socialist model, the inspiration for which is clearly pulled from the Chinese and Vietnamese model. Elite cohesion remains a crucial priority, but the government seems now able to set and push through strategic economic priorities. Domestic policy toward opposition groups has taken on a more moderate tone, though no structural regime change has been implemented (except for the leadership succession from Fidel to Raúl, and a shift from a more charismatic, personality-centric leadership role to a more bureaucratic focus).

Question  
Score

Prioritization  
4

Regarding the rating, in earlier editions of the BTI the low rating was based on the argument that the government's priorities were in opposition to the BTI's normative guidelines. While this remains true for maintaining the authoritarian system, it does not for the pro-market economic reforms. The increase to "4" was made to reflect the major shift undertaken by Raúl.

The government has not implemented any democratic reforms. However, after years of talking about economic reforms but not acting, in September 2010 the government of Raúl Castro began to implement reforms that aim to comprehensively overhaul the economic system. The downsizing of state spending, the announced mass dismissal of state employees, and new openings for private economic activities have all begun to be put into effect, gradually and possibly insufficiently; and in early 2011, some of the more radical reforms as well as the pace were slowed. Still, this reform attempt has been approached with far more coherence than any other such initiative in the past. The process is incipient, numerous incoherencies and restrictions remain, and the legal framework remains weak. Small business may now also hire non-relatives; agricultural producers are given greater freedom for marketing their products. A modeling after the successful Chinese/Vietnamese models of market-socialism is clear, though not spelled out. State-control, however, will remain a key concern and is likely to be a continuous obstacle for market dynamics. The government has ensured a maximum of elite cohesion for the reform; the National Assembly meeting in December 2010 approved its principal guidelines, and a Communist Party congress has been called for April 2011 to ratify the new course, although the government is likely to accept concessions in order to make the process more palatable to its rank and file. Fidel Castro has, from an elder statesman's position, signaled his general approval.

Implementation  
4

The political leadership has demonstrated its capacity to learn and change policies, but is less flexible when it comes to changing the cognitive basis on which policies are based. Succeeding Fidel Castro as head of state, his brother Raúl Castro has steered away from Fidel's personal leadership style to a much more bureaucratic, institutions-based regime. Moreover, in economic policy, Raúl has acknowledged substantial deficits and past errors and explicitly accepts responsibility to correct these, as justification for the major economic reform program initiated in September 2010. However, such learning has so far not been allowed to affect the crucial workings of the socialist system, such as state planning and state control. As a general principle, all policy learning faces severe constraints from a different "lesson learned," that is from the collapse of East European socialism; and thus the cohesion of the present elite in the state, party and military apparatus is paramount for regime survival. As a result, it remains unclear to what degree innovative policies can be enforced or to what degree such policies would run up against the inertia of established routines and interests.

Policy learning  
4

## 15 | Resource Efficiency

With the transfer of power to Raúl Castro, bureaucratic rationality and respect for formally established institutions have improved. Increasing efficiency has become a key element of the current reform process. The government thus acknowledges the often inefficient use of available resources. The financing of state enterprises have relied on a so-called chain of non-payment. State enterprises fail to pay for what they purchase, except on a delayed schedule of their own choosing. Enterprises thus refuse to re-supply each other or instead hoard resources. Cuban labor productivity had been very low, as a trade-off for a policy of near-full employment. This, however, is changing, with the state announcing plans to lay off 500,000 employees; while many of these individuals may find work in a newly expanding non-state sector, unemployment certainly will rise. A key problem that persists is political bias. Appointments to senior managerial, administrative and professional jobs, as well as university admissions, formally and explicitly feature political criteria, namely loyalty to the socialist system, and often, membership in the Communist Party or other official organizations. Regulations are ordinarily set centrally in Havana, taking insufficient account of local conditions and territorial variation, so decentralizing responsibilities is one element of the reform agenda. As of now, however, reforms have been moving slower than planned and it is too early to judge their effectiveness.

Efficient use of assets

4

The government deficit as a percent of GDP was worrisome from 2008 to 2010; however, current reforms seek to address the imbalance by cutting state spending. Cuba last reported its foreign debt at \$17.8 billion in 2007, and it is estimated to have increased to over \$20 billion since, or close to 50% of GDP and some 25% more than annual export revenues. Here, too, the Raúl Castro government seeks to curb the deficit by reducing imports.

Effective and coherent policy coordination is hindered by bureaucratic inefficiencies and deliberate political calculus. While the government has shown its ability to coordinate the use of resources to achieve political objectives, it frequently has failed to coordinate between conflicting economic objectives. A key source of incoherence stems from the country's monetary dualism, which utterly distorts economic incentives.

Policy coordination

6

Raúl Castro's government has dismantled parallel organizational structures that were typical of Fidel's tenure, with a result of increased coherence in government action. In economic policy, Raúl substituted a campaign-style approach through an emphasis on economic rationality and coherence, aiming to restore a worker's salary value in order for it to become the key incentive for work. However, the government has not yet found a way to overcome the profound distortions and incoherencies caused by the dualist monetary system, nor has it established a

coherent regulatory framework for the new non-state sector, nor are the rules of the remaining social safety net clear. Regarding coordination and coherence, the new economic program (“lineamientos”), which is scheduled to be approved by the Communist Party congress in April 2011, should represent a step forward.

Government corruption has grown substantially since 1990, due to a convergence of three forces: the establishment of just enough of a “market economy;” high state intervention in that market economy; and extraordinary discretion allowed to government officials in making micro-decisions. The state on one side seeks to fight corruption with a firm hand, as illustrated in a series of anti-corruption pushes in 2010; at the same time the state does not effectively curb the structural mechanisms which foster corruption, so the prosecution of individual cases remains somewhat arbitrary. Many ministers and other officials, including state enterprise executives, have been dismissed on charges of corruption; however, due to a lack of transparency, it is usually hard to judge whether these individuals were actually guilty of corruption or whether the cases were primarily a mechanism to cover up more political motivations. The latter was indeed the case in the dismissal of top cadres Carlos Lage and Pérez Roque in 2009. While dismissed on charges of corruption among other charges, the two men were never brought to trial or formally convicted.

Petty corruption, such as perhaps cheating a customer or exchanging a favor for money, is so widespread that such acts are part of everyday Cuban life. As market actors act on a precarious legal framework, dependence on official goodwill by inspectors and bureaucrats, a perfect breeding-ground for corruption, will persist. There are no provisions for public accountability of office holders; and foreign investment bid processes remain confidential.

## 16 | Consensus-Building

The government and all legal political actors identify with the state-socialist system and reject the tenets of liberal democracy in all public statements. In turn, openly oppositional groups rhetorically embrace Western-style democracy; however, these groups so far have remained small and maintain a small public presence. While some groups have gained prominence, such as the Ladies in White, a group which demanded the release of relatives from jail, or bloggers such as Yoani Sánchez, still no regular interaction in the political arena for such groups is permitted. The Catholic Church has taken on a more mediator role, but keeps a low profile when it comes to explicit political articulation.

The government clearly separates market mechanisms in the economy from political democracy; it now has begun to promote market mechanisms (within a set of limitations and restrictions) as part of the renewal of state-socialism, inspired by

Anti-corruption  
policy  
4

Consensus on goals  
2



the Chinese model of market-socialism. While the National Assembly meeting of December 2010 displayed elite consensus on the reform agenda, its implementation ran into widespread resistance and foot-dragging by party and administrative cadres. Similarly, the Communist Party congress in April 2011 is likely to witness consensual approval of the new economic policy guidelines, yet without necessarily translating into actual support for the implementation of reform measures on a practical level. Government officials reject the term, “market economy,” as a goal. Opposition forces in contrast embrace the goal of a social market economy. Some opposition actors possibly see the present economic reforms as steps in the right direction, though insufficient.

The ruling elite of state, the Communist Party and military cadres are anti-democratic actors who have effectively prevented the democratization of the regime. Many within the establishment may harbor some ambivalence regarding the system and a potential democratic alternative, but these feelings are, if they exist at all, confined to private conversations. Other than the leaders of small opposition groups and leaders of religious denominations whose social support is at most a fifth of the population, there are no relevant political actors committed to advancing democratic reforms. Reform-minded forces within government aim at effecting reforms within the state-socialist system, not at overcoming the system as a whole. A major purge in 2009 removed the architect of the 1990s economic crisis management, Carlos Lage, from leadership ranks and among others, who many saw as a potential reform leader within the elite. However, the state leadership has adopted some measures that could be seen as a mild promise of liberalization, such as legalizing computers and cell phones; a somewhat widened tolerance toward dissent within official institutions and the cultural scene; negotiations with the Catholic Church, which led to the release of political prisoners; and the de facto toleration of a small but growing number of independent bloggers and other critical actors.

Historically, Cuban society was divided along an ethnic white-black hierarchy, fostered strong urban-rural divisions as well as reflected the typical Latin American/Caribbean gender hierarchies, often characterized by patriarchy and machismo. Regionally, Havana and the western parts of the country have been more developed than the eastern parts of the island. After 1959, the revolutionary regime made it a core commitment to overcome these cleavages, and its record is quite impressive in this regard, although a considerable level of inequality along ethnic, territorial and gender lines persists. While since the 1990s Afro-Cubans have experienced some discrimination, society is still not deeply marked by racial cleavages. In the early 1990s, atheism and anti-religious discrimination ceased to be active state policies. A key element of the structure of Cuba’s social cleavages was “exported” through the large-scale emigration of the country’s pre-revolutionary upper- and middle-class in the wake of the revolution. As a result, socio-structural

Anti-democratic  
actors

1

Cleavage /  
conflict  
management

5

cleavages remain comparatively low. However, if one were to regard emigrants as part of the national conflict, the large-scale emigration of discontents has produced a profound social cleavage, as the conflicts between Cubans on the island and in the diaspora will be difficult to reconcile.

The key cleavage in Cuban society is political in nature, along the many shades of adherence or opposition to the government and the structures it created and dominates. Since the government limits the reach and diffusion of opposition activities at a very early stage, it has in effect prevented an escalation into manifest and violent conflict. In 2010, in dealing with opposition protests, the government sought to de-escalate measures by freeing political prisoners in response to Roman Catholic Church mediation and by curbing the level of harassment against the Ladies in White marches.

The political leadership manages civil society in order to formulate policy autonomously, but it does not ignore civil society. In the 1960s it actively sought to create and nurture certain forms of social capital in the form of mass organizations, such as neighborhood Committees for the Defense of the Revolution, a Cuban Women's Federation and trade unions, as well as a variety of professional or special-purpose associations, such as the Artists and Writers' Union. The constitution's premise that the Communist Party is the guiding force in state and society translates into the imperative of state control over these organizations. The government uses such organizations to inform its decisions, but it also frequently ignores the information as it sets its preferred course for policy. Recently the margins of debate and criticism have been widened; the National Small Farmers' Association for instance has been able to voice manifold complaints, which at least to some degree have inspired policy changes. While a number of officially established associations have presented themselves as "non-government organizations," their autonomy is clearly limited by the state. The single biggest exception is the Catholic Church, which has maintained a relatively high degree of autonomy from the state. In 2010 it was given a prominent political role, as the government called on bishops to mediate the release of political prisoners. Also, the government has become more willing to listen to academic and intellectual advice than in the past.

Regarding society in general, the spread of digital media such as blogs or e-mails reflects an increasing individual assertion of citizens' rights; however, except for the case of the so-called *Polémica Digital* in 2007, it has been difficult to assess whether the government takes these voices into account in the political process. The role of civil society actors in opposition, that is who do claim independence from the ruling Communist Party, is however different. The government does not engage these groups to assist in policy-making, but regards them instead as enemies.

Civil society  
participation  
3

For the most part, the government does not acknowledge that it has committed injustices or victimized citizens. It claims that all historical injustices are a legacy of its predecessors or aggression against Cuba by the United States, domestic regime opponents or exiles. The government selectively invites members of the Cuban diaspora for discussions, but it manages the agenda and the meetings unilaterally. However, there has been an implicit recognition of past wrong-doing in the cultural sphere, where some formerly disdained artists or authors have been re-integrated into the canon of Cuban culture. When in 2007–2008 intellectuals demanded a meaningful debate about the darker sides of the state’s cultural policy, this was channeled into closed-door meetings for critical debate, but little of this process reached a broader public. There has also been explicit recognition of the erroneous policy regarding the repression of homosexuals in the 1970s, which is substituted now by a very progressive policy toward sexual diversity led by Raúl Castro’s daughter. In none of these cases, however, were actions accompanied by any formal expression of guilt, responsibility or even compensation. Similarly, the significant release of political prisoners in 2010 was not in recognition of any fault in jailing the individuals in the first place. Nevertheless, particularly the path in which the agreement was reached, through negotiations with the Catholic Church and the Spanish government, represents a development that could be helpful in future reconciliation efforts.

Reconciliation  
2

## 17 | International Cooperation

External support comes mainly from Venezuela and its President Hugo Chávez and from China. The alliance with Venezuela has translated into the development of an important export sector around health care services, and to a lesser extent other professional services, which draws from Cuba’s highly skilled population. This export of services has since been extended to other countries with no specific political bonds and has become part of the country’s development strategy, which could in the future contribute to a sustainable growth trajectory.

Effective use of  
support  
5

Regarding China, preferential credits were used in the past to modernize the telecom infrastructure, but also for short-term goals with little developmental impact. This seems to have changed with the onset of reforms in September 2010 and the adoption of a new long-term economic strategy; in this, Chinese support could become a key element in fostering the embryonic private sector as well as to push state companies toward more efficiency-oriented models. Brazil has also offered support in this regard. However, it still is too early to tell to what degree the Cuban government will use this potential.

There is an exchange of non-commercialized solidarity between Venezuela and Cuba in the form of Venezuelan price-discounted petroleum and the non-marketed deployment of Cuban health care workers to Venezuela and elsewhere. Cuba has

also developed a strong relationship with China and welcomed Chinese investment and trade in Cuba.

Cuba receives humanitarian or relief assistance to mitigate natural disasters, especially hurricanes. Religious donors support Cuban churches and also provide the means to distribute medicine and food. Annual international donations have averaged \$50 million. The government cooperates with specific international donors on particular projects, but it resists political or economic advice from the West. For Cuba, international aid has the effect of improving political and economic performance rather than prompting policy change. After Fidel Castro banned relations with the European Union, under Raúl Castro relations have gradually normalized, increasingly re-allowing European aid and cooperation.

Following the EU decision in June 2008 to lift diplomatic sanctions, adopted in 2003, an EU-Cuba political dialogue was resumed and cooperation officially restarted, though with a relatively low profile. Despite much debate, the EU's common position on Cuba, which links relations to progress in human rights and which was strongly rejected by the Cuban government, remains in place.

Under Raúl Castro's leadership, the Cuban government has increasingly presented itself as a credible and reliable partner in international affairs. However, inconsistencies remain. While the Raúl Castro government in 2008 signed the U.N. human rights accords, their ratification is still pending. In economic matters, credibility remains low. The financial squeeze has led to freezing bank accounts of foreign companies operating on the island and delaying the payment of trading bills, which severely hurts Cuba's credibility with Western partners. Although the situation has been gradually improving, the negative impact on Cuba's credibility as a trading and investment partner remains strong. In early 2011, one of the country's most important joint-ventures, the monopoly telecommunications provider ETECSA, was returned to 100% Cuban ownership after the state purchased the foreign assets in a transaction marked by its lack of transparency.

In the past, Cuba's international image has suffered as the ruling elite often sacrificed economic and diplomatic opportunities for overriding political concerns, such as its human rights record. Since assuming power, Raúl Castro has sought to avoid diplomatic errors and has rather sought to portray Cuba as a responsible and predictable actor in international politics (in considerable contrast to Fidel's past posturing and the flamboyant rhetoric of Venezuela's Hugo Chávez). The release of about 50 political prisoners in 2010, in a process mediated by the Cuban Catholic Church and the Spanish government, could signal a more flexible attitude toward human rights issues; this also set an important precedent for successful future negotiations, as the government essentially kept its word. Again, however, this

Credibility  
4

process suffered from a lack of transparency and was informal.

While under Raúl Castro, the Cuban government has markedly reduced its ambitions in global politics, Cuba still plays an important role in many international forums and organizations. It works well with the Caribbean Community (CARICOM) and provides extensive assistance to Caribbean island states in providing higher education and health care services, including a strong engagement in post-earthquake Haiti. It has deployed tens of thousands of health care workers to Venezuela, but also in lesser numbers to dozens of other countries around the world. But the Cuban government is extremely reluctant to abide by U.N. standards for human rights or to CARICOM's commitment to democracy. In the end of 2004, Cuba founded together with its closest ally, Venezuela, the Bolivarian Alternative for the Americas (ALBA) as an explicitly non-capitalist integration scheme for Latin America. At the same time, however, Raúl Castro has not pursued the alliance with Venezuela with the same enthusiasm as Fidel did, and instead sought a diversification of international relations. Particularly, relations with Brazil have intensified. Selectivity is the key to Cuba's engagement.

The long-standing conflict with the United States remains unresolved, although relations have somewhat improved under U.S. President Barack Obama and Raúl Castro's tenure. Normalization measures have eased travel for and remittances from Cuban-Americans, and also cooperation over migration issues, academic relations, disaster management and postal services has increased.

In 2009, the Organization of American States (OAS) resolved, with the Obama administration's approval, that the 1962 resolution, which excluded the Government of Cuba from participation in the OAS, is no longer in effect. Since then Cuba's status remains in limbo, however, as the OAS resolution states that Cuba's participation in the OAS "will be the result of a process of dialogue initiated at the request of the Government of Cuba, and in accordance with the practices, purposes, and principles of the OAS," a request the Cuban government has not made so far, as its official rhetoric decries the OAS as an unnecessary, U.S.-dependent institution. Without any such complications, Cuba has been admitted to and has officially joined in 2008 the Rio Group of Latin American countries.

Regional  
cooperation  
6

## Strategic Outlook

Since Raúl Castro assumed power in 2006, Cuba has gradually turned to a more institution-driven and less personality-driven brand of authoritarian socialism. In the coming years, the Raúl Castro government faces the challenge of steering the state through an economic reform process that finally began in September 2010. Raúl Castro's key argument for reform is that the state's model of full employment and state largesse when not sufficiently backed by economic production is not sustainable. Not part of the discourse, however, but no less important, is the growing influence of China not only as trade and investment partner but also as lender of last resort. This dual impetus even led a retired Fidel Castro to express tacit support for a policy shift that essentially unsettles much of what had been regarded as his legacy. As a result, elite consensus seems sufficiently high to assume that the current process of state-controlled, gradual, top-down economic reform will continue to be the dominant policy line over the next years, although stop-and-go, manifold restrictions and numerous incoherencies should be expected. In particular, a more solid legal foundation for the new market actors and equality of access should be supported; international actors can and should contribute know-how and material support for credit or supply-markets, but also measures are needed to achieve a sustainable social security system and to counter the erosion of quality in the education and health system.

The great unknown is whether the people's reaction to this process will remain as passive as in the past. The massive loss of state employment and subsidized welfare combined with the new money-making options of a larger market sector will lead to new dimensions of social inequalities, insecurity and certainly increased social tensions. At present, public confidence in the state leadership is rather low, and much will depend on the short- and medium-term economic success of the incipient reforms, in particular if they bring tangible benefits and improved living conditions to compensate for the loss of old securities. As the new market actors will depend on the state's goodwill, an alliance of the ruling elite of the state, the Communist Party and the military with the market-based reform winners can become a feasible model to retain power. The demand for transparency will be a key concern to avoid the consolidation of an "uncivil economy."

As long as the government feels it still is firmly in control, it is likely to continue a course of opening, albeit carefully, spaces for debate within official institutions, with exemplary yet occasional sanctions for those who cross the line. If these spaces of debate are fostered and secured, they could contribute to the foundation of an eventually more far-reaching democratization of the country. With regard to opposition groups, the state will seek to avoid heavy-handed repression that would cause international uproar and rather instead pursue a strategy of authoritarian containment. In this regard, the release of political prisoners into exile can be seen as symptomatic. The quest for expanding citizen rights on the island, including a more pluralist debate and access to information, will remain at the center of the political agenda.

A key challenge for the current political leadership is the preparation for a generational change of guard. While Raúl Castro's tenure can be seen as the transition from the "historic generation," it is still uncertain what generation of leaders may follow (and this all the more so as under Raúl, the most prominent heads of the "next generation" were purged and replaced by inoffensive cadres). Beyond the Congress in April 2011, a Communist Party conference has been scheduled for late 2011 and pre-candidates for Central Committee membership are already being named at the level of party cells and municipal party branches, so leadership renewal clearly is on the agenda. The question of the top leadership position will by all likelihood not be touched upon; however, it will inevitably return to the political agenda the closer the end of Raúl's formal six-year mandate as head of state draws in 2014. Fidel Castro has withdrawn from domestic politics to such a degree that an eventual death of the revolution's historic leader, for a long time a key variable in any Cuban scenario, no longer would have a fundamental political impact.