

# BTI 2014 | Cuba Country Report

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This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

Please cite as follows: Bertelsmann Stiftung, BTI 2014 – Cuba Country Report. Gütersloh: Bertelsmann Stiftung, 2014.

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**Key Indicators**

Population	M	11.3	HDI	0.780	GDP p.c.	\$	-
Pop. growth <sup>1</sup>	% p.a.	0.0	HDI rank of 187	59	Gini Index		-
Life expectancy	years	78.9	UN Education Index	0.857	Poverty <sup>3</sup>	%	-
Urban population	%	75.2	Gender inequality <sup>2</sup>	0.356	Aid per capita	\$	5.8

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

## Executive Summary

In February 2008, Army General Raúl Castro (born 1931) became president of the Council of State and the Council of Ministers, formally replacing his brother, Fidel Castro. In April 2011, Raúl Castro became first secretary of the Communist Party of Cuba, also replacing his brother Fidel. The transition from Fidel to Raúl Castro as head of state has happened within a general context of political stability. In February 2013, Raúl Castro confirmed that he would serve no longer than 2018 and designated 52-year-old Miguel Díaz-Canel as Cuba's first vice president and as his expected successor.

Acting President Castro began a gradual process of market-oriented reforms, which picked up some speed in fall 2010 with the publication of the Communist Party's Lineamientos, a program for economic change within the context of the single-party communist political system, in which the state was envisioned as retaining ownership of most of the means of production. The Lineamientos were approved in general terms in spring 2011 at the Sixth Congress of the Cuban Communist Party, but the congress also curtailed the scope of change. For example, the party congress authorized less autonomy for the managers of state enterprises than the Lineamientos had proposed. Among the more important economic changes approved were the authorization of the private purchase and sale of houses, apartments and automobiles; the increased number of permissible economic activities for small businesses, officially called "self-employment" opportunities; the authorization of the right to till state-owned land; increased rights to purchase consumer durables (cell phones, computers, etc.); and in March 2013, the authorization of wholesale sales to the self-employed.

The country faces steep challenges as it embarks on its economic transition, however. The median salary amounts to about \$0.65 per day. Transactions make use of two currencies, one pegged to the dollar and the euro, with the other equal to about 24 pesos per dollar. The government announced plans in the fall 2010 to dismiss a half a million state employees in the course of six months; it failed to dismiss even a third that many. The death of President Hugo Chavez will

require Cuba to recalibrate its relations with Venezuela. Key social policy changes already implemented include a lifting of the requirement to attend middle school in state boarding schools, a more tolerant attitude toward homosexuals spearheaded by Raúl Castro's daughter Mariela, and in January 2013 the elimination of the exit permits that had been required in addition to a passport in order to travel. Even opposition blogger Yoani Sánchez was thus allowed to travel for the first time.

Within the framework of a communist single-party system, Raúl Castro has revived political life. There have been national congresses of regime-sponsored mass organizations and at long last the Communist Party congress. Communist Party statutes had mandated that a party congress be held approximately every five to six years, yet there had been none between 1997 and 2011. Raúl Castro has also sought to infuse new life into the institutions of the political regime. Each of these national congresses requires the prior engagement of its attendees in a leadership renewal process and the discussion of action programs. While there has been a nearly complete replacement of the members of the Council of Ministers, the membership of the politically more important Communist Party Political Bureau has changed little. The 2011 Political Bureau is smaller than its 1997 predecessor, having shed members that were not closely trusted by Raúl Castro. Raúl Castro created a Political Bureau executive committee peopled by the vice presidents of the Council of State; their median birth year upon appointment was 1936. This reduced the likelihood of inter-institutional conflict, but also reduced the variety of voices that would directly be heard by the president, and effectively blocked younger leaders from the top echelons of the state and the party.

In 2013, Cuba held its quinquennial election for the National Assembly; once again, the number of candidates equaled the number of seats, and only the Communist Party could campaign. However, the proportion of nonconforming votes (ballots that did not contain votes for all candidates, plus blank ballots and null votes) reached 24%, rising from 14% in 2008. The government has taken no notice of this outcome, which implies it is not the result of an embrace of political liberalization, but rather a lawful means of demonstrating opposition.

Democratizing or liberalizing political changes remain few, but three deserve mention. One has been the increased frequency and openness of debate in regime-sponsored institutions. The second has been a public and reasonable dialogue with the Roman Catholic Cardinal Archbishop of Havana, which in 2010 led to the freeing of Cuba's last political prisoners (although the frequency of arrests and temporary imprisonment has risen as a counterweight). A greater freedom of expression for archdiocesan and other magazines has also been allowed. The third measure, implemented in 2012, was the removal of the requirement that would-be travelers abroad secure an exit permit in addition to a Cuban passport.

## 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 January 1959. Both state and regime are stable. In this single-party political regime, the number of candidates equals the number of seats for National Assembly elections. The Communist Party vets in advance all National Assembly candidates and all candidates for appointments to top managerial, administrative, professional and elective posts. The government owns and operates all mass media.

In the late 1970s, Cuba made its transition to a “lawful” authoritarian regime. A new constitution was enacted in 1976, which established the National Assembly. The number of political prisoners fell markedly in this period, and the courts henceforth began treating criminal and civil cases in a more professional fashion. In 1976, multicandidate single-party elections also began for municipal offices. In 1975, the Communist Party held its first congress; subsequent party congresses met in 1980, 1985 – 1986, 1991, 1997 and 2011.

As a result of the collapse of the Soviet Union and the loss of Soviet subsidies, gross domestic product fell by approximately 30% between 1990 and 1993, and international trade fell by three-quarters. In the early 1990s, the Cuban government adopted several market-oriented reforms, welcoming international foreign direct investment in partnership with state firms, especially in the tourism, mining, and petroleum and natural gas sectors. These joint ventures were required to hire all Cuban employees through a government agency. The government authorized free agricultural markets and limited self-employment, both under severe regulatory constraints. It legalized the acceptance of remittances from the Cuban diaspora. It curtailed the budget deficit to below 4% per year on a sustained basis, with minor exceptions over the next two decades. Consumer price inflation, very high in the early 1990s, has remained in the single-digit range since the late 1990s. However, those economic changes did not prevent the collapse of sugar production, hitherto Cuba’s most important economic activity, which fell from over 8 million metric tons of sugar per year in the 1980s to no more than 1.5 million metric tons per year since the start of the 21st century.

Between 2003 and 2006, Fidel Castro retreated from the market-opening policies, acted to personalize power once again and deinstitutionalized the political regime’s underpinnings. Political repression directed against the opposition intensified in 2003 as well, and the autonomy of state enterprises was curtailed. This last gasp of the highly centralized bureaucratic socialist economy was financed by Venezuela’s President Hugo Chávez. Cuba received petroleum at a deep discount relative to international market prices, and paid for it by dispatching tens of thousands of Cuban health care personnel, teachers, sports coaches, bodyguards and intelligence operatives, and other service providers to work in Venezuela, to provide services in third countries, or to work in Cuba but with salaries provided by Venezuela. Such service functions became Cuba’s principal export (followed by tourist services). Venezuela paid the Cuban government, which then paid Cuban workers; these transactions supported Cuban government finances until the 2008

worldwide economic crisis. Venezuela's reduced capacity to subsidize the Cuban economy became a stimulus for President Raúl Castro's subsequent market-oriented reforms. These have stabilized the economy, but have produced only a modest GDP growth rate (about 3% per year).

The United States has sustained a comprehensive sanctions regime since 1960, respectively known as the "embargo" or the "blockade" in the United States and Cuba. The U.S. president has authority to suspend nearly all segments of this policy, which is codified into law as the Helms-Burton Act. For example, every six months presidents Clinton, Bush and Obama have routinely suspended sanctions on foreign firms that invest in Cuba, and have failed to implement sanctions against executives of such firms. President Bush authorized the export of U.S. agricultural products to Cuba; the United States is today Cuba's main international supplier of such products. President Obama provided blanket authorization for any U.S. citizen to send remittances to any private person in Cuba, as well as for unrestricted travel by Cuban-Americans. Licensed travel for religious, humanitarian or cultural reasons also takes place. In the U.S. House of Representatives elections in 2012, a Cuban-American Democrat in Miami defeated one of the lower house's three Cuban-American Republicans, signaling the slowly unfolding political change within that city's large Cuban-origin population.

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

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

The state possesses and exercises a monopoly on the use of force throughout the entire territory. The last internal war ended in 1966. The last nonviolent public riot of significant size took place in the summer of 1994. Violent crime rates have risen since 1990, but remain low by world standards. The only obvious exception is the U.S. naval base on Guantánamo Bay, which is Cuban territory, but the monopoly on force there is exercised by the United States on the basis of a lease arrangement predating the Cuban Revolution. Cuba has a long-standing claim for the return of the base to Cuban sovereignty. However, this dispute has not to date surfaced as a major issue in Cuban-U.S. relations.

There is widespread agreement on who should be a Cuban citizen. 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 with regard to residents of the island, the large-scale emigration since 1959 complicates the issue. Twenty to twenty-five thousand people emigrate to the United States every year, a few hundred to Spain and Israel, and smaller numbers elsewhere. The Cuban government considers all of them Cuban despite the acquisition of other citizenships by most of these emigrants. The adoption of U.S. citizenship by most émigrés represents a possible future complication; many of these individuals combine a sense of belonging to Cuba with sympathy for the political and economic claims made by the United States. This may in the future raise challenging questions about émigré participation in political and social affairs (including issues such as dual citizenship).

The state is secular. Cuba was a secular society before the 1959 revolution. The Roman Catholic Church was disestablished in 1898, when the United States occupied Cuba. The syncretic Santería constitutes Cuba's most widespread religion, but is only marginally institutionalized and does not have a hierarchical nationwide organization. The state owns and operates all the schools, health care institutions, cemeteries and

Question  
Score

Monopoly on the  
use of force  
10

State identity  
10

No interference of  
religious dogmas  
10

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. Religious persecution occurred in the 1960s, but has diminished over time. Through the revision of the 1992 constitution, lawful discrimination against religious believers was abolished, and the Communist Party no longer bans religious believers from its rank and file. However, religious believers are still informally denied certain rights, especially with regard to promotion to top management positions or administrative jobs.

In recent years, 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. However, if the government does take the church's positions on social issues more into account today, it would at present be an overstatement to call it an influential political actor. The Catholic Church is still struggling to reorganize, and does not see itself as a political actor. Its future room for maneuvering will depend on the legitimization needs of the regime.

The state has a differentiated administrative structure throughout the country, enabling it to extract and allocate resources. This structure includes a compulsory military service law as well universal coverage of social services such as health care and education, though with deteriorating quality. However, the state's capacity is limited when it comes to economic matters. It has been unable to 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 taken on more importance since the 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. The 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 evacuate large numbers of people efficiently and to restore damaged public facilities.

Basic  
administration  
9

## 2 | Political Participation

Political participation takes place within an authoritarian brand of socialism, which allows the existence of only one party, the Communist Party of Cuba (PCC). There are no competitive democratic elections. The electoral law requires that the number of National Assembly candidates be equal to the number of seats. Electoral commissions chaired by Communist Party officers nominate candidates. Ballots for National Assembly elections that are cast blank or voided, or which contain votes for some but not all the candidates on official lists, are officially counted and reported,

Free and fair  
elections  
1

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. In the 2013 election, the proportion of nonconformist votes rose to 24%. The government has not commented on this outcome. Thus the change does not result from an embrace of reform, but does demonstrate an institutional flexibility that might someday facilitate a peaceful and lawful transition.

The government exercises its monopoly power over the mass media before each election. The National Assembly typically meets 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 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 and issues relating to post-Fidel leadership succession have not been addressed. Despite some relaxation of policy toward dissidents, there is no suggestion yet of the introduction of pluralism in the electoral system.

No government official is elected democratically, including the members of the National Assembly. The National Assembly typically meets twice each 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, though assembly commissions can question ministers and other high officials, and assembly discussions may cause the executive to amend or delay a bill. Municipal elections remain single-party, but by law there are two candidates per post.

Effective power to govern

1

Whereas the constitution guarantees the right of assembly (Article 54) except as prohibited by law, in practice, the opportunity for bottom-up freedom of assembly 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. A wide array of professional associations or organizations for specific purposes (culture, ecology, etc.) has been set up, but these lack real autonomy and are subordinated to the structures of party and state. 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."

Association / assembly rights

3

The state security services harass and at times imprison opposition leaders. Starting in the early 1990s, opposition and human rights groups began to develop. 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. Social gatherings of subcultural groups are in principle tolerated, but state monitoring and harassment remain common. Assembly, even by dissidents, is largely tolerated as long as it remains confined to private homes; the crucial step triggering state repression is when assemblies seek public spaces or take to the streets. In recent years, limited Internet access has created an opening for opposition critiques, most notably by blogger Yoani Sánchez. While dissident bloggers can hold regular meetings in their homes, they have suffered harassment when acting on the streets. A major exception was noted in 2010, when regular public marches by the so-called Ladies in White, demanding the release of their imprisoned family members from jail, were de facto tolerated. In a church-mediated move, the government agreed to release the political prisoners after most agreed to go into exile with relatives, thus bringing an end to the marches.

The state exercises monopoly ownership and control over television, radio and newspapers. Some officially sponsored magazines such as *Temas* discuss pressing 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. *Palabra Nueva* and especially *Espacio Laical* have widened the scope of public debate on all topics since 2010, with a much-expanded circulation thanks to email-based distribution.

Since Raúl Castro's call for reform and self-criticism, the margins of debate within state media have notably widened. There has also been 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.

The Internet's corrosive effect on the state media monopoly is of increasing importance. An independent blogging scene 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 in Cuba's opposition. For a variety of nonconformist artists too, the Internet offers a forum with considerable international reach and repercussion. A new informal press based on email-circulated publications and blogs has emerged; this has greatly widened the scope of debate among intellectuals and professionals, though with precarious legality.

Freedom of  
expression  
3

### 3 | Rule of Law

There is no separation of powers in the liberal sense. The constitution vests supreme power in the National Assembly, though this body 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. Justices and other judges may be easily removed. Nor is there a separation of functions between state, government, party and military leadership. Raúl Castro is head of the Council of State, head of the Council of Ministers, first chairman of the Communist Party and supreme commander of the Armed Forces. He has brought the top leaderships of the Political Bureau, the Council of State, and the Council of Ministers closer together, and those who respond to them find it difficult to distinguish between functions. However, with the transfer of power to Raúl Castro, leadership has become less based on the individual leader and more on institutions. The parallel government structures 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 institutionally differentiated but 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 a life term. 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 nonpolitical 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 the privileges normally accorded to leading cadres. Under the Raúl Castro presidency, and especially since 2010, prosecution of corrupt officials has escalated especially in sectors with international engagement (tourism and mining, for example). The newly empowered national auditor/controller’s office systematically inspects agencies and state enterprises. In late 2010, important prosecutions included several corrupt hospital administration officials, thus revealing problems of poor performance even in the health care sector, as well as the existence of petty corruption in general. Cuba’s official press now covers the punishment of corrupt officials prominently.

Prosecution of office abuse

5

However, there is no real 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 of corruption or the veracity of claims. Some “corruption” trials have in fact been the

product of vendettas against officials who had fallen out of favor. In some cases, officials are removed from office without any reason provided, and conjecture and rumor as to 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 cited instances of corruption as one of their unpardonable faults. However, the political overtones contained in the act of eliminating a potential "reformist" faction within the government were so overwhelming that the corruption claim was considered no more than a distraction from the real political reasons for the dismissal. There was no prosecution beyond the sanctions pronounced within Communist Party structures, though figures who are in effect public officials should be held accountable by public courts.

In Cuba's strong-state authoritarian regime, there is little effective protection of civil rights or of personal liberty. Notably, freedom of assembly and freedom of expression are severely curtailed. However, there is general equality before the law among citizens regardless of gender or ethnic background. Racial discrimination is outlawed, though Cubans of color are disproportionately present in the prison population. The numbers of persons imprisoned for "political crimes" has dropped substantially, though arrests and short prison sentences for opposition and human rights activists have become more common. The release of 50 prisoners in 2010 was linked to most of the prisoners' acceptance of exile rather than representing an expansion of civil rights at home. Official tolerance for the freedom of religion has continued to widen, especially thanks to Raúl Castro's public remarks on the topic, but the freedom to exercise religious beliefs outside a place of worship remains constrained and there are residues of discrimination against religious believers.

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 state- or judicially ordered executions 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 pending death penalty sentence to replace it with prison time. Since Fidel Castro's retirement, major public awareness campaigns have been launched against discrimination based on sexual preference, largely led by Raúl Castro's daughter Mariela Castro, who heads the National Center for Sexual Education (CENESEX). Police officers have received training to help prevent abuse against homosexuals.

Civil rights

4

#### 4 | Stability of Democratic Institutions

There are no established democratic institutions in Cuba 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 whose leaders wish to keep it so. 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 of Cuba (PCC), which has about 800,000 members. The long-overdue Sixth PCC Congress was finally held in April 2011. Besides the retirement of Fidel Castro as first secretary of the Central Committee of the Communist Party, the main topic at the congress was the ratification of economic reforms.

Party system

1

Interest groups as normally understood do not exist. Only the Roman Catholic Bishops' Conference and perhaps the Ecumenical Council of Protestant Churches are able to represent their specific social interests. The Roman Catholic archdiocese of Havana has begun to teach business management classes at the site of its former archdiocesan seminary. Institutions truly independent of the state are small and weak. State-controlled organizations serve as top-down channels of communication as well as organizational frames for the 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 policymakers at times effectively react (although mostly without admitting they are doing so). The officially sponsored labor confederation and peasants association have at times resisted, mitigated or modified government policy. With the onset of reforms under Raúl Castro, the role of such organizations has increased, with a number of them beginning to articulate the interests of their constituency more honestly than before.

Interest groups

2

Particularly noteworthy is Raúl Castro's public recognition, reflected in Cuba's mass media, of the role of the Roman Catholic Cardinal Archbishop of Havana both in securing a higher degree of respect toward the Ladies in White marches (requesting

that marchers not be assaulted with rocks or fruit, for example) and serving as a mediator in the freeing of political prisoners. Opposition and human rights groups have existed since the early 1990s. Scientific organizations and ecological associations have at times required state enterprises to modify tourism development plans that would have caused severe environmental damage. Historical preservationist associations outside Havana (the Office of the Historian in Havana protects the old city) have acted to protect historic buildings.

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

Approval of  
democracy

n/a

The level of trust between citizens in Cuba is almost impossible to ascertain. There are no reliable public opinion surveys that measure trust among Cuba's citizens. With the exception of dissident and faith-based organizations, cultural, environmental and social associations are not independent from the state, but usually seek to widen their permitted scope of influence within the existing political framework. There is some limited participation in the few independent civic associations. The barriers to such engagement are derived from state and Communist Party policy, and most likely not inherent in the culture. 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, many of which have seen notable growth. Social capital has grown through readers' circles, food growing associations and other cooperatives, and religious groupings. It is likely, but impossible to determine with any certainty, that the rise of the blogging community has had a similar effect.

Social capital

4

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

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 care 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 introduction of monetary dualism (i.e., first the introduction of the U.S. dollar, and later of the convertible peso). Officially published data on the Gini coefficient are calculated excluding the impact of hard

Question  
Score

Socioeconomic  
barriers

6

currency, and thus deliberately miss a key element in society's rapidly increasing inequalities.

The 2011 Human Development Index (HDI) ranks Cuba 51st with a value of 0.776, just behind Romania (0.781) and four positions ahead of Bulgaria (0.771). Though it has a rather low gross national income per capita (based on estimations by the Economic Commission for Latin America and the Caribbean (ECLAC) and cross-country regression), putting Cuba only at 103rd place worldwide on this measure, the country profits from a strong education system. Consequently, the Non-Income HDI ranks Cuba (0.902) at the same level as Greece and near Austria (0.908), and clearly ahead of the remaining Latin American countries (led by Chile with 0.862). Most international measures of poverty – at least those referring to income per capita – tend to be misleading. Given the wide spectrum of goods provided offered by Cuba's state-socialist economy (housing, subsidized food, health care and education), monetary income is not the only key to access. As a consequence, official Cuban think-tanks speak of a "population at risk" rather than of poverty. According to these sources, before the start of recent economic reforms, about one-fifth of Cubans were considered to be "at risk," meaning they claimed a monthly income below \$4, grew no food and received 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.

There is no social exclusion by race or gender, though some discrimination continues to exist. However, economic reforms introduced since 2010 seem to have enhanced social inequality notably. In addition, remittances from Cuban emigrants travel along family lines, and hence are in some sense related to skin color. This has become particularly acute since remittances can now be invested. Inequality has thus become more than just "barely" structurally ingrained. Furthermore, subsidies are being gradually cut and prices made more market-oriented, implying more exclusion for those with low incomes. This has also begun to affect pensioners, which might become a group at risk of poverty if policymakers do not act to correct this issue.

Economic indicators		2009	2010	2011	2012
GDP	\$ M	-	-	-	-
GDP growth	%	1.4	2.1	-	-
Inflation (CPI)	%	-	-	-	-
Unemployment	%	1.7	2.5	-	-

Economic indicators		2009	2010	2011	2012
Foreign direct investment	% of GDP	-	-	-	-
Export growth	%	4.1	-1.9	-	-
Import growth	%	-17.7	16.6	-	-
Current account balance	\$ M	-	-	-	-
Public debt	% of GDP	-	-	-	-
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	38.5	37.9	-	-
Public expnd. on edu.	% of GDP	13.1	12.9	-	-
Public expnd. on health	% of GDP	11.2	9.7	9.5	-
R&D expenditure	% of GDP	0.61	0.61	-	-
Military expenditure	% of GDP	3.4	3.3	-	-

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

## 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, the economic reforms launched in September 2010 and approved by the National Assembly in 2011 downsized the state's direct economic role and have given a greater role to private sector and market forces, no matter how small and weak. This trend is presumably following the Chinese or Vietnamese state model. Self-employment (meaning small businesses, typically with fewer than five employees) has grown in incidence and importance, above all in the petty services and agriculture sectors. Market transactions between these businesses are lawful. The private sale of residences has been authorized, though there is no effective mortgage financing. Government taxation and regulation of this private economy remains severe. Described by the state as "perfecting socialism," all these measures aim at diminishing the apparently large informal sector, and thus provide for additional state revenues via taxes.

Market-based  
competition

3

Self-employed business owners can for the first time hire employees outside their own family, which in effect changes the character of self-employment to what is essentially micro-business or small business. 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 attain. 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 were legalized after the transfer of power from Fidel to Raúl Castro.

Although the reforms mark a watershed in Cuban economic policy, the market sector remains by all international standards limited and legally precarious, while state intervention remains strong. In addition, there remains very little market-based competition in most product and service sectors. The lawful market economy in tourism is in fact characterized by a tight oligopoly of a few foreign firms in joint ventures with the state. Genuine open-market policies able to spur growth in trade and investment are lacking, and the lack of competition stifles productivity growth.

According to the Heritage Foundation, regulatory efficiency remains poor. The application of regulations is inconsistent and nontransparent. State control of the labor market has spurred the creation of a large informal sector. In an attempt to reduce labor market rigidity, the government has implemented a measure allowing workers to hold more than one job. Monetary stability is vulnerable to state interference, with prices subject to controls. The state also maintains strict capital and exchange controls.

The state still holds a monopoly on many core sectors of the economy. Government concessions to foreign investors are cartel-promoting – that is, they create and protect monopolies or oligopolies even in sectors (e.g., tourism) where world market structures would facilitate competition. The growth of market-oriented changes to favor small businesses has widened some areas of competition in petty services. In general, however, the government sees monopolies as an ideal rather than as a problem. This was demonstrated more recently by the recentralization of Internet service provision, withdrawing the license held by CITMATEL – an entity belonging to the Ministry of Science, Technology and Environment (CITMA) – and allowing the Cuban Telecommunications Enterprise (ETECSA) to take control of all operations formerly conducted by CITMA.

Foreign trade is largely in the hands of state enterprises or joint ventures with high state participation. Only “trade” in tourism shows some elements of liberalization. In part because Cuba trades heavily with China and Venezuela, it still finds it easy to retain state monopolies in foreign trade. According to the Heritage Foundation, the

Anti-monopoly  
policy  
2

Liberalization of  
foreign trade  
2

trade regime remains largely nontransparent. Foreign investment must be approved by the government, which exercises extensive control of economic activity.

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 barred state firms from retaining foreign currency revenue, the situation has gradually been decentralized again under Raúl Castro's leadership. Cuba depends on the world market to export key products such as nickel, as well as services such as tourism and health care.

While Venezuela has 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 within the framework of the Bolivarian Alternative for the Americas (ALBA) is gradually giving way to more diversified economic relations. Particularly with respect to trade with China, trade is not only a state affair but is driven by Chinese entrepreneurial logic, which demands a certain amount of liberalization within Cuba in return. Cuba has been a member of the WTO since 20 April 1995.

The state owns all banks. There is no capital market. The Cuban banking sector is highly opaque. The central bank acts both as banking regulator and shareholder of much of the Cuban banking system, which includes eight commercial banks and a number of nonbanking financial institutions. The most important bank for international transactions, the Banco Financiero Internacional, does not publish its records or report to the national accounts system. The Cuban state operates banks in third countries, as for example the Havana International Bank, which is registered in London. Other banks are kept secret, under the argument that they could not otherwise fulfill their function 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.

Banking system

1

## 8 | Currency and Price Stability

Cuba's inflation rate has remained in the single digits since the mid-1990s. 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 explicitly sought 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 remain a key concern in the foreseeable future. According to Rabobank, the inflation rate in Cuba was recorded at 5.50% in 2012, with an average rate of 3.6% between 2005 and 2012. In 1997, Cuba reformed its banking sector and the Central Bank of Cuba (Banco Central de

Anti-inflation /  
forex policy

4

Cuba) became the new central bank. It has no autonomy with respect to the state, however. The president of the central bank serves ex officio as a member of the Council of Ministers of Cuba.

Foreign exchange policy serves political purposes. 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, which is used for transactions in hotels, restaurants and well-stocked retail stores. The dual- currency system is the institutional foundation of the markedly widened inequality that appeared in Cuba in the 2000s. Foreign exchange policy is subject to manipulation for political reasons. University of Havana economists have long proposed a unification of the currency, but have yet to persuade top policymakers to do so. Restructuring the country's currency market is a mid- to long-term policy goal rather than an immediate reform project.

The Cuban government is concerned with problems of macrostability, but sees this as a condition for regime and overall system stability, and the area is therefore guided by overriding political rather than economic principles. Reforms initiated in 2010 aimed at relieving pressure on the state's budget are to be seen against this background, and thus aimed at safeguarding the viability of the "Cuban way." Accordingly, there are no "autonomous" institutional safeguards for macrostability, which merely depends on the decisions of the State Council. Budget management has been professional since the mid-1990s, and the budget deficit as a percentage of gross domestic product has ordinarily been 4% or below, except during the 2008 financial crisis when it rose to 6.7%. Raúl Castro has rendered budget management less "populist" than was the case under Fidel Castro. Public debt has been estimated at about 35% of GDP in recent years.

Macrostability  
5

Concerning external debt, Cuba stopped servicing its international obligations in 1986. In 1992, it refused to pay Russia or any successor Soviet state the debt that it had accumulated with the Soviet Union. It regularly renegotiates the debts that it has incurred for non-payment of trade credits. China has agreed to defer payments of interest and principal on Cuba's trade credits, and in 2013 Russia and Cuba agreed to settle the long overdue Cuban debt to the Soviet Union, but details of this settlement were not available as of the time of writing beyond Cuba's new commitment to purchase Russian goods. The CIA World Factbook reports a continued rise in foreign debt from about \$12 billion in 2006 to \$21.5 in 2012.

## 9 | Private Property

Property rights in general remain weak, but have strengthened somewhat since the reforms initiated in 2010. In 2012, the government authorized the private sale and

Property rights  
3

purchase of houses, apartments and cars. The government accords usufruct rights to those who till state land, and in 2012 strengthened these rights to some extent. However, according to the Heritage Foundation, the government adheres to socialist principles in organizing the state-controlled economy, and most means of production are owned by the state. Citizens may own land and productive capital for the purposes of farming and self-employment. The constitution explicitly subordinates the courts to the National Assembly of People's Power and the Council of State. Corruption remains pervasive, undermining equity and respect for the rule of law. Though courts play a role in settling disputes between Cuban companies and do so in a professional manner, they are insufficient protection in disputes between a firm and the Cuban government.

At most, private companies are permitted as exclusive enclaves; otherwise the state dominates the economic system. As mentioned above, post-2010 reform measures have been primarily driven by the logic of regime legitimacy rather than by any intention of supporting private enterprise, though changes may be more permanent this time and generate their own self-perpetuating dynamics. Though a climate of "new entrepreneurship" has evolved since the implementation of these reforms, it is confined either to self-employment – including the hiring of non-relatives for the first time – or to some nonagrarian cooperatives engaged in pilot projects. Changes to agrarian law in 2012 strengthened the private rights of semi-private cooperatives. Handicrafts, fisheries and taxi cooperatives have also become lawful.

Unsurprisingly, the public sector remains the largest source of employment, accounting for more than 80% of all jobs. A watered-down reform package endorsed by the Cuban Communist Party in April 2011 promised to trim the number of state workers and allow restricted self-employment in the nonpublic sector, but many details of the reform are obscure and little progress has been observed. The private sector is severely constrained by heavy regulations and tight state controls. To put it another way: Cuba's new "market economy" is light-years away from "communist capitalism" as implemented in China or Vietnam, though these countries may ultimately serve as models for a market economy that is only indirectly controlled.

According to a report from the Ministry of Economy, the number of private or "non-state" workers rose by 23% in 2012, while state sector employment dropped by 5.7%. The unemployment rate rose to a record 3.8%, a figure that does not include Cubans who did not seek work at all. Joint ventures between the state and international private firms operate in such sectors as tourism, mining, petroleum and natural gas under Article 15 of the 1992 constitution. There is no privatization as such.

Private enterprise

2

## 10 | Welfare Regime

Despite the profound economic crisis that has gripped the country 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 unemployment compensation. There is a universal-coverage pension system paid in pesos; the minimum pension remains about \$4 per month. While Cuba's social safety net is in many respects without equal when compared to other Latin American countries, its quality has been continuously deteriorating. Queues have lengthened for health care provision, as the government now exports medical services to Venezuela and other countries, and the country serves as a health tourism destination. Cuban life expectancy remains comparable to European societies and Cuban fourth graders score in international mathematics tests at a level similar to that of East Asians.

Social safety nets  
6

The implementation of economic reforms in the years since 2010 was bound to increase social inequalities substantially, as these involved a cut in state subsidies, the gradual elimination of rationing cards, a reduction in the number of state jobs and the implementation of market mechanisms as a means of allocating resources to a more significant degree than before. These policies have generated significant downward social mobility, however, while increasing individual vulnerability and societal inequality. Research shows that older persons, residents outside Havana and tourist enclaves, and non-whites have experienced a deterioration in their material circumstances over the past two decades, whereas younger people, Havana and tourist-enclave residents, and whites have gained significantly over the same period.

There is still considerable equality of opportunity. White-black differences are minimal with respect to access to primary and secondary education. Women constitute a majority of students in most university degree programs, including medicine. However, gender inequalities exist in top political and managerial jobs, and racial inequalities appear in the professions. There is declining but residual discrimination against religious practitioners in top political and managerial jobs. Equality of result (see "social safety nets") has deteriorated, however.

Equal opportunity  
7

The greater ease in receiving – and thus the increasing societal importance of – remittances from Cuban-Americans has skewed gains to whites and those who have retained family ties with emigrants. Remittances are being used as startup capital for self-employment business activities. The admissions test to the University of Havana has become more difficult, a fact providing parents with incentive to hire private tutors, a category that now exists as one of the authorized instances of self-employment. Rather than an individual's social background, a key limitation with regard to equality of opportunity is political loyalty. Open disapproval of the system is likely to severely affect upward mobility.

## 11 | Economic Performance

Cuba's economic performance is relatively weak, a fact that has in part prompted the government's "anti-socialist" reform efforts aiming at higher efficiency. Gross domestic product per capita is at about the level of the mid-1980s, although inequality is today much higher. GDP growth rates have slowed during the past half-decade, and have been in the range of 2% to 3% per year since the beginning of this decade. Cuba does not follow the generally accepted standards for national accounts and it is therefore very difficult to ascertain its aggregate macroeconomic performance.

Output strength  
5

Disguised unemployment is substantial; open unemployment levels are low, but the data on unemployment are meaningless. Two-thirds of the newly lawfully self-employed have reported that they had had no prior job, which suggests either much higher unemployment rates than are openly admitted, or more likely, sustained engagement in illegal markets. The government has not met its announced targets for dismissals of state employees, though official figures say otherwise. Inflation rates remain in the single digits, but the price index has yet to take fully into account the new higher-priced self-employment activities. The budget shows a manageable annual deficit. Debt levels escalated in 2008 – 2009, but were better controlled in 2012.

## 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 have damaged the environment for decades. Accelerated tourism development since 1990 has compounded ecological damage around the cays in the Cuban archipelago. Cuban scientists have succeeded in introducing some environmental reviews into tourism design projects. The Ministry of Science and Technology has been charged with looking after the environment. There is little public environmental accountability on the part of government agencies or licensed joint venture firms, although National Assembly commissions have occasionally posed questions regarding environmental risks and damages.

Environmental  
policy  
5

Cuba has long spent a large fraction of its resources on education. However, it has also been a worldwide example of low economic return for this vast investment. The export of health care and other services to Venezuela over the course of the past decade represents the country's first significant economic return on this investment. Cuba has a large network of institutions of primary, secondary and tertiary education, as well as many research institutions. However, recent years have seen a notable

Education policy /  
R&D  
7

overall decay in quality in almost all sectors of education, particularly within primary and secondary schools, indicating a certain erosion of Cuba's education system.

The quality of the country's science and scientists in some fields (e.g., tropical medicine) is world class, though many also fall below world standards. Cuba has invested huge (but undisclosed) sums in the development of biotechnology, and has developed very good applied science in the field; the transformation of such research into commercially useful products has been more halting, though this has improved in recent years. There is no private educational system, though private tutoring has been permitted since 2010.

The marked increase in the failure rate in admissions tests for the University of Havana suggests a deterioration in the quality of secondary education in recent years. The rise in the number of private tutors, which have been lawful since 2010, may be a response to such a decline in quality, or to the increased income of wealthier Cubans, or to the very limited purchasing power of teacher salaries. The quality of most municipal universities and of all but a few provincial universities has been and remains poor.

# Transformation Management

## I. Level of Difficulty

As the present government represents a direct line to the revolutionary government that has governed for more than half a century, it is difficult to distinguish precisely what is the result of the current leadership's actions and what are structural constraints. However, Cuba remains constrained today by the sudden and catastrophic failure in the early 1990s of a development strategy built on the expectation of Soviet subsidies. The 2003 – 2006 attempts to rely on Venezuela for external support came to an end with the 2008 financial crisis. Cuba depends on imported energy, remains vulnerable to hurricanes and the effects of climate change and has come to assume that U.S. economic sanctions are a structural constraint, given that they have been in place for a half century. One out of five Cubans has a monthly income equal to \$4 or less, no access to remittances, no ability to grow food and no access to subsidized food. Even the median Cuban citizen's monthly income is well below \$1 per day. Cuba's geographical location and its prosperous Florida diaspora may become assets for the future, but are not so yet. There are no pandemics, nor extreme poverty.

Structural  
constraints

6

Civil society was moderately strong before the 1959 revolution. The political regime after 1959 undercut the sector's autonomy and prohibited independent civil society institutions outside the churches, which remain weak today despite some resurgence in recent years. Most officially registered non-governmental organizations are mass organizations that the regime sponsors and controls. The same is true of professional associations. Less than one-fifth of the population holds membership in religious organizations. About 5% of the population attends Roman Catholic mass at least once per week. Subcultural groups such as musicians and rappers have developed larger collective identities, 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 within the established intellectual scene seeking more autonomy and wider margins of debate. However, these are comparatively recent developments, and do not yet constitute a tradition.

Civil society  
traditions

7

Cuba's central cleavage is political rather than social, based on loyalty to the socialist system. Despite certain race-based inequalities and a clear underrepresentation of Afro-Cubans in the political and technocratic elite, there is neither politicized racial

Conflict intensity

2

conflict nor a history of race-based violent incidents. However, there has been regime-sponsored violence targeted at human rights protestors, most notably the so-called Ladies in White who have marched in protest against abuses. Many of these protestors are religiously motivated. The government has significantly changed the vocabulary it uses to refer to the diaspora. Emigration in general is currently described in terms that range from neutral to positive, with harsh commentary now focused more narrowly on the visible leaders of anti-Castro Miami organizations.

## II. Management Performance

### 14 | Steering Capability

Question  
Score

Since 2010, the Raúl Castro government has been more systematic and credible in setting strategic priorities. Changes have been slow but steady. It has retreated at times when encountering strong resistance to market-oriented reform but has yet to launch the kind of populist policies more common under Fidel Castro. The government seems to be determined to open some spaces of economic liberty as a mid- to long-term strategic priority, as long as this does not jeopardize the maintenance of political control. Its most important long-term priority, however, remains sustaining the authoritarian regime.

Prioritization  
4

The government has not implemented democratic reforms, although a number of market-oriented reforms have been implemented in recent years. It welcomes foreign direct investment partnerships with state enterprises in selected sectors. It permits agricultural markets with goods sold at market prices. It has expanded opportunities to allocate use rights to till the soil on state farms. In 2010, it authorized small businesses to hire non-relatives as employees. Its budget policies are generally prudent. In December 2008, it raised the retirement age for pension eligibility by five years. The main driver of reform has been Raúl Castro, with the support of University of Havana economists. The main resistance to reform has come from middle management within the bureaucracy. The government insists that it is only “updating” its socialism, however.

Implementation  
4

The Raúl Castro administration has learned that it cannot rely on perpetual bailouts from Venezuela. It has learned that state farms work poorly. It has learned that small businesses are more agile than state enterprises. In 2012, it permitted the creation of a private real estate market. It has not innovated with regard to democratic rules and practices, however.

Policy learning  
4

The migration reform, which removed the exit-permit requirement for those wishing to travel overseas, leaving in place only the need for a passport, signified significant

learning with respect to Cuba's own society and diaspora. Policies toward opposition and dissent changed through the 1980s and 1990s; opposition groups are today permitted to operate, if under duress, without immediate fear of being disbanded. The considerable de facto toleration of dissidents, as well as the acceptance and even the publication of the rise in nonconformist votes in elections, also indicates a kind of ongoing strategic learning concerning the stabilization of an authoritarian regime gradually allowing more pluralism into the societal environment.

## 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 goal of the current reform process. The government thus acknowledges the often inefficient use of available resources. The annual state budget is not balanced, but the deficit has generally remained below 4% of GDP. The financing of state enterprises has continued to depend on a "chain of non-payment," that is, the firms' failure to pay for what they purchase except on a delayed schedule of their own choosing. State enterprises often refuse to supply each other and hoard resources. They respond in the same way in international transactions, which explains Cuba's general payments default in 2008 – 2009. While some attempt to create a more solid tax base has been made, the government's approach and results have remained ambiguous. The self-employment sector can and does set its own prices, but also operates under the burden of significant regulations and high tax rates. Tax rates jump as soon as more than five employees are hired, as tax rates are set not by profits, income or revenues, but rather by the firm's number of employees.

Appointments to senior managerial, administrative and professional jobs are formally and explicitly made on the basis of political criteria. For top jobs, the Soviet-inherited nomenklatura system – the vetting of all senior appointees by the Communist Party – persists. Regulations are typically set centrally in Havana, taking insufficient account of local conditions and territorial variation. Prices for goods or services thus often underestimate the costs of transportation and storage.

The government tries to coordinate conflicting objectives, but with rather limited success. 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 has frequently failed to coordinate between conflicting economic objectives. A key source of incoherence stems from the country's monetary dualism, which utterly distorts economic incentives. The dual-currency system helps to explain the bankruptcy of the sugar industry between 1990 and 2002. The chain of non-payment of enterprise liabilities also provides powerful incentives to eschew coordination. Raúl Castro has discontinued Fidel Castro's Stakhanovite campaigns, thus resulting

Efficient use of  
assets

4

Policy  
coordination

6

in fewer economic disruptions. Macroeconomic coordination improved as a result of better monitoring and budget controls in 2010 – 2012.

Government corruption has worsened substantially since 1990, due to a convergence of three forces: the establishment of just enough of a “market economy,” significant levels of state intervention in that market economy, and the extraordinary discretion allowed to government officials in making micro-decisions. Government prosecution of corrupt officials has increased in frequency since 2000, especially under Raúl Castro’s government. However, this does not effectively curb the structural mechanisms which foster corruption, so the prosecution of individual cases remains somewhat arbitrary. As noted earlier, corruption charges are still at times leveled for political reasons or as part of a personal vendetta.

Anti-corruption  
policy  
4

To a certain degree, the state seeks to fight corruption with a firm hand, as illustrated in a series of anti-corruption pushes in 2010 involving state officials and/or foreign joint venture companies in several key areas ranging from the cigar, nickel and communications industries to food processing and civil aviation. Auditing of state spending and state enterprises also improved markedly in 2010 – 2012. The media monitor petty corruption that affects individual consumers in bakeries, cafeterias and other such establishments, but have no role in investigating higher-level corruption. There are no officeholder asset declarations or conflict-of-interest rules, and the procurement system is not transparent. Foreign firm bids are confidential. According to Reuters, Minister of Foreign Commerce Rodrigo Malmierca delivered a report to the cabinet in May 2013 criticizing “the lack of rigor, control and exigency” of deals “as well as the conduct and attitudes of the officials implicated.”

## 16 | Consensus-Building

No important political actors are working to build a market-oriented democracy. The government and all legal political actors identify with the state-socialist system and reject the tenets of liberal democracy in all public statements. Castro certainly rejects any opening toward political multiparty democracy. In turn, openly oppositional groups rhetorically embrace Western-style democracy; however, these groups remain small and maintain a minimal public presence. The Catholic Church has increasingly taken on a role as mediator, but keeps a low profile when it comes to explicit political articulation. Opposition leaders and Catholic bishops favor a democratic opening, and most favor more market-oriented reforms. President Raúl Castro has enacted a variety of market-oriented reform measures but has denied that he is building a market economy.

Consensus on goals  
2

No significant political actors in government are propelling democratic reforms. The ruling elite within the government, the Communist Party and the military are anti-democratic actors who have effectively prevented the democratization of the regime.

Anti-democratic  
actors  
1

Many within the establishment may harbor some ambivalence regarding the system and a potential democratic alternative, but these feelings, if they exist at all, are confined to private conversations. Only a few actors, such as the leaders of small opposition groups and leaders of religious denominations, seem actively committed to changing significant aspects of Cuban politics. However, how they would redesign the political system remains unclear.

After 1959, the revolutionary regime made it a core commitment to overcome the predominant social, ethnic, regional and gender cleavages. Its record is quite impressive in this regard, although a considerable level of inequality along ethnic, territorial and gender lines persists. The top political leadership has always emphasized the value of unity. It prevents the emergence of racial and regional cleavages through policies that mitigate racial and territorial differences. It also prohibits parties other than the Communist Party. It deploys nationalist feeling against the U.S. government as a means of deepening social cohesion. In the early 1990s, the Communist Party dropped its insistence on atheism and began to reduce religious discrimination in order to include religious believers in its consensus.

A key element of the structure of Cuba's social cleavages was "exported" through the large-scale emigration of the country's prerevolutionary upper and middle class in the wake of the revolution. As a result, socio-structural cleavages remain comparatively low today. However, if one were to regard emigrants as part of the national conflict, the large-scale emigration of dissidents has produced a profound social cleavage, as the conflicts between Cubans on the island and those in the diaspora will be difficult to reconcile. The Raúl Castro government has changed its rhetoric toward the diaspora, targeting only those who lead anti-Castro organizations outside Cuba. This has lowered the intensity of conflict directed toward the diaspora as a whole, potentially easing prospects for the future.

The key cleavage in Cuban society is political in nature, cutting along the many shades of adhesion or opposition to the government and the structures it has created and continues to dominate. Since the government limits the reach and diffusion of opposition activities at a very early stage, it has in effect prevented any escalation into manifest and violent conflict.

The top political leadership manipulates civil society in order to formulate policy autonomously, but does not ignore civil society altogether. The government and party sponsor mass organizations, but are only infrequently influenced by them. Professional associations are also officially sponsored, and have greater impact on the policy areas associated with their expertise. The primary genuinely independent civil society entities are the churches and their associated groupings. It is difficult to know how many Cubans have access to Internet blogs.

Cleavage /  
conflict  
management

6

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 the consequence of aggression against Cuba by the United States, domestic regime opponents or exiles. It also manipulates memories of historical injustices as a weapon against political opponents. There are two exceptions. In 2001, the government invited some former members of the Bay of Pigs exile brigade to revisit Cuba and honor their dead. Moreover, the government under Raúl Castro has acknowledged abuses committed against homosexuals in the 1960s and 1970s. More implicitly, it has acknowledged excesses associated with the hard-line cultural policy of the 1970s. However, in no case has there been a formal process of apology or public consequences for the perpetrators.

Reconciliation  
2

## 17 | International Cooperation

External support comes mainly from Venezuela and China. The political leadership's alliance with Venezuela's Hugo Chavez delayed the implementation of market reforms from 2003 to 2008. Overall, however, the Cuba-Venezuela relationship has allowed the Cuban leadership to realize the country's capacity to export professional services for commercial, not just political, purposes. This discovery is being turned into a development strategy, as the export of services has been extended to third countries with no specific political bonds.

Effective use of  
support  
5

In order to become more independent from Venezuela, the Cuban government has intensified its relations with China, aiming at deepening foreign trade and fostering projects designed to help remake the Cuban economy, particularly in the areas of infrastructure, transportation and energy. Cuban representatives signed economic, technology and agricultural agreements with Chinese officials in 2012.

Cuba has at times accepted relatively large bids from companies in Canada, Spain, Mexico, and more recently Brazil. The government cooperates with specific international donors on particular projects, as in the area of small-scale private-sector reform, but it resists political or economic advice provided by the West. For Cuba, international aid has the effect of improving political and economic performance rather than prompting policy change.

In the past, Cuba's international image has suffered as the ruling elite often sacrificed economic and diplomatic opportunities in favor of political concerns, as in the case of its human rights record. Under Raúl Castro's leadership, the Cuban government has increasingly presented itself as a credible and reliable partner in international affairs, though inconsistencies remain. The government has renegotiated debts with Japan, China and Russia, though the details of the final agreements remain unclear. It is a professional partner of the U.S. Coast Guard across the Straits of Florida and of the U.S. forces at their base near Guantanamo, based on an alignment of interests:

Credibility  
5

The United States does not want Guantanamo prisoners to get out and Cuba does not want the prisoners to get in. The government has in recent years sustained low-profile relations with the Obama administration with minor steps toward “normalization.” Cuba and Spain engaged in negotiations in 2010 over the release of Cuba’s long-term political prisoners and their emigration to Spain. Fidel Castro began Cuba’s role as a mediator between the Colombian government and Colombian guerrillas, while the Raúl Castro government has continued engagement in the most recent round of such mediation in partnership with Norway’s government.

Cuba is active in many regional organizations with Caribbean and Latin American countries. It provides assistance in education or health care to a number of Caribbean islands and to Bolivia, Nicaragua, Ecuador, Paraguay and Venezuela. However, it eschews commitments to regional norms regarding democracy and human rights.

The Raúl Castro government sought and was admitted to the Rio Group. It has joined the Community of Latin American and Caribbean States, and was elected president of this group for 2013. It works well with the Caribbean Community (CARICOM), and provides extensive assistance to Caribbean island states in the areas of higher education and health care services, including a strong engagement in post-earthquake Haiti. The long-standing conflict with the United States remains unresolved, although relations have somewhat improved under U.S. President Barack Obama and Raúl Castro. Normalization measures have eased travel for and remittances from Cuban-Americans, and cooperation over migration issues, academic relations, disaster management and postal services has increased.

Regional  
cooperation  
6

## Strategic Outlook

President Raúl Castro has enacted a peaceful, uneventful political transition, replacing his brother in all leading state (2008) and party (2011) posts. His most challenging authoritarian regime-sustaining political task is to engineer the transition from his political generation to the next. Since his formal assumption of the presidency in 2008, he has shared power with a small group of gerontocrats. In February 2013, he finally appointed the 52-year-old Miguel Díaz-Canel as his first vice president and presumptive successor. However, Raúl Castro missed an opportunity at the 2011 party congress to reinvigorate the Political Bureau's membership, and will likely replace the top leaders one by one as they retire, fall ill or die. No one in the top echelons of the party or the government advocates on behalf of democratizing political openings. One sign of lawful, peaceful political change has been the willingness to recognize the rise in nonconformist voting within the single-party National Assembly elections, with the share of such ballots rising from approximately 14% in 2008 to 24% in 2013.

Cuba's market-oriented economic reforms have picked up speed and significance since 2010. They seem likely to endure and expand. Raúl Castro's reforms have been "worked through" the state's relevant institutions, particularly the sixth party congress, making them structural goals rather than simply the expression of his personal preferences or short-term crisis management measures. Cuba's economic reforms are still woefully limited, however. The capacity of the government to obtain compliance has decreased as compared to the Fidel Castro period, as bureaucrats continue to resist the implementation of market-oriented reforms. The Communist Party congress rolled back some of the economic reforms proposed by Raúl Castro. In addition, Venezuela's new government is unlikely to have the will or capacity to bail out Cuba's economy to the same extent as previously, thereby giving additional urgency to Raúl Castro's reforms.

Notwithstanding, 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. In particular, a more solid legal foundation for the new market actors and an equality of access should be supported. International actors can and should contribute know-how and material support for credit or supply markets, but measures aimed at achieving a sustainable social security system and countering the erosion of quality in the education and health care systems are also needed. The great unknown is whether the people's reaction to this process will remain as passive as in the past. The substantial decline in state employment and subsidized welfare, combined with the new money-making options provided by the growing market sector, has already led to new dimensions of social inequality. Much will depend on the short- and medium-term economic success of the incipient reforms, and in particular their ability to bring tangible benefits and improved living conditions in compensation for the loss of old securities. As the new market actors will depend on the state's goodwill, an alliance between the ruling state elite, the Communist Party, the military and the winners of the market-based reform process may

become a feasible model enabling the retention of power. The demand for transparency will be a key concern if the consolidation of an “uncivil economy” is to be avoided.

As long as the government feels it still is firmly in control, it is likely to continue a careful course of opening space for debate within official institutions, with exemplary yet occasional sanctions for those who cross the line. If these spaces for debate are fostered and secured, they could contribute to the eventual foundation of a more far-reaching democratization of the country at large. With regard to opposition groups, the state will seek to avoid heavy-handed repression that would cause international uproar, instead pursuing a strategy of authoritarian containment. The quest to expand citizen rights on the island, securing 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. The question of the top leadership position will in all likelihood not be touched upon; however, it will inevitably return to the political agenda toward the end of Raúl’s formal five-year mandate as head of state in 2018.