

# Cuba

<b>Status Index</b> (Democracy: 3.37 / Market economy: 4.50) <b>3.93</b>		<b>Management Index</b> <b>2.59</b>	
<b>HDI</b>	0.817	<b>Population</b>	11.2
<b>GDP per capita (\$, PPP)<sup>2</sup></b>	5,400	<b>Population growth<sup>1</sup></b>	0.7 %
<b>Unemployment rate</b>	N/A	<b>Women in Parliament</b>	36.0 %
<b>UN Education Index</b>	0.91	<b>Poverty</b>	N/A
		<b>Gini Index</b>	N/A
Source: UNDP: Human Development Report 2005. Figures for 2003 unless otherwise indicated. <sup>1</sup> Annual growth between 1975 and 2003. <sup>2</sup> Preliminary estimate.			

## A. Executive summary

Cuba features a strong state and an authoritarian political regime. Both have been stable. Cuba's most important political change within the authoritarian regime occurred in the late 1970s, when new procedures enhanced the rule of law and established more predictable decision-making. Cuba remains a single-party regime, where the number of candidates equals the number of seats in National Assembly elections. The Communist Party vets in advance all National Assembly candidates as well as all possible appointees to top managerial, administrative, and professional positions. There are political criteria for admissions to university.

In response to the sudden loss of Soviet subsidies, in the early 1990s the government adopted several market-oriented reforms, including welcoming foreign direct investment in partnership with state firms and international tourism. The government authorized free agricultural markets as well as self-employment, albeit both under substantial regulatory constraints. It legalized the reception of foreign exchange remittances. It cut many state enterprise subsidies, raised taxes on new economic activities in the private sector, and contained its budget deficit to below 4% per year on a sustained basis. Consumer price inflation has been a single-digit number per year for nearly a decade.

Trends in the 2003 to 2004 period have been adverse to market-oriented democracy. The state and the Communist Party are less likely to abide by their own rules, deferring key meetings contrary to laws or statutes. Communist party membership growth slowed. Political repression heightened in 2003. In 2003 to 2004, the government retreated from elements of both trade liberalization and state enterprise managerial autonomy. Rule making and implementation have been somewhat re-centralized. The willingness to sacrifice international economic

cooperation to prevent any semblance of external interference in domestic politics led to a sharp confrontation with European Union governments during most of 2003 and 2004.

Nevertheless, in the previous period (2002-2003) the government allowed some opposition leaders to gather signatures on petitions. In 2003, it did not tamper with the rules that enabled nearly one million Cubans to cast non-conforming votes in the National Assembly election. In late 2003 and in 2004, on credible corruption charges, it dismissed and punished high government officials and state enterprise managers in the tourism sector.

In the early 1990s, Cuban civil society re-emerged with some autonomy and more vibrancy as the state's capacity weakened, creating prospects to cope with hardship and expand democratic possibilities. This civil society arena has persevered, becoming somewhat stronger through communities of faith, even though today self-identified religious believers represent not more than one-fifth of the population.

Political and economic stagnation best summarize the Cuban condition at the end of 2004.

## **B. History and characteristics of transformation**

Cuba's process of economic transformation accelerated in response to the collapse of the communist regimes of Europe. Between 1990 and 1993, Cuba's gross domestic product (GDP) fell by approximately 30%. International trade fell by three-quarters. Cuba's economic difficulties pre-date this external shock, however. The Cuban economy stopped growing in 1985. The GDP per capita fell 5% between 1985 and 1990, while imports fell by nearly 8% and exports by nearly 10% during those years. These difficulties persuaded the government leadership that the economy had become stagnant, helping to explain why their breakthrough economic decision - to authorize foreign direct investment in the tourism sector - was taken in the middle of 1989 well before the magnitude of the communist collapse in Europe would become apparent. Therefore, the principal explanation for Cuba's economic changes since 1989 is international, but domestic factors play some role as well in explaining the onset of economic policy change.

Since 1990, the main characteristic of the new economic policy has been to authorize direct foreign investment especially in tourism, mining, petroleum and natural gas, and in selected other enterprises. Concessions are granted to specific enterprises in the absence of transparent competitive bidding. Foreign firms can only invest, in practice, in partnership with state enterprises and must hire all their Cuban labor from a government agency. Some self-employment has been

legalized but Cuban-owned private businesses that hire non-relatives remain prohibited. Agricultural and handicraft private markets have been authorized and now operate.

Cuba's most important political transformation thus far took place during the 1970s. The number of political prisoners fell dramatically, and the treatment of political prisoners remaining in jail improved somewhat. Cuba's courts began to dispose of criminal and political cases in a reasonably professional fashion, abiding by many internationally recognized standards; the courts did not change their own handling of political crimes much, however. State and party institutions were also formalized in the 1970s. In 1975, the Communist Party of Cuba held its first congress and adopted a party program for the first time. A new constitution went into effect in 1976. Multi-candidate single-party elections began that same year for municipal offices. The newly established National Assembly, the country's parliament, began to audit some operations of national ministries. From the perspective of the "rule of law", the middle and late 1970s was the most important transformative period since revolutionary victory in 1959. Never before, nor since, 1990, have the Cuban government and Communist Party made such an effort to abide by their own laws and procedures. The most "open" aspects of the political regime at the start of the 21st century are still the legacy of the changes adopted in the late 1970s.

The most important political change since 1990 has been the reduced capacity of state and party institutions to rule as they once did or still would like. This relative "loss of control" of what remains a very powerful state and party system helps to explain the rise of a more autonomous civil society, increased crime - especially in metropolitan Havana - and the instances of freer intellectual expression.

## **C. Assessment**

### **1. Democracy**

#### **1.1. Stateness**

The Cuban state possesses and exercises the monopoly of the use of force throughout the entire territory. The last internal war ended in 1966. The last large-scale non-violent public riot took place in the summer of 1994, when thousands protested the government's abusive treatment of those who sought to emigrate without authorization. Since 1990, violent crime has increased, especially in Havana; compared to most cities of the world, however, Havana remains a safe city.

There is agreement regarding who is a Cuban citizen. Cuba is a racially heterogeneous society but persons across the color spectrum fully identify as Cubans. Since 1912, Cuban law prohibits the organization of political parties based on race.

Cuba was a secular society before 1959. The Roman Catholic Church was disestablished when U.S. military forces conquered Cuba in 1898. The state is vigorously secular and it owns and operates all schools, health care institutions, cemeteries, and other social institutions. Approximately one fifth of Cubans tell pollsters that they belong to a community of faith. At the 1991 party congress and through the 1992 revision of the constitution, lawful discrimination against religious believers was abolished. The Communist Party, no longer formally atheist, admits religious believers. Religious believers are still denied certain rights informally, such as discrimination in promotion to top management positions or university admissions.

The state has a differentiated administrative structure throughout the country, making it possible to extract and allocated state resources on a broad basis. It enforces a compulsory military service law. Its capacity to prevent the growth of an illegal economy has weakened markedly since 1990, though tax evasion is a relatively minor problem.

## **1.2. Political participation**

Cuban citizens elect Deputies to the National Assembly. The electoral law requires that the number of assembly candidates be equal to the number of seats, however. Electoral commissions chaired by Communist Party officers nominate candidates. Deputies are clustered on lists by district. In the 2003 election, nonconformist voters (whose ballots are blank or void, or who vote selectively rather than for the entire official list) numbered just over 988,000 (12% of the electorate).

The National Assembly typically meets twice per year, for one to three days, though its various commissions work through the week preceding each Assembly meeting. The National Assembly principally ratifies decisions taken by government and party executives. Votes are ordinarily recorded as unanimous. National Assembly commissions do at times question officials sharply, and National Assembly deliberations may cause the executive to amend or delay the formal submission of a bill.

The Cuban Constitution guarantees the right of assembly, except as prohibited by law. The Communist Party sponsors mass organizations for workers, women, young people, and others, making it very difficult for any non-party organizations to operate. In practice, freedom of assembly is extremely limited. The law recognizes no opposition political party; state security systematically harasses these small parties. A breakthrough occurred in spring 2002 when Oswaldo Payá and his Proyecto Varela gathered some 11,000 signatures demanding a national political referendum, delivered to the National Assembly, in exercise of the constitutional right of petition. In the fall of 2003, Payá delivered a similar petition with some 14,000 signatures.

Christian churches sponsor a number of civic groups. Pentecostals and Roman Catholics became more active since the middle of the 1990s and they have created small organizations that parallel official mass organizations.

There is occasionally vigorous and well-informed debate on public issues at the University of Havana and its research centers, and in some communist-party-affiliated think tanks.

The state exercises monopoly ownership and control over television, radio, and newspapers. Some officially sponsored magazines, such as *Temas*, discuss salient public issues with considerable (albeit still limited) freedom. In the mid-1990s, the government authorized church-affiliated magazines; *Palabra Nueva* and especially *Vitral* discuss religious and other public issues, and occasionally publish Cuban-American authors.

### **1.3. The rule of law**

The Cuban Constitution grants the National Assembly supreme powers. In reality, the assembly is subordinate to President Fidel Castro and the Communist Party leadership. There are no meaningful checks and balances in the Cuban political system.

The judiciary is institutionally differentiated but its decisions and doctrine are subordinate to political authorities. Members of Cuba's Supreme Court are nominated by the executive and elected by a simple majority of the National Assembly. Judges serve for a term. The Ministry of Justice controls the budget and administrative personnel of the courts. The constitution formally subordinates the Supreme Court to the National Assembly. No court can declare a law unconstitutional. Politics ensure the subordination of the courts on matters of high interest to the leadership, but the courts discharge their obligations more normally in most non-political criminal and civil cases. Corruption in the courts is rare.

As a rule, corrupt officeholders are severely prosecuted. From late 2003 through 2004, the Minister of Tourism and many top officials in the ministry and in tourism state enterprises were dismissed; several were prosecuted and convicted. The lack of an independent mass media, effective opposition parties, or independent courts and parliament, however, make it impossible to determine the extent of corruption. Some prosecutions for corruption have also been used to punish “excessively” independent government or party leaders. In late 2004, Minister of Basic Industries Marcos Portal — previously one of the top leaders — was dismissed and disparaged for a combination of these reasons.

Official respect for freedom of religion has increased, but freedom to exercise religious beliefs outside of church or temple walls remains constrained in practice. Officials who commit unauthorized acts of abuse against persons are punished according to the law. Gender and racial discrimination are outlawed; these laws are generally enforced. Civil rights are at times massively violated, although the duration of those violations has shortened. The last major episode of official repression occurred in spring 2003.

#### **1.4. Stability of democratic institutions**

There are no established democratic institutions. The Communist Party’s overarching role reduces the capacity of state institutions to operate according to prevailing international professional standards. National and municipal elections are sometimes delayed arbitrarily.

In the future, the National Assembly’s formally impressive powers could facilitate a democratic transition, if political circumstances were to change. The National 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, otherwise would conform well to the Universal Declaration on Human Rights.

#### **1.5. Political and social integration**

Cuba’s single-party political system, formalized in Article 5 of the constitution, has proven remarkably resilient, surviving the collapse of ruling eastern European communist regimes and the Soviet Union.

The Communist Party statutes (Article 44) indicate that the Sixth Party Congress should have met in 2002. Its meeting date has yet to be announced; no party congress had been so delayed. As a consequence, the pattern of top leadership (below the Castro brothers) replacement and promotion, well established since

1991, has been interrupted. Party membership grew on average by 27,000 between the Third (1986) and Fourth (1991) party congresses and by 46,000 up to the Fifth Party Congress (October 1997). Membership growth has slowed, however, falling to about 10,000 per year between October 1997 and May 2003. Political institutionalization has weakened.

Interest groups as normally understood do not exist, except for a very weak Roman Catholic Bishops' Conference. However, the officially sponsored Cuban Confederation of Workers (CTC) has been a factor in preventing the imposition of direct income taxes or extending the market economy to state-enterprise workers. Public support for the norms and procedures of democracy is impossible to determine. Participation in independent civic associations remains modest, in part because of state and party discouragement. Social capital has grown through readers' circles, food growing coops, and religious groupings, but it remains at a very low level.

## **2. Market economy**

### **2.1. Level of socioeconomic development**

Cuba's level of absolute poverty (what Cuban scholars working for official think tanks call population "at risk") rose from 6.3% in 1985 to 14.7% in 1995 to 20% in 2002. In this group, monthly income is below \$4 per month; the poor grow no food, receive no dollar remittances, and have no access to subsidized food.

By the end of 2004, Cuba's median monthly salary (excluding tips, which matter only to a few workers in tourism) was 354 pesos, approximately \$14 per month.

Infant mortality is very low by global standards. Life expectancy is at the European and North American level. In international standardized tests, Cuban schoolchildren outscore all other countries in Latin America by a wide margin. In 2002, however, the caloric intake of the working-age population (ages 14 to 64) was 57% below recommended nutritional standards (protein intake 68% below), according to research by scholars in Cuba. Most Cubans lack private cars and must rely on a grossly inadequate public transportation system.

Remittances are the country's second most important source of foreign exchange, after tourism. Because the Cuban Diaspora is disproportionately white, Cuban blacks are less likely to benefit from this important source of income.

## **2.2. Organization of the market and competition**

There is very limited market-based competition even though a lawful market economy has grown in during the period of this review. Approximately 11% of productive land is in the private sector, over 36% in semi-private cooperatives, and the remainder in state farms. Agricultural producers compete only in free agricultural markets, which still account for a modest fraction of agricultural output. The number of self-employed persons and lawful micro-enterprises has been kept below 200,000 through onerous excise taxes. For the most part, state enterprises run the economy.

The government's management of concessions to foreign firms required to collaborate with Cuban state enterprises deliberately creates oligopolies even in sectors with highly competitive international markets. In the late 1990s, for example, two quasi-private state enterprises with foreign partners in joint ventures controlled 91% of the supply of five-star hotel rooms. A single such state enterprise and its foreign partners controlled 66% of all two-star hotel rooms. This is a cartel-promoting policy.

In the 1990s, the government granted considerable discretion to manage foreign trade to state enterprises. Foreign firms manage their own trade. In 2004, however, the government retreated from such liberalization. It reduced the number of state firms authorized to engage in foreign trade, centralized purchases of an extensive list of "strategic products," and prevented state firms from retaining their earned foreign exchange, obligating them to exchange those funds at the central bank.

All banks are owned by the state. There is no capital market.

## **2.3. Currency and price stability**

Cuba has a multiple exchange rate system. Two types of pesos circulate lawfully, according to a policy change adopted in the last quarter of 2004.

The "convertible peso" has an exchange rate at parity with the U.S. dollar. The dollar had circulated freely for domestic transactions until then, but no longer. It remains lawful for Cubans to receive dollars (remittances, tips) but they must exchange them into convertible pesos and pay a 10% tax (transactions involving other foreign currencies are free from such tax).

The regular peso, which Cubans receive as their wages, fluctuates in a relatively free exchange-rate market, subject to a central bank “dirty float.” During the period of this review, the exchange rate has ranged between 25 to 30 pesos per dollar (i.e. the exchange rate between the regular and convertible peso).

Annual inflation rates, high in the first half of the 1990s, are currently in the single-digit range. In 2004, the budget deficit was approximately 3.5% of GDP. Budget management has been professional since the mid-1990s. Cuba stopped servicing its international financial debt in 1986.

#### **2.4. Private property**

Private-property rights are weak. Cuban citizens have the right to own a house and their personal belongings. Cubans cannot create business firms that hire non-relatives. Article 15 of the 1992 constitution allows the executive committee of the Council of Ministers to grant property rights to selected foreign firms.

#### **2.5. Welfare regime**

Cuba provides free health care and education, subsidized day care and cafeterias for state-enterprise workers, and unemployment compensation for the entire population. There are however, limitations to this in terms of Cuba’s economic strength. The universal coverage pension system is paid in pesos; the real purchasing value of pensions shrunk dramatically as the economy “dollarized”. Cuba’s fertility rate has fallen below the replacement level since 1978; pension financing will become a severe problem as the population ages.

Cubans enjoy considerable equality of opportunity, especially in the professions. Women constitute a majority of physicians. White-black racial differences in access to primary and secondary education are minimal. Gender inequalities appear in top political and managerial jobs; racial inequalities appear in the professions.

#### **2.6. Economic performance**

In 2000, per-capita GDP in constant prices remained 26% below 1985 levels. Annual per-capita GDP growth levels in the current decade have hovered around 2%. Growth in 2004 benefited from the recovery of the tourism sector, surpassing 2 million visitors for the first time ever, and high international nickel prices.

On the other hand, the government shut down 45% of the country's sugar mills in 2002. Sugar production, historically Cuba's premier industry, is at its lowest level in a century.

## **2.7. Sustainability**

Ecologically compatible growth receives only sporadic consideration and has almost no institutional framework. Dam construction, poor soil management policies, and Stakhanovite campaigns have long caused ecological damage. In the early 1990s, urgent tourism development was a new source of ecological damage. Cuban scientists have succeeded in introducing environmental concerns into tourism project design and assessment. The Ministry of Science and Technology's name was changed to include "Environment." Nonetheless, the push for growth is paramount.

There are solid institutions for basic and advanced education and for applied scientific research. The transformation of research into useful products is, however, problematic. Cuba has long had internationally competitive biotechnology but gains relatively few financial returns on that huge investment. The infrastructure for applied research has frayed since 1990 and equipment obsolescence is a serious problem. There is no private educational system.

## **3. Management**

### **3.1. Level of difficulty**

Governance capacity is still constrained by the sudden failure in the early 1990s of a development strategy built on the expectation of Soviet subsidies continuing indefinitely. Cuba has few resources, trades little, and is politically isolated. Leaders had believed that the march of history was on their side. Many of the constraints on effective governance are self-imposed, as political leaders accord priority to the survival of the political regime over economic growth or general welfare.

Civil society was moderately strong before the revolution. One result of the current political regime was to restrict the autonomy, or even to prohibit, civil-society institutions beyond weak faith communities and churches. Since 1990 some civil-society organizations have resurfaced, mainly within the churches, but these remain weak. There are sharp differences between political and religious authorities, particularly Roman Catholics and Pentecostals, but the struggle is not equal. In the current decade only 3% of Roman Catholics attend church every Sunday.

Despite racial inequalities and persistent racist attitudes in interpersonal relations, there is no politicized racial conflict. Race-based associations are illegal.

### Profile of the Political System

Regime type:	Autocracy	Constraints to executive authority:	0
1. Head of State:	Fidel Alejandro Castro Ruiz		
		Number of ministries:	27
		Number of ministers:	36
<p>Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. Number of ministries/ministers denotes the situation on 1 January 2005.</p>			

### 3.2. Steering capability

Cuba's political leadership has extremely clear long-term priorities: sustain the authoritarian regime. In its relations with the European Union, Canada, Mexico, Argentina, and other countries, the Cuban leadership has demonstrated that it will sacrifice economic gain and political comity whenever there is a perception of threat to the regime. The regime's strategic priorities have always prevailed over short-term considerations, and have prevailed no matter how deep the crisis. These long-term objectives are exactly the opposite of the points of reference guiding the BTI.

The Cuban government has not implemented any democratic reforms since 1990.

The government has implemented several market reforms during the review period. It welcomes foreign direct investment in partnership with state enterprises. It has opened up to international tourism. It permits agricultural markets with market prices, if suppliers have met their state quotas. It has transformed approximately one third of total agricultural land from state firms to semi-private cooperatives. It has authorized self-employment, provided non-relatives are not hired, and under a heavy excise tax burden. It authorizes citizens to receive foreign currency, provided it is exchanged lawfully at state banks. It has cut budget expenditures, including subsidies to enterprises and military expenditures, and raised taxes on enterprises (especially joint ventures) to pursue reasonably responsible budget policies. The last of these reforms was adopted in the mid-1990s. The government has launched no new significant market-liberalizing reforms since this time. In the 2003-2004 period it moved away from trade liberalization and state-enterprise manager autonomy. In the current decade, it has increased the military and internal order budget.

Since 1990, the political leadership has twice demonstrated its capacity to learn. In 1989-1994, in response to economic collapse, the leadership broke through taboos that had constrained Cuban economic policy since the 1960s by welcoming foreign firms and international tourists, and permitting free-market transactions. In the current decade, in response to sufficient economic recovery and stabilization, the leadership stepped back from the reform process — reforms that leaders had felt compelled to adopt in response to an external shock, not because leaders thought that they or their policies had been mistaken.

### **3.3. Resource efficiency**

The Cuban government uses only some of the available resources efficiently. For the past ten years, the annual state budget deficit has been below 4% of GDP. However, the financing of state enterprises relies on a so-called “chain of non-payment.” In the absence of subsidies, state enterprises fail to pay for what they purchase, except on a delayed schedule of their own choosing. This practice generates problems, as enterprises refuse to supply each other and hoard resources. Cuban enterprises respond in the same way to international suppliers, resulting in extremely limited financing for the growth of Cuba’s international trade.

Cuba’s unemployment rate remains in the low single-digits. The government sustains high levels of formal employment even though workers have little to do on the job. Massive dismissals would create social and political problems. Disguised unemployment is one explanation for Cuba’s abysmally low productivity. It fosters a culture of very bad work habits. It encourages double simultaneous employment: managers allow workers to hold a second job, even though they should formally be at their first job, as one means to reduce the likelihood of theft of resources.

Cuba continues to allocate very substantial resources to lower the infant mortality rate, principally for the political value invested in that statistic. A better use of health-care financial resources would be to improve the access to simple medicines for the population. A better use of health care human resources would be to improve services in facilities that are not intended for tourists.

Appointments to senior managerial, administrative and professional jobs, as well as admissions to the university, formally and explicitly require political criteria. For top appointments, the Soviet-inherited nomenklatura system persists — the vetting of all appointees by the Communist Party.

Regulations are ordinarily set centrally in Havana. There was some significant de-concentration of rule making in the early to mid-1990s, especially in the Basic

Industries Ministry. The long-serving Basic Industries Minister, Marcos Portal, was dismissed in late 2004. In 2003-04, across various economic and social sectors, there has been a trend towards re-centralization of rule making.

The government can coordinate its use of resources to achieve political objectives but it frequently fails to resolve conflicts between “mere” economic objectives. The dual exchange rate policy, for example, helps to explain the sugar industry’s bankruptcy: sugar mills exported in dollars, which they were then compelled to exchange into pesos at one-to-one, but had to use dollars to import spare parts and replacement machinery and equipment. The “chain of non-payment” of enterprise liabilities also provides powerful incentives against coordination.

Government corruption seems to have grown substantially since 1990, thanks to the iron triangle of corruption: sufficient levels of market economy, high state intervention in that economy, and extraordinary government-official discretion in decision-making. From late 2003 through 2004, the Minister of Tourism and many leading officials and state enterprise managers in tourism were dismissed and tried on corruption charges. The government shows little understanding of the incentives that it has created to foster corruption, however.

### **3.4. Consensus-building**

No important political actors can be seen as working to build a market-based democracy. Opposition leaders do seem to favor market-based democracy, but with the exception of Oswaldo Payá’s demonstration that he can gather thousands of signatures for political petitions, their social base seems small.

Vice President Carlos Lage and Economy Minister José Luis Rodríguez have assembled the building blocks of a market economy over the past ten years, but they have affirmed their fidelity to the political regime. General of the Army Raúl Castro has on one occasion publicly broken with his brother by advocating free agricultural markets (summer 1994), and he has spoken in party meetings in defense of the Lage-Rodríguez economic policy. As events in the current decade show, however, even the many modest market-oriented reforms adopted in the early 1990s are fragile and can be stopped or even reversed.

The political leadership succeeds at sustaining its unity. It effectively prevents the emergence of racial or regional cleavages. It maintains the population at a high level of political mobilization against the “enemies of the revolution,” all of whom, it alleges, are agents of the U.S. government. This fever-pitch mobilization has high economic and social direct and opportunity costs.

Some revolutionary policies in the 1960s actively sought to create and nurture social capital: neighborhood Committees for the Defense of the Revolution, study and work gatherings of the Cuban Women's Federation, etc. These same institutions were also deployed against regime enemies and, as such, rendered the fabric of community social trust in many cases. The net effect of social capital creation, once the internal war ended in the mid-1960s, was probably positive. These mass organizations have much less social significance today; however, they do still matter. The government continues to promote a wide array of social-capital-creating social, sports, and entertainment activities. It remains wary of the many small "do-it-yourself" groups that have arisen in response to the challenges and difficulties of daily life — groups that grow food, share child-care duties, trade books and music, and so forth.

The political leadership makes use of the social organizations it sponsors to inform its decisions, but it frequently ignores this information and formulates policies autonomously.

The political leadership manipulates memories of historical injustices as a weapon against political opponents. In 2001, the leadership refused a gesture from some former members of the Bay of Pigs exile brigade to build on-site — at their own expense — a monument to all who fought in that battle. On the other hand, the government has permitted some of these individuals, bearers of symbolic and actual battle scars, to visit Cuba and to have cordial exchanges with their former adversaries. The government selectively invites members of the Cuban Diaspora for political discussions but it insists on its sole responsibility for identifying the agenda and managing the meetings, the results of which since 1990 have been without fail to support the government.

### **3.5. International cooperation**

The political leadership fosters international donations. Between 1998 and 2002, annual donations received ranged between \$42 and \$58 million. These donations serve support and relief purposes, not reform. The government cooperates with individual international donors for specific projects but it resists political advice. Cuba's close alliance with Venezuelan President Hugo Chávez generates discounted petroleum imports, not political or economic reform.

In spring 2003, the government arrested 75 opposition leaders, tried them in the absence of internationally recognized due process, and sentenced them to lengthy prison terms. The European Union responded with mild measures of disapproval, whereupon the Cuban government refused any contact with European ambassadors in Havana until the closing weeks of 2004, when Cuba released approximately 15 of 75 prisoners. Cuba had also twice earlier pulled out of

negotiations to become a member of the European Union's ACP Group because conditions for membership were to increased respect for human rights and advancements towards political opening. This most recent example of unpredictable international behavior, for these same reasons, resembles interruptions in Cuban relations with Canada and Argentina in the late 1990s and Mexico in 2002-04: good economic and even political relations are sacrificed to avoid the appearance of granting outsiders a say in Cuban domestic politics.

Cuba is active in the United Nations family of organizations, often playing a leadership role. It has sought to revitalize the non-aligned movement. It cooperates well with the Caribbean Community (CARICOM), whose members, individually and as a group, are among Cuba's most reliable international political supporters. In the current decade, Cuba deployed hundreds of physicians and other health care personnel to rural Haiti. They continued providing health care services even during the U.S. occupation of Haiti in early 2004 and thereafter. Cuban relations with the Dominican Republic have improved since the early 1990s.

#### **4. Trend of development**

##### **4.1. Democratic development**

Stateness, political participation, and the rule of law have remained, for the most part, at their former levels of quality. The fundamental institutions of an authoritarian regime remain in place. There is a reduced likelihood that state and party institutions will abide by their own rules; for example, delayed elections and party congress, and instances of heightened political repression in 2003. There was no significant advance of the likelihood of democracy in the first half of the current decade, just as there had not been during the preceding decade. The political opening that resulted unintentionally from the weakening of state capacity also remains, for the most part, at the same level.

##### **4.2. Market economy development**

Cuba's level of economic development has not changed appreciably over the past five years. The economy is for the most part stagnant. Tourism, as elsewhere in the world, dipped because of the September 11, 2001 terrorist attacks, but resumed its growth path in the 2003-2004 period. International nickel prices led the continued growth of this industry. On the other hand, the history-making bankruptcy of the sugar industry continued relentlessly, with declining output and disappearing jobs. The development of new economic activities lags still. The financial return of huge investments in biotechnology remains low.

**Table: Development of macroeconomic fundamentals (2000-2004)**

	2000	2001	2002	2003	2004
Growth of GDP in%	6.1	3.0	1.2	2.5	3.0
Export growth in%	2.5	-1.4	-1.9	14.6	9.0
Import growth in%	0.0	-0.7	-2.5	11.0	3.0
Inflation in% (CPI)	-3.0	-0.5	7.0	5.0	n.a.
Investment in% of GDP	14.3	13.3	12.0	n.a.	n.a.
Tax Revenue in% of GDP	40.3	38.8	41.1	n.a.	n.a.
Unemployment in%	5.5	4.1	3.3	2.3	2.0
Budget deficit in% of GDP	-2.4	-2.5	-3.3	-3.4	-3.5
Current account balance in billion \$	-776	-552	-296	-155	-100

**Source:** Naciones Unidas, Comisión Económica para América Latina y el Caribe (CEPAL), *Cuba: Evolución económica durante 2002 y perspectivas para 2003* (July 24, 2003), Tables 1, 2, and 20; United Nations, Economic Commission for Latin America and the Caribbean, *Preliminary Overview of the Economies of Latin America and the Caribbean, 2003* (December 2003), page 121; United Nations, Economic Commission for Latin America and the Caribbean, *Preliminary Overview of the Economies of Latin America and the Caribbean, 2004* (December 2004), page 132.

The institutional framework has not changed significantly in the first half of the current decade. In 2004, however, there was a reduction of the number of state firms permitted to engage in international trade. The Cuban leadership also curtailed managerial autonomy, making it more difficult for state enterprises to retain hard-currency earnings, requiring instead their deposit with the central bank. Economic growth remains low; it is likely that official statistics slightly over-estimate the growth rate.

#### **D. Strategic perspectives**

Cuba's political and economic regimes are unlikely to change much until Castro (born 1926) dies or becomes incapacitated. Human agency and structural considerations may come into play.

In either event, the most probable near-term scenario is for First Vice President and General of the Army Raúl Castro, the president's brother, to succeed to the presidency of the state and the government. General Castro has substantial support within a "selectorate" of about a thousand leaders — members of the Political Bureau and Central Committee of the Communist Party of Cuba, the top military commands, the Councils of State and Ministers, and top provincial political leaders. General Castro was the organizational superstar who made it possible for Cuba to win three wars in Africa in the 1970s and 1980s and sustain a large army overseas, relative to its population, for 15 years. Raúl Castro has also devoted substantial time to nurturing the Communist Party's organization. He is attentive

to detail and effective in small groups. He is not, however, a good communicator over the mass media; he is a poor public speaker. He comes through as “cold”. He is only five years younger than his brother and may thus rule only for a limited time.

A Raúl Castro led regime would most resemble China or Vietnam today. There would be an attempt to preserve an unchanged political regime but at the same time rapidly open the economy to welcome and promote international and domestic business firms, seeking to accelerate economic growth.

A structural factor — Cuba’s human capital — may play a significant role. Cuba has a highly educated and healthy population. One consequence of decades of “internationalism” was to acquaint its leaders and intellectuals with broad worldwide trends. Cubans are accustomed to participating or to complaining about local structures that prevent such participation. Cuba’s educational and health care systems, albeit frayed and weakened, continue to generate remarkably egalitarian outcomes by world standards. Thus, the social foundations for democratic politics may be in place, waiting for political agents to seize the moment.

Cuba has long followed an economic strategy that relies on natural resources rather than human capital. It used to be a major exporter of raw sugar, with trivial investments in higher value added sugar cane derivatives. It now relies on beaches and other natural attractions for tourism. Yet, Cuba could harness its human capital to generate an entirely different growth strategy — partner its biotechnology scientists with companies such as Bayer and Pfizer, draw on the talents of its auto mechanics for more complex manufacturing tasks, or assert its comparative advantage in intellectual property products (music, painting) for exports.

U.S. policy remains an obstacle. By law, the U.S. government cannot change its policy so long as either Castro brother is in power. By law, every U.S. administration is required to pursue an aggressive policy to obtain compensation for its citizens and firms whose property was expropriated in 1959-60, retroactively including defending the claims of Cuban-Americans who became naturalized U.S. citizens after that date.

Cuba’s path toward a social-market democracy remains distant and uncertain.