

Cuba

Status Index (Democracy: 1.6 / Market economy: 2.0)		3.6	Management Index		1.5
System of government	Autocracy		Population	11.2 mill.	
Voter turnout	98.4 % (Parliamentary elections 1998)		GDP p. c. (\$, PPP)	5,259	
Women in Parliament	36 %		Unemployment rate	5.5 % (2000)	
Population growth^a	0.7 %		HDI	0.806	
Largest ethnic minority	- ^b		UN Education Index	0.90	
			Gini Index	n.a.	
<p>Data for 2001 – if not indicated otherwise. ^{a)} Annual growth between 1975 and 2001. ^{b)} Recent data not available; according to the last census in 1981, with 9.7 million residents, 66 % of the population described themselves as white, followed by mulattos and black people; the <i>CIA World Factbook</i> 2003 estimates that 51 % are mulattos, 37 % whites, 11 % blacks and 1 % Chinese. Source: UN Human Development Report 2003.</p>					

1. Introduction

Since the Communist Party of Cuba (PCC) declared its “policy of continuity” at its fifth party congress in 1997, transformation on that island which had been extremely selective lost further momentum. Following the events of September 11, however, the economic situation again deteriorated appreciably, putting Cuba’s authoritarian regime under renewed transformation pressure.

This report on the status of democratic and market-economy transformation during the last five years (1998–2003) concludes that Cuba demonstrates flagrant deficiencies in all areas of transformation; on the other hand, it has available to it significant resources that could be instrumental in supporting transformation success. To what extent this potential can be used will be decided by a few external and internal actors whose behavior is not fully predictable.

2. History and characteristics of transformation

Socialist Cuba came under growing pressure to adjust with the collapse of the socialist regimes of Eastern Europe and COMECON, which meant the loss of 75 % of the island economy’s foreign trade and almost all of its lenders by 1992. This massive crisis gave rise to a “divided transformation;” in the political realm, rather than a *democratic transformation*, the status quo of a bureaucratic authoritarian regime along Soviet lines was maintained *in toto*. An electoral reform that was part of the 1992 constitutional revision increased rudimentary

political participation, while at the same time further centralizing the authority of the ruling elite.

The 1994 exodus, in which more than 30,000 Cubans left the island after social upheavals in the capital, Havana, led primarily to an acceleration of the economic reform process. Beginning in the mid-1990s, the regime again responded to timid efforts at political liberalization in the sciences and culture with diminishing tolerance. At the fifth party congress of the PCC in 1997, maintaining the status quo, the single-party system and blocking democracy were, as a “policy of continuity,” elevated to be the guiding principle that remains in place today.

Despite its lack of democratic legitimation, the regime can still rely upon a remaining basis of legitimacy comprising the US embargo against Cuba (which is skillfully propagated on the island itself as a massive threat and is thus an important source of legitimation for the regime), the growing tendency to nationalistic and populist political rhetoric, the integrative charisma of the head of the government, Fidel Castro, and still relatively high social welfare standards.

Cuba’s market-economy transformation began in 1992 with a strategy of reintegration with the world market that was supposed to compensate for lost economic relationships with socialist countries and generate foreign currency. To that end, in 1992 the government ratified a constitutional amendment that recognized property ownership rights for foreign investments and, in 1993, allowed the introduction of the US dollar as a secondary currency. In addition, through a “dualization” of the economy, individual segments were separated from the overall economy, sealed off from the remaining economy and reorganized on internationally competitive terms. Business management mechanisms were introduced and these new world-market industries were opened to foreign investors under generous conditions guaranteed by the 1995 liberalization of the investment law.

The most significant sectors of this foreign-currency segment are biotechnology, telecommunications, oil and nickel production, and tourism. In contrast, the domestic market and private consumption were severely stifled. Industry and agriculture rapidly lost the greater part of their capacity; between 1990 and 1993 the gross domestic product (GDP) fell by a disastrous 40 %. Sugar production, traditionally the most important leading sector of “Cuba, the sugar island,” fell by 60 % and in 1995 experienced its worst harvest in 50 years. A freeze on prices, a halt to layoffs and total rationing of goods were supposed to guarantee continued distributive justice despite the crisis, but these measures were increasingly counteracted by a spreading shadow economy, pent-up inflation and massive losses of real wages.

Despite a continuing strong welfare policy, the population faced shortages that crossed the line into open destitution and finally provoked spontaneous protests in 1994. Leading up to and especially in the context of these disturbances, the central administrative system for the domestic market was liberalized to a degree. The most important reforms here were the authorization of private small businesses at the end of 1993, partial privatization and decentralization of agriculture in the form of legalizing cooperatives, the introduction of monetary and fiscal policy as instruments of control, authorization of free consumer-goods markets, and a moderate administrative banking reform. This policy slowly nudged Cuba along the path to economic growth beginning in 1994.

The foreign-currency economy in particular began to gain traction and ignited the economic engine: Tourism and the nickel industry have prospered since the mid-1990s, and Cuba has opened up strategic development potential in high-tech areas such as pharmaceuticals and biotechnology. The rate of growth of the GDP doubled and peaked at a remarkable 7.8 % in 1996. In tandem with that, a relatively balanced state budget and monetary stability were achieved, along with consolidation of private demand.

3. Examination of criteria for democracy and a market economy

3.1 Democracy

Cuba has not achieved any progress worth mentioning in any area of transformation of the political regime. Flagrant transformation deficiencies continue to exist in the areas of political participation, the rule of law, democratic institutions, and political and social integration. Long-term political stability is being eroded by growing social disparities, which have not yet reached a level to threaten the system, however.

3.1.1 Political regime

(1) Stateness: There are no problems of stateness in Cuba. The state's monopoly on the use of force is a given, without limitations. The definition of citizens of the state and who qualifies are not politically relevant issues. All citizens have the same civil rights. There is separation of religion and the state. The political process has been secularized. A capable administrative system and public safety and order are ensured.

(2) *Political participation*: There are no democratic elections at the national level. The 601 candidates for the national Parliament are nominated by a CP-dominated electoral commission in a single list and then elected in secret elections. There is thus no competitive electoral process; electoral opposition can only be expressed by not filling out or by annulling the ballot. About 5 % of ballots per election are thus marked. Correct procedure in previous elections in 1993, 1998 and most recently in 2003 was internationally confirmed.

The national Parliament has no effective power to govern. Because it only meets twice a year, its tasks are handled by the Council of State and the Council of Ministers. The constitutional right to hold multiple offices limits actual power to a small circle of people that is identical to the highest decision-makers in the PCC, about one-fourth of whom are military personnel. Veto powers over or political enclaves apart from this monopoly on power do not exist. There is also no freedom of assembly; oppositional activity is in principle suppressed, but with varying intensity.

Civic groups exist to a certain extent but can only act together with the state, i.e., they are co-opted. The most influential organization since the Pope's visit in 1998 has been the Catholic Church. All organizations of large social groups (trade unions, etc.) are regime-conformist and function as conveyor belts. There is no freedom of speech or of the press; all media are state-owned. However, there is certainly some limited discursive space in the sciences, culture and local politics.

(3) *Rule of law*: The Cuban principle of balance of powers provides for a division of functions but not for a separation of the legislative, executive and judicial powers. Accordingly, there is institutional differentiation but there are no checks and balances. The judiciary is professionally well-differentiated and relatively free of corruption, but as a rule completely dependent on political authorities, with a few exceptions, such as in the case of labor law. Political and bureaucratic corruption is not very widespread in Cuba, compared with the rest of the region, but it is clearly growing.

The lack of transparency and control in regard to the elite's decision-making processes makes any evaluation of the actual degree of corruption in politics impossible, however. As a rule, corruption is severely punished under criminal law, and in 2000 a corruption ministry was established. However, prosecution of corruption in Cuba is traditionally exploited as a means to neutralize uncooperative cadres. Depending on their conformity to the regime, civil liberties are granted in part (freedom of religion, outlawing discrimination, social human rights) or violated (political human rights, judicial rights), but they are fundamentally restricted by the lack of legal norms that are binding on state actions.

3.1.2 Patterns of political behavior and attitudes

(1) *Institutional stability*: There are no established democratic institutions in Cuba. Most regime institutions are stable, professionally well-differentiated and capable, however, so there would be many functional starting points for the introduction of democratic institutions.

(2) *Political and social integration*: There is no multiparty system in Cuba. The Communist Party of Cuba thus holds a position of hegemony in managing relations between the state and society. The PCC has fused with the state at almost all levels and supplies its ruling elite. According to its own constitution, the PCC views itself as the vanguard of the people and the leading force throughout society, and it reiterated this claim in the new constitution of 1992 (Article 5) as well. Over the last decade, however, the PCC has attempted to transform itself from an avant-garde to a mass party, its membership growing by half a million during the 1990s, an increase of almost one-third.

Despite the increase in numbers, however, the simultaneous accumulation of power at the top echelons of the party and its previous political orientation indicate that the party has not increased the variety of opinions within it but rather seeks to expand its social base. A people's referendum held in 2002 in which 99 % of Cubans entitled to vote participated had the same purpose, amending the constitution to provide that socialism is "inviolable" and "irrevocable." In addition to such symbolic mobilization campaigns, the PCC continues to maintain contact with society through the so-called mass organizations under its domination that represent all large, relevant social groupings (trade unions, students, women, etc.) and which as a rule take responsibility for political instruction.

This also ensures that the landscape of interest groups in Cuba is largely dominated by CP positions as well, which in the end leads to toning down the representation of certain interests and raises the danger of political polarization in any future transformation. One group that could be greatly affected by this is the black population (depending on method of measurement and self-conception, a share of around 20 % to 60 %). The current regime is characterized by institutionalized antiracism but it prevents all forms of ethnically based representation. Since racist stereotypes are still present in society to a large extent, they represent potential for future conflicts that, by injecting ethnicity into politics and harking back to earlier political models, could result in massive discrimination and disintegration, without the capacity to use organized interest groups to quickly contain such tendencies.

Particularly in light of their historical experience that past democratic regimes in Cuba have always tended toward antidemocratic solutions in times of crisis, the

population is not especially drawn to democratic models. Political legitimacy is still established successfully through the actual results of social and economic policy and by maintaining national sovereignty. According to unofficial studies coming out of Cuba, about 50 % of the population currently expresses neither support for nor opposition to the regime, because they are largely depoliticized by the daily fight to survive. Only one-quarter of the population supports the system and another quarter tends to oppose it, favoring democracy, among other forms of government.

Grassroots civic organization is only rudimentary and is co-opted by political authorities; the population's trust is accordingly low. Especially at the level of local politics, however, a marked increase in civic grassroots organization can be observed in recent years. Another important but still discrete change exerting influence on future transformation processes is the rejuvenation of parts of the political elite, which is closely connected with a new understanding of policy, an increasing pluralism when it comes to information (via international media), a drastic reduction of the military sector and a successful conversion process.

3.2 Market economy

Cuba has made progress in the transformation of its economic regime primarily in the area of foreign trade. Flagrant transformation deficiencies continue in all areas.

3.2.1 Level of socioeconomic development

Central social indicators reveal a relatively high level of development; fundamental social exclusion by poverty or education, or gender-specific discrimination, is not evident to date. Some social indicators, such as infant mortality in newborns, physician density, access to drinking water, etc., are not only exemplary for the region but place Cuba among the industrialized nations. The economically precarious situation on the island generally provides only a low standard of living, however, which at times borders on pauperization. The "dualization" of the economy and currency also inflames growing social heterogeneity. Because affluence, quality standards and social recognition are all concentrated in the foreign-currency sector, lack of dollar income or insufficient sources of it result in socioeconomic disadvantages.

The two main sources of foreign-currency income are low-skilled work in the overwhelmingly urban foreign-currency sector and remittances (money transfers from emigrants to relatives on the island). The latter source is generally unavailable to the former lower-class blacks because the percentage of black

emigrants was well below 10 %. Thanks to this distribution, a dramatic devaluation of professional qualifications occurred during the reporting period and geographic disparities grew to the detriment of rural areas, as did the danger of an ethnic restructuring of the social structure. More than half of Cuba's population must make do without the benefit of a regular source of foreign currency. Together with the clandestine redistribution affected by the shadow economy, the income gap has again opened. To date, however, government redistribution and social policies, a developed public sector, and the state monopoly on investments have prevented any structural consolidation of social exclusion.

3.2.2 Market structures and competition

Market economic competition in Cuba is ensured only in certain segments and is tightly regulated. The largest share of the domestic economy is centrally administered; private activity accounts for only about 10 % in agriculture and 5 % in industry. There are currently four fundamental circuits of production and distribution on the island that supplement one another and operate with varying degrees of efficiency and price standards: (1) The dominant state economy of public enterprises and planned economic allocation that, through rationing, ensures a rudimentary and highly subsidized basic livelihood to the population. Since 1994, there are also (2) consumer-goods markets with free price determination in which private small enterprises run oligopolies at high price levels on the supply side and, since 1995, (3) a growing network of government foreign-currency shops that offer high-quality domestic and export products and services for US dollars. A greatly expanded and generally less expensive informal sector (4) is superimposed on and in part intertwined with (2) and (3).

Of course in a centrally administered economy, there is no antimonopoly policy; private markets are at times regulated in the form of maximum price provisions, however. The state's monopoly on foreign trade was liberalized, primarily through the new 1995 investment law for foreign investors. It allows for foreign investment in all areas of the economy except health, education and defense, and for the first time permitted wholly-owned subsidiaries. Thanks to this policy of opening, the number of joint ventures climbed from only 10 in 1987 to 404 in 2002. With an investment volume to date of \$5 billion, they are concentrated in tourism, nickel production, telecommunications and biotechnology. During the reporting period, three free manufacturing zones also opened their doors to foreign investors. Many state foreign trade companies were also reorganized along the management principles of a market economy. So while foreign trade is in principle controlled by the state, a strategy of liberalization and integration in the global economy is pursued in this area.

After a banking reform initiated in 1997, the island now has a two-level banking system with a central bank and various commercial banks. However, all banks are owned by the state; there are no capital markets in Cuba.

3.2.3 Currency and price stability

Since neither prices nor wages are freely determined in Cuba, and there are no capital markets, nominal monetary value and exchange rates are set by the state. During the last five years, they were relatively stable. The national currency experienced pressure from the US dollar after September 11, however, due to foreign-currency losses caused by declines in tourism revenues and remittances. The central bank is not independent. The government's fiscal policy was aimed completely at stability; the state budget deficit oscillated between an average of 2 % and 3 %. On the other hand, the policy on debt is not sustainable: Cuba has now amassed foreign debts of \$13 billion. The island has not succeeded in reducing its chronic foreign trade deficit, and the American embargo blocks its access to international loans. For these reasons, a liquidity crisis once again threatens Cuba.

3.2.4 Private property

Property rights and acquisition of private property are largely nonexistent. Privatization is rejected or permitted only in enclaves for foreign investors. The national private sector is almost irrelevant and subject to strict—sometimes arbitrary—regulations and controls. The public enterprise sector enjoys the highest priority in the national economy but is chronically inefficient. Modernization attempted since 1997 by means of increasing flexibility and decentralization has faded. During the period covered by this report, however, almost half of all sugar mills were closed, and thus a profound structural change in every sector was initiated.

3.2.5 Welfare regime

Cuba has an expansive paternalistic state welfare regime that guarantees comprehensive social services to the entire population. This includes free and efficient health care and education, general childcare services, and government pensions, unemployment payments, welfare assistance, etc. The society can still be described as mainly homogenous, especially in any regional comparison. Political patterns and cultural traditions greatly favor egalitarian attitudes.

Open unemployment does not necessarily increase the risk of poverty since there are numerous state programs to create jobs, provide continuing education, etc. Following its political models, equality of opportunity is also developed; most educational institutions, including higher ones, are general, that is, open to lower income groups as well. Occupational, social and political integration of women reaches model levels in Cuba according to numerous indicators. The fact that this welfare regime, which represents a burden of about 30 % of the state budget every year, was not reduced even during the crisis phase in the early 1990s reveals the central legitimizing function it plays for the regime. The question of sustaining its financing, however, will make reforms necessary here too in the medium term.

3.2.6 Strength of the economy

After Cuba returned to a growth trajectory in the mid-1990s, GDP during the period showed above-average growth for the region, but that growth was highly cyclical. The slowdown in the economy, which began in 2001, reveals its substantial foreign dependence; in point of fact, it depends on foreign-currency inflows from trade, tourism and remittances, the latter representing the largest single source of revenue. Because the foundation of the foreign-currency economy is rather narrow, there is minimal room for the economy to unfold its real potential for growth. The domestic economy's enormous resources, and especially its human capital, are not rationally put to use on the demand or the supply side. At the same time, the "dualization" of the economy makes a consistent development strategy impossible and blocks opportunities to exploit productivity potential and achieve macro-economic equilibrium.

3.2.7 Sustainability

In the context of Soviet, socialist-style industrialization, resultant ecological costs were completely ignored in Cuba. In 1993 an industrial ecology tax was introduced for the first time but it has been rarely applied due to the deindustrialization engendered by the economic crisis. Today, key environmental problems include the growing damage caused by tourism and by industry's high energy-intensity. In principle, ecological concerns are institutionally anchored and are occasionally taken into account, especially in international development or economic joint ventures. Environmental pollution is largely viewed as a purely technical problem to be solved.

In actual economic policy, environmental conflicts continue to take a back seat to the push for growth. There are few informal or civic institutions in this area of politics; however, especially in the scientific field, growing awareness and debate can be observed. The state educational system has always been a focus of the

current regime's support. It is highly developed at both the primary and secondary levels as well as in higher education, and is offered globally. There are currently more than 60 institutions of higher learning on the island.

Half of all technicians with college degrees, of whom 50 % are women, are engaged in dynamic research and technology development. Annual education expenditures represented about 20 % of the state budget in recent years, while research and development expenditures averaged 0.7 % of GDP. Infrastructure modernization continued during the period, with above-average investments in information technology, and is very efficient. There are no private educational institutions.

4. Trend

(1) *Democracy*: Stateness, political participation and the rule of law retained their previous level of quality during the reporting period—that is, no progress in democratic transformation was observed. Major events such as the pope's visit in 1998 or that of Nobel Peace Prize recipient Jimmy Carter in 2002 led to temporary and sporadic improvements in civil liberties and pluralism of opinion, without substantially changing the authoritarian character of the system. Basing itself on the increasingly confrontational attitude of the United States, the regime has made mounting use of populist and nationalistic models of integration and legitimation, which also tend to decrease the chance of forming a democratic culture in the medium term.

The development of a landscape of civic-interest groups and organizations is chronically deficient. The continuing economic crisis can be seen to depoliticize the population and focus its concentration on concerns of the private sphere.

(2) *Market Economy*: Fundamental indicators show that the economic situation was not consolidated during the period. Rather, economic development is in a state of "stable stagnation." Given its substantial foreign dependence, the economic situation must be classified as fragile. The "dualization" of the economy engenders growing social and geographic disparities and discourages macroeconomic equilibrium.

The institutional framework conditions for market economic activity have not changed and remain largely deficient; progressive developments can be seen only in foreign trade. Measured by macroeconomic data, overall development has lost momentum compared with the period prior to the reporting period. There is a danger of greater economic destabilization.

Table: Development of indicators of socioeconomic modernization

	HDI	GDI	GDP index	UN Education Index	Political representation of women ^a	GDP per capita (\$, PPP) ^b
1998	0.783	n.a.	0.61	0.89	27.6 (1998)	3,967
2001	0.806	n.a.	0.66	0.90	27.6 (2000)	4,519

^a Percentage of female representatives in Parliament after the 1998 parliamentary elections; ^b GDP for Cuba is not available so the UNDP uses the average for the Caribbean region.
Sources: UNDP, Human Development Report, 2000, 2002.

Table: Development of macroeconomic fundamentals (1998–2002)

	1998	1999	2000	2001	2002
Growth of GDP as a %	1.2	6.2	5.6	3.0	1.1
Export growth as a %	6.4	3.9	11.5	2.1	- 11.7
Import growth as a %	5.6	3.1	12.5	- 0.35	- 8.5
Inflation as a % (CPI)	n.a.	n.a.	n.a.	n.a.	n.a.
Unemployment as a %	6.6	6.0	5.5	4.1	3.3
Budget deficit as a % of GDP	-2.2	-2.2	-2.2	-2.5	-2.9
Current account balance in billions of US dollars	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: CEPAL: Balance Preliminar de las Economías de América Latina, 1998–2002; CEPAL: Cuba: Evolución Económica Durante 2000; CEPAL: Anuario Estadístico de América Latina y el Caribe 2001.

5. Transformation management

5.1 Level of difficulty

To date, Cuba has taken few steps in the direction of democratic and market-economy transformation. The current regime exhibits flagrant deficiencies in the areas of democratic rule of law, democratic institutions, and political participation and integration, as well as in almost all areas of a market-economic regime. Lack of consensus among political elites about these types of transformation goals, very weak traditions of civic society, minimal anchoring of democratic standards in the population, the dominance of an authoritarian political model, and lack of economic consolidation are further stumbling blocks. On the other hand, the very high educational level in society, solid social services, lack of ethnic or religious

conflicts to date, minimal polarization of redistribution conflicts, efficient state administration, and the state monopoly on the use of force are favorable initial conditions for the demands of further transformation. There is fundamentally no way to predict whether a transformation of regime will transpire in increments or through a structural rupture.

5.2 Reliable pursuit of goals

The government pursues maintenance of the status quo as a primary goal and thus avoids democratic and market-economic transformation. To achieve this goal, it responds to demands for reform selectively, sporadically and often reactively. This results in the systematic and structural exclusion of any possibility of a coherent and consistent reform policy designed for the long term. With its legitimation resources of social security, internal order and national sovereignty, the government guarantees the population that many of its expectations will be reliably fulfilled. However, but the government is fickle, especially in regard to other political and economic expectations, and it can be arbitrary, primarily in the private sphere.

5.3 Effective use of resources

The government effectively uses its available human and organizational resources only in part. The state apparatus and the public sector are marked by personnel surpluses and structural over-bureaucratization and over-centralization, leading to significant losses of efficiency. State resource- and financial planning is not very transparent and is further distorted by the “dual” economy; inefficient sectors of the economy continue to receive subsidies. Administrative and political decentralization exist to a limited extent only at the local level. The government has been relatively successful in implementing projected reform measures and thus demonstrates great potential authority to prevail.

Public services that ensure developmental and transformation progress are provided for the whole population. However, utilization of the potential this produces in terms of social, cultural and human capital is largely blocked by state regimentation. Legal and, moreover, normative conditions for fighting corruption are highly developed; to date, corruption has not been the primary problem in distorting allocation. Based on traditionally strong patronage, decreasing state welfare payments and increasing clandestine redistribution, corruption in the administration is an increasingly significant individual crisis strategy that is beginning to erode former integration mechanisms. In regard to cultural heritage, the government quite skillfully ties its policy and discourse to traditional values such as family, equality, national self-determination, and a certain antiliberalism

and anti-Americanism, which it uses to legitimize—quite successfully, to date—its denial of democratic and market-economic transformation.

5.4 Governance capability

In a first phase, the regime's previous reform strategy managed to stabilize Cuba during an extremely dramatic crisis situation, which can be evaluated as an unambiguous success. In a second phase, beginning in the mid-1990s, this success was not used as the basis for consistent reforms, however, but solely to maintain the status quo. While the leading political actors have thus proven that they can learn and implement changes in a crisis situation, at the same time this never reached the level of a cognitive framework for policy formulation. Instead, a policy of stagnation was clung to for reasons of ideology and power, even though the government has sufficient political authority and legitimacy to realize reforms. This policy is leading increasingly to allocation mistakes that impair development opportunities. One reason for this circumstance is the lack of relevant political actors who could press ahead with reforms.

5.5 Consensus-building

No important political actors within Cuba can be identified who want to build up a market-based democracy. The Cuban regime more closely corresponds to neopatrimonialism with a fractured political elite where it is not (yet) possible to advance politically against charismatic top-echelon leadership whose sole aim is to retain power. The leading cadres in the foreign-currency sector are probably the most interested in market deregulation so they can secure and expand their social position, although their political preferences are not necessarily democratically oriented.

The system, which appears monolithic from without, fundamentally prevents any attribution of reform options to individuals and therefore the personification of political alternatives in individuals or groups. Opposition from within or outside the system remains politically irrelevant to date on the island and postpones the organization of transformation to the post-Castro era. Any quantification of individual group interests or possible future alliances is also practically impossible.

Presumable actors with veto power over reforms are found especially in the bureaucratic apparatus, which would be weakened by deregulation, and the ideologically orthodox leading cadre. The military, on the other hand, has appeared relatively friendly to reforms to date and was in the midst of a

conversion process during the reporting period that points to a policy of maintaining its vested interests by developing an industrial complex.

In principle the government's success in manufacturing consensus that bridges lines of conflict cannot be viewed as certain, in the context of deepening transformation. While the government traditionally mobilizes the population's feelings of solidarity, conflicts can more easily escalate because of the regime's low democratic quality and tradition and the weakly developed civic society. The extent to which historic injustice will be acknowledged cannot be foreseen; to date, the government has not supported a process of critically coming to terms with historic injustices committed.

5.6 International cooperation

After the loss of its socialist trade relations, Cuba is once again making intensive efforts at political integration. Its relationship to the United States has again clearly worsened under the second Bush administration; the American policy of embargo also blocks the island's access to international financial and development organizations.

Cuba is making greater efforts at overtures to the EU, which is now its most important trading partner. In December 2000 it became a full member of the ACP states and wants to join the revised Lomé Convention. Latin America is another focus of its integration efforts; while Cuba's membership in the Organization of American States (OAS) was suspended in 1964, the island now has diplomatic relations with almost all the countries in the region. In recent years international cooperation has intensified on various issues that generally do not explicitly relate to democracy and a market economy. The government still places national sovereignty above all efforts at cooperation, so conditionally established cooperation projects will occasionally be interpreted as internal interference and broken off. This results in the government being viewed as unpredictable at times.

In general, Cuba's willingness to collaborate regionally and internationally is evaluated as high: The island is active in many organizations, with the focus on development policy; it is viewed as a cooperative partner in them, and it attempts to institutionally strengthen regional integration in particular. These attempts are, however, regularly counteracted by the United States' efforts to isolate Cuba.

6. Overall evaluation

In regard to initial conditions, status and evolution, and actors' political managerial achievement, this report comes to the following conclusions:

(1) *Initial conditions*: The initial transformation conditions were evaluated as extremely negative. Even prior to the observation periods there were no capable or efficient structures of a market economy; the dominant state economy was chronically inefficient. At the start of the 1990s the island suffered a dramatic economic crisis on top of that and had to reorganize its entire foreign trade.

While a capable state, strong identification with the nation, and an excellent and inclusive social services system existed, they were offset by the lack of civic and democratic institutions and traditions and the rule of law, and by the absence of relevant actors favoring a democratic and market-economy transformation. Accordingly, the transformation occurred as a "divided" transformation, limited to sporadic economic reforms that allowed for maintaining the political status quo.

(2) *Status and evolution*: There has been practically no evolution in regard to the democratic transformation to date; at most, mention could be made of a modest extension of certain civil rights such as freedom of religion, strengthening local participation through administrative decentralization, voting-rights reforms, and the temporary expansion of plurality of opinion. In all, the democratic transformation is a matter for the future.

The evolution of the market-economy transformation has been longer. Political decision-makers have accomplished a reorganization of foreign trade, and a partial liberalization and short-term stabilization of macroeconomic development. The private sector was expanded to a certain extent. This did not substantially improve framework structures of a market regime since the "dualization" of the economy blocks overall economic equilibrium and a coherent and consistent economic strategy. Thus the economic transformation to an efficient social market economy still faces great challenges.

(3) *Management*: The relative organizational performance of the political actors must be evaluated as rather negative. They did succeed in achieving their intended goal of maintaining the status quo. In doing so, they exhibited a certain ability to learn and achieve goals. Previous transformation results make subsequent transformation in the direction of democracy and a market economy more difficult, however. Compared with the previous period, the economic transformation process lost speed and prospects of success during this period. The political process was largely blocked and the use of authoritarian models may have long-term structural effects. At the same time, the political establishment's

ability to achieve social integration is decreasing and encouraging a possible polarization.

7. Outlook

This overall negative picture of transformation makes clear that the greatest challenges lie ahead for Cuba's "divided" transformation. In terms of a market economy, the primary concern is renewed homogenization of the island's economy and its currency. That requires strengthening the domestic economy, which can only succeed through privatization of industry; consolidation of agricultural production; diversification of export products; establishing an independent banking system, capital markets, open domestic markets and corresponding legal system; as well as adapting the social system to economic productivity.

In regard to democracy, the rule of law must be established, political participation and institutions democratized, and social and political integration achieved. These multiple challenges will probably be addressed only in a post-Castro era; their progress depends upon many determinants. Certainly incremental transformation would be most desirable, which would work toward a market-based democracy as a new political project and thereby introduce a renewal that would replace the old, fractured regime consensus with a new one that would define the nation as unified rather than unitary. Transformation of such a character would have the greatest chance of organizing a rupture that is civically and socially acceptable, as well as integrative and consensual.

Yet the current constellation of actors makes a different scenario more probable: on the one hand, the policy of isolation and stubbornness of the US government and parts of the exile community demanding consultation in regard to all transformation steps and the growing influence of the foreign-currency cadre; on the other hand, a weak civic society, the lack of an opposition and an apolitical population. That scenario is an alliance among sections of the elite, technocrats in the dollar economy and a section of the traditional bureaucracy, who only want to promote the further expansion of the foreign-currency sector and thereby make socioeconomic heterogenization structural through alliances with new domestic and international investors.

Viewed regionally, liberal-democratic neopopulism could become a new model of legitimation in Cuba. Using it, the development of the foreign-currency sector could be legitimized through democratic methods and the bureaucratic apparatus opposed to deregulation could be deprived of its power. Such a new model of legitimation would facilitate privatization and the dismantling of administrative offices, unprofitable domestic sectors and some public services. Given the reform

process to date, it is doubtful whether economic breadth of vision will develop, e.g., a vision that understands education and social integration as transformation advantages, along with short-term profit considerations.

Since it is also known that populism often works with nationalism and exclusions, and the United States will no longer serve as the personification of the enemy in a post-Castro era, the construction of new internal enemies can be expected. With a view to political traditions and social momentum, the black population of Cuba is therefore particularly threatened by a new wave of racist stigmatization. Neopopulism would also hamper the development of intermediary institutions and organizations and thus impede social redemocratization. The lack of consistency in reforms could soon discredit democracy as a whole and lead to the same disaffection from politics that characterizes many transformation countries today. Cuba's prospects for integral development, social democratization, reformist political solutions, and civic and social transformation would be obstructed further.