This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2018. It covers the period from February 1, 2015 to January 31, 2017. 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](http://www.bti-project.org).


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Executive Summary

Raúl Castro’s ten-year presidency has been characterized by economic growth stagnation, a modest but persistent market opening, significantly greater attention to institutionalization and collective rule, loosening governmental imposition on society, negligible democratic openings, improved relations with the United States, and improved acceptance as a responsible member of the international community, including brokering peace in Colombia.

The ossified economy that Fidel Castro passed on to his brother was ill-prepared to adapt to the 2009 economic crisis and utterly unprepared to cope with the implosion of the Venezuelan economy, its main partner, first from the decline of the oil price and then from gross mismanagement. From the start Raúl Castro began a process of market opening that picked up significant speed in the Fall 2010, but had stalled by 2014. The economic reforms that were authorized during that reformist interlude have remained in place but new reforms have become very rare and the speed of implementing authorized reforms is very low. For the decade, GDP growth is negligible as a result. GDP growth in 2016 was officially -0.9%; it was likely somewhat worse.

The most important economic opening of the 1990s was to authorize foreign direct investment in partnership with Cuban state enterprises. The most important such opening of the 2010s was to authorize self-employment licenses that have permitted, in effect, the formation of micro-, small-, and some medium-sized businesses that operate, nevertheless, under severe limitations.

The most important political trait of Raúl Castro’s presidency has been an attempt to institutionalize the regime. After a fourteen-year hiatus, he convened a Communist Party Congress in 2011 and then, according to party statutes, he convened another one in 2016. One by one, he replaced nearly all cabinet ministers inherited from his brother but retained most of the old-timers on the Party’s Political Bureau. He has emphasized a more collective style of leadership,
symbolically delegating public speaking keynotes at key events to other members of the leadership.

Raúl Castro’s most important accomplishment may have been the rapprochement with the United States. It opens the way for future economic, social, and in due course, political changes. Near-term, it brought over a half-million visitors from the United States to Cuba in 2016 and strengthened the joint cooperation between the two governments mainly on security, science and travel issues.

He allowed his daughter Mariela to lead a campaign to protect the rights of LGBTQ Cubans, making it clear that “being gay” is not a crime in the Republic of Cuba – a sharp contrast to the military labor camps for gays in the mid-1960s or the deportations of gays in 1980. He cancelled the obligation that secondary school students had to study in boarding schools, permitting the youngsters to live at home and attend a nearby school, which now nearly all do. He accelerated the process begun under Fidel Castro to allow greater freedom of religion and made it a public point to work closely with Pope Francis in the process of reestablishing diplomatic and other relations with the United States, welcoming this Pope for repeat visits to Havana. He emphasized a commitment, begun much more mildly under Fidel Castro, to affirmative action regarding women and non-whites in membership in the National Assembly and the Communist Party Central Committee.

The least change was evident with regard to democratization. The most important change, prior to the 2013 National Assembly election, was to limit official mobilization to foster election day turnout, not to insist citizens should vote for all candidates on the ballot. As a result, Cubans for the first time ever were allowed to cast nonconforming ballots, that is, ballots contrary to Communist Party preferences. Nearly a quarter of Cubans cast such ballots.

**History and Characteristics of Transformation**

Four junctures mark Cuba’s last decade. First, Raúl Castro became acting president in August 2006 when his brother Fidel Castro was rushed to the hospital, gravely ill, and became president in February 2008. Second, in 2010, Raúl Castro launched and led a process of market reform opening that has characterized the Cuban economy ever since. Third, in time for the February 2013 National Assembly election, Raúl Castro changed political practice to permit a somewhat freer expression of public views in casting ballots. Fourth, in December 2014 Raul Castro and Barack Obama announced their joint decision to reestablish diplomatic relations between Cuba and the United States and reset their relations.

First, with the coming to power of Hugo Chávez in Venezuela, Fidel Castro developed a relationship with Chávez that was economically highly beneficial for Cuba, and, through using Cuban services, provided the basis for Chávez to provide social services in Venezuela’s poorest communities where many of his supporters live. Fidel used the new resources to stop the mild
process of market-oriented reform begun in the early 1990s and wherever possible to reverse it, recentralizing economic decisions in himself, his ministers and his confidants. Restrictions on the operations of the small private sector tightened; foreign direct investment (except from Venezuela or China) plummeted. Some of the new resources were also used on behalf of social justice, creating universities at the municipal level, greatly expanding university enrollment especially for black Cubans and women.

Raúl Castro’s early months in the presidency were taken up mainly with cancelling such programs of revolutionary mobilization and high centralization to run the economy while also dismissing most of the inherited high officials from his brother’s late years.

Second, in 2010, Raúl Castro was ready for his major economic reform initiative, the so-called process of updating Cuba’s socialism. In the fall, the new program, called the Lineamientos, was issued, which with some significant conservative-tilted modifications was approved at the April 2011 VI Communist Party Congress. The most significant change has been the expansion and liberalization of the category of self-employment, first introduced on a more modest and restrictive scale in the early 1990s. By 2016, the number of private sector licenses exceeded a half-million in a country of 11.2 million people. This self-employment, at the low end, is literally just that: a plumber who works out of home as a private contractor. But self-employment at the high end is best described as the rise of micro-, small-, and medium-sized businesses.

The most notable sector to grow within this new private sector is restaurants, called paladares. Small and menu-constrained under Fidel, they can now be quite large and culinary-creative under Raúl. This economic reform coincided with the growth of tourist visitors to Cuba, thus making this private sector profitable. But the new private sector includes such varied enterprises as car repair and car rental shops as well as “tutorial” enterprises in foreign languages, thus marking the reappearance of a private sector in education. The existence of these new licenses permitted many Cubans to rent out apartments in their houses, and eventually full apartments to visiting tourists, adapting very effectively to Airbnb services following the December 2014 U.S.-Cuba opening.

Third, on the eve of the February 2013 National Assembly election, Raúl Castro limited the mass mobilization efforts of the mass organizations to foster turnout on election day, which remained very high. In the past, that mass mobilization work had a second purpose, namely, to ensure el voto unido, the united vote. Cuba’s electoral law mandates that the number of National Assembly candidates must equal the number of National Assembly seats, thereby guaranteeing that every candidate would be elected. But the same electoral law clusters those candidates in multiple-member districts, for instance a district slated to elect three deputies would also have three candidates. The law then allows citizens to vote for all, that is, the united vote, easily providing a space for one X on the ballot, or to vote selectively (for candidates A and B but not C), blank, or to void the ballot. The mass mobilization work had sought to keep small the number of selective, blank, or void ballot, all of which did not conform to Communist Party preferences, hence nonconforming ballots; indeed, that had succeeded. But, for the 2013 election, there was not mass mobilization to ensure the united vote and nearly a quarter of eligible voters cast nonconforming ballots: 1.8 million nonconforming votes.
If the electoral law had mandated that the candidate receiving the fewest votes in a district would have been defeated, then a third of the Political Bureau members would not have been elected National Assembly Deputies because they earned the fewest votes in the districts in which they ran. Most of these were the market-reforming ministers, however. This outcome may have dissuaded Raúl Castro from making the most often discussed change to the electoral law, namely, to apply the same rules to municipal as to National Assembly elections. The electoral law mandates two candidates per post to be elected at the municipal level. If this rule had been applied for the National Assembly elections, then the candidates with the fewest votes would have lost.

Fourth, in December 2014, Cuba and the United States launched a new relationship. It began with a diplomatic negotiating breakthrough. Instead of one side asking for “concessions” from the other, each side insisted that it had made decisions unilaterally because this served the respective national interests. For example, that is how Raul Castro explained freeing dozens of prisoners. Materially, the most important change was liberalizing travel possibilities for U.S. citizens and residents (over half-million to Cuba in 2016) and reaching agreements to permit U.S. scheduled airlines to fly to multiple Cuban airports every day while Cubana de Aviacion, Cuba’s state airline, refrained from flying to the United States at all. In security terms, important law enforcement agreements were signed to cooperate over drug traffic interdiction, search and rescue at sea and the prevention of undocumented migration. The United States accepted the Cuban government proposal to cancel privileged Cuban migration entry to the United States. Limited investment agreements were reached, but many agreements set in place the prospects for significant scientific, environmental and other forms of technical cooperation. President Obama visited Cuba and addressed Cubans through national television and radio without censorship. Such U.S.-Cuban rapprochement would make it less feasible for hardliners to justify continued authoritarian rule because the nation may be in danger, and such an opening could at last help create a market economy in Cuba. All of this is at risk, however, pending confirmation or disconfirmation by the Trump administration.
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 has had a monopoly of force since the defeat of the last anti-Castro insurgency in 1965. The last large-scale riot in the city of Havana occurred in 1994.

Crime rates remain very low although they have risen this century. Violent crime is even more rare although that has risen as well. Cuba cooperates with the United States on drug trafficking interdiction and punishes drug traffickers harshly.

There is a widespread sharing of “Cubanness” even across racial differences. There has not been an organized race-based political movement in Cuba for the past hundred years. Claims for “justice” on behalf of darker-skinned Cubans are formulated as the rights of Cubans.

A bit above 10% of Cuba’s population lives outside Cuba (Precise estimate is difficult depending on whether children and grandchildren of Cubans are counted as Cuban-enough.) Between 30-40,000 Cubans have been emigrating, net, during this century’s second decade. Between 250-300,000 “Cuban-Americans” have been visiting Cuba every year in this decade. They enter Cuba with a Cuban passport; they re-enter the United States with a U.S. passport or permanent-residency document.

President Raul Castro removed the decades-old obligation for a Cuban to supplement the passport with an exit permit for each trip. This has made Cuban travel abroad easier. Until January 2017, Cubans arriving in the United States could easily claim asylum status. Many of the Cuban-Americans traveling back and forth are, in fact, engaging in transnational small-business activities. They had not broken politically with the Cuban government and thus retained their right to return.

Cuba recognizes only Cuban citizenship but it does not punish those such as the Cuban-Americans who have another citizenship as well. The same has occurred with
regard to the smaller numbers of Cubans living in and often now citizens of other countries such as Spain (where they may benefit from the so-called grandchildren law, Ley de Nietos), Mexico, Venezuela or Canada.

However, this issue becomes increasingly important as, while Cuban law does not provide for dual citizenship, de facto many Cubans have acquired a second citizenship. Also, repatriation has become a means of de facto acquiring dual citizenship, which raises issues of how much emigrants can belong to the nation-state and maintain their citizenship rights even if abroad.

There are at least two problems concerning state identity: (a) the Cuban migrants in the U.S. might put “dual citizenship” on the agenda with a certain new legitimacy which, politically speaking, also poses questions of national sovereignty; (b) the rejection of dual citizenship was also an inward-directed concept of the nation-state and part of the equality promise of the revolution. The non-Spanish Cubans, who have no chance of benefiting from the Ley de Nietos, can see this as a sort of inequality, which moreover revives old ethnic-social cleavages (as the Afro-Cubans are by definition not of Spanish descent, apart from few mixed marriages).

The state was secular even before the 1959 revolution and much more systematically so since then.

The impact of religious communities on public policy has long been and remains extremely limited. Such impact has been limited mainly to the purely religious sphere, for instance visas for missionaries or processions outside church buildings. There is greater government respect for, and no prohibition of, religious holidays. The Roman Catholic Bishops principal area of impact outside strictly religious topics has been on the freeing of political prisoners, especially this decade.

There is an administrative structure throughout the country that provides basic public services, but its capacity to do so continues to decay.

Cuba generally provides water, electricity, education, health care, sports facilities and other such services to the entire population. The challenge since 1990 has been the growing obsolescence of medical equipment, lagging in technological updating, as well as increasingly severe shortages of water, both for lack of funding for significant investments. The quality of schooling has also deteriorated at the academic high school level, evident in high failure rates in university admissions exams. Private sector alternatives have emerged in education, principally tutoring as well as private instruction in languages and music.

Petty corruption has begun to affect access to health care, including admissions to hospitals and for expensive procedures.
2 | Political Participation

There are national elections at least for parliament (not for the executive), but they are not free and fair.

In National Assembly elections, the number of candidates equals the number of posts, but citizens may vote blank, null or selectively. In the last election in 2013, nearly one-quarter of Cubans cast a nonconforming vote (null, blank or selective), that is, contrary to the Communist Party’s preferences. This was the first election when the Communist Party did not mobilize vigorously to hold down the number of nonconforming votes; in particular, the selective vote increased. This was also the first election when the government publicly reported the proportion of votes cast for each candidate.

Selective voting means: Each voting district elects two or more National Assembly deputies for an equal number of seats, that is, all are elected. But this grouping permits a voter to vote for Candidate A but not vote for Candidate B. Although A and B are both elected, A would have won more votes than B. This adds an element of voter choice but it also informs the party leadership about the relative popularity of its cadres.

If in 2013 the electoral rule had existed (it did not and does not) that the candidate earning the fewest votes in a district would have been defeated, then one-third of the Communist Party Political Bureau members would have lost their posts as deputies. Perhaps for this reason, the consideration of a new electoral law based on applying the municipal electoral law, which requires multi-candidate albeit single-party elections, to the national level which has barred more than one candidate per post, has been placed on hold.

Political representatives are not elected democratically. All official candidates win.

The National Assembly has never defeated an executive bill and it has never voted on a bill proposed by a deputy but not endorsed by the executive. At most, the National Assembly may amend some texts, usually on topics such as the environment, science or national symbols. The assembly has never altered the budget. The National Assembly meets ordinarily only twice per year; its plenary sessions last one to three days. During the week before a plenary session, parliamentary committees meet to discuss bills and question officials. The National Assembly’s principal power has been ministerial interpellation. In the week before a plenary session, committees hear from government ministers and senior agency directors as well as from provincial government presidents. Each such week, there is often a provincial president and a handful of national executives who face the committees. Municipal assemblies have very few funds that they can raise on their own authority; the municipal budget depends nearly fully on transfers from the national budget.
Association and assembly rights are subject to severe government restrictions. Independent civic groups form and gather but, when they march, they are typically denied a permit and are subject to arrest – and are often arrested. Non-governmental associations are growing. In general, however, the political climate for the expression of public dissidence became more repressive in 2016.

The best-know dissident movement is called the Ladies in White. They meet on Sundays at church and then they attempt to walk in quiet demonstration against political imprisonment and other forms of repression. They are arrested very often on legal pretexts, held for a few hours and then released. The frequency and intensity of such arrests intensified in 2016. In early 2017, Berta Soler, one of the movement’s leaders, complained about the increasing repression and that the activists had not been able to hold their weekly Sunday marches for months (according to the Miami Herald).

The main independent civic groups exist in neighborhoods, such as reading clubs, or adjuncts to groups first created to grow and exchange food from urban gardens. The more significant non-governmental groups, although authorized and monitored by the state, are scientific and professional societies, such as environmental scientists, economists, etc. The scientists at times provide arguments and evidence to oppose or modify a government rule or project, most recently with regard to tourism development in ecologically vulnerable areas.

The Cuban constitution, Article 53, guarantees freedom of speech and the press but conditions such a right to “keeping with the objectives of socialist society.”

Freedom of expression is still subject to strong government restrictions. During the past years, however, the space for expressing opinion has expanded a bit.

Roman Catholic Church magazines publish a range of opinion on secular as well as religious topics. Of those, Palabra Nueva, published by the Roman Catholic Archdioceses of Havana, has existed for a quarter century and has an impressive record of widening the scope of permissible nonreligious commentary.

Serious magazines like Temas publish academic views for a widely educated audience, often pushing official limits. Its focus is societal, cultural and economic, emphasizing international or comparative topics, but clearly pertinent to debates in Cuba.

Cuba Posible, a critical-but-loyal website is allowed within Cuba. Its editors were cofounders of Espacio Laical, another magazine of the Roman Catholic Archdioceses of Havana. Its content was predominantly nonreligious. Its editors presented themselves as a “loyal opposition” to the Cuban government. Internal fights within the Church’s leadership forced them out and the magazine has in practice ceased to exist. The former editors then founded a website, Cuba Posible, with a bolder focus on contemporary Cuban issues, especially politics and economics. The government
has continued to allow it. Other blogs and digital publications permit a wider debate for now among the minority of Cubans with internet access.

Even official newspapers, Granma and Juventud Rebelde, have begun to allow readers to post online comments on their articles. Some of these posts are harshly critical of some government policies, albeit not of the government in general, the national leadership or the political regime. Even government websites allow online comments critical of government policy.

3 | Rule of Law

Power remains highly concentrated in a small number of people at the top of the Communist Party. The courts occasionally curb abuses by mid-level officials and state enterprises.

The National Assembly (parliament) has at times, but rarely, amended legislation in minor ways, and through its committees, interrogates ministers and agency directors from time to time. Formally, the constitution allocates vast powers to the National Assembly, which it might some day exercise, but has not yet. The courts operate under civil law traditions, avoid political topics, and balance other authorities only through trials and convictions of corrupt officials brought to court by state prosecutors.

The judiciary is institutionally differentiated but not independent, as its decisions and doctrines are subordinate to political authority. It is part of a hard autocracy where prosecution of political opposition occurs when necessary. The courts may rule fairly only on non-political topics, holding mid-level administrators and state enterprises accountable for legal violations.

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. The courts do not have the power to declare laws or rules unconstitutional; only the National Assembly itself may do so. Supreme Court justices and lower-level judges may be removed by a vote of the Council of State.

Nevertheless, the courts do follow rules of procedure for civil and criminal cases and apply the laws in manners typical of a very traditional civil law system: the application of the law to a particular case. There are harsh penalties applied to crimes that involve acts of violence. On civil and family cases, the Supreme Court affirms 85% of the decisions that had been rendered by courts of appeal, but this also means that in a minority of cases the appeal succeeds. It is unclear what the rate of appeal success is for other jurisdictions.
President Raul Castro launched a systematic attack on official corruption, principally in the tourism industry. Significant officials have been tried, convicted and imprisoned. The Comptroller General’s Office carries out audits systematically and has the president’s backing.

The anti-corruption drive is not unprecedented since 1959, but under Raul Castro it seems to be focused on corruption as such, rather than as often in the past using corruption accusations to pursue political punishment. The reinvigoration of the long-dormant Comptroller General’s Office is a Raul Castro innovation. There is nevertheless the worry that some of these endeavors may still be politically motivated. There is, moreover, no transparency in the anti-corruption trials.

Rights are codified in the constitution, but subordinate to parliamentary or executive interpretation. The main constraint on rights has been the lack of enforcement. Under Raul Castro there is wider freedom to voice criticism in academic contexts, authorized blogs and some scientific communities.

Citizen protection against arbitrary arrest, always a serious deficiency, took a turn for the worse in 2016 following the Communist Party Congress in April. The repression of public dissidence rose compared to previous recent years. Also in 2016, Cuba’s most prominent university economist was dismissed from his post, alleging technicalities but mainly because of his public support for a faster pace for economic reform. He remains an independent working economist in Cuba. The courts provide no redress in instances of such violations of rights.

The principal difference under Raul Castro has been the protection of the rights of Cuba’s LGBTQ citizens, including first-ever attention to transgender rights. In the mid-1960s, many persons accused of being homosexuals were sent to militarized labor camps to pretend to transform them into heterosexuals. Many homosexuals were deported from Cuba through Mariel harbor in 1980, labeled as “scum,” even though they were Cuban citizens. Thus, it is amazing that Raul Castro’s daughter, Mariela, with her father’s support, has launched a successful campaign to establish that being LGBTQ does not violate the laws of the Republic of Cuba, nor is it an aggravating factor if for some other reason a law is broken. She has successfully lobbied for retraining police officers, principally in Havana, to treat LGBTQ persons with dignity. Her proposal for a bill to authorize civil unions has not been docketed for National Assembly plenary debate, however.

Cuba remains a low-crime country certainly by comparative Latin American standards, meaning that the right to life and security is much better protected than in almost all other countries of the hemisphere.
4 | Stability of Democratic Institutions

There are no functioning democratic institutions in the meaning of the word “democratic” in this project. The Communist Party claims that it governs on behalf of the majority and, under its definition, the political system is governed democratically. There is no independent or reliable way to discern such a majority, however, and there is growing evidence of political discontent.

The principal evidence for discontent appears through communist party surveys, occasionally published, that show critical views regarding food supply and prices, housing conditions, public transportation, and so on. Confirming evidence appears in critical commentary on the online sites of official newspapers and more so on other blogs still permitted by the government. The level of criticism voiced in the Cuba Posible blog (formerly Espacio Laical magazine) is unprecedented for material available to those Cubans with internet access (one computer per nine persons).

The most “democratic” level is municipal because municipal assembly members are elected in multi-candidate albeit single-party elections. Only about half of municipal assembly members are reelected but the reason for this rate is unclear.

Official institutions and key officials do not accept democratic institutions within the meaning of the concept “democratic” in BTI terms.

It is unclear whether the opposition or the dissidents share this concept of democracy. Some do, but in others it is less certain. The editors of the Cuba Posible “loyal opposition” blog, the intellectual magazine Temas, and similar intellectuals do accept democratic institutions and, in various ways, argue for changes that would make such possible. Some opposition groups, however, seem nearly as absolutist as the government and the Communist Party, although these more intolerant groups are more closely associated with supporters outside Cuba who may fan such intransigence.

5 | Political and Social Integration

It is a communist single-party system. This party has never faced free contested elections. It is difficult to tell how stable it would be if elections were free, and equally difficult to tell whether the existing party is socially rooted. Party membership dipped slightly in the 1990s and then recovered to somewhat above half-million members.

The party sponsors and controls the key mass organizations for workers, youth, women, peasants and similar smaller entities. In these ways, it seeks to be rooted in society but these organizations have been mainly instruments to communicate views and policies to the public rather than means to voice the opinions of the public, the expression of debate, the articulation of new policies and shifts in policies or the aggregation of societal interests.
The Communist Party under Raul Castro has incorporated more women in its Central Committee at its 2011 and 2016 Party Congresses, and in its Political Bureau at the 2016 Party Congress. There have been similar efforts to increase the number of Afro-Cuban members of these elite entities. These outcomes stem from Raul Castro’s “recommendation” to the Party to increase appointments of women and Afro-Cubans.

There is some interest-group behavior from international companies that lobby the government over economic policy. The revisions of the foreign investment law in the 1990s and during this decade have gone through several drafts, which may indicate changing texts responding to lobbying by foreign firms, not just disagreements within the leadership.

There is lobbying regarding freedom of religion from various churches and, by the Roman Catholic Church, to free political prisoners, with success in this decade. Some foreign foundations are allowed to fund some NGOs. In some cases, scientific societies have lobbied with some success against specific tourism projects that are deemed to be environmentally damaging. For example, they have delayed the development of golf courses, given Cuba’s severe and recurrent water shortages.

In general, however, most societal entities are under the communist party’s aegis; the largest of these are the labor confederation, the women’s federation, the small peasants’ association, the committees for the defense of the revolution organized by neighborhood blocks, and the associations of students at various levels. Mediation between state and society is difficult at best. Of the officially sponsored mass organizations, the small peasants’ association (Spanish acronym, ANAP) has over the years been most likely to lobby on behalf of its members.

There is no coordination across interest groups independent from the Communist Party.

Sadly, there is not enough evidence to answer this question.

The fact that over a fifth of National Assembly voters cast a null, blank or selective ballot implies a preference for change. The fact that only about half of municipal assembly members are reelected could mean that voters hold them accountable, but it could also mean that those elected officials prefer not to run again for jobs that have very little power. Or, it could also mean that they are forced out of running by higher-up officials.

In 2015, prior to the municipal elections, the official communist party newspaper held an online session during which election officials answered questions. Many of the questions reported online inquired about the possibility of voting for more candidates, choosing between parties, directly electing Cuba’s president and the like. In communist party public opinion surveys, occasionally published, Cubans do voice criticism of specific government services (e.g., bad public transportation), which
implies valuing freedom of expression and an expectation of government responsiveness.

Social self-organization has been growing. In some cases, it has led to small-business creation. In others, it has strengthened networks of social support among communities of religious faith. Scientific groups have developed, as have others in scholarly communities.

There has long been a strong basis for in-group mutual support, preceding the 1959 revolution and continuing thereafter. Afro-Cuban religions have long emphasized joint endeavors that combine religious and nonreligious activities. The Catholic Church’s charitable organization, Caritas, not only disburses food, medicine, and other forms of support, but facilitates group endeavors ranging from reading groups to after-school sports teams for kids.

The level of “trust” is, however, impossible to determine.

II. Economic Transformation

Poverty and inequality have both grown since the end of Soviet Union support, but data is hard to find. The last estimate for poverty indicates one-fifth of Cubans are very poor, but the estimate dates from 2000. The estimates of inequality vary but imply that Cuban inequality begins to resemble other Latin American countries.

To be found “poor” in the government estimate, a person has to meet four criteria: (1) monthly salaried income below approximately $4 per month; (2) did not receive remittances from abroad, did not work in a hard-currency sector in Cuba such as tourism; (3) did not grow food (thus by definition no one in a rural area was poor); and (4) job compensation did not include a free or subsidized cafeteria. Obviously, just meeting some of these criteria implies a life of serious hardship. Officials do point to free education, free health care and free sports facilities, but that does not sufficiently mitigate harsh daily living experiences.

The most “dynamic” factor bearing on widened inequality is the sending and receiving of financial remittances from the Cuban diaspora. Because the diaspora is disproportionately white by Cuban standards, remittances received exacerbate the racial income differences within Cuba. Because remittances are increasingly being used as working capital to start businesses, a racial bias is evident in new entrepreneurship. The cumulative effects of these changes may be settling in as structural considerations.
Estimates of inequality have been made by non-governmental economists, indicating a Gini index rising from about 0.2 in the 1970s to a high 0.3 in the 2000s. At 0.769, in 2014 Cuba’s Human Development Index rank was fifth in Latin America and 67th in the world. At 0.356 in 2014 Cuba’s Gender Inequality Index ranked it fourth in Latin America. Cuba’s territorial HDI indicates modest variation in HDI levels by provinces, although Cuba’s eastern provinces have always been and remain poorer.

Cuba’s women have been a majority of university graduates in most degree programs for some years, which may augur for greater future equality in the labor market. The proportion of women appointed to Political Bureau and Central Committee posts rose at the 2016 Communist Party Congress.

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<td>% of GDP</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Tax revenue</td>
<td>% of GDP</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Government consumption</td>
<td>% of GDP</td>
<td>32.4</td>
<td>32.4</td>
<td>32.2</td>
</tr>
<tr>
<td>Public education spending</td>
<td>% of GDP</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Public health spending</td>
<td>% of GDP</td>
<td>9.0</td>
<td>10.6</td>
<td>-</td>
</tr>
<tr>
<td>R&amp;D expenditure</td>
<td>% of GDP</td>
<td>0.5</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Military expenditure</td>
<td>% of GDP</td>
<td>3.5</td>
<td>3.5</td>
<td>3.1</td>
</tr>
</tbody>
</table>

Sources (as of October 2017): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.
7 | Organization of the Market and Competition

Since fall 2010, the government has been authorizing "self-employment licenses" that permit the creation of micro- or small businesses. Over a half-million such licenses have been issued (population 11.2 million). The institutional framework that governs this market is uneven and decision-making often arbitrary. The state continues to own and operate all significant enterprises and micromanages the emerging private sectors. The cooperative movement has long existed but it remains weak, also micromanaged, and subject to capricious government intervention. Most of the nonagricultural cooperatives result from divestments by state enterprises of non-core businesses.

The fundamental economic rule remains unchanged. Every non-state economic activity remains prohibited unless it has been specifically authorized. Thus, the licenses for self-employment are very specific. For example, you may have a license to sell film DVDs but may not use that license to show the film in your home and charge entrance as if it were a movie theater. Tax policies are designed to prevent the accumulation of wealth, and this has been affirmed publicly by government ministers and adopted by the April 2016 Communist Party Congress. In particular, the tax rate on a private licensee increases upon hiring a sixth employee and it rises again upon hiring an eleventh employee, and so on.

There remains a substantial illegal market.

Prices for state enterprises are set centrally. Prices in some agricultural markets had been set by market supply and demand, but in 2016 selective food price controls were applied also in these “free” markets. Private peasant sale prices to the Agriculture Ministry are set by the Ministry and peasants are compelled to deliver a portion of their harvest at that price.

Cuba operates a multiple exchange rate currency system, with varying exchange rates by sector of the economy or special territories. For most transactions, however, there is a Cuban peso, on which salaries are paid, and a convertible Cuban peso, which international visitors must use. The exchange rate between these two is approximately 24:1, with the convertible peso pegged at 1:1 US dollar. The multiple exchange rate system has caused havoc with statistical accounts, central planning and economic efficiency.

Cuba welcomes private direct investment in selected sectors, mostly in tourism, petroleum, natural gas and mining development. Most such investment must be in partnership with Cuban state enterprises, and the labor force must be hired through a state hiring hall. Foreign firms strongly object especially to these constraints on hiring their own work force. Such joint enterprises are often very profitable but profit repatriation requires specific central bank authorization, often postponed to protect central bank reserves.
The government barely polices its own enterprises, although the courts at times try and convict abusive administrators. The government often creates monopolies to lure foreign firms to invest. Anti-monopoly rules operate only upon the small private business sector to prevent what the government deems “enrichment.”

The government seems to operate as if classic Marxist analyses regarding “monopoly capitalism” were correct. Therefore, in order to attract foreign investment, the government must guarantee a monopoly to a foreign firm over a particular sector, or product or service. In the tourism sector, for example, the Spanish Sol Melia hotel chain had a monopoly over the top-of-the-line hotels. The Raul Castro administration has introduced somewhat greater competition, including an agreement with U.S. Starwood hotels signed in 2016 to operate three hotels.

In contrast, in granting of self-employment private licenses, the government seems to foster competition as a means to prevent any one entrepreneur from becoming too influential in the market.

Only state enterprises and foreign firms in joint ventures are authorized to engage in foreign trade; small national businesses are typically not. Foreign firms are often required to export as a condition of approval to invest. In 2016, only two non-state firms had government authorization to export, in part in response to changes in U.S. regulations that had permitted U.S. trade with Cuban non-state firms.

There is severe distortion created by a multiple exchange rate system as well as many special groups. Cuba established a dual exchange rate system in the 1990s. In its very slow-moving attempt to eliminate it, they have in fact shifted to a multiple exchange rate system whereby preferential exchange rates apply in various sectors, compounding distortions.

The economy is, however, connected selectively to the world market. Given its small size, Cuba is a significant exporter of services (tourism, medical and other governmental services, etc.), and some goods (principally nickel and other minerals, some biotechnology products, some light manufacturing), and it imports a wide array of products including food. Its main constraint regarding international trade is insufficient domestic production and productivity as well as low quality control in industrial products. Cuban tariff rates are low but nontariff constraints on trade are extremely high. The government regulates most foreign trade. Small private sector entrepreneurs engage in petty foreign trade, importing spare parts in their personal luggage and paying excess baggage fees. This petty trade has grown in significance during this decade.

The Obama-Raul Castro agreement opened Cuba to U.S. civil aviation. Because of the travel liberalization, over 500,000 visitors from the United States visited Cuba in 2016, second only to the number of Canadians. Moreover, since the end of 2001,
Cuba lawfully imported over $5 billion in agricultural products from the United States, paying cash in advance.

Cuba has a primitive banking system where individual accounts or credit or debit cards are rare. Most Cubans rely on a cash economy. Banking services (including credit cards) are remain unavailable for U.S. persons or firms.

Loans to the small private sector carry very high interest rates and require onerous collateral burdens. Most banking loans have gone for building maintenance and repair in 2015-2016, even though the goal had been to provide financing for the private sector. Interest rates for loans in 2016 required collateral and were set at 5% for a six-month loan. A self-employed person at the start lacks collateral, of course. Therefore, financing of the private sector has occurred for the most part through remittances from abroad and therefore in violation of Cuban law.

Only state banks are authorized; there is no capital market although the state issues some bonds to finance the deficit and compels state enterprises to purchase them. Starting in 2014, state banks have been obligated to purchase bonds of the Republic of Cuba, issued to finance the government’s national budget deficit.

8 | Currency and Price Stability

Controlling inflation is a component of the economic system in principle, but it is institutionally and politically subordinated to other goals. Government inflation statistics focus on official prices, not on prices in lawful or unlawful private markets.

Food supply inadequacies and higher restaurant demand for food to serve tourists led to significantly higher food prices in 2015 to 2016, which the government sought to meet by re-imposing price controls instead of focusing on increasing supply and agricultural productivity. The budget deficit had been manageable but nontrivial. In response to negative gross domestic product change in 2016, the government’s plan for 2017 is to increase the budget deficit perhaps to 12% to be financed via the issuance of Republic of Cuba bonds. This may nonetheless have inflationary effects ahead.

There is an arbitrary multiple exchange rate system that renders many statistics nearly impossible to interpret and has been designed to favor some sectors over others.

Political priorities trump these economic concerns. The most important macroeconomic policy change that suggests government prudence has been the renegotiation of Cuba’s international debt with the Paris Club governments (1986 default), and individually with member governments, as well as with Russia (1991 default).
Cuban macroeconomic policies have been conservative, promoting stability, with one challenge, one success and one emerging problem.

The challenge is that fiscal stability has led the government to set excessively high taxes on the small private sector, including punishing job creation as a means to prevent what it deems excessive enrichment. The Raul Castro administration’s great success has been to sign agreements on debt settlements with the Paris Club, Russia, China and others – settling Cuban defaulted accounts with all except the United States, where talks began under Obama-R. Castro. Cuba had defaulted on Paris Club debt in 1986, on Russian debt in 1991, and during the 2009 financial crisis its banks had defaulted on international payments. All of these arrears have been addressed.

The emerging problem is the countercyclical policy adopted in late 2016 to counter the drop in GDP during 2016, thereby increasing the projected government deficit in 2017 perhaps as high as 12% of GDP. Cuba has not encountered such a large deficit since the early 1990s, at which time it set off a rapid inflationary process.

9 | Private Property

The law defines reasonably well a range of property rights, but the same law reserves to the state, in effect, the right to override those property rights. This has been applied at times against foreign firms in mixed enterprises, not just to Cubans.

The law has respected the private property of persons in their homes. However, for homes obtained originally from the government (renters in 1959-60 in expropriated homes for whom rental payments became mortgage payments, in effect, to buy the house), there are limitations on how owners may dispose of the property. A real estate market developed, especially since 2010, for owner dwellings and with greater flexibility on government rules. Home ownership is a valued personal asset.

Government grants to use agricultural lands last only for 10 years, albeit renewable, and at the end of the 10 years, under the law, everything built on the land belongs to the state. The first such use grants come up for renewal in 2018. The government not only grants but may revoke private licenses for self-employment and authorizations for foreign firms to invest.

State enterprises predominate in all key sectors. Foreign firms may partner with state enterprises but such foreign investment remains modest outside tourism, petroleum, natural gas and mining. Mixed foreign-state enterprises are regulated closely and may face arbitrary behavior. Small businesses operate under great constraints because formally they are not companies, they are self-employment, and among other rights they lack is that of engaging in international trade.

The government may revoke at will the licenses for self-employment and has done so at times publicly to deter behavior of which it disapproves, without according a
right to appeal such decisions. There are no wholesale markets for the private sector. The 2016 Communist Party Congress committed to according more legal rights to the emerging private sector, but laws and regulations have not yet changed.

10 | Welfare Regime

Social safety nets were the political system’s pride by the end of the 1970s. 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 and subsidized day care. 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. Its decay resumed upon the sharp decline in support from Venezuela.

The quality of secondary education has suffered. The principal evidence has been the high failure rate in examinations required for admission to university. More rigorous testing was introduced after 2010, with the result of a higher failure rate. In part to sustain quality and in part to align job opportunities in a low-growth economy with career options, the government cut university enrollments by about 70% during the course of Raul Castro’s administration.

Health care access has begun to deteriorate. Evidence for 2014-2015 from medical anthropologists indicates that side payments to physicians, nurses and other health care personnel have become more common. Their purpose for the most part is to jump the waiting queue to access health care.

Poverty rates, last measured in 2000, indicate 20% of the population are poor (see discussion in first segment of this section). The quality of housing remains inadequate and building maintenance is difficult and expensive. Zero population growth has made this problem less severe but it constrains young adults who prefer not to live with their parents. The elderly suffer from the decline in the real value of pensions and the lack of elderly-appropriate housing.

Cuba had achieved significant equality of opportunity by the 1980s, in particular opening up the university-trained professions to women. The law is clear in prohibiting race or gender discrimination, but enforcement varies.

Racial inequalities have widened since the end of Soviet funding in 1990. Remittances from the Cuban diaspora disproportionately benefit whites because whites had been the core emigrants. The interaction between remittances and racial inequality is a worrisome topic over which the government has defined no policy.

Religious discrimination in university access, once high, has been mitigated. Favoritism for children of national leaders seems to have risen. The government’s sharp cutback on university enrollment appears to have come at the expense of those
from lower-income families, nonwhites and, to some extent, women. They had concentrated disproportionately in university programs in the humanities and the social sciences, which have been cut back the most.

Cuba’s reported literacy rate is 99.7%. It is likely very high indeed, though that number is difficult to reach in practice. Cuba’s ratio of female to male enrollment is 1.0 for both primary and secondary schools and 1.6 for tertiary education; the vast majority of university degree program have a majority female enrollment. The gross enrollment ratios for the three levels are 98.1, 99.7, and 41.0. Reported female labor force participation is 38.4; it is probably higher because the informal labor market is not well counted and many women work there.

11 | Economic Performance

The Cuban economy has hardly grown under Raul Castro’s tenure since 2006. All but two of the years since the 2008-2009 economic crisis have shown very low (1-2%) growth. One exceptional year reported 4% GDP growth; the second exception was 2016, with reported -0.9% growth. Cuban national accounts do not follow the near-universal methodology and Cuba has never explained its own calculations. Non-state economists typically assume double-counting in official statistics for GDP and therefore lop off 1-2% from the official growth rates.

Agricultural output has been especially disappointing. The sugar economy, once the country’s mainstay, has yielded harvests that are only about one-fifth as large as those in the late 1980s before the USSR’s collapse. The size of current sugar harvests is comparable only to those at the start of the twentieth century. Cuban manufacturing plants for the most part rely on old technology and sustain serious maintenance problems.

Cuba has come to rely on its service economy, principally on tourism and the export of professional services to pay for imports. The latter are mainly in the health care sector but also in education, sports, internal security, military, some joint construction ventures and the like. Clients beyond Venezuela include Brazil, Angola and South Africa. However, due to Venezuela’s severe economic crisis, Brazil’s economic recession and the oil price decline also affecting Angola, the capacity of these clients to import Cuban services as hitherto has been sharply curtailed. This does not augur well for Cuba’s near-term economic performance.

Unemployment is low, typically a one-digit number; under-employment in state jobs is high, although many of these may also have a sidelines business in lawful or unlawful activities. For example, a person may show up to work sufficiently to collect a salary and pension but work much less than the established day and instead derive most income from either a self-employment license or illegal market activity.

Multiple exchange rates severely distort prices and incentives and make statistical measurement all the more difficult.
12 | Sustainability

The government takes environmental concerns seriously, but it characteristically subordinates them to economic growth. This is most apparent in the authorization of tourism projects that damage shore environments and make little sense on a time-horizon that may involve more extreme weather.

The Ministry of Science and the Environment is tasked with providing a framework for environmental assessment and to intervene whenever environmental concerns are pertinent to a project. Its effectiveness is variable and it often fails to stop environmentally adverse projects.

Perhaps the most serious effect from environmental damage has been on the water supply. Some of this results from climate change (lower rainfall), and some results from the over-exploitation of aquifers, many of which are severely damaged. Water supply to the population is rendered worse because of old pipes with many leaks.

U.S.-Cuban (Obama-R. Castro) agreements opened a window to scientific and policy coordination regarding the environment. The agreements provide for joint work regarding biodiversity protection including migratory species (birds, fish, etc.) between the two countries. There is improved cooperation between weather bureaus. There is agreement on seismic prospecting in the joint marine environment between the two countries. It remains unclear whether the Trump administration will sustain these agreements.

Education policy has been a source of pride for the government. There is universal access and high achievement according to international test scores. Student achievement remains high in primary schools. As mentioned in the section on social safety nets (10.1) there has been a severe decline in quality of academic secondary schooling as measured by university admissions tests.

In a relatively demonetized economy with unreliable GDP statistics, investment proportions are meaningless. The government certainly allocates time, attention and personnel to all levels of education. According to World Bank data, education expenditure was exceedingly high with 12.8% of GDP in 2010 and 13.1% in 2009; more recent data are not available.

Applied science efforts receive international recognition. Cuban scientific patents in various areas of biotechnology have clear commercial value, which is under-exploited because of poor management of state enterprises. The challenge is managerial and industrial, notwithstanding first-rate applied science. According to World Bank data, R&D expenditure has been 0.4% of GDP in 2014.

Under Raul Castro, enrollment in high education has plummeted as noted in previous sections. The government under Raul Castro has become much more likely to steer students to technical and vocational schools. Enrollment in the latter schools has risen.
Governance

I. Level of Difficulty

President Raul Castro inherited a highly statist economy with long-term severe under-investment in infrastructure or its maintenance, and an economy that was excessively reliant on a handful of products. He was soon hit by the 2008-2009 economic crisis and, over the last two years, by Venezuela’s economic implosion (Venezuelan-Cuban economic relations were Cuba’s most important internationally). These constraints have not lifted. The Cuban governments attributes the -0.9% GDP decline in 2016 principally to lower Venezuelan purchases of Cuba’s exports of professional services and lower flexibility for Cuba to resell imported and saved Venezuelan petroleum in world spot markets. Petroleum prices have risen but the quality of governance in Venezuela has not.

One measure of inherited aging infrastructure is the report that two buildings crumble on average every three days in Havana. The water shortages, alluded to earlier, are made worse by water tubing infrastructure that dates from the 1940s and 1950s in many places and is older in some.

Raul Castro also inherited a well-educated labor force but also a system of very weak work incentives. The government’s allergy to the creation of individual wealth is a kind of ideological constraint akin to a structural constraint, for instance despite the evidence that the private sector grows much faster, the government refuses to relax its harsh tax laws that directly tax employment creation.

Cuba is nearly free of tropical infectious diseases.

U.S. economic sanctions remained in place through the end of the Obama administration, although President Obama had selectively lifted the implementation of those sanctions just as President G.W. Bush had done in 2001 regarding agricultural products. In U.S. law and regulations, all economic transactions between the United States and Cuba remains prohibited unless authorized by the U.S. Treasury Department. The principal contemporary impact of those sanctions has been on banking relationships, consumer credit cards, trade financing and insurance rates, all of which remain adversely affected. The Obama administration imposed heavy fines on banks accused of circumventing such U.S. sanctions.
Civil society was not strong before the 1959 revolution. Since then, the communist party sponsors and controls the principal organizations that operate in society. It sponsors participation in regime-supported activities. These include the committees for the defense of the revolution organized on a neighborhood basis, the labor confederation, the women’s federation and the small farmholders’ association. The neighborhood committees patrol the neighborhood in the evenings, participate in park clean up campaigns, and provide a variety of community activity support. They are also designed to support state security against oppositionists.

Social trust is difficult to assess. Independent civic associations remain few.

There is some evidence of strong participation by the Roman Catholic Church, some by Afro-Cuban religions, and also some by evangelical communities of faith, the size of which is difficult to ascertain. Some scientific associations, groups of intellectuals and the growing but still modest small business sector are examples of evolving civil society entities. Remittances from abroad fund several of these civil society organizations, and North American and European foundations also play important roles in funding, support and advice.

Incidents of political violence are extremely rare. Criminal activity has risen but remains low; during the current decade some organized criminal gangs have appeared in Havana.

No one has politicized the only potentially serious social cleavage, namely, along racial lines. Organized interracial violence is extremely rare. Racial inequality, as noted in a previous response, seems to have widened as an unintended effect of the process of sending and receiving remittances by an overwhelmingly whiter Cuban diaspora. In the mid-1980s, the Communist Party first adopted a mild commitment to affirmative action on racial lines; party organs must report racial, age, and gender composition when membership is renewed. That policy was strengthened slightly under Raul Castro for the 2016 Party Congress.

Religious discrimination was once severe but attenuated under Raul Castro. In 1991, the Communist Party statutes removed a belief in atheism as a condition for party membership.
II. Governance Performance

14 | Steering Capability

The Spring 2016 VII Communist Party Congress approved preliminary versions of documents that claim to set strategic priorities through 2030. The party is likely to ratify the final versions in 2018. In fact, these are mainly wish lists with internal contradictions in the document. The documents lack strategic operational steps to achieve their objectives.

Nevertheless, there has been more focused and sustained strategic design since 2010 when the leadership announced its new more market-conforming economic policy, approved at the VI Party Congress in 2011. Strategic design was reinforced over 2016 in preparation for the April VII Party Congress. Raul Castro’s restoration of the practice of quinquennial party congresses facilitates planning and coordination (Fidel Castro convened no Congress from 1997 until Raul convened the 2011 Congress).

Cuba has formally been a centrally planned economy since the early 1960s and the government formally presents a budget and a plan every year for approval by the National Assembly. The budget is observed reasonably well. The plan is typically a wish list. The plans are often subordinate to shorter-term problem solving and crisis management. The main challenge has been to sort through conflicting priorities and to organize policy measures accordingly.

Under Raul Castro, the government has also launched a variety of experiments by territory, sector or other units. It has shown impaired capacity, however, to bring these experiments to a conclusion, draw lessons and apply the lessons to national policy.

In 2016, the government was not able to achieve several economic targets (negative GDP rates, wider budget deficit) principally for exogenous reasons, namely, the declining capacity of Venezuela and Brazil to import Cuban services.

The government has not been able to achieve its own strategic priorities but main factors have been outside its control – the world economy, the collapse of its Venezuelan partner economy, and a quarter century of deferred maintenance. These obstacles have made it difficult to implement many of its policies, although the general thrust of policies remains in a slow-moving pro-market direction. The year 2016 has shown a marked decline in the government’s capability to implement its own goals. Numerous reform steps that had been announced or discussed have been paralyzed, including the monetary reform, constitutional reform and electoral reform.
The government has yet to fulfill its policy, adopted in 2008, to distribute uncultivated idle land to anyone who may wish to till it including workers on state farms. Program implementation lags significantly. In fall 2010, the government announced the dismissal of a half-million state employees over a six-month period but, four months later, it suspended the program for fear of protest and social unrest. Nevertheless, the government did succeed in reducing the state payroll by a magnitude similar to the original announcement but it did so no longer as part of a centralized plan.

The government introduced taxes on the private sector in fall 2010, and coupled that decision with an expansion of licenses and their terms of use. The government reports under-payment of taxes perhaps as high as half of all taxes owed. Also during this decade, the government announced the establishment of nonagricultural cooperatives. After one round of authorizations, no new such cooperatives were authorized in 2015 or 2016. The government in this decade has yet to meet its goal for the annual sugar harvest. The government announced in 2013 that it would “soon” unify the exchange rate and return to a single currency. It has instead introduced multiple exchange rates. In April 2016, the Party Congress committed to grant legal corporate rights to small businesses, yet laws and regulations have not changed. Even the government’s most noteworthy success in 2016 – the rapprochement with the United States welcoming President Obama in Havana – led to the first public split in the leadership regarding the wisdom of such policies.

Raul Castro learned commendably from the failures of inherited economic policies and, starting in 2010, has begun to enact more significant economic policy changes. This includes the authorization of small businesses, the authorization of nonagricultural cooperatives, greater autonomy for state enterprises, the development of the Mariel port to lure foreign firms and attempts to design longer-term planning.

His Political Bureau seems to have learned less, in part because they too are Fidel Castro’s legacies. Half of the Political Bureau members were born before 1945, and half of the “younger” members have served on the Political Bureau for less than a year.

There is considerable experimentation by sector and territory, which sometimes has also led to confusion and indecision when the experiments are not brought to a conclusion. The largest scale experiments are the creation of new provinces called Artemisa and Mayabeque, carved mainly out of the provinces of Havana and Pinar del Rio. They were given wider margins of autonomy and sought to separate municipal executive from municipal council responsibilities. Results are unclear, unpublished, and at best a work in progress.

Municipalities depend for nearly all of their funds on transfers from the national government. Municipalities are authorized to tax some activities at very limited rates and scope; this enables the wealthier municipalities to undertake more efforts.
The balance of Raul Castro’s decade as president shows considerable change in many economic and social policies. The year 2016 was not, however, a good example of learning. There were reversals with regard to agricultural price controls and increased repression of peaceful dissent.

15 | Resource Efficiency

The Communist Party must vet all senior appointments to government offices, state enterprises, hospitals, universities and so forth. Political criteria are paramount. This is akin to the old nomenklatura system in the former Soviet Union.

Surveys of state enterprise managers indicate that their top goals are to follow the rules and support the national government in general terms. These political objectives, while general, take primacy over economic or managerial considerations, thereby impeding the capacity to make efficient use of resources. In the same surveys, managers rank at the bottom such goals as improving the quality of their products or services or better attending to clients.

Cuba is striking for its impressive accomplishments in educating its people and the equally noteworthy inability to reap economic growth gains from such human capital investment. Only in this century has the government been able to export professional services, albeit only through state enterprises, or to commercialize some of its biotechnology accomplishments, albeit on a modest scale. Government private sector licenses overwhelmingly emphasize skills that require only modest levels of education (e.g. plumber, barber) instead of freeing the private entrepreneurial possibilities that Cubans demonstrate mainly through illegal markets.

Cuba’s net emigration rate this decade has been between 30,000 and 40,000 people. Emigration to the United States has become more difficult because President Obama cancelled the privileged entry of Cubans who will now come under the same general U.S. immigration laws.

The government formally retains vast powers to allocate all resources, including job assignments. The government had kept the budget deficit under control, and thus inflation under control. The 2016 recession has led it to “plan” for a 10% to 12% budget deficit for calendar year 2017. The government began in 2014 to issue bonds of the Republic of Cuba but these are thus far sold only to Cuban state enterprises.

The process of pro-market economic change, authorized in the 2011 VI Party Congress, improved the government’s capacity to coordinate some conflicting objectives but it also weakened the compliance from old-time cadres who now often resist the implementation of policies they detest. The result is at times a policy stalemate that depends much on who exactly is in charge of a specific set of policies.
Examples include resistance to implementation of idle land youth policies, downsizing the state payroll or permitting more nonagricultural cooperatives.

Production and service managers practice hoarding to assure that they would have the necessary inputs for their work, that is, they over-demand and store such inputs, creating large inventories and spot scarcities elsewhere in the economy. There is no insurance market to address such issues. Under-payment also characterizes much of the Cuban economy. Production and service units finance their operations by delaying payments to their suppliers. Cumulative under-payments amount to about one-fifth of GDP. They cannot rely on the state banking system for normal financing and adopt these practices as short-term responses. Hoarding and under-payments are manifestations of what happens when coordination is impaired.

On the eve of the 2016 Party Congress, Fidel Castro publicly criticized aspects of the U.S.-Cuba rapprochement policy, which was a keystone of Raul Castro’s presidency since 2014. Moreover, the Party Congress split publicly over such issues as the meaning of democracy and civil society as well as policies toward internet access. The Party Congress defeated a motion to modify the word “socialism” with the word “democratic.” Following the Congress, Raul Castro inserted “democratic” next to “socialism” as part of his personal slogan for his hopes for Cuba’s future.

Corruption has been less of a scourge on Cuba than in median Latin American or communist countries. Notwithstanding, government corruption has worsened substantially since 1990 due to a convergence of three forces: the opening of a hard-currency sector and limited market-based economy with significant levels of state intervention and weak legal base, the extraordinary discretion allowed to government officials in making micro-decisions, and the absence of independent institutions or media that could have a watchdog function and provide public transparency.

Corruption has been focused mainly on sectors opened up for market activities, above all the tourism sector. A majority of the tourism ministers since 1990 has gone to prison after being indicted, tried and convicted of corruption. Corruption also appears in foreign trade operations, some authorizations of foreign direct investment, and some entities that export professional services.

Raul Castro has taken a much harder line against corruption than Fidel Castro had. Raul Castro has also routinized anti-corruption policing, in contrast to the prior practice of focusing only on exemplary cases. Raul Castro newly empowered the Comptroller General to pursue corruption cases wherever the evidence would warrant it, including powerful officials who are removed from their jobs, even if just for negligence, but who in more serious cases are punished in a court of law.

The Comptroller General, empowered to increase and improve oversight and reporting, appears to act independently and has no apparent limitation on the scope of what her agency may investigate. This seems to be the result of Raul Castro’s
personal trust rather than the consequence of an institutional arrangement. In addition, due to the lack of transparency of the process, it is impossible to tell to what extent corruption charges are substantive, politically motivated or merely a product of personal vendetta.

Note that if mass behavioral engagement in illegal markets were to be included under corruption, then Cuba would perhaps rank as a high-corruption country. The illegal market results mainly from the comprehensive market prohibition regime, enacted from the 1960s to the late 1980s, that in modified form remains the rule.

16 | Consensus-Building

At the April 2016 Party Congress, in his plenary report Raul Castro attempted to tell a joke. He said that Fidel headed one, and he, the other one. He noted that Fidel would insist that he would head the communist party but he, Raul, did not care what his party might be called.

Since becoming president on his own right in 2008, Raul Castro has railed against false unanimity, arguing that differences on various topics are reasonable and healthy. At the same 2016 Congress, the commission in charge of the party program debated the official slogan. Cuba should be independent, sovereign, socialist and sustainable. Some proposed inserting democratic as a new noun adjacent to socialist; the commission did not approve the change. Yet, weeks later, when the party program was formally published, “democratic” had become part of the official slogan.

This surface evidence implies that there is no consensus on the worth of democracy, that democracy appeared as part of the official slogan by undemocratic means, and that the only public defender of some democratic elements is the 85-year-old president. Nevertheless, the appearance of a democracy initiative at the Party Congress was a true “first.”

Nascent civil society organizations, religious and secular, seem more committed to democratic goals, as are opposition groups, loyal or dissident. Many of these alternative organizations are not democratic themselves, such as the Roman Catholic Church is a hierarchical organization of appointed Bishops.

There is greater consensus on a market economy. After initial resistance in 2010-2011, the Communist Party leadership seems comfortable with the limited market opening that has been authorized. They seem divided on whether to authorize any additional market opening as evidenced particularly by their sustained opposition to wealth accumulation in a country where such achievement remains nearly impossible. Opposition groups claim to support the market economy. Through “Cuba Emprende” the Roman Catholic Archdioceses of Havana sponsors training for entrepreneurs launching small businesses.
In the normative sense of the BTI, 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. Within official circles, Cuba’s leading reformer has been President Raul Castro, and the leading opponent of reforms had been his brother and predecessor Fidel Castro. In late 2016, Fidel died, removing this obstacle, but Raul has publicly committed to stepping down as president in February 2018. There is, therefore, some evidence that hardliners simply plan to wait him out.

Democratic reformers are very difficult to spot anywhere within official circles. The attempt by the former editors of Espacio Laical, a Roman Catholic publication, to create support for a loyal opposition has succeeded only within a small set of intellectuals, perhaps a hundred people, although these include many of Cuba’s leading social scientists. The loyal opposition gambit is also an effort to build bridges to reformist in the government but these official reformers have yet to step out.

Market oriented reformers are more evident in addition to Raul Castro. Vice President Marino Murillo remains in charge of economic reform implementation and Economy Minister Cabrisas supports this undertaking. The process of market reforms has not suffered significant setbacks, although some specific steps have at times been reversed. The main problem is that the speed of change within authorized reforms is very slow, and the approval of new openings has been negligible between 2014 to 2016.

Cuba is a small country. One of the still-enduring accomplishments since 1959 has been to narrow social and economic differences between territories (evidence is about provinces) and also between town and country. This resulted from long-implemented egalitarian policies, not since reversed.

Organization on racial bases remains prohibited by law for social, economic and political organizations. Before 1959, a similar prohibition existed but only for political parties. There is some evidence of protest by Afro-Cubans who wish to affirm their identitarian particularities; this is typically expressed through visual arts and hip-hop music. The government generally tolerates such expressions, notwithstanding occasional crackdowns.

Raul Castro, much more than his brother, built bridges to the Roman Catholic Bishops and liberalized some of the constraints that had impinged on communities of faith. He not only welcomed Pope Francis to Havana but helped to broker the first-ever meeting in modern times, in Havana, between a Pope and the Russian Orthodox Patriarch of Moscow.

The tolerance of some mild forms of race-tinged protest and the bridge-building toward Catholics are examples of more effective management of these societal differences.
In 2013, the government made it easier for Cubans to travel and thus emigrate. That too is a tool in the toolkit to manage possible political and social tensions: export the problem.

The political leadership neglects civil society participation for the most part (as understood in liberal democracies), with the single exception of its moderate responsiveness to communities of faith.

Beginning in the 1980s, the government stepped back from its previously high repression of religious organizations. It allows wide freedom of worship to Afro-Cuban religions. It restricts evangelicals the most, especially Pentecostals who seek to proselytize as part of their religious mission. The government has now invited and hosted three consecutive Popes to visit Cuba, and made it easier for the Catholic Church to receive missionaries, funding, and books or materials for its work. It has permitted Caritas, the Church’s charitable agency, to expand significantly as a major supplier of support for many Cubans regardless of religious affiliation. However, only concerning one single nonreligious topic, freeing political prisoners, is there any evidence that the government formulated its policy in this decade by taking into account the proposals from the Cardinal Archbishop of Havana.

Since 1959 to 1960, the government has sponsored, under the aegis of the Communist Party, an array of mass organizations to control opinion, elicit comment, and at times provide for expressions of discontent in carefully managed fashion. Though these are not civil society in the full Western sense, their struggles for quotas of autonomy and representing the interests of their members are relevant for state-society relations.

Generally, the leadership does not address historical acts of injustice and does not initiate a process of reconciliation.

Notwithstanding, there are a few positive signs. The government has clearly changed its policy towards the Cuban diaspora. It distinguishes between most Cubans abroad, who are part of the same nation and permitted to visit Cuba on a Cuban passport, and a minority of political activists whom it still denounces. Cuban-Americans in particular send probably $2 billion in remittances per year and nearly 300,000 visited Cuba in 2016.

In 2001, the government hosted a conference on the Bay of Pigs invasion in which five former invaders participated. It stopped labeling all of its opponents, including these ones, as “mercenaries of the U.S.” As described in previous sections, government policy toward homosexuals also has changed substantially; it is no longer repressed as in the past. It permits homosexuals to participate in the arts and culture even at events attended by high officials.

If the rapprochement with the United States were to continue under the Trump administration, that too may have a positive domestic effect toward depolarization.
17 | International Cooperation

In general terms, the development agenda of Cuba’s political leadership may be summarized as piecemeal reforms oriented toward a new model of economic prosperity – not at least in order to legitimize the regime and to allow for authoritarian regime maintenance. For that purpose, the government uses international support but tries to avoid conditionality.

The government used the bounty of its relationship with Venezuela during the 2000’s in order to suspend pressing ahead on market-oriented reforms. Instead, the government’s new resources sought to strengthen the old command and control structures and advance some class justice goals. The government’s relationship with Venezuela also opened up a new economic window, namely, the export of professional services by state enterprises. At some point in the future, the export of such services by private companies may reactivate the Cuban economy. The collapse of Venezuela’s economy in 2015 to 2016 greatly reduced the utility of this relationship for Cuba.

Cuba similarly has used its important economic relationship with China to advance government goals. China has insisted that Cuba pay its debts and pay its annual import bills. As a result, the Cuban government has fewer flexible resources from the relationship. China has provided very little “development assistance” except for some project assistance. China is the strong external actor with internal credibility to advocate for market reforms.

Assistance from the European Union has yet to begin; an agreement was signed in 2016. Assistance from individual European governments has been modest but consistent with the government’s own agenda.

The government’s agenda has also shifted regarding international institutions. In fall 2016, Cuba signed its first formal agreement with a market economy international financial institution, the Latin American Development Bank (CAF by its Spanish-language acronym); the agreement provided mainly for an exchange of information. There is a new debate in university and think-tank circles in Cuba regarding the wisdom of approaching the International Monetary Fund, the World Bank, and the Inter-American Development Bank, none of which has yet led to agreement.

The international debt settlements permit discussions with these international financial institutions and permit financial flows in the future, but these did not yet materialize. But the government finally seems to have embarked on using international partners to advance a development agenda.
Cuba does not belong to the International Monetary Fund, the World Bank, or the Inter-American Development Bank, but it has begun to consider whether to approach them. Cuba has never supplied “blue helmets” to United Nations peacekeeping missions, but it has supported international efforts against Ebola in Western Africa and against health care crises in Haiti and other countries. Cuba signed anti-terrorist U.N. conventions only after September 2001. Cuba had signed nuclear nonproliferation agreements only after the collapse of the Soviet Union. It has been an obstructionist on U.N. climate change agreements. It has been generally uncooperative on international human rights, labor standards, and similar conventions, although it is often an elected member of the U.N. Human Rights Commission mainly to defend its own state interests.

On its own, however, starting in the 1960s the government developed a worldwide policy of cooperation with other countries on such topics as education, disaster relief or health care. Cuba has been exemplary in deploying its personnel to respond to the Ebola crisis in West Africa and to continuing support for Haiti following earthquake and hurricanes. Cuba is a highly reliable partner for the agreements it initiates. Apart from those Cuban initiatives, Cuba is also a reliable partner within the World Health Organization.

Cuba had systematically defaulted on its international debt obligations not only in 1960 but also in 1986 and decades that followed. Raul Castro’s administration has regularized nearly all these international debt obligations, except to the United States. Cuba’s management of its rapprochement with the United States 2014-2016 was, however, both impressive and effective.

Cuba played a constructive role in the peace negotiations that settled the civil war in El Salvador in 1992, the civil war in Guatemala in 1996, and fostered a key agreement to wind down civil war in Colombia in 2016.

Cuba is a member of CELAC (Community of Latin American and Caribbean States) and the Association of Caribbean States. Cuba participates in Iberoamerican Summits. It has cultivated especially close relations with the Anglophone Caribbean. Cuban political relations with Latin America vary more depending on ideological orientations and junctures – they are better the closer a government comes to a statist left. But Cuba now has diplomatic relations with all of its neighbors, most recently including the United States.

Cuba complies with the rules set by the international and regional organizations to which it belongs. However, despite an invitation to reintegrate in 2009, Cuba has not yet returned to the Organization of American States because it refuses to accept the “Democracy Charter” that has become the organization’s constitutional bedrock. Cuba does not accept the jurisdiction of the Inter-American Human Rights Commission or that of the Inter-American Courts of Human Rights.
Cooperation with Caribbean island governments is, in general, excellent. Prime ministers of various Anglophone countries routinely receive health care services in Cuba. Cuba trains their health care personnel and provides various services, some as assistance, some as trade in services. Cuba has provided disaster relief support to many countries in the circum-Caribbean.

Cuban cooperation with the United States over migration, search and rescue in the Straits of Florida, drug traffic interdiction, scientific and health care cooperation, among other areas improved significantly in the late Obama years.
Strategic Outlook

Cuba faces three interrelated major problems and one noteworthy uncertainty: how to manage succession, how to activate the economy, and how to open up politics and civil society, providing public space for organizations and new media, given the uncertainty of the Donald Trump presidency in the United States.

Fidel Castro died in November 2016. Even during his decade in retirement, he remained a major behind-the-scenes opponent of change. Raúl Castro has credibly affirmed that he will step down as Cuba’s president in February 2018. He is entitled to remain the Communist Party’s first secretary, however, until the next scheduled Party Congress in 2021, when he would be age 90. Half of the Communist Party Political Bureau was born before 1945. Cuba is in the midst of the only significant succession change since the 1959 revolution. Because such succession has never happened, forecasting its particulars is foolhardy, although Raúl Castro has worked hard to position a small number of leaders born in the 1950s and 1960s to take over. If they do, the process of economic reform would likely continue and the plan for authoritarian regime maintenance would succeed.

Cuba’s state-run economy cannot be relied upon to activate the nation’s economy. It has not done so since the loss of Soviet support in 1991 and there is no path forward for its success. Cuba has witnessed very high growth rates for the new private sector during the current decade, a good hint that this is the path to economic activation. Many microeconomic initiatives would be sound. Current self-employment legislation does not treat the new businesses as corporate entities and therefore they can neither export nor import goods or services lawfully. Enabling these private firms to engage in international trade would make the economy grow, including trade with the United States as under the Obama presidency the trade embargo was suspended for the most part for private sector trade. Applying a corporate tax rate to these private businesses, not a tax rate that escalates when they hire more workers, would facilitate downsizing state employment and providing incentives for business growth, removing the distortions that compel the same entrepreneur to pretend there are several adjacent but formally unrelated businesses. More dramatically, instead of the policy authorizing a new self-employment category only specifically by name, allow private medium-and-smaller business formation for any activity except some strategic sectors that no doubt the state would want to reserve for itself.

Cuba’s political opening has to run through the National Assembly. Under the constitution of 1992, the National Assembly has vast powers. Changing its membership may facilitate political change. Applying the municipal law, which mandates two candidates per post to be elected, would be a sensible first step; it would almost certainly lead to the defeat of many dinosaur parliamentarians. A more political-reform minded National Assembly could loosen the laws governing civil associations, permitting the growth of civil society and welcoming the kind of
opposition that chooses to call itself the “loyal opposition” because it respects Cuba’s constitution, laws, and regulations and has opposed past U.S. policies.

Uncertainty caused by Donald Trump cannot be gauged as of this writing. Cuban cooperation with the United States to prevent undocumented migration, interdict drug trafficking, prevent criminal violence on air or sea and jointly patrol the U.S. base near Guantanamo are exactly the policies that Trump said he wanted from other countries during his campaign. Would they suffice to save and sustain other U.S.-Cuba agreements reached following the December 2014 decision to improve U.S.-Cuban relations? If Trump were to revert to the policy of the George W. Bush presidency, it would make it more difficult for Cuba to activate its economy and it would significantly strengthen political hardliners in the communist party and the government who would insist on defending the homeland from reconstructed U.S. imperialism.