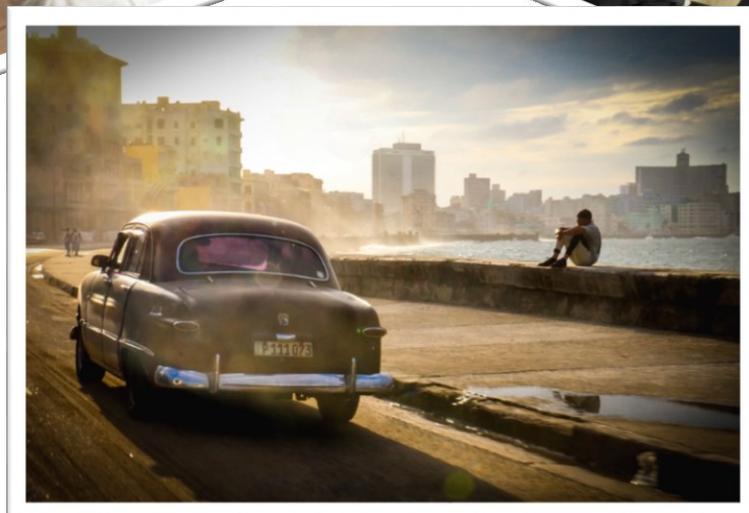


**Dr. philos. Dissertation**

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## **The End of an Era – or a New Start?**

**Economic Reforms with Potential for Political Transformation in Cuba  
on Raúl Castro's Watch (2008-2018).**



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*To Cuba's youth,  
wishing them the opportunity to form a future they can believe in.*



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## Preface

This is a dissertation for the degree called *doctor philosophiae*, Dr.philos, the old doctorate degree at Norwegian universities. Since the introduction of the Ph.D. system, it is not very common to submit Dr.philos. dissertations. According to the regulations of the University of Oslo, a Dr.philos. dissertation shall be *“an independent scientific work, fulfilling international standards regarding ethical criteria, academic level, method and documentation. It shall contribute to the development of new academic knowledge and stay on an academic level qualifying for publication as part of the scientific literature within its discipline”* (translated from Norwegian).

To work with a Dr.philos. degree is normally a very lonely process. The University offers no academic or economic support. You have no formal access to supervision. It is often said that you are expected to work in splendid isolation and come down from your mountain resort with a bunch of papers to be handed in to the scientific committee with the message: *“take it or leave it”*.

In reality, I have been fortunate to have several academic colleagues and friends who have supported me throughout this process. Professors Olle Törnquist and Bernt Hagtvet, both of the Political Science Department at the University of Oslo, have offered good and important guidance and feedback. The same is the case for Professor Torbjørn L. Knutsen at NTNU University (Trondheim), and for Professor Axel Borchgrevink at OsloMet University. Without their academic advice, I would not have dared to present this dissertation. Associate Professor Karin Dokken at the Political Science Department has offered all her experience with the presentation of doctorate theses to guide me through the final lap of the work.

I claim to have a quite unique point of departure to make this study. I have been living in and visiting Cuba regularly since the late 1970s, starting with a two-year period as Junior Professional Officer with the UNDP in Cuba. I literally went right from my defence

of the “*hovedoppgave*” in Political Science at the University of Oslo in June 1977, to this exciting job in Havana. I have meanwhile been following Cuban economic and political developments quite regularly. Since 2010, in the run-up to the 6<sup>th</sup> Communist Party Congress when Raúl Castro’s reform agenda was approved, I have been coordinating an academic collaboration project with several Cuban institutions, first on behalf of the Norwegian Institute for International Affairs (NUPI), later on behalf of the Centre for Development and the Environment (SUM) at the University of Oslo. The project has been financed by the Norwegian Ministry of Foreign Affairs and the Embassy in Havana. Through several annual visits to Cuba, I have also been collecting data for the study.

There are so many persons I need to thank for their support. Many of them – but not all – are mentioned in Appendix 2 (Sources). Most of all I want to thank the generous and hospitable Cuban people and all my Cuban friends and colleagues. I want to thank those at the Havana Embassy and the MFA who have shown interest in my work, and colleagues at NUPI and SUM. I thank my sons Silvio and David, and my partner Vigdis, who have supported me and put up with me in the private sphere. My colleagues at Scanteam have also shown great patience. Monica Førde Salater, Stephanie Disch and my son David Bye Obando have helped me with the manuscript.

At the end of the day, everything written in this dissertation is of course my own responsibility. I look forward to all constructive feedback and comments.

Oslo, 18 May 2018

Vegard Bye

*Quotations marked with S/E, are translated from Spanish to English by the author of the dissertation.*

# 1: Introduction

## 1.1. The setting of the study

On 19 April 2018, Raúl Castro stepped down as Cuba's President after ten years—two periods—in this position, thus formerly finalizing 59 years of Castro rule in Cuba. The general view of most observers has been that Raúl Castro carried out more fundamental reforms in Cuba after taking over from big brother Fidel, than anything that had ever occurred before since the Revolution defined its Marxist-Leninist character in the early 1960s. The question is *what these reforms consisted of* in terms of economic and political change, and *in which direction they have set Cuba in the final phase of its Castro era*.

Cuba has since January 1959 been a unique country, in the Americas and globally. With its iconic Revolution, masterminded and led for almost fifty years by one of the most charismatic political leaders of the twentieth century, Fidel Castro Ruz, accompanied until his death by comrade-in-arms Ernesto "Che" Guevara. This small island nation of around 11 million inhabitants has been the centre of attention for students of socialism and communism; anti-imperialism and national liberation; US-Soviet cold war geostrategic rivalry and the danger of nuclear war; human rights discussions of economic, social and cultural rights versus civil-political rights; leftist versus rightist recipes for development strategies. Cuba simply had it all.

So completely was this country and its Revolution associated with its towering leader, that nobody could imagine it would survive without Fidel at the helm. Then, on the 31<sup>st</sup> July 2006, the Cuban state television announced that Fidel (then 80) was to undergo intestinal surgery, forcing him on a preliminary basis to leave all commanding positions in the Communist Party, the Armed Forces and the Government to his brother and second-in-command, Raúl Castro Ruz (then 75). News desks all over the world started to speculate: was this finally the end both of *El Comandante* and his revolution, both having

been written off so many times? Was it at all conceivable that Cuba, on its knees after the collapse of its Soviet benefactor, would survive without Fidel? We had been reminded about his omnipotence five years earlier, when Fidel had fainted on the podium, and insisted that he be kept awake during the surgery he had to undergo to treat some quite serious knee injuries, so as to make sure he could keep control on the same 24/7 basis he was used to. Afterwards he cracked a joke: "I simply pretended to die, in order to observe how my own funeral would look like".

Then, in a letter dated 18 February 2008, Fidel Castro announced that he would not accept the positions of President of the Council of State and Commander in Chief at the upcoming National Assembly meeting. He stated that his health was a primary reason for his decision, remarking that: "It would betray my conscience to take up a responsibility that requires mobility and total devotion, that I am not in a physical condition to offer".<sup>1</sup> On February 24, 2008, the National Assembly of People's Power unanimously voted Raúl as president. Describing his brother as "not substitutable", Raúl proposed that Fidel continue to be consulted on matters of great importance, a motion unanimously approved by the 597 National Assembly members.

In reality, after that July evening in 2006, Raúl has been Cuba's undisputed leader, although he was only formalised as President by the National Assembly in 2008, and as First Secretary of the Cuban Communist Party at the Party Congress in 2011. The first and provisional transfer of power took place in a typically informal *fidelista* manner: right before he was hospitalised with unknown outcome, he left a handwritten message where he "provisionally" delegated all his functions as head of state, of the armed forces and of the Communist Party to his formally designated deputy, Raúl Castro. Neither the National Assembly nor the Politburo of the Party met. Yet, this was in accordance with Article 94 of the Cuban Constitution, stipulating the transfer of responsibilities to the deputy in the case that the President of the Council of State is absent or dies.

When Raúl took over, many analysts saw this as an example of a dynastic succession within the family, comparing it to North Korea (the Kim family), Nicaragua (Somoza), Haiti (Duvalier). This was vehemently denied by the Cuban leadership, claiming that

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<sup>1</sup> "Fidel Castro announces retirement". BBC News. February 19, 2008. Retrieved February 19, 2008. (S/E)

Raúl had been appointed to the deputy position exclusively based on the merits he earned during the guerrilla struggle and in his functions within the party, state and military establishment after the revolution. In Fidel's address to the National Assembly in December 2007, he stated as if to respond to any accusations about a family succession: "In the Proclamation I signed on 31 July 2006, none of you ever saw any act of nepotism".

It was generally expected that Raúl, having lived in his big brother's shadow during their entire life, would simply carry on Fidel's mode of rule. It did not take long, however, before he proved most forecasters wrong. There were early signs that Raúl would set the country on a different track. The first signal came in his speech on the day of the revolution (26 July) in 2007, when he recognised serious socio-economic problems and promised "structural and conceptual reforms". He warned, however, that "everything cannot be resolved immediately [and that] you should not expect spectacular solutions".<sup>2</sup> In a badly hidden criticism of his brother's exaggerated lust for control of every aspect of the Cuban citizens' life, he removed a number of what he called "unnecessary restrictions": allowing access for his countrymen to tourist hotels, internet, DVD players, significantly allowing ordinary Cubans to establish cell phone accounts, and to rent cars (for those with access to hard currency).

Only four days after Raúl formally took over as Cuba's President, on 28 February 2008, Foreign Minister Felipe Perez Roque went to the UN Headquarters in New York to *sign* the two basic human rights treaties that, together with the Universal Declaration of Human Rights, conform the International Bill of Human Rights: The International Covenant on Civil and Political Rights (ICCPR) and the International Covenant on Economic, Social and Cultural Rights (ICESC). A couple of months earlier, Pérez had announced that Cuba would *ratify* these two covenants by March 2008.<sup>3</sup> Until now, ratification has never taken place, nor has any such intention meanwhile been expressed.

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<sup>2</sup> *Granma* 27 July 2007.

<sup>3</sup> *Signature* of a human rights treaty does not constitutionally convert it to national law, only *ratification* by the country's legislative body makes it part of the law of the land.

In March 2009, Raúl made a sudden decision to fire some of the country's most prominent young leaders, those "young Talibans" who had been handpicked by Fidel to take over after the revolutionary generation would step down. These included Vice President and expected presidential candidate Carlos Lage, foreign minister Felipe Pérez Roque and other young leaders who had surrounded the now retired commander-in-chief along with another ten ministers were all dismissed in a major cabinet sweep, in which Raúl filled most ministerial positions with his military confidants. By 2012, Raúl had substituted a total of 32 ministers, which means that the country's entire executive leadership underneath the overarching Communist Party leadership had been changed from Fidel to Raúl. The militarization of the ministry offices, however, turned out to be a preliminary solution: by 2016, only two line ministries in addition to Defence and the Interior were headed by military officers.

Raúl soon recognised the seriousness of Cuba's economic situation. In 2010, in a speech to a conference of the Trade Union Confederation (CTC) he warned of the danger that the revolution could end up in deep crisis if the workers did not assume their responsibility for the necessary economic reforms. In his speech to the National Assembly in December 2010, he went on to state: "Either we rectify, or the time is up for continuing to balance on the border of the abyss; we sink and we will sink the efforts of entire generations".<sup>4</sup>

The main point of departure has been the government's (and the party's) own reform agenda, as set out in the Guidelines, "*Lineamientos*", approved by the 6<sup>th</sup> Communist Party Congress in April 2011, for the necessary "updating" ("*actualización*") of the socialist socio-economic model (*explicit* economic reforms and *implicit* political adaptations). A second decisive decision-making moment was assumed to be the 7<sup>th</sup> Party Congress in 2016.

This, of course, set the stage for the general economic reform programme—although the term "reform" was not used—launched by the 6<sup>th</sup> Party Congress. Although political reforms were ruled out, essential structural changes have taken places that also imply deep transformations of Cuba's polity. As pointed out by the most prestigious Cuban-

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<sup>4</sup> *El País*, 19.12.10.

American economist, Carmelo Mesa-Lago, the transformations taking place during the first ten years of Raúl Castro's government (counting from his real but still informal takeover in 2006) were deeper and more comprehensive than any other change during the previous close to fifty years of the Cuban revolution (Mesa Lago 2013). This goes for the political as well as the economic arena, in a country in which socialism got more doctrinarian than anywhere else (with the possible exception for North Korea) when it comes to abolition of the private sector (ref. the 1968 *ofensiva revolucionara*, see Szulc 1986).

Until November 2016, Fidel was still around, probably waging considerable influence behind the scenes, but he did so without stopping Raúl from setting Cuba on a very different course compared to his own whilst still keeping socialism or Marxism-Leninism as the official ideology. Then, only 14 months before Raúl was scheduled to leave the Presidency, the historic commander-in-chief passed away, staging a national mourning process and myth-building celebration of his achievements in national media and public places that seemed to have no end.

And here we come to the issues we intend to study and hopefully understand more about in this research project about the Cuban reform process during Raúl Castro's period of government (counted by his formal Presidential period from February 2008<sup>5</sup>-April 2018):<sup>6</sup>

Given Raúl's focus on economic measures, his intention of keeping the political structure in place, but at the same time observing the significant political implications of the transformations taking place, *the key question of this study is therefore the following: Where is Cuba going? More specifically, is a widening of economic pluralism taking place in such a way that it may lead to increasing political pluralism and de-concentration of power? Or, alternatively, will changes in the political and power structure accelerate or slow down economic reforms?*

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<sup>5</sup> Some elements even from his informal execution of presidential authority starting in 2016 will also be included.

<sup>6</sup> Elections of the first post-Castro President, which in Cuba is the responsibility of the newly elected National Assembly, were scheduled for February 2018. Referring to the impact on the electoral process created by the devastating hurricane Irma (September 2017), presidential elections were postponed to April 2018.

In Chapter 2, we will draw up a research design that may allow us to discuss this question as systematically as possible. We try to represent these possible correlations between economic and political change through a simple 2x2 matrix (Figure 2.1). Furthermore (in Chapter 5) we will elaborate the key question through nine challenges and their respective hypotheses about possible transformations of the Cuban society, to be studied through a total of 56 indicators.

## 1.2. Outline of the dissertation

After this introduction and the presentation of the research design in *Chapter 2*, the dissertation is structured as follows:

*Chapter 3* provides a summary of the main reforms on Raúl Castro's watch, with emphasis on the strategy documents presented to the 6<sup>th</sup> Party Congress in 2011 and 7<sup>th</sup> Party Congress in 2016, respectively. We will distinguish between economic and political reforms—although the concept “reform” is not part of the official vocabulary (they speak about *actualización*—*updating* of the socio-economic model). We will also distinguish between formally introduced reforms and changes that simply occur as part of “reality on the ground”, for instance technological circumstances undermining the information monopoly.

*Chapter 4* gives the theoretical-empirical framework of the study. We depart from the bedrock of transition literature that emerged at the height of what Huntington (1991) termed “The Third Wave of Democracy”, ending up with the “democratic fatigue”, post-liberalism and populism dominating the political regime debate 25 years later. We will discuss the relationship—including causal direction—between economic and political transformations; we will bring in the discussion about “early winners and losers” in transformation processes. We then go on to discuss some alternatives to liberal democratic models: “transformative democratic politics” with particular reference to Scandinavian experiences, and neo-patrimonialism or authoritarian market economies in various fashions (oligarchic vs. socialist; Russian and Angolan vs. Chinese and

Vietnamese experiences). Special studies of post-Communist transformation (Kornai 1992; Brown 2009; Saxonberg 2013) are of course relevant. We also go through some peculiar aspects of relevance for the case of Cuba and try to dig into the issue of legitimacy challenges for post-Castro Cuba. Towards the end of Chapter 4, we shall see how the different theoretical and empirical-comparative approaches fit into the 'roadmap' we have established in order to analyse the correlation between political and economic change: the matrix in figure 2.1.

Based on this we will, in *Chapter 5*, formulate the transformative challenges, hypotheses and indicators. This will be followed by the three main empirical discussions of the dissertation, about the economic and political, as well as the international arenas.

In *Chapter 6*, we will discuss the *changing Cuban economic arena* during the reform process under study, based on the various challenges presented in chapter 5. We will start with the agricultural policies and the evolving agricultural sector, a crucial arena of change in such processes. Then we will go through the reorganisation of the state economy with particular emphasis on the crucial role of military-managed corporations—the dominant and most dynamic part of Cuba's economy. The new space for small entrepreneurs is mostly represented in the form of self-employed workers, in some cases developing into micro and small enterprises in spite of strong official scepticism against the constitution of a proper private sector in the economy. The quantitative growth of non-state employment, and the relationship between state and non-state employment, needs to be clarified. The growing weight of the non-state sector will be discussed. Another hot issue in Cuba is the evolving role of cooperatives—agricultural as well as non-agricultural. The new role of foreign investment will be discussed, along with other investment sources (not least family remittances) that may spur the necessary economic growth and employment generation. The impact of new US relations for the space of the non-state sector—during the Obama and the Trump administration, respectively, is also discussed.

*Chapter 7* provides an analysis of how the economic changes may impact on political changes by discussing the relationship between winners and losers of the economic reforms, the increasing social differentiation, the potential power position of the private

sector, the internal debate about capital accumulation and the issue of allowing more independent interest organisation to emerge.

*Chapter 8* turns our attention to the *changing international arena*. The historic rapprochement with the US will be discussed at some length, both in terms of new and lost opportunities. We will also discuss and how the Obama warming of relations to Cuba had a paradoxical impact leading to a battle for the Cuban hearts and minds about what Communist Party intransigents (hardliners) saw as some kind of “Obama neo-imperialism”, turning on the brakes in the reform process. Then, the new era with the Trump administration from early 2017, its return to head-on confrontation with Cuba and the impact of this on the Cuban reform process will also be discussed. Cuba’s position in the regional Latin American picture will be assessed, with relations to Venezuela as a special issue. New relations to the EU were confirmed through a new collaboration agreement right before the change of US administration in 2017, while relations to the rest of the world (particularly Russia and China) may also play a role for Cuba’s transformation.

*Chapter 9* assesses the *changing political arena*. The basic question is whether we can see any move from an authoritarian to a more pluralistic political structure. We will then move on to a discussion on the role of civil society, intellectuals, media and other non-state actors. Whatever the criteria, there is no doubt that Cuba is experiencing an increasing pluralism in civil society, which is closely linked to the expansion of the non-state economy. A discussion of *who are the agents of change* among civil society leaders, academics, intellectuals, artists, church members, and above all the independent peasantry and the emerging urban middle classes, is important although perhaps somewhat speculative. Bloggers and independent journalists are two other groups of potential change actors. One of the big questions in Cuba is whether these potential change agents in the end will choose *voice or exit*: openly working for change or rather withdrawing from the formal political and economic arenas or literally leaving the country.

In chapter 9, we will also analyse the power structure in the country. Is there any emerging distinction of roles between party and state and between the executive and

the legislative branches of government? The respective roles of the military and the bureaucracy are aspects of this. Another challenge is whether the country is moving towards a less authoritarian and more pluralistic political system, looking i.a. at the political culture in the Communist Party and party-dominated mass organisations, and most notably the 2017/18-election process that will culminate with the (indirect) election of the first Post-Castro President. This is also where we will analyse the status of the various rule-of-law elements in the Cuban society.

Furthermore, we will try to identify the possible new generation of leaders after 2018 and 2021, and their expected ideological and political orientation. A decisive question here is whether the post-Castro generation of leaders will have any new source of legitimacy when they take over the government responsibility, e.g. in the form of “pragmatic acceptance”.

*Chapter 10* goes systematically through the status of transformations during the ten years of the Raúl era, by testing the nine hypotheses by means of the 56 indicators.

*Chapter 11* contains a discussion of some dilemmas Cuba is expected to be confronted with during what we have called *the critical juncture* in the post-totalitarian political transformation process: the almost total generational change of leaders that will occur between the elections of new State bodies (including Legislature and President) in 2018 and the full and unavoidable overhaul of the Communist Party Politburo at its next Congress, scheduled for 2021. Which paradigmatic choices will the new generation of leaders be making during this critical juncture? Is Cuba suffering from a non-curable democratic birth defect, or from the incoherence of partial and aborted reform? This will define Cuba’s further transformation pattern, also whether there is space for some variant of what we will call “transformative democratic politics” in Cuba. New conflicts of interest will undoubtedly emerge and be played out. The entire question of power, hegemony and legitimacy with the possible emergence of counter-hegemony and the need for negotiated solutions will be discussed. *A decisive question to address here will be: is transformation of power relations—the loosening up of power monopoly and the introduction of more pluralistic political participation—an option in Cuba?*

*Chapter 12* is an attempt to gaze into the crystal ball and discuss three scenarios for post-Castro Cuba, to start materializing during the 2018-2021 critical juncture.

*Chapter 13* draws the general conclusions of the study.

## **Chapter 2: Research design**

The object of this study is the reforms proposed and implemented in Cuba during the ten years of Raúl Castro's presidency (2008-2018). They have focused on economic measures; Raúl seems to have been quite intent on keeping the political structure in place. Yet, many of the reforms have had a political character, or at least there have been obvious political implications of the economic reforms. What we want to study here is the relationship between changes in the economic and political arenas. However, any examination of Cuba's political economy is hampered by certain challenges. One of them concerns the lack of information; in Cuba there is a dearth of primary independent sources about these reforms. Another challenge concerns the nature of the Cuban discussion about political and economic issues; there is no native Political-Science tradition that can provide this study with analytical terms and useful theories.

### **2.1. The problem of studying politics in Cuba**

This study is an attempt to make use of a unique opportunity to follow the Cuban economic and political transformations closely over a period of several years, collect empirical data and interpret the changes from a social science perspective. The author has been living in and visiting Cuba regularly since the late 1970s, starting with a two-year period as a Junior Professional with the UNDP in Havana. Since 2010, in the run-up to the 6<sup>th</sup> Communist Party Congress when Raúl Castro's reform agenda was approved, the author has been coordinating an academic collaboration project with several Cuban institutions, first on behalf of the Norwegian Institute for International Affairs (NUPI), later on behalf of the Centre for Development and the Environment (SUM) at the University of Oslo.

While coordinating the project, data have been collected as systematically as possible for this Study, while a theoretical framework for the understanding of the transformations has been

developed. From the outset, theories of democratic transition (neoliberal vs. social democratic) have been held up against a number of other theories for deep social transformations in other directions, generally treated here under the concept neopatrimonial. These have also been spelled out in a number of challenges, hypotheses, indicators and scenarios.

However, studying the Cuban political system represents some quite peculiar challenges.

Armando Chaguaceda, an exiled Cuban social scientist wrote, recalling what his M.A. thesis advisor once told him about the study of the Cuban power elite: “Power does not like to be studied”. He goes on to say: “the absence of substantial studies and the lack of public access to such key issues as the makeup of Cuba’s political elite and its real circulation and decision-making mechanisms maintain almost all production in the field at a superficial level” (Chaguaceda 2014).

The peculiarities for studying political power in Cuba, given the lack of a native research tradition with relevant theories, evidently represent a serious method and design problem for the present study.

The Canadian political scientist and Cuba watcher Yvon Grenier calls it “a clear case of what Hegel called the ‘cunning of history’”, that “the triumph of the Cuban revolution led to the end of the academic discipline that critically examines the use of power in society: political science”. With reference to one of the few Cuban scholars who actually considers himself a political scientist, the ex-top diplomat Carlos Alzugaray, recalls the foundation of an *Escuela de Ciencias Políticas* within the *Facultad de Humanidades de la Universidad de la Habana*, around the time of the University reform of 1961. The directors were Drs. Raúl Roa García (History) and Pelegrín Torras de la Luz (Law), respectively Foreign Minister and Vice-Foreign Minister. It is not clear how distinct this *Escuela* was from the Diplomatic Service Academy (*Escuela de Servicio Exterior*), founded in 1960 by the same Roa García. He then goes on to comment:

“If the Escuela continued to exist during the 1960s, as Alzugaray suggests, it did not leave a trail of academic initiatives to show for it. As “politics” became equivalent, both in theory and in practice, with “revolution”, “socialism” and “Marxism-Leninism”, the school and the discipline quickly disappeared, to be replaced by the teaching of Marxism-Leninism as an official ideology and as a mandatory paradigm in universities, schools and in the media. According to one source the Escuela was one of the most dogmatic units within the university during the 1960s, following the mot d’ordre “La Universidad es para los revolucionarios” (Grenier 2016:159).

A fellow Canadian Cuba watcher, economist Arch Ritter, highlights some of the implications of this situation:

“One consequence of the absence of the discipline of Political Science in Cuba is that we have only a vague idea of how Cuba’s government actually functions. Who within the Politbureau and Central Committee of the party actually makes decisions? To what extent and how do pressures from the mass organizations actually affect decision-making, or is the flow of influence always from top to bottom rather than the reverse? What role do the large conglomerate enterprises that straddle the internationalized dollar economy and the peso economy play in the process of policy-formulation? Is the National Assembly simply an empty shell that unanimously passes prodigious amounts of legislation in exceedingly short periods of time—as appears to be the case? One is left with a feeling that the real political system is one of black boxes within black boxes linked in various ways by invisible wires and tubes” (Ritter 2013).

Although Grenier seems to take a quite dogmatic anti-Marxist view of the role of social sciences, he is right when pointing out that:

“[T]here is actually very little space for political discussions, debates, and analysis of the political process, and remarkably few reliable sources of information and data on “who gets what, when and how”, to use political scientist Robert Dahls’ definition of politics [... and] using analytical tools to find out how power is used in Cuba, for what purpose (i.e. what are the political outcomes) and by whom” (Grenier op.cit:160).<sup>7</sup>

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<sup>7</sup> In fact, the definition Grenier refers to here is the title of Harold Lasswell’s classical textbook on politics (Lasswell 1972, originally published in 1936).

Alzugaray in an interview with *Cuba Posible* calls for the establishment of a political science career at Cuban universities, as one qualitative step towards a more open Cuban society (Alzugaray 2016).

The poor political science tradition in Cuba means that we have to go to the international Political-Economy literature for terms and theories.

## **2.2. Interplay between economic and political variables**

What we want to study here is the relationship between changes in the economic and political arenas: whether *economic pluralism may lead to increasing political pluralism, or whether a loosening of power concentration could lead to more economic pluralism*. As we shall see, there may be theoretical and empirical support for both causal correlations.

In order to organise this discussion, we take as a point of departure the distinction made by Acemoglu and Robinson (A&R) (2012:73-87) between inclusive and extractive economic and political institutions. They define *inclusive economic institutions* as follows:

“[...] those that allow and encourage participation by the great mass of people in economic activities that make best use of their talents and skills and that enable individuals to make the choices they wish. To be inclusive, economic institutions must secure private property, an unbiased system of law, and a provision of public services that provides a level playing field in which people can exchange and contract; it also must permit the entry of new businesses and allow people to choose their careers.”

*Political institutions are inclusive*, they say, if they are “sufficiently centralized and pluralistic [...]. When either of these conditions fails, we will refer to the institutions as extractive political institutions.”

“Pluralistic” is understood as “political institutions that distribute power broadly in society and subject it to constraints”. A&R (:81) also argue that:

“(T)here is a strong synergy between economic and political institutions. Extractive political institutions concentrate power in the hands of a narrow political elite and place few constraints on the exercise of this power. Economic institutions are then often structured by this elite to extract resources from the rest of society. Extractive economic institutions thus naturally accompany extractive political institutions. Inclusive political institutions, vesting power broadly, would tend to uproot economic institutions that expropriate the resources of the many, erect entry barriers, and suppress the functioning of markets so that only a few benefit.”

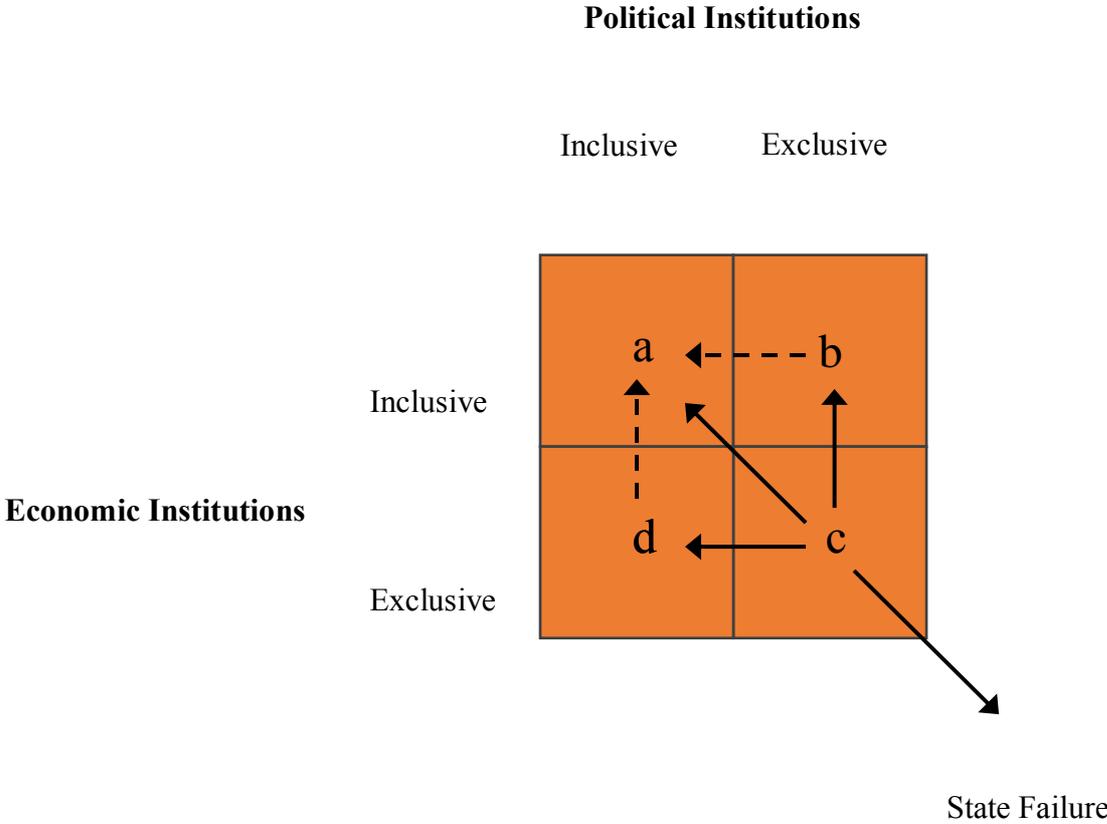
These definitions do not really suit the Cuban case. They cannot be applied in a direct way to the political economy of Cuba (ref. what we say about ‘Cuban exceptionalism’ in Chapter 4). A&R uses the term “economic exploitation” of the population at large by the elite – and they use the slave-based sugar economy in colonial Barbados as an example of an extractive economy. They could just as well have used the similar pattern in colonial or neo-colonial Cuba. One of the main goals of the Cuban Revolution was exactly to undo the remaining patterns of this structure, something that was achieved better here than in most societies with a similar history.

Regarding their definition of *political inclusiveness*, there is much more to it than having sufficient centralisation (the problem in Cuba is rather the contrary: far *too much* centralisation) and pluralism (needs to be better spelled out and will be so e.g. in Chapter 4.5).

It follows from what is said above that we cannot use A&R’s conceptual framework in a literal sense. There are also vast problems by using the present-day US as a prototype of inclusive economic and political institutions, as done by these authors. We may, however still use their general example to our benefit. We can draw a distinction between the economic and political institutions. We will also redefine their concepts slightly; replace the term extractive with exclusive and thus distinguish between *inclusive versus exclusive* institutions, defined very similarly as Acemoglu and Robinson, but without including the internal economic exploitation criterion.

On the basis of this we may establish a 2x2 matrix as a point of departure for our analysis. This matrix will allow us to ask more pointed questions and to analyse the direction and correlation of changes that may be taking place in Cuba:

**Figure 2.1:**  
**Politics – Economics Correlation Matrix:**  
**Transformation options for the Raúl Castro era reforms**



Contemporary Cuba may be described by the terms that characterise cell c in the matrix: a political economy marked by institutions that are politically and economically exclusive.

When we ask the question *where Cuba is going*, it follows that our concern is the *movements between these cells*, and the *driving forces and inter-relations behind those*

*movements*. This matrix should not be understood as a static description of institutions, but a dynamic model where we are looking for possible routes: *a roadmap*.

The matrix indicates that Cuba may go in several possible directions.

1. *Economics only*: One course is from cell c to cell b—what we may call *economics first route* from the present situation, in which both the political and economic institutions in Cuba are exclusive, to a situation in which the economy is reformed towards more inclusive institutions, whereas the political institutions remain exclusive. It is a move exemplified by China and Vietnam. This is a likely direction, because this is the course announced by Raúl. For Cuba to move towards *economic inclusiveness*, many reforms are relevant:

- Allowing and encouraging participation by the great mass of people in economic activities that make best use of their talents and skills and that enable individuals to make the choices they wish.
- Securing private property.
- An unbiased system of law.
- A provision of public services that provides a level playing field in which people can exchange and contract.
- Permitting the entry of new businesses and allow people to choose their careers.

Some of these criteria, like the provision of public services, have been taken relatively good care of in the Cuban system. But there are others, not included in this list, which we will come back to in the dissertation.

2. *Economics leading to politics route*: A second possible scenario is that Raúl gets his economic reforms, but that increasing inclusivity in the economic realm have implications for the political institutions of the country and that they, too, are pulled in an inclusive direction. In that case, Cuba's future is indicated by a move from cell c, via b to cell a—from the present Cuban situation to a situation in

which the economic institutions of the country are rendered more inclusive with implications for inclusivity in the political institutions as well.

3. A third possibility is *politics only*—a transition from the present Cuban situation of cell c to a new political situation indicated by cell d. This means that political institutions are rendered more inclusive, whereas the economic institutions continue to be exclusive. This route means political reforms, which usher in freedom of organisation on the island, and, perhaps, the evolution of a multi-party system with free elections. These are reforms that, we assume, Raúl and most other members of the party leadership want to avoid. It's an unlikely scenario, because (as we know from Gorbachev's Soviet Union), it is hard to introduce political inclusivity without economic reforms following suit. Thus, a third possibility may easily pave the way for a fourth possible course:
4. The fourth course is a move from cell c to cell d and then onwards to cell a, what we may call *politics first* or *politics leading to economics* route.
5. If political and economic reform is hard to disassociate, we are looking at a fifth possible course towards a new Cuban future: a move that makes both the political and the economic institutions in Cuba more inclusive together, what we may call *the fast track*. This can be described as a move from cell c directly to cell a. This is probably what the US government and the conservative Cuban lobby in Miami would like to see, possibly also many foreign liberal observers like A&R, who believe that the surest way towards a modern political economy involves a simultaneous move towards liberal-democratic multi-party politics and a free-market economy.
6. Finally, there is also a sixth possible course. This is the course that Raúl Castro wants to avoid most of all. It is the possibility that he warned about as a likely outcome if his reform programme were not to be implemented. Thus, we cannot exclude the possibility of *state failure* or *collapse*—like he main sponsor for many years, the USSR, did in 1990. This outcome can be illustrated by a Cuban move

from cell c and out of the matrix altogether. It is a possibility to which we have devoted a proper discussion in Chapter 4.

These potential routes, as well as the four cells, are of course no more than ideal-typical cases. As we shall see, the most probable routes will represent a combination of these cases, for instance routes 2 and 4.

### **2.3. Research strategy**

In Chapter 4, a theoretical and comparative-empirical framework for the study of the Cuban transformation process is presented, permitting us to extract a series of conceptual tools to be applied in the discussion of the research questions. This will be the basis for the two-tier research strategy we propose as response to the method and design problem signalled in Chapter 1: using this very simple 2x2 roadmap matrix as an organising tool for the theoretical and empirical discussion of transformation options available for Cuba, together with the formulation of nine transformative challenges (Chapter 5) with their respective hypotheses and indicators. With these instruments in mind, we will try to carry out an empirical study of the evolving economic, international and political arenas (Chapters 6-10) during the ten years period.

These challenges are partly based on officially recognised challenges as formulated in policy documents and official statements, mostly regarding economic and socio-economic issues, plus of course what follows from the US embargo/blockade. These officially recognised challenges are accompanied by other and more normative challenges derived from the theoretical literature and empirical experiences regarding post-totalitarian transition and transformation towards less authoritarian political systems. It is therefore emphasised that challenges based on the socio-economic reform agenda and the US embargo (Challenges 1-3 plus 5) are in general explicitly recognised by the Government, while the challenges regarding political transformation (Challenges 4 plus 6-9) are more normatively formulated by the author, based on theoretical and comparative literature.

For each of the nine challenges, we shall in Chapter 5 (ref. also Appendix 1) formulate a null hypothesis (representing status quo or no significant transformation expected during the Raúl Castro era) and an alternative hypothesis (significant change with potentially transformative impact). We have tried to make these hypotheses testable and refutable by means of discussing a series of indicators for each challenge (56 in total). It goes without saying that this is a fully qualitative, non-quantitative hypothesis testing.

The outcome of the hypothesis testing is summarised in Chapter 10.

## 2.4. Sources

Data for each indicator of this study have been collected first-hand in Cuba through regular visits (normally 2-4 per year during the 2011-2017 period), and in collaboration with Cuban social scientists (economists at the *Centro de Estudios de la Economía Cubana* (CEEC) and *Universidad de La Habana*, anthropologists at the *Departamento de Etnología, Instituto de Antropología*)—as well as a large number of other social scientists and academics.

During all the years the author has been working on this project (since 2011), there has been close collaboration with a special team of intellectuals, in what many consider to be the most well informed non-state think tank in Cuba. It started as *Espacio Laical*, originating in the Catholic Church. Chaguaceda in the above-cited reference says that the *Espacio Laical* journal is “the closest thing to a Cuban political sciences journal”. In 2013, due to an internal conflict with the Catholic hierarchy, the two editors and driving forces of *Espacio Laical* left this project and founded another think-tank (or as they themselves call it: “a laboratory of ideas”), with a high-quality Internet journal, *Cuba Posible* ([www.cubapossible.com](http://www.cubapossible.com)). The project I have coordinated first for NUPI (Norwegian Institute for International Affairs), later for SUM, University of Oslo, (until April 2017) has played a crucial role in this entire process. *Cuba Posible* has had funding from the Norwegian Embassy in Havana and is bringing together prominent Cuban actors

through whom valuable information and interpretation of development challenges and trends in Cuba has been obtained.

Furthermore, there has been continuous contact with a variety of civil society actors and independent journalists and bloggers, as well as diplomats residing in Cuba. I have drawn on a wide network of Cuban informants that I have known for decades, and these have been consulted repeatedly but normally off the record. Some of them, but far from all, are listed in Appendix 2. On numerous travels around the country, I have used the opportunity to talk to people from all walks of life, normally without doing formal interviews. The informality of the data collection has been the result of restrictions represented by the Cuban political reality, and of course also of concern for the working and living conditions of Cuban colleagues and informants.

Participation in academic conferences in Cuba and elsewhere has provided data and updated information and helped develop networks. I have participated and made presentations on repeated occasions at the Miami conference organised annually by *ASCE, Association for the Study of the Cuban Economy*, providing me with another important academic network. I have also participated at numerous annual conferences of LASA (the Latin American Studies Association), which always has a large number of special Cuban fora.

Secondary data have been collected through systematic screening of relevant news services (often to be found on ASCE News: [www.ascecuba.org](http://www.ascecuba.org)), reports, as well as academic literature. Interaction with a network of Cuba scholars in other parts of the world has been pursued.

The SUM project has also made it possible to organise visits by Cuban scholars to Oslo. Of particular importance was an academic seminar organised in June 2015, giving the author the opportunity to 'compare notes' with and get feedback from a select group of Cuban and European academics. This seminar resulted in the publication of a special Cuba issue in *Third World Quarterly* (Vol. 37, No. 9, 2016), co-edited by the author.

The main source of statistics in Cuba is the official Bureau of Statistics (*Oficina Nacional de Estadística e Información, ONEI* – [www.one.cu](http://www.one.cu)). Unfortunately, statistics in Cuba are often published with serious delays. Also, statistics are often published without revealing politically sensitive details. The situation in this regard got worse, rather than better, during the period being studied here. The abstract for 2016, published online in June and July 2017 by ONE, omitted a chapter that usually provides specifics on gross domestic product, exports and money supply as well as data on debt. Those details have normally been provided a few months later, but in 2017 they failed to materialise. “This detailed breakdown of key economic activity in its annual statistical abstract was left out for the first time this century,” according to Cuba’s veteran foreign correspondent.<sup>8</sup>

“The deficiency in terms of social statistics is even greater, especially in education, health and social spending (Mesa-Lago, 2012 and Espina, 2010). For example, in the annual social report of ECLAC (2010) Cuba does not appear in the sections on poverty, Gini, income, economically active population by economic activity and occupation by sector, nor in the chapter on social protection (ECLAC, 2011). There are no statistics on coverage/access of social services except in education. Open unemployment was underestimated by the huge surplus of public sector labour, which began to be cut back in 2010. There is no information on the family basket (*canasta básica*), purchasing power, salary by gender and school dropout; There are few figures on income in the state and non-state sectors, and the official estimate of the housing deficit is debatable” (quoted from Acosta 2018, footnote 2).

Throughout the dissertation, I have therefore often made use of statistics elaborated by Cuban researchers, based on official statistics from ONEI, often also based on the economic activity index published by the *Economic Trend Report* (see Appendix 2). In some cases, statistical information e.g. on economic issues may appear to be partly contradictory, incomplete and speculative. This is of course a weakness in a scientific work, but it has been important to include such material in order to discuss many of the crucial issues of this dissertation that official statistics don’t reveal in Cuba.

Appendix 2 contains a list of Cuban and non-Cuban informants, as well as written sources (mostly accessed electronically), that conform the bulk of information sources for this study, in addition to the Bibliography (Appendix 3).

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<sup>8</sup> Marc Frank: “Cuban economy ever more opaque as data omitted from 2016 accounts”. *Reuters Havana* 15.01.18.

## **Chapter 3: Summary of main reforms on Raúl Castro's watch**

### **3.1. The economic situation at the outset of the reform era**

With the dissolution of the Soviet Union and the socialist economic system (COMECON) to which Cuba had belonged since the early 1960s, Cuba was thrown into an economic crisis that threatened the Cuban Revolution's survival. From 1989 to 1993, the GDP fell by an incredible 35%. Although there was a partial recovery towards the second part of the 1990s—the official figure for growth from 1993 to 2000 was set at 21%—the “Special Period” of the 1990s represents a terrible memory for most Cubans. The state budget deficit in 1993 was 33.5% of GDP, reduced to 2.4% in 2000 (figures quoted by Perez Villanueva 2010:18). The new special relationship offered by Venezuela from the turn of the century gave Cuba a certain relief, resulting in a partial recovery of its economic growth (increasing from 2% in 2000 to around 12% in 2005 and 2006, then falling again to under 2% in 2009—figures provided by ONEI, various years). However, it is crucial to remember that this relative recovery must be seen against the backdrop of the terrible crisis caused by the loss of privileged relations with the USSR.

From 1989, Cuba went through a tremendous process of production stagnation; in reality a far-reaching de-industrialisation took place due to technological obsolescence, almost total lack of capital resources, and a chronic shortage of raw materials and fuel. Industry's share of GDP fell from 28% in 1989 to 16% in 2010 (Mesa-Lago 2013:106).

The following figures shows the production level in 2011 as percentage of what it was in 1989:

- Industrial production: 45.1%
- Sugar industry: 16.4%
- Food production: 67.7%
- Textile: 6.8%
- Leather / leather goods: 17.1%
- Rubber / plastic products: 19.6%

**Source:** De Miranda, 2014:44-45, based on ONEI statistics.

The de-capitalisation of the economy in the 1990s was impressive and had far from been compensated at the outset of the Raúl reform era. According to calculations made by the Cuban Colombia-based economist Pavel Vidal, comparing Cuba to ten other Latin American countries of comparable size,<sup>9</sup> Cuba fell from a position as the second richest among these nations (only after Uruguay) in 1970, to sixth place in 2011.<sup>10</sup>

The purchasing power of an average income fell dramatically, to about one fourth of its rather sober 1989 level (see details under Indicator 4.1). Cuban's state salaries could in no way meet people's basic needs. A secondary consequence of this was that the effective domestic demand was insufficient to stimulate production, while the quality of Cuban products presented no competitiveness in the international markets. Remittances from families abroad were negatively affected by the international financial crisis from 2008, making the situation even worse for those who had benefited from this.

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<sup>9</sup> The so-called AL-10: Bolivia, Costa Rica, Dominican Republic, Ecuador, Guatemala, Honduras, Jamaica, Panama, Paraguay, Uruguay.

<sup>10</sup> Pavel Vidal: "La reforma quedará incompleta si no nos despegamos del modelo de economía centralmente planificada", *Cuba Posible* (New York Seminar), 20.09.17.

Cuba had at this time practically no other sources of investment than those of the Cuban state, itself in a precarious fiscal crisis (fiscal deficit in 2008 was 6.9% of GDP), with a very limited access to foreign direct investment (FDI). The latter at this moment were estimated to stand at a level of 15-20% of what could be expected for an economy of Cuba's size (see Feinberg 2012, further discussed in chapter 6 under Indicator 3.1). Private domestic capital accumulation was not permitted, and that issue spurred a constant debate in the following years (see Indicator 4.5). As a consequence of all this, capital formation fell from 25.6% of GDP in 1989 to 7% in 2010, to one third of the regional average in that year and far below what would be necessary for resumed economic growth and rehabilitation (Mesa Lago 2013:105).

Historically, Cuba's pattern of international trade was characterised by its role as exporter of raw materials (with sugar as the predominant product) and importer of industrial goods. This changed dramatically with the close-to elimination of the sugar industry, resulting in a chronic trade deficit, which was partly compensated by the surge in services (medical services plus tourism).

"Cuba's high dependence on imports of foodstuff [85% of domestic consumption in 2012 according to Mesa-Lago 2013:107; figure added here], machinery and fuel, and the lack of a significant exportable offer generate great external vulnerability and deficient international insertion" (De Miranda 2014:50).

Foreign debt increased rapidly as a consequence of this pattern, although figures are considered very sensitive and therefore kept secret (we will later come back to how this debt was re-negotiated, in Chapter 6, under Indicator 3.1). The debt situation, and a tendency to postpone debt service payments and profit repatriation for foreign companies, created a distrust in the country's liquidity and trustworthiness as a business partner, further aggravated by the fact that Cuba stayed outside of all multilateral and even regional credit organisations.

There was agreement, shared by Raúl himself, that the situation was so serious that the very survival of the Revolution was at stake, ref. his statement (December 2010) about balancing on the border of the abyss. This recognition was what provoked the reform measures that Raúl Castro initiated, formalised not least through the *Lineamientos de la*

*Política Económica y Social*, hereafter referred to as *The Guidelines*, approved by the 6<sup>th</sup> Party Congress in 2011.<sup>11</sup>

### 3.2. The process leading to the reform agenda

In reality, Raúl was firmly in charge of all party and state affairs from the very moment of his “temporary” take-over in mid-2006, although he has let it be known that he continued consulting with his big brother as he himself had proposed. It was long believed that such consultation became less and less frequent, and less and less decisive. The way events unfolded during Fidel’s last year in life (2016), however, may lead to a contrary conclusion on this point.

The first vital signal that Raúl would set the country on a different track came in his speech on the day of the revolution (26 July) in 2007, when he recognised serious socio-economic problems and promised “structural and conceptual reforms”, but warned that “everything cannot be resolved immediately [and that] you should not expect spectacular solutions”.<sup>12</sup>

Raúl quite rapidly made a series of changes in the leadership that announced his decision to work with a new team of leaders. In 2008 he replaced seven ministers, he sacked the so-called “Talibans”—young supposedly hard-line leaders handpicked by Fidel and promoted outside of institutional career procedures. In 2009 he restructured one third of his Cabinet (*Consejo de Ministros*) and substituted 12 high public officers. Among the latter were two of the commonly assumed candidates to take over after the Castros, First Vice President (and “economic czar”) Carlos Lage and Foreign Minister Felipe Perez Roque. Both, along with some of the “Talibans”, were accused by Fidel who in the first place had promoted them that “the honey of power [...] had awakened ambitions leading them to play an improper role” (i.e. for careerism).<sup>13</sup> In hindsight, it is particularly interesting to note the character of the criticism at the time raised against

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<sup>11</sup> <http://www.granma.cu/file/pdf/PCC/6congreso/Resolución-Sobre-los-Lineamientos-de-la-Pol%C3%ADtica-Económica-y-Social-del-Partido-y-la-Revolución.pdf>

<sup>12</sup> *Granma* 27 July 2007.

<sup>13</sup> *Granma*, 5 March 2009.

the two most prominent leaders of economic affairs, Mr Lage and previously deposed Minister of the Economy José Luís Rodríguez. In an internal confidential note distributed among party members in order to explain why senior leaders had been sacked, it was claimed that Lage and Rodríguez had been “seduced by the failed changes in the disappeared socialist camp”, with special reference to a Rodríguez reform proposal from the 1990s that would permit small private enterprise, a proposal allegedly stopped by Raúl before he (Rodríguez) was able to launch it. Both officials, the internal note went on to say, “dusted off plans” based on “economic freedom” and the “private enterprise” in order to “save socialism”, which, however, is only “saved with rigor, more control, more revolutionary vigilance and more discipline”. They also tried to “let the peasants sell their products at whatever price”, and they were stopped from “handing over the country to capitalism”.<sup>14</sup>

What is interesting about these accusations, costing the jobs of the country’s two most prominent economic leaders, is that many of the ‘crimes’ they were accused of in 2009 are very similar to the reforms being proposed and partly implemented in Cuba a few years later during Raúl’s presidency, implemented by the person substituting Mr Rodríguez as Minister of the Economy, Coronel Marino Murillo, ex-Minister of Internal Trade. On the other hand, the philosophy expressed in the arguments against them seem to a large extent to have re-emerged in what we shall call the counter-reform of 2016, when Mr Murillo was “relieved of his responsibilities” as Minister of the Economy. The ideological pendulum in Cuba keeps swinging.

By 2012, Raúl had substituted a total of 32 ministers, which means that the country’s entire *executive* leadership had been changed from Fidel to Raúl.

In the lead-up to the 6<sup>th</sup> Party Congress in 2011, there was an active debate about Cuba’s future economic policies. The discussion focused to a large part on whether or not Cuba could and should follow the examples of China and Vietnam. Fidel had repeatedly stated that Cuba lacks the conditions to follow China, referring to the enormous territory and economic power, distance from the US and large foreign investments, including from the US Raúl on the other side, had expressed during a visit to China in 2005 (before he took

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<sup>14</sup> This internal PCC note, with quotes, is referred to in Mesa-Lago (2013:222-223).

over from Fidel), that “all what you have done here really brings hope [...] some people in Cuba are very concerned about China’s evolution, however I am content and calm [about what I have seen]”.<sup>15</sup> Seven years later, Marino Murillo, then also Head of the Commission for the implementation of the economic guidelines, made the following observation about the study of the experiences from China, Vietnam and Russia: “[We try to] understand methodologically what they have done” but “that does not mean that we are going to copy automatically what the others did”. And he added: “We are not carrying out political reforms”.<sup>16</sup>

An extensive academic debate took place in Cuba after 2006, when Raúl Castro made his first announcements about necessary reforms. The person expected to be his successor at that point, First Vice President Carlos Lage, was very clear about the need for this debate: “We need to have a true dialogue between social scientists and the decision makers”.<sup>17</sup> A number of economists, but also other social scientists, lawyers, philosophers etc., were part of this exchange. In general, their arguments went in favour of deeper market reforms, some of which can be found among the reform measures. This debate focused on issues such as private property, agriculture, the double monetary system, social welfare, and citizen participation.<sup>18</sup>

The 6<sup>th</sup> Party Congress, which finally took place in April 2011 after several postponements,<sup>19</sup> passed the so-called *Lineamientos de la política económica y social* (Guidelines for the economic and social policy)<sup>20</sup> for what was termed “*la actualización del modelo económico*”, updating of the economic model. This was supposed to be the major blueprint for necessary economic reforms (although this word was never used) in the coming years in Cuba. Draft guidelines were published five months earlier (November 2010), and submitted to discussions at public meetings all over the country. People were also encouraged to hand in proposals for change to the guidelines, and the

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<sup>15</sup> *Granma*, 21.04.2005.

<sup>16</sup> *Granma*, 29.03.2012.

<sup>17</sup> Quoted from “Sobre la transición socialista en Cuba: Un simposio” (2007): *Temas*:51-52.

<sup>18</sup> The debate is well summarised in Mesa-Lago 2008:45-74 and in Mesa-Lago 2013:224-236. We come back to the role of intellectuals and academics in Chapter 6, Indicator 6.2.

<sup>19</sup> The PCC Congress, which according to its statutes should normally take place every five years, had not been convened since 1997 (14 years earlier). The 7th Congress would then—according to statutes—take place in 2016.

<sup>20</sup> <http://www.cubadebate.cu/noticias/2011/05/09/descargue-en-cubadebate-los-lineamientos-de-la-politica-economica-y-social-pdf/#.WgxP17bBKuU>

Party claimed that several million such proposals were submitted. There was also a heated debate in some of the government-controlled websites (like *cadadebate.cu*) and the official media. Raúl had in advance encouraged people to take an active part in the debate, and advised leaders to “listen and create a proper environment so that others may express themselves with absolute freedom” (but always within the law and socialism). “Criticism” he said, “when adequately expressed, is essential in order to advance”.<sup>21</sup> This debate and the proposals submitted did lead to some changes in the Guidelines that were ultimately approved by the Congress, but none of them were really substantial (perhaps with the exception of a proposal to discontinue the use of the rationing card, a proposal that was only partly approved).

### **3.3. The Reform agenda**

According to Mesa-Lago (2013:273), the reforms approved by the 6<sup>th</sup> Party Congress were the most comprehensive and the deepest reforms initiated and carried out during the entire revolution.

Already before the 2011 Party Congress, some reforms had been approved under Raúl’s leadership, among them administrative measures and more or less structural reforms.<sup>22</sup> Among the *non-structural reforms* featured the permission for Cubans to visit hotels and restaurants previously reserved for foreigners, the acquisition of electro-domestic goods, and additionally the authorisation of private transport (taxis as well as other private transport of persons and goods). The first *structural reform* introduced in 2008 was the decision to lease out Cuba’s large extensions of idle land, through so-called *usufructo*. It was also in this period that a comprehensive campaign against corruption was initiated. According to Raúl, “the corruption is today one of the principal enemies of the revolution, much more harmful than the subversive and interference activity of the US government [...] The corruption is today equivalent to counter-revolution”.<sup>23</sup> Raúl also introduced a series of measures to reduce social benefits; to make them more

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<sup>21</sup> Quoted by Mesa Lago 2013:242.

<sup>22</sup> In the following, we use Mesa-Lago (2013)’s distinction between administrative and structural reforms.

<sup>23</sup> *Granma*, 23.12.2011.

focalized towards those who really needed them (e.g. the 35% of the population assumed not to receive family remittances from abroad).

*The Guidelines* state very clearly that central planning and not the market forces will be kept as the overriding economic instrument in Cuba. State enterprises will continue to dominate, but companies running at a loss will be closed or transferred to non-state management.

“The objective”, said Raúl in his opening report to the 2011 Congress (Castro 2011) “is to guarantee the continuation and irreversibility of socialism, as well as the economic development of the country and the elevation of living standards, combined with the necessary formation of ethical and political values among our citizens”.

These are the most important reform measures to be discussed in this dissertation:<sup>24</sup>

1. *Significant state retreat in agriculture*: Achieve a sufficient agricultural production in order to end the dependence on food inputs and thus also improve the country’s balance of payments. This will be achieved through increased presence of non-state production forms and by promoting major autonomy for the producers (Guidelines 177-178).
2. *Leasing (usufructo) of idle state-owned agricultural land* (Guideline 189): This practice started in 2008 with 56,000 “usufructuarios” occupying 560,000 hectares of land, gradually increasing to 250,000 beneficiaries occupying 1.8 mill hectares at the most in 2014-2015 before the figures started falling again. In the beginning, this reform lacked a number of aspects that made it relatively ineffective: a contract limit of ten years (later raised to 20 while both the peasant organization ANAP and independent economists said contracts should be permanent and subject to inheritance—which now in principle is possible); the maximum extension of each parcel was first set at only 13 hectares and later raised to 67; there was no permission to build a dwelling at the leased land—this was also later permitted.

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<sup>24</sup> The selection of the most important reform issues is mostly based on Mesa-Lago 2013.

3. *Gradual introduction of non-state wholesale markets, substituting the state-controlled acopios:*

“Transform the acopio and marketing system for agricultural products, by means of more efficient management mechanisms that contribute to reduce the losses, and simplify the links between primary production and the final consumer, including the possibility that the producer can bring the products to the market with his own means” (Guideline 183) (S/E).

4. *Expansion of private work and layoffs from the state sector:* The Guidelines made it clear that the State had no capacity to keep the present workforce, and that considerable layoffs would be necessary, from state companies not considered to be of strategic importance. The Cuban category of self-employed workers, “*cuentalpropistas*”, had existed since the 1990s, vacillating around 3% of the workforce in the first decade of the new century. Total non-state employment reached 20% of total workforce in 2004, falling to 15.7% in 2010.<sup>25</sup> The Party Congress approved 178 activities for self-employment (later expanded to 201), some of them professions of a certain importance, but most of them unqualified work. Professionals with higher education were excluded, even if they were laid off, leaving them with the only option to take on no-qualified work. The self-employed were initially only permitted to employ five other workers. Private restaurants (so-called “*paladares*”) were allowed to expand their capacity from 12 to 20 chairs (later expanded to 50). The Party Congress principle of avoiding the concentration of wealth was visible in all these measures, in many cases simply formalising informal work. In its initial form *cuentalpropismo* was by many seen as a way of stimulating entrepreneurship that could create significant new employment opportunities for those laid off from the state.

5. *Leasing out of small-scale businesses:* Another aspect of closure of state-owned companies was to offer small businesses like barbershops to the workers with ten-year leasing contracts, once again with this very special way of limiting the

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<sup>25</sup> Mesa-Lago 2013:260, Table 30.

business to number of chairs (in this case three). The list of permitted businesses that could be leased out was gradually increased.

6. *Expansion of the cooperative sector*: “First degree cooperatives will be created as a form of socialist collective property in various sectors” (Guideline 25). The intention was to take the cooperatives beyond agriculture, and create non-agricultural (or urban) cooperatives. But the Guidelines also declared the intention of creating second-degree cooperatives, with the prospective that could open for a significant strengthening of the cooperative sector in the economy: “Second-degree cooperatives will be created, with first-degree cooperatives as members [...] formed with the objective of organising complementary activities or add value to the products and services of its members” (Guideline 29). A law was passed in early 2013 for the introduction of non-agricultural cooperatives.
7. *Microcredits and private bank accounts*: Until 2011, only state companies and cooperatives had access to state credits. As of 2012, small credits could be offered to private peasants, *usufructuarios* and *cuentapropistas*. The amounts normally available, however, were very limited, and the administrative processes quite complicated, so that in practice very few small businesses could make use of the credit opportunities (ref. Feinberg 2013, see also Vidal 2012). The EU, Spain, Brazil and a group of diaspora Cuban businesspeople in Florida (Cuban Study Group) have all offered credit funds for small businesses through Cuban banks, but the government never accepted such proposals. In 2011, the same groups were for the first time given access to open bank accounts.
8. *Social welfare*: One of the most debated issues at the 6<sup>th</sup> Party Congress was the elimination of the ration cards, which had been proposed as a way of reducing the social expenditure that, according to Raúl, the country could no longer sustain. Rather than eliminating the system altogether, it was approved to introduce a new system of more focalised subsidies only covering one third of the month. The Congress also approved a reduction in social services: while they previously had represented 53% of the state budget, this share would now be reduced to 34%.

9. *Permission to own mobile phones* was only allowed in Cuba in 2008: Combined with a slow but increasing opening of internet access, and access to smart phones, this has been the basis for one of the most important political changes during the reform period, in reality resulting in the *end of the information monopoly*.
  
10. *Real estate market*: The Party Congress authorised the buying and selling of real estate. Until that point in time, the only legal way to buy or sell dwellings was through a very bureaucratic and easily corruptible system for the exchange (*permuta*) of one dwelling with another. The Congress now authorised that Cuban citizens and foreigners with permanent residence in the country—but not other foreigners—could acquire one dwelling plus an additional holiday house. Inheritance rights were also guaranteed, and the property registry, heavily out-dated, was re-established.
  
11. *Buying and selling of cars*: In the same way, Cuban citizens and permanent foreign residents (with access to convertible currency) were authorised to buy and sell private cars.
  
12. *Migration policy*: One of the most significant measures, only cautiously touched by the Party Congress but introduced and implemented a couple of years later (from 1 January 2013)—apparently after intense discussions—was the elimination of the general emigration control through the so-called *Tarjeta Blanca*. This was a system that in reality had given the Government full and discretionary control of all travels to foreign countries, at prohibitively high prices for ordinary Cubans (USD 150 for the *tarjeta*, USD 200 for those foreigners issuing an invitation letter, plus a monthly tax of USD 150). Suddenly, in principle all Cuban citizens, including opposition persons and “enemies of the revolution”, had free access to travel as long as they could get the passport and a visa to another country.<sup>26</sup>

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<sup>26</sup>The government reserved some restrictions to the right to travel abroad: those who are subject to penal process or have a pending penal sanction, those who have a duty to military service, or – more confusedly – where there may be “reasons of defence and national security”. The Government could also refuse exit permission to people who possess necessary qualifications for “the country’s economic, social and

13. *New regime for Direct Foreign Investment* (not mentioned in *Guidelines*, but approved in 2014; ref. Indicator 3.1).

14. *Elimination of the dual monetary system* (convertible and non-convertible currencies): Point 55 of the *Guidelines* reads as follows:

“We will advance towards the monetary unification, bearing in mind work productivity and the effectiveness of distribution and redistribution mechanisms. Due to its complexity, this process demands a rigorous preparation and execution”.

This is one of the reform measures that apparently have turned out to be most difficult to implement.

15. *Restrictions on time of service in top Party and State leadership positions* (max. two periods or ten years): Later to be complemented with age restrictions for Party positions (max. 60 years when entering Central Committee and general retirement at 70). This is in fact a serious political reform proposal. If this rule had been applied at the 7<sup>th</sup> Party Congress in 2016 (as Raúl predicted it would at the 6<sup>th</sup> Congress), two thirds of the Politburo would have been retired. By 2018, Raúl Castro will have finished two periods as Head of State and Government, and he would logically resign along with most of his generational comrades.

It has been claimed<sup>27</sup> that Raúl in reality had four major points on his *political agenda* when he took office in 2008, in addition to the economic reforms: normalisation of relations with the Catholic Church, normalisation with the US, re-negotiation of the country's foreign debt, and finally ratification of international human rights treaties. Normalisation with the Church came first, when he in 2010 negotiated with Cardinal Ortega the release of 75 political prisoners (the victims of the so-called 'Black Spring', imprisoned in 2003), thus preparing the ground for the visit of Pope Francis who in his

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scientific technical development, and for the security and protection of official information” (Articles 23 and 25 of the new Migration Law).

<sup>27</sup> This is the appreciation of the two directors of *Cuba Posible*, previously *Espacio Laical*, Roberto Veiga and Leonel Gonzales (interviewed repeatedly in Havana).

turn helped prepare the ground for the normalisation process with the US. The latter was officially launched on 17 December 2014. The debt agreement with the Paris Club was reached in December 2015.<sup>28</sup> What remained unmet among these points was the ratification of human rights treaties, in spite of the process he initiated in 2008 (ref. Chapter 1).

How should one interpret Raúl's reforms—is he a conservative or a reformist? Klepak (2012) suggests the following observation, which sounds reasonable; he is neither a conservative nor a reformer:

“If Raúl feels that reform is necessary for the efficiency and progress of the Revolution, and for the furtherance of protection of its main goals, he will be interested in reform. If he feels that reform is dangerous for the survival or well-being of those goals, he is interested in conservatism” (Klepak 2012:99).

These goals, Klepak adds, are basically the social gains of the revolution (health, education, social security etc.).

Klepak says nothing about the maintenance of power as a goal in and of itself. It is, however, difficult to avoid the suspicion that this goal lies behind of everything that has happened as these reform measures have been tested in practice.

Under Indicator 9.3, we argue that these reform measures were met by a virtual *counter reform*, particularly from 2016.

### **3.4. Reforms leading to transformation?**

From the very beginning, there was considerable resistance against the reform agenda. Raúl Castro repeatedly criticised the bureaucracy for sabotaging the reforms—almost amounting to some kind of civil disobedience. Parts of the official press, perhaps most

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<sup>28</sup> Cuba and the Paris Club of creditors agreed in December 2015 on a pardon of 11.1 billion USD of the country's 13.7 billion USD debt, with Cuba committing to clear the remaining 2.6 billion USD of debt in arrears over an 18-year period. <http://www.clubdeparis.org/en/communications/press-release/agreement-on-the-debt-between-cuba-and-the-group-of-creditors-of-cuba>

consistently *Juventud Rebelde*, were pushing in the reform direction, calling for a deepening of the reforms against the brakes applied by the bureaucracy.<sup>29</sup>

The reforms announced and initially implemented by Raúl Castro from 2008 were by most observers seen as the beginning of a significant economic transformation of the Cuban society. They form a logical basis for the challenges with hypotheses that we shall present in Chapter 5 and discuss in this dissertation, together with the theoretical and empirical-comparative discussion in Chapter 4. When formulating the hypotheses for each of the 9 challenges we intend to discuss, we will try to integrate direct measures of the reform agenda and the transformative implications these may be supposed to have when building on the theoretical literature.

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<sup>29</sup> See e.g. *Juventud Rebelde*, 11.09.11.

## Chapter 4: Theoretical and comparative-empirical framework for the study

### 4.1. Introduction

The purpose of this chapter is to draw up a theoretical and conceptual framework for the empirical discussion of the relationship between on-going economic and political transformations in Cuba. The theoretical framework will help formulate the hypotheses in next chapter.

We will first discuss traditional *theories of transition*, theories that assume a transition towards a more or less liberal democracy. This *transition paradigm* will be questioned in the light of the increasing recognition of the *democratic fatigue* and the crisis of liberal democracy in the world. Could this lead the way to some form of renewal of democratic practices, what some have called *transformative democratic politics*? The political science literature will be complemented by economists and historians offering more structuralist approaches, for *authoritarian withdrawal* in general and more specifically for *transformations of socialist systems*. It should be emphasized that all these theories deal with relations between economic (state vs. market) and political (authoritarian vs. liberal polities) transformations in one way or the other.

Further on, there will be a discussion of whether the transformation may go in a quite different direction, as exemplified by countries like *China and Vietnam*. In order to understand the implications of such transformations, we will introduce the concept of *socialist neo-patrimonial regimes*, alternatively *authoritarian market economy*. We will also discuss whether the resilience of Chinese and Vietnamese regimes, based on what we call *pragmatic acceptance*, is at all a viable option for Cuba, given the deep historical and cultural differences compared to these Asian societies and the peculiar aspects of

the Cuban society. This is to a large degree related to the issue of *legitimacy* as Cuba is arriving at its *critical juncture* of the post-Castro epoch. This all happens in a very special international context for Cuba: the historical enemy image of US imperialism was in full disruption under ex-President Obama, before President Trump offered great support to its resurrection by returning to confrontation policies.

#### **4.2. Categorising socio-economic and political transitions or transformations**

We prefer to use the term ‘transformation’ rather than ‘transition’ in this dissertation. The reason is simple: as we shall see, ‘transition’ is interpreted by the Cuban government as a US effort to impose regime change, thus blocking meaningful dialogue. But there is also an increasing academic rejection of the concept of ‘transition’ altogether, specifically in the case of Cuba and its reform process under Raúl Castro. A former country economist with the Inter-American Development Bank (IADB), Emily Morris (2015:8), observed that “much of the discussion of the impact of normalization on Cuban policy has centered on the question of whether it will precipitate ‘transition’”, going on to argue:

“But the diverse experiences of Eastern European and Asian economies, as well as the huge differences between ‘capitalist’ economies in terms of economic systems and performance, cast doubt on the meaning of the term of ‘transition’, and its application to the case of Cuba is arguably uninformative. The idea of a ‘market’ economy and a ‘state’ one was always a caricature used to distinguish the economic systems of the ‘capitalist’ countries from the ‘communist’ ones. In fact, the state obviously plays a crucial role in all capitalist economies (unless failed states are included in the definition), and markets have always existed within communist economies, including Cuba”.

In the theoretical and empirical discussions about transitions or transformations from totalitarian or authoritarian regimes over the last 40 years, we may broadly speaking distinguish between three different transformative patterns:

The *first pattern* is internal democratic reform, such as those that took place in Southern Europe, South America and in ex-USSR and former socialist countries in Eastern Europe. This is the pattern of democratisation studied in standard references like Linz & Stepan

(1994), normally described as ‘democratic transition’ or ‘transition to democracy’.

Whitehead (2009) refers to Spain as the ‘model transition’ of this pattern: the replacement “with apparent ease” of the Franco dictatorship “by a legitimate and consensual democratic regime, within a few years of the death of the old dictator” (Whitehead 2009:218). The Spanish transition was obviously very relevant for later transitions from dictatorship in South America. Whitehead goes on to refer to Poland and Hungary as two other ‘pivotal cases’ of regime transition under this pattern, under the term ‘triple transition’:

“They (Poland and Hungary) both generated ‘reform communist’ elites who initiated liberalization and democratization through peaceful ‘round-table’ negotiations. They both transitioned from communist rule to multi-party democracy; from state-run to market-led economies; and from military alliance with the East to military alliance with the West. These remarkably comprehensive ‘triple transitions’ took place by consent” (ibid:219).

Finally, Whitehead also refers to a third brand of ‘pivotal case’ of transition that falls into this broader category: what he calls the ‘miracle transition’ in South Africa: “The peaceful dismantling of the apartheid regime; the negotiated installation of a broad-based substitute, one capable of drawing a line under an ugly political past and of promoting co-existence between apparently irreconcilable enemies” (ibid:217).<sup>30</sup> Whitehead claims that the South African transition may have proven wrong the belief that democracy would be unviable in deeply divided societies. Later worrisome developments in South Africa do not seem to threaten the democratic basis of this transition.

The *second pattern* is what we may term economic transformation without change of political regime, with China and Vietnam as the most prominent cases. Cuba may so far be said to have followed this pattern, although much more moderately when it comes to the introduction of market reforms. The big question is whether a further deepening of the economic transformations, to a level comparable to those in the two Asian countries, would be compatible with the maintenance of the same political regime in Cuba.

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<sup>30</sup> The problem with this notion of a negotiated outcome in Cuba is that it is hard to see how any serious negotiation counterpart would appear in the near future in Cuba—see though a further discussion of this in Chapter 11.5.

The *third pattern* of relevance for Cuba is what we may term ‘democracy attempted to be imposed from outside’, also in some contexts called ‘regime change’. The most known cases from the present century are Afghanistan and Iraq, basically designed by the US regime of George W. Bush, to be ‘democratised’ through military interventions removing the enemy regimes and letting democracy grow as a logical consequence. This was obviously no great success. What is perhaps less known is that the same administration had a very similar design for Cuba (see Chapter 8). President Obama explicitly abolished this approach through his rapprochement with Cuba. With President Trump now talking about ‘a new deal’, it is a question whether it may be put on the table again.

Whitehead (op.cit.) has described Iraq as another pivotal case, where he shows the contradiction between pro-democracy objectives and anti-democratic results, in what he calls “the dark side of democracy promotion”, or also “coercive democracy imposition”. The failure of ‘pro-democracy interventions’ (Afghanistan, Iraq, Libya), the whole issue of what went wrong in Syria and the more recent emergence of the Islamic State (IS) is also relevant, not least because Cuba was seen by the George W. Bush administration as a case of what we could call ‘soft pro-democracy intervention’.

The ideological use of the transition paradigm had military interventions as its most extreme form. We saw it in Afghanistan, in Iraq, and before that in Central America through the US support to the contras in Nicaragua and military support to violent and far less democratic but pro-US regimes in El Salvador, Guatemala, and Honduras.<sup>31</sup>

The Iraq regime-change case—and we may add Afghanistan in the same category—is seen against the backdrop of the mentioned model transitions and is thought to have undermined the international support for the entire US-led project of democracy promotion. It represented a leap from ‘liberal internationalism’ (typically represented by Democratic presidents like Carter and Clinton) to the ‘coercive democratisation’ of the neoconservative Reagan and Bush Jr. administrations. The UN-adopted dogmas of ‘responsibility to protect’ and ‘humanitarian intervention’ may also have suffered

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<sup>31</sup> The US intervention in Central America in the 1980s was the subject of my book (Bye 1990; Bye 1991), where it is well documented that the effect was running clearly counter to the officially declared objective of democracy promotion.

serious blows, even more so after the disastrous outcomes of similar effort in countries like Libya and Syria. Even non-interventionist pro-democracy initiatives in the name of the world community are suffering the consequences.

One particularly objectionable aspect of democratic interventions seen from Cuba is their denial of national sovereignty, a holy concept in Cuba and the very ideological basis of the revolution before it was declared as socialist. The failure of the Iraq experience—as seen by most international observers—has been a shot in the arm for Cuba’s claim that externally imposed democratisation is illegitimate. As Whitehead (op.cit:229) sums up:

“What the pivotal experience of coercive democratization on this scale already demonstrates, however, is that when regime change is not mainly driven and controlled from within (as it was in Spain, Poland and South Africa), the theoretical models derived from existing academic literature are unlikely to provide much helpful guidance”.

This may prove a very significant observation as we move ahead to understand what may cause economic and political transformations in Cuba—something that ex-President Obama seems to have been the first US president to realise since the Cuban revolution (Bye 2015). His historically redefined Cuba policy may paradoxically have amounted to be the most serious political challenge ever experienced by this revolution, until his new approach was aborted by President Trump.

### **4.3. Theoretical approaches for economic vs. political transformations**

Building on the correlation matrix between economic and political transformations that we developed in Chapter 2 (Figure 2.1), we can imagine two opposite causal paradigms at play when it comes to the relationship between economic and political transformations.

Most of the traditional theories seem to build at least on an implicit assumption similar to our Route 2: *economic changes first, later affecting politics*: that changes in the economic structures will lead to political transformations, or, put bluntly, that capitalism

will lead to democracy. Lipset (1960) may be the scholar providing the most classical argument for this. In reality, this is pretty much in line with the orthodox Marxist assumption that changes in the economic base will lead to changes in the political superstructure (Marx 2004).<sup>32</sup> A next phase was introduced by Huntington (1968) and his theory of political order.<sup>33</sup> He considers Lipset's argument to be oversimplified and flawed, arguing that changes in political systems and institutions are rather caused by tensions within the political and social system.

Linz and Stepan brings the Lipset argument further, in their arguments for "the crafting of democratic institutions", in many cases through elite compromises. The Spanish transition is a classical reference case in this context.

It may be claimed that these transition theories in reality can be seen as proposals for a combination of Routes 2 and 4, or even the Route 5 *fast track*, with parallel moves and mutual impact between the economic and political dimensions.

An alternative to this paradigm (although neither of the two are claimed to be absolute) is the one applied by János Kornai (1992), in his study of the USSR and Eastern European transformations. Contrary to the aforementioned arguments, he claims, the main line of causality runs from politics to economics: political liberalisation of power and ideology (independent variable) towards lasting economic phenomena (dependent variables). This is a typical Route 3 with possible continuation along Route 4 in our matrix: *politics first with possible economic implication*.

In this study of possible Cuban transformations, since the main focus is on economic reforms, we will stick to the thesis of economy first, being on the outlook for signs that the economy also may cause political change. We will however definitely keep an open mind for a discussion of whether Kornai's thesis may offer an alternative approach to

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<sup>32</sup> Base and superstructure are two concepts in Karl Marx' view of human society. The base is the basic way a society organises the production of goods. It includes employer-employee work conditions, the technical division of labor, and property relations, which people enter to produce the necessities and amenities of life. The superstructure of a society includes its culture, institutions, political power structures, roles, rituals, and norms. According to the classical Marxist thesis, the base shapes and determines the superstructure, however the superstructure does often influence (maintains and legitimates) the base.

<sup>33</sup> Huntington will probably fall outside of the classical liberal paradigm.

the analysis of the Cuban reform process.

In China and Vietnam, there seems to be very little causal relation between the economic and political arenas. We may here speak about Route 1: the *economics only paradigm*, where the heavy transformation from exclusive to inclusive economic institutions is accompanied by strong efforts to hold back a slide towards inclusive political institutions. Limited security for private property and restricted rule-of-law represent flaws in the economic inclusiveness according to the definition we have used here. But that has not stopped these economies from being far more successful over the last generation than all full-fledged capitalist democracies.

Also, in the case of Cuba, the reform process is, in principle, limited to the economic arena, while political reforms were explicitly ruled out by the 2011 6<sup>th</sup> Party Congress, the 2012 Party Conference,<sup>34</sup> and again by the 2016 7<sup>th</sup> Party Congress. It is interesting to note that in the official language, even the changes in economic policy are not reforms, only an 'updating' (*actualización*) of the socialist economic model. So, from that perspective, one might conclude that Cuba, like China and Vietnam, has been attempting an *economics only transformation*. On the other hand, even economic reforms originate in political decisions. As we come back to under Indicator 8.2, the on-going transformations have obvious political aspects without questioning basic power relations. We will also claim that economic reforms may have been slowed down because of a concern that they might spill over to the political arena. It will therefore make sense to consider both causal directions in the case of Cuba.

A question at the root of this study is whether the basic Marxist assumption of relations between base and superstructure really will turn out to be valid in practice in socialist societies undergoing a capitalist or market transition. But if that has, so far, not occurred to any significant extent in China and Vietnam (both will be frequent reference cases in this study), the big question is whether the assumption would be of more relevance in the case of Cuba, for a series of reasons to which we will return.

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<sup>34</sup> The Party *Conference* is a new institution in Cuba, which in advance had been expected to touch upon political reform aspects not on the agenda for the Party *Congress*, but in reality, failed to do so. No other Party *Conference* has ever since been organised.

At least one Marxist classic, Antonio Gramsci, argues very much along the same lines as Kornai. His concept 'historic bloc' is presented as a certain social order producing and re-producing a cultural hegemony through institutions, social relations and ideas. Gramsci, therefore, different from orthodox Marxism, emphasised the importance of the political and ideological superstructure, both for maintaining and fracturing relations in the economic base.

It is interesting to see how Cubans themselves view this connection. In a rare but apparently quite reliable opinion poll taken in March 2015,<sup>35</sup> people were asked what they thought about the prospects of the new relationship with the US. While two thirds (64%) thought that the economic system would change (or continue to change), only slightly more than one third (37%) were expecting changes in the political system. If the poll had been repeated a couple of years later, deep frustration about either change scenario would probably have been expressed.

#### **4.4. Liberal transition theories**

Liberal transition theories are prescriptions for regimes to move towards the combination of economic and political inclusiveness, in various degrees of politics or economics first. How relevant are they for Cuba?

##### **4.4.1 The death of the democratic transition paradigm?**

In the early 1990s, after the fall of the USSR and the Soviet bloc, there was a euphoric and triumphalist attitude among the proponents of liberal democratic transition. Huntington (1991) launched his thesis of 'The Third Wave of Democracy'. Fukuyama (1989:1), even before the USSR fell apart, used the quite sensational concept 'The End of History' (admittedly with a question mark), with the following key argument:

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<sup>35</sup> "Cubans welcome warmer relations with the U.S.", a poll of Cuban residents conducted by Bendixen and Amanti International for Univision Noticias and Fusion in collaboration with The Washington Post, financed by the National Endowment for Democracy, published by *Washington Post* on 08.04.15, <http://www.washingtonpost.com/graphics/world/cuba-poll-2015/>

"What we may be witnessing is not just the end of the Cold War, or the passing of a particular period of post-war history, but the end of history as such: that is, the end point of mankind's ideological evolution and the universalization of Western liberal democracy as the final form of human government".

Meanwhile, Fukuyama (2014) has significantly changed his mind, ascribing recent democratic setbacks to the failure of institutionalisation, more specifically to the fact that state capacity in many new and existing democracies has not kept pace with popular demands for democratic accountability.<sup>36</sup> In an even later discussion of Trump's electoral victory (Fukuyama 2017), he goes as far as characterising the US as a failed state, recognising that he did not see how democracies could go backward when he formulated his original thesis.

The world has evidently undergone deep change since 1991. The academic observation of this got underway already in the second half of the 1990s, with a counter-reaction to the overwhelming democracy optimism. It may have been Fareed Zakaria who started this new trend by coining the concept 'illiberal democracy', referring to authoritarian tendencies among newly elected leaders in countries as different as Peru, Argentina, Philippines and Kazakhstan (Zakaria 1997). This released a debate about the need for 'democratic sequencing', the claim being that democratisation—especially national elections—in countries poorly prepared for it often can result in bad outcomes, even civil or armed conflict. In order to prevent such results, it was argued, certain preconditions, among them rule of law and a well-functioning state, ought to be in place before a society democratises (Mansfield and Snyder 2005). An important premise for this position was that the democratic transition paradigm of 'the third wave' underestimated or outright ignored a country's underlying socio-economic and political structure and historical legacies; in short, that they lacked a context analysis.

Warning against the 'sequencing' position by claiming it was missing the target, other democracy theorists argued that what was required was rather what they called 'democratic gradualism'. Putting off elections in order to allow in-depth negotiations between contending political groups, would allow them to "get used to dealing with one

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<sup>36</sup> We will return repeatedly to Fukuyama's interesting theoretical evolution.

another peacefully and agree on the rules of the game before potentially divisive elections are held” (Carothers 2007:25). The ‘gradualist agenda’, thought to fit places like China and parts of the Middle East,<sup>37</sup> “highlights the need for small but significant steps that create space and mechanisms for true political competition and point the way to an eventual end of the rulers’ monopoly on power” (ibid:26). Among the most crucial steps according to this view, is the establishment of what we may call ‘political civil society’, holding local elections with a certain competition, and tolerating a more open public space with independent media.<sup>38</sup>

There is now an even more overwhelming academic agreement than 25 years ago, but about the contrary conclusion: that the relevance and indeed the attraction of the democratic transition paradigm has been drastically reduced. The *Journal of Democracy*, this beacon of liberal democracy thinking and promotion, celebrated its 25 years of existence with a special issue in January of 2015. Among the titles and headlines we find the following: “Democracy in decline?”; “Why is democracy performing so poorly?”; “Facing up to the democratic recession”; “Democratic fatigue”. Pessimism about the prospects of liberal democracy is almost unanimous. The Democracy Index produced annually by The Economist Intelligence Unit (EIU) concluded in its most recent report:

“In the 2017 Democracy Index the average global score fell from 5.52 in 2016 to 5.48 (on a scale of 0 to 10). Some 89 countries experienced a decline in their total score compared with 2016, more than three times as many as the countries that recorded an improvement (27), the worst performance since 2010- 11 in the aftermath of the global economic and financial crisis [...] In the 2017 Democracy Index not a single region recorded an improvement in its average score compared with 2016.”

Latin America remains the most democratic region in the developing world according to this index, but with some significant modifications among Cuba’s friendly countries: “Ecuador improved from a ‘hybrid regime’ to a ‘flawed democracy’. Venezuela, by

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<sup>37</sup> This was written before Xi Jinping took over the top position in China and before the Arab Spring.

<sup>38</sup> Terry Lynn Karl, Professor of Stanford University, argued at a panel during the LASA Conference in New York 2016 (28.05.16) that rule of law must be in place first if you want a quality democracy to take hold (referring to the problem of impunity for HR violations–mentioning El Salvador as a bad model in that regard).



mechanistic manner. Also, there is no one-stage or unilinear process. And thirdly, one has to take into account the particularities and historical memories and cultural traditions of each country. By so doing, one may come up with some useful and relatively powerful explanatory categories, without expecting that they give 'one size fits all' or guaranteed answer.

What we may conclude is that the 'democratic transition paradigm' may not fit as a forecasting method in the case of Cuba. Still, as we will see throughout this study, most of the theoretical constructions presented by Linz and Stepan and others are still relevant in order to discuss the direction of a social transformation taking place.

#### 4.4.2. Linz and Stepan's Five Arenas of Democracy

For the purpose of studying whether and to what degree Cuba may be on the way to undergo a transformation to less authoritarian and more liberal political structures, we believe that Linz and Stepan's (1996 op.cit.) five arenas of a consolidated democracy (democratic polity) offer a meaningful framework for the discussion of on-going reforms. The routes towards both economic and political inclusiveness operate on all these arenas. This framework will give the first opportunity to discuss towards which model or scenario the country is moving. A further elaboration of this discussion will be based on the special characteristics of what they term 'post-totalitarian regime'—where present-day Cuba seems to fit very well (ref. also Linz' study of totalitarianism: Linz 2000).

Their five arenas are:<sup>40</sup>

1. *An institutionalised economic society*: norms, institutions and regulations that mediate between state and market. Market economy and ownership diversity capable of producing the independence and liveliness of civil society will make crucial contributions to a democracy.

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<sup>40</sup> On purpose, we have changed the order of these five arenas compared to the order in which Linz and Stepan presented them.

2. *A free and lively civil society*: self-organising groups, movements, individuals, relatively autonomous from the state (trade unions, entrepreneurial groups, journalists, lawyers). In Latin America and partly in Eastern Europe (Poland), under previous military-led bureaucratic-authoritarian regimes and when the Soviet iron fist started to disintegrate, such civil society showed great capacity to mobilise the opposition to these regimes. In other cases, popular protest in the street has been the beginning of transitions. On the other hand, as in the case of China (Tiananmen Square 1989) and previously in Hungary (1956) and Czechoslovakia (1968), regimes have been willing to use massive force to quell these movements.
3. *A relatively autonomous and valued political society*: mechanisms to contest the legitimate right to exercise control over public power and the state apparatus: Civil society may destroy a non-democratic regime, but political society is required to allow full democratic transition and particularly its consolidation; there is a clear complementarity between the two.
4. *Rule of law* to ensure legal guarantees for citizens' freedoms and independent associational life: all significant actors, especially the democratic government and the state, must respect and uphold the rule of law, embodied in a spirit of constitutionalism (based on strong consensus)—a clear hierarchy of laws, interpreted by an independent judicial system and supported by a strong legal culture in civil society.
5. *A state bureaucracy that is "usable by the new democratic government"*: with an effective capacity to command (monopoly of legitimate use of force), regulate (prepare laws) and extract (compulsory taxation). The issue is particularly sensitive in post-Communist cases where the distinction between the party and the state has been virtually non-existent before the party lost its power hegemony (through disintegration or de-legitimisation).

#### 4.4.3. Linz and Stepan's approaches to the study of post-totalitarianism

Linz' and Stepan's classical work also provides a primary reference to the more specific study of post-totalitarianism, by making a distinction between totalitarian, post-totalitarian (which again may be broken down to early, frozen and mature post-totalitarianism), and authoritarian regimes. They apply a set of four dimensions to determine the regime type:

1. *Pluralism*: a move from a totalitarian to a post-totalitarian situation would basically be determined by the emergence of a 'second economy' (i.e. a non-state economy), and the tolerance of political pluralism (first civil society, break-down of the media and information monopoly, in more advanced stages of a multi-party system).
2. *Ideology*: In a totalitarian society, a strong guiding ideology still exists, with a strong commitment to or faith in utopia. In a society moving towards post-totalitarianism, there will be a "growing empirical disjunction between official ideological claims and reality" (Linz and Stepan:48), where the regime need to legitimise itself is more decided on the basis of performance criteria. In a context of growing economic crisis, regime collapse has often occurred when mid-level functionaries of the coercive apparatus start having growing doubts about repression of protest.
3. *Mobilization*: A typical situation of totalitarianism is that there is "extensive mobilisation into a vast array of regime-created obligatory organisations", while movements away from totalitarianism implies a progressive loss of interest, where "boredom, withdrawal and ultimately privatisation of population's values" is becoming an accepted fact.
4. *Leadership*: A loss of charismatic leadership is another typical characteristic of reduced totalitarianism, as is also a situation where the new recruitment to top leadership becomes less dependent on a career within the party organisation. 'Frozen post-totalitarianism' may often reveal geriatric tendencies, "with limited

capacity to negotiate. Such a leadership structure, if it is not able to repress opponents in a crisis, is particularly vulnerable to collapse” (ibid. p. 47-48).

These four dimensions will be discussed empirically under Challenge 6, emergence of a more pluralist society.

The emergence of post-totalitarianism, Linz and Stepan claim, can be the result of three distinct, but often interconnected, processes:

1. Deliberate policies of the rulers (“de-totalitarianism by choice”);
2. The internal ‘hollowing out’ of the regime and internal ideological erosion (“de-totalitarianism by decay”); or
3. Creation of social, cultural or economic spaces that resist or escape totalitarian control (“de-totalitarianism by societal conquest”).

Transitions are frequently seen as involving a pact between regime moderates and opposition moderates, who are able to ‘use’ and ‘contain’ their respective hardliners (a four-player game). Two conditions must be satisfied for this to happen: moderate regime players must have sufficient autonomy; and moderate opposition players need a degree of continued organisational presence, power and followers (ref. the negotiation scenarios discussed in Chapter 11).

#### 4.4.4. Fukuyama’s “way to Denmark”

Fukuyama (2011:431) uses the metaphor “Getting to Denmark”, for what he sees as the most developed stage of democratic development: “a law-abiding, democratic, prosperous and well-governed polity with some of the world’s lowest levels of political corruption”. The metaphor may have been influenced by the fact that the Nordic countries systematically find themselves at the top of many relevant rankings like UNDP’s Human Development Indicator (HDI), the democracy indexes etc. We may

follow Fukuyama here and consider the Scandinavian societies as the probably best combination of economic and political inclusiveness (box a in our matrix).

We will come back to Cuba's performance on some of these rankings, in order to determine the most critical missing elements in its "way towards Denmark". What we may emphasise at this point is that Fukuyama's recipe for historic democratic development is the combination of strong state institutions at central but also at local level (local self-determination) together with free and autonomous farmers. It is interesting to note that Cuba does have a very strong state, but lacks the two other requirements: decentralised state authority and free and autonomous farmers or peasants.

Fukuyama bases his understanding of the emergence of democratic systems on three main pillars: *state building*, the *rule of law* (R-o-L) and *accountable government*. The major element of R-o-L, in his view, is effective and independent legal institutions—perhaps the most difficult to construct: "in contemporary developing countries, one of the greatest political deficits lies in the relative weakness of the rule of law" (p. 247). "Latin America today is overwhelmingly democratic, but rule of law is extremely weak, from the bribe-taking police officer to a tax-evading judge" (p. 247). The economic component of R-o-L refers to modern property rights (held by individuals, free to buy and sell their property, without which long-term investments are unlikely to take place). But he recognises that this has not been necessary to achieve double-digit economic growth in China: disbanding collective farms and giving peasants heritable usufructuary rights to the land was evidently 'good enough'. Contract enforcement is another dimension of R-o-L in the economy (trade requires a legal machinery to enforce contracts and to adjudicate disputes among contracting parties).

Fukuyama sees the self-owning peasants, with the right to freely engage in commerce, as one of the decisive steps in "getting to Denmark", along with the Protestant Reformation and its encouragement of peasant literacy (driving social mobilisation, opportunity to communicate among themselves, getting organised as political agents—even before they were enfranchised). Fukuyama speaks about the parallel rise of farmers' movements and socialist parties—but seems to forget the importance of workers' unions. Generally

speaking, he has captured many elements of what we normally refer to as ‘the Nordic model’, but not necessarily all (see Törnquist and Harris 2016; Dølvik 2015). A complementary explanation of “how to get to Denmark” or “the Nordic (or Scandinavian) model” that goes further than the importance of state-building institutions, is obviously required (and we come back to this below). Literature on the historic evolution of this model since the 1930s may be interesting for those who are considering development options for emerging economies.<sup>41</sup>

In this context, it is highly interesting to note that the drastic reduction of the sugar economy—the main extractive sector historically speaking in Cuba—giving way to an emerging family farmer agricultural structure, may have very significant effects for a political transition. This is another argument for watching transitions in the agricultural sector very attentively.

Fukuyama also sees the emergence of modern civil society as decisive for economic development:

“The mobilization of social groups allows weak individuals to pool their interests and enter the political system; even when social groups do not seek political objectives, voluntary associations have spillover effects in fostering the ability of individuals to work with one another in novel situations – what is termed social capital” (Fukuyama 2011:472).

The pooling of interests, particularly of new economic actors, will be discussed under Challenge 4 (political implications of socio-economic changes).

“Successful liberal democracy requires both a state that is strong, unified and able to enforce laws on its own territory, and a society that is strong and cohesive and able to impose accountability on the state. It is the balance between a strong state and a strong society that makes democracy work” (ibid:479-480).

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<sup>41</sup> This was what happened in Brazil when Lula assumed presidency in 2003, and he ordered some of his closest collaborators to study historic experiences from Scandinavia and Norway in particular, i.a. by reading the Portuguese translation of Furre (2006) (unpublished version available several years earlier) and coining one of Lula’s favourite references: *O modelo norueguês*.

#### 4.4.5. The political economy of democratic transitions

Haggard and Kaufman (1995) have attempted to understand the widespread movement from authoritarian to democratic rule observed during ‘the third wave of democracy’ in political economy terms. This transition occurred, they claim, against a backdrop of severe economic crisis, raising the question as we do in this study: what is the relationship between economic and political change, or more precisely between economic crisis and what the authors call ‘authoritarian withdrawal’. The thesis is that both economic conditions and policy, and the nature of political institutions, shape the prospect for democracy. Going back to our matrix, the message here is *politics and economics simultaneously*.

Three crucial assumptions are developed:

1. Based on socio-economic structures, it is possible to identify politically relevant groups and their policy preferences, and through that political alignments and conflicts;
2. Opportunities for conflicting elites to mobilise support for their respective projects depend on how economic policies affect different social groups (in terms of growth and distribution);
3. It is important to understand the institutional context in which contending groups operate, i.e. the way politics is structured by representative institutions, and the state itself, in order to derive political or policy outcomes from economic cleavages and interests.

The nature of political institutions, it is claimed, will determine the capacity of governments to manage the economy effectively, and also what social groups win and lose on economic reform and change (ref. the section about “early winners” and “early losers” later in this Chapter). Authoritarian regimes are more dependent than democracies on their capacity to deliver material resources to key supporters (we come

back to this question later under the concept 'pragmatic acceptance'). Among different kinds of authoritarian regimes, what is called 'dominant party regimes' (as opposed to military governments) possess greater political resources for the management of political conflict, and they are therefore more likely to persist through economic crises. This is certainly a relevant observation for Cuba.

Haggard/Kaufman's main emphasis is on the relationship between economic conditions, the interests and power of contending social groups, and the mediating role of representative institutions (i.a. political parties). As we see, there is an interaction of structuralist and actor-oriented approaches in their analysis. But the factors behind regime change studied here may have limited relevance for the Cuba case: defection of business elites and elite division caused by this offer little explanatory force, while balance of payment crises, mobilisation and strikes may become more relevant change factors in Cuba.

On balance, considering the Cuban case, economic crisis resulting in a loss of social support is a potential scenario. It might be worthwhile studying whether this would contribute to deepen pre-existing divisions within ruling elites. Even if the lack of transparency and access to information about the characteristics and way of thinking within the Cuban nomenclature makes it difficult to obtain necessary information in this regard, this framework will definitely help us in the analysis of power, hegemony and legitimacy during the critical juncture (Chapter 11).

#### 4.4.6. Przeworski and 'the liberalisation from dictatorship'

One of the classical contributions to the study of democratic transition processes with examples from Eastern Europe and Latin America is Przeworski (1991). One of his main theses is about the role of independent organisations in such transitions. While such organisations are not tolerated in a dictatorship, even the gradual toleration of them is no panacea for a transition to democracy, he claims. We must probably characterise Przeworski as an advocate of Route 4: *politics first, leading to economics*.

He is particularly concerned with the breakdown of legitimacy of the old regime and the

role played by civil society in this situation:

“What is threatening to authoritarian regimes is not the breakdown of legitimacy but the organization of counterhegemony: collective projects for an alternative future. Only when collective alternatives are available does political choice become available to isolated citizens” (p. 54-55).

So, according to Przeworski and building on the Gramscian concept of hegemony, the emergence of civil society organisations in itself only becomes a relevant regime transition force in a situation of deteriorating legitimacy, if civil society organisations manage to organise a ‘counter-hegemonic bloc’.

The question in such a situation is what may bring a group inside the authoritarian power establishment to tolerate an autonomous organisation of civil society, thus also signalling fissures in the regime power bloc and “the onset of liberalisation”, as he puts it. There may be two different situations here: *decisions from above* or *pressure from below*. Przeworski cites Hungary and East Germany as examples of the two respective cases. But there is often a competition between top-down and bottom-up explanations among analysts. In the case of democratisation in Brazil for instance, some emphasise the long-standing divisions within the military, whereas others believe that popular mobilisation was decisive. In most cases, it is probably a combination of the two.

The issue of alliance building may be quite decisive for the outcome. Przeworski schematically distinguishes between *Liberalizers* and *Hardliners* in the regime.<sup>42</sup> “*Liberalization*”, he goes on to say:

“[I]s a result of an interaction between splits in the authoritarian regime and autonomous organization of the civil society. Popular mobilization signals to the potential Liberalizers the possibility of an alliance that could change the relation of forces within the power bloc to

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<sup>42</sup> A pair of concepts sometimes used in Spanish is ‘*Aperturistas*’ vs. ‘*Immobilistas*’. O’Donnell (in O’Donnell et. al. 1986) applies a more nuanced concept system, distinguishing between four actors: Hardliners and Reformers inside the authoritarian bloc and Moderates and Radicals in the opposition (ref. Linz and Stepan’s concept ‘four-player game’). Hardliners, they say, tend to be found in the repressive apparatus of the authoritarian bloc (police, legal bureaucracy, censors, even among regime-loyal journalists), whereas Reformers are often recruited among politicians of the regime and from some groups outside the state apparatus: sectors of the bourgeoisie under capitalism and some economic managers under socialism. In the latter case, it has been claimed, some factory managers saw the possibility of converting their political power into economic power (and probably personal enrichment), and therefore supported democratisation.

their advantage; visible splits in the power bloc indicate to the civil society that political space may have been opened for autonomous organization. Hence, popular mobilization and splits in the regime may feed on each other” (ibid. p. 57).

He does warn, however, that the project of the *Liberalizers* within the power bloc is normally for a *controlled* opening of the political space, for the relaxation of social tension and for broadening their own position and the general social base of the regime. Gorbachev’s perestroika was probably launched with this purpose in mind. Most empirical cases show, however, that once there is a thaw, once the authoritarian iceberg starts melting, as he puts it, there will be an outburst of autonomous organisation that becomes unstoppable. This experience, however, summarised in the early 1990s, has of course been studied very cautiously by those authoritarian regimes that survived, including Cuba. They also saw how in one case the beginning democratic mobilisation was brutally quelled: in the Tiananmen massacre in China in 1989.

If the gradual breakdown of an authoritarian regime leads to a negotiation process, the respective roles of these actors on either side will be very interesting to watch. All this will help us analyse the dilemmas that may be expected for the critical juncture (Chapter 11).

#### **4.5. The case for ‘transformative democratic politics’ – or Scandinavian-style social democracy**

Up against the end of the ‘third democratic wave’ and the trends that we have called democratic fatigue, and to a certain extent building further on the concept of ‘democratic gradualism’ presented above, some authors have started looking for an alternative that could give democratic transformation a new start.

The understanding of the political economy of the ‘Nordic model’ would be of relevance for a country like Cuba. A very instructive explanation of the success of this model is presented in Barth, Moene and Willumsen (2014), by highlighting the interconnection between three sets of mechanisms. The first relates to collective wage bargaining, in a combination of centrally negotiated tariff wages supplemented by local wage

adjustment bargaining based on productivity level. This, it is argued, both compresses the wage distribution and induces efficiency at the work place, thus partly resolving the conflict between pay and performance. The second mechanism is related to capital investments and the concept (inherited from Schumpeter—see later in this chapter) of creative destruction, where the argument goes that “wage compression fuels capitalist investments in the process of creative destruction, increasing the average productivity and the average wage for a constant employment level” (p. 3). These two industry-level mechanisms are complemented by a third dimension, related to welfare spending. The claim here is that the Scandinavian cradle-to-grave welfare state obtains higher political support across most of the political spectrum when income differences in the workforce are small, and when the productivity in the private sector is high. This welfare state is not limited to income re-distribution; it is rather a provider of public goods and services (social insurance, health care, education, pensions).

The bottom-line is a system that runs counter to the conventional wisdom among many business leaders: that strong unions and protective safe nets erode incentives for hard work and capitalist investments. In the Cuban context, such an influential economist as Cuban-American Carmelo Mesa Lago claims that the egalitarian policies of the Cuban revolution have had a high cost in terms of productivity.<sup>43</sup> While this is probably true, what Moene et al. show is that this does not necessarily have to be the case with another labour market organisation, based on the Nordic tripartite model.

Harriss et al. (2004) observe that the stagnation of democracy in many post-transition states has been a consequence of a de-politicisation of public affairs and flawed popular representation. This also leads to a diminishing trust in political parties, and in the democratic system itself, resulting in populism, clientelism, and the emergence of what we elsewhere will describe as *neo-patrimonialism*. A recognition of these challenges has led some of the same authors to argue for the rethinking of popular democratic representation, through what they have called ‘politicising democracy’, or ‘transformative democratic politics’, meaning: “political agendas, strategies and alliances that use formal and minimalist democracy to introduce politics and policies that may enhance people’s opportunities for improving democracy and making better use of it”

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<sup>43</sup> At a conference in New York organised by *Cuba Posible* on 26.05.16.

(Stokke and Törnquist 2013:3).

Without questioning the importance of institutions in promoting good governance, the scholars behind ‘politicising democracy’ claim that proponents of good institutions as a panacea for democracy and good governance are often ignoring power relations and the context in which the institutions operate (ref. Carothers’ (2007) call for better contextual understanding). The argument is for *accumulative reforms*, where better institutions may promote ordinary peoples’ capacities for political participation, which in turn may alter predominant structures.

A ‘politicised democracy’—more than anything—requires the empowerment of citizens as individuals and as an organised civil society, with a voice and capacity to reform the system, i.e. to organise struggle for change. And this struggle obviously depends on institutions designed in such a way that they allow for participation and representation. People need to have a voice and a channel for this voice to be taken seriously, in the form of “the politics that the actors develop in order to promote their interests and enhance people’s democratic capacity, and the transformative potentials involved” (Stokke and Törnquist 2013:10).

Based on fifteen years of a very comprehensive research project foremost in Indonesia, partly in Kerala (India), Olle Törnquist calls for a second generation of democratisation (‘democratisation 2.0’) in what he calls ‘the Global South’:

“The first phase was characterized by the engagement of powerful actors in modest reform agendas and the building of those primarily liberal institutions that they could accept. The second phase that we advocate must also engage the wider concerns and interests that have been marginalized but are needed to tackle the remaining major problems of limited governance reforms and the poor representation of the actors of change. We suggest that the main priority of democratization 2.0 should be the promotion of democratic representation that complements liberal democratic elections and freedoms” (Törnquist and Harris 2016:11).

The argument includes four dimensions of transformative politics:

1. The *formation and organisation of democratic political collectives* based on broad popular interests and ideas, affected by the associated rights and linkages between state and society. The dual organisation in movements (e.g. trade unions) and political parties is crucial here.
2. The establishment of *strong and democratic linkages between state and society*, in contrast to weak liberal democratic institutions, the lack of broader issue and interest representation, and poor state capacity for impartial policy implementation.
3. *Building alliances around broad popular interests and ideas* that concern many people and constitute the basis for universal civil-political as well as socio-economic rights. Welfare policies (development of welfare state structures) are a crucial part of this.
4. *Providing the structural conditions and efforts for the development of coalitions, social pacts and collective bargaining between sections of capital and labour*, notably in the export sector including agribusiness. The strategy behind this is also to improve wages and thereby increasing demand in order to promote growth (just as Henry Ford did with his Ford workforce, or more generally the philosophy behind pre-Keynesian welfare policy).<sup>44</sup>

Two very different cases have been cited as examples of such transformative political experiences: the Scandinavian social democracy from the 1930s onward, and Brazil's construction of a new democracy in the wake of dictatorship in the 1980s onward. The latter was one of few exceptions from the general picture that such transformative politics have been hard to foster in the Global South—with freedoms being threatened and elections being increasingly elitist and shallow, corruption increasing, and states in

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<sup>44</sup> This latest dimension may be of particular relevance to Cuba when we think of the constructive role played by the sugar cane unionists (led by Communist Party militants) accompanying the enterprise sector and the Cuban state in international negotiations about sugar quota and prices during the democratic phase in Cuban politics in the 1940s. It is also relevant to remember that after the collapse of the sugar cane sector, Cuba has no more the extractive economy that might have made it difficult to create a 'social democratic pact'.

general failing in their basic tasks.<sup>45</sup>

These examples are seen in contrast to six common recipes:

- *Transformation by way of politics* rather than what is seen as the economic formula of Marxism.
- *Gradualism* rather than Lenin's thesis of capturing state power first.
- *State-society relations* rather than considerations of putting society first, with reference to Putnam and his emphasis on social capital (Putnam 2000).
- *Continued centrality of the state* rather than a more communitarian approach with authoritarian political leadership.
- *Collective action* rather than liberal individualism.
- Counter-posed to those who in the view of the authors overemphasise the importance of institutions, they argue for the putting of *stable institutions* first.

There is also another set of democratic criteria that may have inspired the proponents of Democratisation 2.0. Beetham and Boyle (2002) developed a list of no less than 80 such criteria or means to reach the goal of democracy, particularly focusing on the linkages between civil society and the state. Törnquist (2013:42) has reduced this comprehensive list to 13 main variables:

1. Equal and inclusive citizenship and clearly defined public affairs
2. The Rule of Law
3. Equal justice
4. Human rights (civil-political as well as socio-economic)
5. Democratic representation through parties and elections

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<sup>45</sup> The tragedy, of course, is how these democratic gains in Brazil at least for the time being seem to have been lost precisely in corruption scandals and elitist political revenge against those forces that brought about the promising 'politicised democracy'.

6. Rights-based participation in public governance
7. Institutionalized channels for interest and issue based representation
8. Local democracy combined with relevant influence on other levels
9. Democratic control of armed forces, police, militias etc.
10. Transparent, impartial and accountable governance
11. Government's capacity to take its own decisions and implement them
12. Freedom of and equal access to public discourse, culture and academia, within the framework of human rights
13. Citizens' democratic self-organising

A list like this may of course be applied for the assessment of democratic qualities, or—more relevant in our case—as guidelines for the discussion of prerequisites for an authoritarian society moving in a democratic direction: which are the enabling qualities, and which are the main challenges.

The general question underlying these considerations is the following: Can the democratic stagnation in *post-transition countries* be turned into 'transformative democratic politics', through a re-thinking of popular democratic representation.

The question we want to raise in the case of Cuba is quite different: are 'transformative democratic politics' possible in a *pre-transition* state, undergoing *post-totalitarian transformations*, but with heavy Leninist, authoritarian, centralist, verticalist, opaque structures remaining?

As we have seen, the proponents of the ‘Nordic model’ or ‘transformative democratic politics’ combine the two routes to inclusiveness, where the economists (Moene et. al.) have their main emphasis on *economics first* and the political scientists (Törnquist et. al.) on *politics first*. These two approaches complement each other very nicely. Perhaps even more important: they paint a much more comprehensive picture of what they mean by inclusive economic and political institutions (cell a). Where Acemoglu and Robinson speak about economic institutions “allowing participation”, and political institutions that “distribute power”, the approach here is much more proactive and bottom-up. It is through empowerment of the non-elite and its effective and continuous struggle for economic and political interest representation that Fukuyama’s “way to Denmark” may become a reality for a country like Cuba. The challenge, of course, is for any kind of economic and political elite to open up for this. We will discuss this among the scenarios for a post-Castro Cuba (Chapter 12).

#### **4.6. Alternatives: ‘deliberative’ or ‘consensus’ democracy**

Some Cuban scholars (see e.g. Alzugaray 2016) have been arguing for alternatives to classical liberal or ‘Westminster’ democracy that may offer a more realistic transformation avenue for Cuba. One such alternative is *deliberative democracy*, where thoughtful and authentic deliberation, not mere aggregation of preferences that occur in voting, is the primary source of legitimacy. The alleged advantage of such procedure is to make decision-makers free from distortions of unequal political power represented by economic wealth or organised interest groups. Deliberative democracy may be compatible with both representative and direct democracy, which may make it particularly attractive to Cuba where a combination of the two are referred to in the definition of Cuba’s socialist model contained in the strategy document discussed at the 7th Party Congress and finally approved in 2017 (ref. Indicator 8.1). The term was originally coined by Besette (1980), but builds on a tradition going back to Aristotle—typically limited to elite deliberations—and also discussed in Habermas’ (1984) work on communicative rationality and the public sphere. Perhaps of more relevance today would be what we could call *populist deliberative democracy*, empowering groups of lay citizens—often those feeling most disenfranchised by traditional politics—to mobilise a majority and have their will through a referendum (ref. Brexit) or elections (ref. the

Trump victory in the 2016 US presidential elections). It seems doubtful that this would be a kind of democracy welcomed by the Cuban regime.

Another related alternative is the *consensus democracy*, with Lijphart (1999) as the main proponent. This is seen in direct contrast to the Westminster democracy by involving far greater compromise and more significantly guaranteeing minority rights. Lijphart argues that consensus democracy has particular advantages for deeply divided societies, e.g. along ideological lines, where there is unlikely to be much overlap between the minority's and the majority's interests and preferences. Thus, the minority's permanent exclusion might lead to unrest or violence. Consensus democracy is Lijphart's institutional solution to this problem, allowing democracy to function by incorporating minority rights and allowing minority groups to influence policies. The Cuban political system does not recognise minority rights, since by the definition of the Cuban Constitution there is only one People with common interests represented by the Communist Party. Yet, such mechanisms might be relevant to discuss if, and when, Cuba lets go of its Leninist political structure.

There have been some quasi-academic discussions in Cuba about the concept 'participatory democracy', but very often characterised by what most observers would perceive as a fictitious interpretation of the Cuban political reality. An example of that is August (2014:5), who describes the Cuban democracy in contrast to the non-participatory US system: "Cuba, by contrast, is a laboratory where the process of democratization is continually in motion, an on-going experiment to create new ways for people to participate". This argument appears as rather idealistic, pretty much out of touch with the 'really existing' Cuban polity.

#### **4.7. The issue of 'early winners' and 'early losers'**

An interesting theoretical and empirical discussion in the transition literature is that of the behaviour of 'early winners', respectively 'early losers', in the reform process. This discussion is probably of high relevance also in the case of Cuba, perhaps to be seen in the same perspective as what is said about 'deliberative' or 'consensus' democracy.

The conventional wisdom is that economic reforms, expected to be necessary in the long term, often generate high short-term costs for some groups ('early losers') but also significant and in some cases spectacular gains for others (the 'early winners'). In order to understand the dynamics of the transformation process, it is necessary to identify these two respective groups and analyse their interests, strategies and political behaviour.

First, we have the problem of the early losers. It is commonly claimed that in today's Eastern Europe we are witnessing a revenge of the transition losers. They may first have tended to vote for the old Communist parties (or their heirs); subsequently these groups have been among the strongest supporters of right-wing populists, expressing xenophobic views and anti-liberal sentiments.<sup>46</sup> In anticipation of such reactions, it has been a conventional view that the challenge is to sustain reforms against the opposition of short-term losers; "to marginalize the losers, if only temporarily, and to insulate the state from short-term political pressures until the economic reforms have had sufficient time to create a constituency of winners capable of sustaining them over time" (Hellman 1998:i).

In the above quoted article, however, Hellman goes on to argue that the biggest challenge in post-communist transitions is rather 'the problem of the winners':

"Though reforms do entail high transitional costs in short term, they also generate extraordinary short-term gains for particular groups, namely those in a position to take advantage of a range of market distortions associated with partial economic reforms. Though these winners do gain an early stake in the reform process, they also develop an interest in preserving the very distortions of the early reforms that can impede the realization of the efficiency gains of a fully functioning market. Rather than pursuing further market reforms, these winners may have incentives to freeze the economy in a partial reform equilibrium that generates concentrated gains to a narrow range of groups, while imposing substantial costs on the rest of the population" (op.cit:i).

Based on evidence from the post-communist transitions, the real political challenge

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<sup>46</sup> Uwe Optenhogel, Brussels office of Friedrich Ebert Foundation, in *Cuba Posible* conference in NYC, 26.05.16.

therefore has to be recast, according to Hellman, from one of marginalising the short-term losers to constraining the short-term winners. The success—and Hellman here is concerned more with the success of market reform than with the political reform model—depends on both creating winners and constraining them “by dissipating their concentrated rents through increasing competition with other groups or by restricting their ability to unilaterally veto reform measures” (op.cit:ii).

Frye (2007:35) comes to similar conclusions based on later data (1991-2006): “In contrast to expectations, groups gaining from economic reform may have incentives to block rather than advance economic liberalization”. He is mostly concerned with the creation of state institutions that are capable of sustaining economic liberalisation (ref. ‘usable state bureaucracies’ in Linz and Stepan’s terms), and to balance the exchange between political and economic agents in the process towards democratic and economic reform. An additional concern he has is the understanding of how communist era legacies shape institutional choices and policy outcomes in the post-communist period is.

The issue of early winners and losers of Cuban reforms will be discussed as a specific indicator (4.1).

## **4.8. Transition from Communism**

### **4.8.1. Kornai and The Political Economy of Communism**

Of definitive relevance to the study of Cuba is János Kornai (1992), who in his classical work on the political economy of Communism (Part Three) deals with the issue of “Shifting from the classical system”, meaning transformation options from the classical socialist or communist system with the USSR as the main model. He distinguishes between ‘post-socialist transition’ and ‘revolution’. The former, which is more or less synonymous with his concept of ‘political reform’, is defined as “changes in the power structure and the official ideology [that] are appreciable and substantive but do not go more than halfway toward instituting real political democracy” (p. 409). ‘Revolution’, on

the other hand, in his definition means a qualitative leap from one family of systems to the other (from capitalism to socialism as in Russia in 1917, or the other way around as in Eastern Europe in 1989). He fits China after 1978 and Vietnam after 1987 into his reform category, even though the Communist Parties have maintained their monopoly of political power.

We have already pointed out one peculiar aspect of Kornai's theory: his claim that the main line of transformation runs from power and ideology toward lasting economic phenomena. Ultimately, he claims, the sphere of politics—power and ideology—is the decisive one, although he recognises the existence of important feedback mechanisms. So here we have perhaps the most ideal-typical case of Route 4: *politics first leading to economic transformations*.

Kornai has elaborated a series of *criteria for political reform* as well as for *economic transformation*, which we find highly useful in the formulation of our transformation hypotheses, for the use in our study of what has happened 'on the ground' in Cuba. We will come back to several of them there. The bottom-line of his analysis of reform attempts in post-totalitarian regimes is about '*the incoherence of the tendencies to reform*': in the end, he predicts, 'revolution', i.e. the full introduction of market economy, is unavoidable. "The Communist Party, amid the processes of reform, wants to retain its monopoly of power, but in the meantime, it releases political forces that immediately demand the abandonment of this monopoly" (ibid:571). In other words: any reform will undermine the entire system.

This is how Yuri F. Orlov, a Soviet dissident who emigrated in 1986 and returned on a visit to the USSR right before its dissolution in 1991, eloquently characterised the situation:

"Gorbachev understood nothing when he began [...] All he knew was that socialism must be improved. His idea was simple, and close to Western thinking: if you take socialism and add democracy and free speech, all will be well. But what he discovered was that the system designed by Lenin was such that once you pulled out one brick, the whole thing fell apart.

Now he's trying to push the brick back in. This is the farce and the tragedy".<sup>47</sup>

While the transformation of Russia never went all the way to liberal democracy, rather leading to another authoritarian regime like the one led by President Putin (see Section 4.9.3 below), some of the other ex-Communist countries did to a large degree finalise 'transition' as prescribed by the transition theories. As we have mentioned, Whitehead (2009) even calls Poland and Hungary *pivotal cases of 'triple transition'*. A later aspect of this 'transition' observed in 2018, however, is that both these countries seem to be bouncing back to neo-authoritarian rule, being heavily questioned by other EU countries and institutions for their threat to the basic democratic values of the EU. A partial explanation in the case of Poland may be that liberal West European values run counter to strongly entrenched Catholic traditions, while in the case of Hungary the old conflict between Christianity and Islam re-emerges in the perception of the popular majorities. What this tells us is that values imported from abroad may easily be questioned and bring about an anti-liberal backlash.

All these empirical experiences are valuable to bear in mind when assessing the Cuban experience.

#### 4.8.2. A Historian's perspective on the fall of the USSR

The classical interpretation by British historian Archie Brown (2009, Chapter 5) of the collapse of the USSR may be another source for analysis. His arguments seem to combine Routes 2 and 4, what we have called *politics and economics simultaneously*. Brown himself states quite clearly that Cuba is a different story—or at least was so at the time when he wrote this text—when he speaks about the peculiarities of China, Vietnam and Cuba surviving the death of other Soviet-style regimes:

"[...] the Communist Party itself made a powerful appeal to those who wished to see China reassert itself as a nation after a century and a half of humiliation at the hands of foreigners. In Vietnam and Cuba, anti-imperialist sentiments and national pride were also of great importance both in the foundation of the regimes and for their persistence" (p. 586).

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<sup>47</sup> *New York Times*, February 10, 1994:4.

Several of Brown's long list of explanatory factors behind the fall of Soviet and East European communism are clearly relevant for our analysis of the Cuban transformation process, and for measures taken by the Cuban regime to avoid a similar chain of events. These factors include economic and social problems, restrictions on people's freedoms that became increasingly difficult to defend, and on the other side how partial reforms triggered demand for a deepening of the same reforms (ref. Kornai). He discusses differences between the logic of transformations in the various countries, arguing for instance that the USSR was a typical case of liberalisation from above, like Hungary, as opposed to liberalisation from below as he argues the case was in Poland. Another distinguishing factor was whether the change process originated *within* the Communist parties, or rather from *outside forces* like the Catholic Church in Poland. Furthermore, Brown emphasises the role of a new leader like Gorbachev—highly relevant for the upcoming generational change in Cuba. The international context, with the end of the Cold War in the case of the USSR compared to redefinition of relations between Cuba and the US, is of course another aspect that is worthwhile discussing.

This mixture of economic and political change factors will be used in the formulation of hypotheses and the empirical discussion of the Cuba case.

#### 4.8.3. Post-Communist elite re-circulation

An aspect to watch in post-authoritarian transformation countries is the pattern of what is often termed 'elite recirculation'. Although the transition from 'communism' to 'capitalism' had different characteristics in the other ex-COMECON countries than in Russia, one aspect was the same: the previous state and party elite very soon accommodated itself as the new business elite. We can speak about a 'political capitalism' where political power was converted into economic power. Grosso modo, three quarters of the business leaders in Hungary, Poland, Czech Republic and East Germany around 2000 had a background as leaders in the communist regimes, and about half had been party members. The basis for this recirculation was that this group had almost a monopoly of leadership experience and of access to power networks that remained very much the same (Coenen-Huther 2000).

What the old USSR and the East European countries had in common, in contrast to Cuba until quite recently, was the existence of a certain 'second economy' consisting of small enterprises, normally oriented to private consumption in local markets. This 'second economy' was crushed by the 'Revolutionary Offensive' in Cuba in 1968 and was only allowed to re-emerge in the 1990s and more systematically after Raúl Castro took over. But even when such a small private economy existed, small entrepreneurs from this sector had practically no access to the leadership positions of the privatised state companies.

This being said, it must also be added that the privatisation model was very different in different countries, leading to different economic models in spite of similar patterns of elite reproduction. Russia was the only country where previous state and party cadres were predominantly converted to a *capitalist class*, properly speaking, by taking over the property of the privatised companies (a classical example of what is referred to as 'state capture'). This also happened to a more limited extent in Hungary and Poland and even in the Czech Republic, but hardly at all in East Germany. The role of the previous socialist leaders (often the younger generation of leaders) in these countries was often limited to that of company managers, while foreign—often diaspora—investors dominated as owners. In East Germany, investors were predominantly West Germans. This difference between Russia and the other East Bloc countries may have been very important in terms of their business philosophy. It is claimed that these new business managers were much more inclined to market regulation and welfare-state thinking than the unscrupulous Russian oligarchs, often associated with 'mafia capitalism' (Windolf 1998) or 'crony capitalism'.

These nuances should be observed if, and when, a serious transition to market economy starts in Cuba. It may be of particular importance to watch the role of two groups in this connection: the managers of military corporations—perhaps the most obvious group of early winners in the reform process, and—compared to the pattern observed after the reunification of Germany—the returning Cuban diaspora.

## 4.9. The pattern of transformation to authoritarian market economies

### 4.9.1. The concept of 'neo-patrimonialism'—and its application to Latin America

Since the concept of 'neo-patrimonialism' will be brought in with several additional qualifications here, we should start with a discussion of this concept per se.

The point of departure is a reference to Max Weber's distinction between three categories of legitimate authority: legal-rational authority, charismatic authority and traditional authority, the latter divided into feudalism and patrimonialism.

Patrimonialism, according to Weber, is a form of post-feudal personalist and discretionary power exercise, where there is hardly any distinction between the private and the public sphere (Weber 1968). Neo-patrimonialism, on the other hand, is a form of domination where legal-rational authority may be combined with patrimonialism, where patrimonialism continues to exist even when a state has introduced formal legal-rational procedures: informal institutions and personal relations of domination persist even though a modern state with a formally rational bureaucracy has been established. As expressed by Erdmann/Engel (2007:105), the separation of the private and the public spheres in such cases is more or less blurred.

Neo-patrimonialism is a commonly used concept in literature on periphery development issues, particularly in post-colonial Africa, where three informal institutions are claimed to co-exist. These three are *presidentialism*, which is systematic clientelism and particularistic use of state resources, with personalist power concentration and extensive occurrence of corruption, *nepotism* and *rent-seeking behaviour* (see e.g. Bratton and van der Walle 1994).

In Latin America, however, the concept of neo-patrimonialism has not been commonly used. An interesting attempt to apply this concept to the Latin American context has been made by Bechle (2010). As Bechle argues, similar informal power relations in Latin America have rather been referred to as *caudillismo* (post-colonial strongmen), *caciquismo* (Andean states), *coronelismo* (regional rural strongmen in Brazil), and

*populism* (a more urban phenomenon as represented e.g. by Vargas in Brazil or Peron in Argentina).

We may speak about three mobilisation stages during the latest three quarters of a century in Latin America. Populism as mobilisation from above, military dictatorship as a necessary de-mobilisation in order to control anti-capitalist pressures, and subsequent leftist regimes appearing during the first decade of the 21st century as mobilisation from below, nurtured by the struggle against dictatorships in the latter couple of decades of the 20<sup>th</sup> century and then coming to fruition in the mobilisation against structural-adjustment measures.

Bechle (op.cit.) claims that the concept of neo-patrimonialism is fully applicable even to Latin America, characterised by four criteria: a legal-rational (and in some cases a traditional) foundation of authority; a personalist power concentration; clientelism; and often, widespread corruption.

The three latter criteria are much less present in the relatively modernised states characterised as 'bureaucratic authoritarianism' (the concept used by O'Donnell 1973; see also O'Donnell, Schmitter and Whitehead 1986), so 'neo-patrimonialism' and 'bureaucratic authoritarianism' may be seen almost as Latin American dichotomies.

It may be of particular relevance to Cuba how to characterise the leftist Cuban-friendly regimes of this century (particularly Chávez in Venezuela, Morales in Bolivia, Correa in Ecuador). Bachle is reluctant to put them in the neo-patrimonial category and prefers to call them charismatic 'neo-populists'. There can be little doubt, however, about the personalist power concentration and clientelism they represent, with significant differences. While their successful ascendancy to power to a large extent was based on a battle against corruption, this problem nonetheless grew on their watch—particularly in Venezuela (although Chávez personally did not necessarily enrich himself). With an increasing socio-economic crisis, therefore, Hugo Chávez, the closest of all Cuban allies in Latin America, became the leader of a truly neo-patrimonial regime, combining presidentialism, systematic clientelism and the particularistic use of state resources for the purpose of staying in power.

In the case of Cuba since the Revolution, it goes without saying that there have been obvious populist elements, with Fidel Castro often characterised as a typical Latin American *caudillo*, where charismatic personalist power concentration and even clientelism were predominant qualities. It would not be fair, however, to label the Castros as *neo-patrimonial*: there were no visible signs of personal enrichment through capture of state resources.

In the following sub-chapters, we will attempt to expose prominent aspects of two different variants of what we see as neo-patrimonialism in potential Cuban role model regimes: *oligarchic neo-patrimonialism* in Angola and post-socialist Russia, and *socialist neo-patrimonialism* or *authoritarian market economy* in China and Vietnam. All these cases, it is argued here, expose a combination of the above-mentioned criteria for neo-patrimonialism: presidentialism (or strong executive leadership with different names), clientelism and particularistic use of state resources with all known consequences.

One aspect of this phenomenon that has been emphasised by some authors does not fit all these cases: Fukuyama (2014:26) understands neo-patrimonialism to combine what he calls “the outward forms of modern states” with what in reality is “rule for private gain”. This goes further than the third criterion above. Angola is in this regard the only of these cases (at least until the 2017 elections and change of President) where state capture for the benefit of personal family enrichment has been a salient characteristic. When applying the concept here, we do not understand it as implying “personal enrichment” for any singular ruler or family.

Yet, in Angola and Russia—two conspicuously similar cases—the concentration of wealth in the hands of a small number of super-rich oligarchs is a very prominent characteristic—hence the name we propose. They are both post-socialist regimes without any pretension to continue socialism. We may say that they have taken some steps along both Route 1 (politics first) and Route 2 (economics first), without reaching neither economic nor political institutional inclusiveness.

In China and Vietnam, by contrast, socialism is still how the regimes characterise themselves. These are clearly the two best examples of transformations along the

*economics only* route, and as such serving as inspiration for Raúl Castro's reforms. China and Vietnam pride themselves over a successful anti-poverty struggle, and the nepotism and rent-seeking behaviour may not have been directly benefitting the chiefs-of-state or their families. But the link between political and economic power elites is nonetheless quite obvious. China now has more billionaires than the US, with the number of members of this exclusive club growing by one every three weeks.<sup>48</sup> The most striking aspect of Chinese enrichment regarding our discussion of the neo-patrimonial characteristic of the regime is that 100 members of the People's National Congress belong to this group of billionaires, with a combined wealth of nearly 700 billion USD. Leading Chinese critics complain—according to a report by the Shanghai-based wealth research firm *Hurun*—that this wealth concentration among the Communist Party Nomenclature leads to reduced state company vitality. With the super-rich putting their own interest ahead of that of the state, the private companies and the economy at large tend to shrink. This is so in spite of President Xi's crackdown on corruption and decadence—which is by the way often interpreted more as a strategy to get rid of disloyal political competitors than to uproot corruption per se.<sup>49</sup> Vietnam had only two billionaires included in the Forbes 2017 list.<sup>50</sup> But there were reportedly (according to Oxfam) 210 super-rich citizens in 2014 (estimated to rise to more than 400 by 2025), with a combined wealth of 20 billion USD, equivalent to 12% of the country's GDP.<sup>51</sup>

At the very least, therefore, we may talk about regimes with distinct neo-patrimonial aspects. To be on the safe side, we combine the concept with the more general *authoritarian market economy*.

Particularly in China and Vietnam, the two most frequently quoted role models for Cuba, we believe that it is relevant to go to some depth in the historical and contemporary presentation of both empirical and more theoretical aspects of these two surviving 'socialist market' economies, for the purpose of returning to a comparative analysis in

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<sup>48</sup> <https://www.bloomberg.com/news/articles/2017-10-26/billionaires-fortunes-rise-to-6-trillion-with-asia-leading-way>; <https://www.cnbc.com/2016/02/24/china-has-more-billionaires-than-us-report.html>

<sup>49</sup> <http://www.abc.net.au/news/2017-03-06/chinas-billionaire-members-behind-lack-of-enterprise-reforms/8327878>

<sup>50</sup> [https://www.forbes.com/billionaires/list/#version:static\\_header:position\\_country:Vietnam](https://www.forbes.com/billionaires/list/#version:static_header:position_country:Vietnam)

<sup>51</sup> [https://vietnam.oxfam.org/sites/vietnam.oxfam.org/files/file\\_attachments/Vietnam%20Inequality%20Report\\_ENG.pdf](https://vietnam.oxfam.org/sites/vietnam.oxfam.org/files/file_attachments/Vietnam%20Inequality%20Report_ENG.pdf)

the empirical discussion of Cuba's transformation. There are, however, significant differences between characteristics of Cuba vs. these two cases of far-reaching market transformations. In doing so, we will explain some of the basic historic and cultural characteristics of the two Asian socialist societies, followed by the most relevant elements of present-day socio-economic and political processes and structures in China and Vietnam, as a basis for discussing similarities and differences to be born in mind to the extent transformations of these regimes are seen as inspiration for Cuba.<sup>52</sup>

#### 4.9.2. Transformation to oligarchic neo-patrimonialism: the case of Angola

Two book titles probably captures the Angolan transition better than a long analysis: *From Afro-Stalinism to Petro-Diamond Capitalism* (Hodges 2001), and *Magnificent and Beggar Land: Angola since the Civil War* (Soares de Oliveira 2015).<sup>53</sup> These works offer a very critical analysis of how Angola (once an intimate ally of Cuba and therefore relevant to bring in here) took the quick and dramatic step around 1990 of abolishing formal state ownership and introducing 'market economy'. They did so by largely permitting the state, party and military leaders to transfer state property to their own private property, allowing for a huge corruption problem and abolishing most social and redistributive policies. This way, huge oil incomes were appropriated by a family dynasty with minimal practical considerations for poverty eradication. But this transition to 'market economy' was not accompanied by any real 'transition to democracy' although some formal democratic institutions were put in place.

The intention to build a command economy based on planning after national independence in 1975, largely failed. There was critical lack of qualified cadres (a substantial proportion of the limited number of Angolans with university education had been physically eliminated as part of a political purge in 1977), and the war had devastated the economy. A huge parallel economy developed. The second MPLA Congress (1985) acknowledged that the state planning system was simply not working,

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<sup>52</sup> Of course, a superpower like China can never be a realistic *role model* for a small state like Cuba. Vietnam, on the other hand, finds itself in much of the same asymmetric inferiority in relation to its historic and geographic hegemon China, as Cuba in relation to the US. Therefore, Vietnam is a much more relevant role model for Cuba. Yet, the successful transformation toward authoritarian market economy in both these Asian countries is studied with great interest in Cuba and therefore worth dwelling with here.

<sup>53</sup> Most of the discussion in this section is based on these two books, plus Birmingham 2015.

and approved a gradual legalisation of market mechanisms. The reform took some time to materialise, however, starting with the introduction of the *Programa de Saneamento Económico e Financeiro* (SEF) in 1987, and the establishment of the *Gabinete do Redimensionamento Empresarial* (GARE), the Office for Enterprise Restructuring. The GARE was the main instrument for later privatisation measures.

It was only in 1990-91, however, that more far-reaching and rapid economic transition got underway, accompanied by an explicit rejection of Marxism-Leninism. This took place without any change of the top political leadership, which simply decided to make the great leap from socialism to capitalism. Notably, this happened without the introduction of any regulatory checks-and-balances. The elite families under the undisputed patronage of President José Eduardo dos Santos (through his control of state, party and military structures) simply started a massive transfer of state property to his, and his loyal allies', private benefit. The rent-seeking enrichment opportunities in an oil-driven economy were enormous, and there seems to have been no ethical limit to the capitalist lust of this former "socialist" nomenclature. Access to oil (and diamond) revenues was of course the first and foremost source of accumulation, arbitrarily using a system of dual exchange rates.

As Hodges points out: "part of the oil revenue has been made available to the well connected at an artificially low exchange rate, enabling the privileged beneficiaries to make large profits through "round-tripping" between markets" (p. 40). Adding to this was the privileged access to rationed credits from state banks at negative real interest rates (in conditions of high inflation). Also, state contracts were awarded to businesses owned by the top families without any clear tender rules and large 'under the table commissions' from willing foreign suppliers, i.a. of military equipment while the civil war continued for another ten years after the 1992 elections. Diamond mining and trading was another huge source of enrichment for the same elites, although guerrilla challenger Savimbi also grabbed his share of diamond revenues to keep the war going.

The massive capital accumulation on private hands was also accompanied by an almost complete dismantling of the social services that to a large extent had been developed by Cuban advisors during the first fifteen years following the 1975 independence.

It is rather interesting to compare this ‘transition to market economy’ in Angola to the one that took place in Russia, bearing in mind President dos Santos’ close links to the ex-USSR<sup>54</sup> and his personal relationship to President Putin. The Angolan and the Russian ‘transitions’ took place almost simultaneously.

The Angolan transition may become relevant for Cuba in the post-Castro period, particularly to the extent that military corporate leaders with experience from Angola and with Angolan military officers in their network of friends come to occupy prominent political positions in post-Castro Cuba. If personal gains become more important than social benefits also in Cuba, it might be tempting to follow the example of their Angolan comrades, of course without having similar sources of rent-seeking as in Angola.<sup>55</sup>

#### 4.9.3. Transformation to oligarchic neo-patrimonialism: Russia and the arrival of the Oligarchs

In Russia, it is common to distinguish between three different privatisation phases during and after the fall of the USSR (see Freeland 2000; and Schleifer and Treisman 2000). The first was called *spontaneous privatisation* (1988-1991), based on a new Soviet legislation that effectively transferred part of enterprise property rights from the government to the employees and the management. In reality, the management and other insiders found the way to take over the control of these enterprises. This concentration of control continued after the fall of the Soviet Union, when the new Russian government under President Yeltsin started a sell-out of all the huge and inefficient state enterprises inherited from the Soviet economy. The goal was to

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<sup>54</sup> When dos Santos was studying petroleum engineering in Azerbaijan and married his first wife there – he speaks fluent Russian.

<sup>55</sup> The first post-dos Santos president after 38 years, João Lourenço, hand-picked by dos Santos and elected in 2017, soon surprised by taking significant steps to unravel the dos Santos dynasty: <https://www.economist.com/news/middle-east-and-africa/21731842-dos-santos-family-used-control-everything-now-they-dont-angolas-new>. There may be an interesting parallel to Cuba here: Like Raúl Castro, dos Santos left the Presidency to his successor while he kept control of the Party (MPLA). The new President, however, during his first half year in the Presidency, sacked both favourite dos Santos children as head of oil company Sonangol and the sovereign wealth fund, respectively, while also firing the dos Santos protégés in the country’s security apparatus. The big question in Angola in early 2018 is how long dos Santos will survive as Party boss, and how far Lourenço is able and willing to go in his transformation efforts. The best analytic source to follow this evolution is probably Rafael Marquez’ blog [www.makaangola.org](http://www.makaangola.org)

transform these enterprises to profit-seeking businesses that could survive without state subsidies. The next phase was called *voucher privatisation* (1992-1994), when all Russian inhabitants, including minors, received vouchers corresponding to a share in the national wealth. They could be exchanged for shares in enterprises to be privatised. But most ordinary people were unwilling to invest and therefore quick to sell the vouchers for a negligible amount of money to the smart people: again a group of insider investors. The third and decisive phase in this process started in 1995, with the so-called *loans for shares*, whereby some of the largest state industrial assets in oil, gas, steel, etc. (such as Norilsk Nickel, Yukos, Lukoil) were leased through auctions for money lent by commercial banks. This took place, however, without real competition, since once again the auctions were effectively controlled by the same group of favoured insiders. Very few of these loans or the leased enterprises were ever returned, so in reality these enormous properties were acquired at ridiculously low prices, giving rise to the new class of super-rich Russians now known as the oligarchs.

We may try to take stock of how Russia, the lead nation in the old USSR, has developed in the aftermath of Communism's fall. The first assessment goes back to 2007, towards the end of Putin's first presidency, when there seemed to be an increasing perception in the Russian population that authoritarianism had been on the offensive during Vladimir Putin's regime. But many observers doubted the sustainability of this new authoritarianism:

"The policies of President Vladimir Putin have undermined Russia's fledgling democratic institutions but have also failed to generate any sort of coherent authoritarianism to take their place. Thus, fifteen years after the collapse of the USSR, the country still lacks any consensus about its basic principles of state legitimacy. To explain this, we must understand the ways in which the Soviet Union's institutional legacies have short-circuited all three historically effective types of legitimate rule—traditional, rational-legal, and charismatic—resulting in a highly corrupt state that still cannot fully control its borders, monopolize the legal means of violence, or clearly articulate its role in the contemporary world" (Hanson 2007: Abstract).

If we move ahead to 2014, one of the more recent analyses of the Putin rule (Zimmerman 2016:309) concludes as follows:

“[...] the prospects for full authoritarianism may be better than those for competitive authoritarianism. There is so little by way of independent institutions—thoroughly independent courts, genuinely competitive parties, other than United Russia or its possible successor, independent media—to envisage a democratic outcome of Putin’s current term”.<sup>56</sup>

In the 2015 afterword to a new edition of the same book, reflecting on the conflict with Ukraine and the annexation of Crimea leading to the new conflict with the West, Zimmerman (op. cit:325) adds:

“The barriers to expressing opposing views have been increased. These deter, but do not preclude the articulation of views that do not mesh with those of the Kremlin, whether through the mainstream media, via the Internet, or in the streets. This has increased the propensity of articulate, educated urban dwellers to seek lives elsewhere—whether in the former Soviet republics, such as Latvia or Estonia, in Western Europe or North America”.

An interesting comparative element when looking ahead at a post-Castro Cuba is the problem of upholding an authoritarian legitimacy when there is no charismatic source to draw on, and how much legitimacy in such a situation will depend on a relative economic success. Leadership transition along with economic failure and increasing socio-economic inequalities may provoke more widespread and sustained public protest. Then, Putin apparently has been successful in rebuilding part of his charismatic authority aided by external conflicts and his appeal to nationalism. Another comparable variable in this analysis is the relationship between exit and voice for the critics of the regime.

#### 4.9.4. The case of China as a reference point

When trying to understand China as an inspiration, it is necessary to go back to the foundation of the Chinese state more than two millenniums ago, following it all the way up to the celebration of the 19<sup>th</sup> National Congress of the Chinese Communist Party in October 2017. China was in fact the first world civilisation to establish a modern strong state during the Qin Dynasty as early as in the third century BC, almost according to

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<sup>56</sup> Putin’s third presidential term ended in 2018, when it was renewed for another six-year term through re-election in March 2018.

Weberian principles, some eighteen centuries before anything similar appeared in Europe. The motivation was the same as later on in Europe: prolonged and pervasive military competition, giving incentives to tax the population, to create administrative hierarchies, control the military and to establish merit-based rather than patrimonial criteria for recruitment and promotion. China is one of the key examples of the maxim developed by Charles Tilly (1990): “war made the state and the state made war”.

The Confucian tradition is also a part of the explanation of the Chinese social model, with its emphasis on morality rather than formal written laws: benefits and rights were seen as gifts from the rulers rather than citizens’ rights. Lawyers were not a separate high-status group, and judges were just another section of the bureaucracy. There was never any balance between rights holders and duty bearers, basic concepts in modern-day human rights philosophy.

Unlike the situation in Europe when central states started appearing in the mid-17th century (the Westphalian state), the Chinese state was not accompanied by a transcendental and monotheist religion, representing a legal hierarchy independent of the executive power of the emperor. The state at the disposal of the Chinese rulers was never challenged by social actors with a hierarchy independent from and often opposed to the state, like the Catholic priests, Jewish judges, Hindu Brahmins or Muslim Ulama in other parts of the world. In Europe, the state also had to compete with feudal nobility, or a commercial bourgeoisie based in independent city-states. The Chinese state also inspired other Asian societies including Vietnam (colonised by China for 1,100 years) up to modern times, laid the foundation for far more absolutist rule than the European state and by extension the colonial Americas: There was no social organisation that could counterbalance state power. Consequently, there was never space for the triangle power model that appeared in European-based societies: a division of power between the executive, the legislature and the judiciary. What we know as democracy and rule of law was never a characteristic of the Chinese power structure (see Fukuyama 2011 and Fukuyama 2014).<sup>57</sup>

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<sup>57</sup> Much of the following assessment is based on Fukuyama’s in-depth discussion of the historic evolution of China (Fukuyama 2014:Chapter 24), towards the peculiar Chinese property system and the ‘socialist market economy’.

This millennium-long state tradition was strong enough to survive China's 'century of humiliation', starting with the British-led opium war in 1839 and ending with Japanese occupation during the second world war and the Chinese revolution in 1949. During the Maoist rule the sovereignty of a centralised state was taken to new extremes, and the principle of legality was all-but dismantled. This changed when Deng Xiaoping took over the control of the party in 1978, after the Cultural Revolution: in an attempt to avoid the same level of absolutist power abuse, a set of rules were established so that the party could monitor and handle popular grievances. This, however, never amounted to what we know as the rule of law, and the party retained its supreme position over government and legislature.

The new system of formal law was a fundamental basis for the introduction of the 'socialist market economy', with land use rights and the opening for foreign investment including joint ventures. Regarding the latter, contract rights, insurance, arbitration and similar institutions were crucial. Decisive in this regard may have been the 1986 adoption of the so-called General Principles of Civil Law (GPCL). It recognised a sphere of independent legal actors who could acquire and alienate property, enter into contracts, and defend their rights before a court system. Through this, usufructuary (usage) rights could be bought, sold, mortgaged or transferred and in practice also inherited, although formal state ownership was retained. Whether we speak about an urban dwelling or agricultural land, natural or legal subjects own a lease in exchange for a land-use fee. In keeping with Confucian and Chinese dynasty traditions, there is no such thing as an absolute property right and private ownership. These limitations may obviously represent serious problems for western investors operating in China, making the protection of property rights more of a political than a legal issue, and limiting their scope of action vis-à-vis politically well-connected state-owned enterprises. Many peasants and homeowners find themselves in similar situations of vulnerability when confronted by municipal authorities and land developers.

Another important characteristic of the post-Mao Chinese political system has been the rules for retirement, term limits and procedures for merit-based leadership recruitment and promotion. The Chinese constitution specified that senior leaders will serve maximum terms of ten years, and that nobody could be a candidate for the Standing

Committee of the PCP Politburo past the age of sixty-seven. These principles have produced a systematic rotation of leadership positions, contributing to stability and legitimacy of the authoritarian rule in the country. It was therefore noted with general concern when these constitutionalist limits were abolished in March 2018, effectively allowing President Xi Jinping to lead China indefinitely.

Where Mao's rule became increasingly anarchistic, Deng introduced a set on institutional rules for the Party and the government, without questioning the former's supremacy over the latter. He maintained a duplication of party and state bureaucratic functions from top to bottom. The party hierarchy was reduced but kept its power when it comes to strategic issues, overseeing the work of government offices. Deng also restored a merit-based civil service tradition, i.a. by introducing an examination system.

The opening of four special economic zones for foreign investment had a crucial importance for the economic take-off. Decentralisation to provinces and municipalities is an increasingly noticeable aspect of the Chinese society, with a fiscal responsibility system for local governments. It has been claimed that early gains of the Chinese socialist market economy were the product of, not so much the private sector, as of the so-called township and village enterprises (TVEs), turning local governments into profit-making businesses. Local governments were given the authority to extract certain types of taxes and were also permitted to keep surplus revenues of which 70% should be ploughed back into new investments whereas the rest could be used at the discretion of the TVE. This became the source of widespread corruption but it also became an incentive for local economic growth. Much of China's industrial output in the early reform years came from TVE-sponsored businesses rather than from the new private sector (see Oi 1999).

When corruption became too rampant, a new tax reform took away many of the TVE privileges, which had been important in creating a new middle class. As Fukuyama points out referring to Zhao and Yang (2013):

“[...] the Chinese government could shift gears so quickly when it became clear that an earlier initiative was producing unanticipated consequences, and could successfully implement the

new course in the face of large vested interests. Deng and the Communist Party recognized that their legitimacy rested on continuing strong performance, and they were not trapped by ideology or past practice in making dramatic and rapid course corrections” (Fukuyama 2014:378).

Part of these course corrections was the stripping of many of the profit-making businesses belonging to the People’s Liberation Army.

A frequently asked question before Xi Jinping arrived at the top, was whether subordinate units of the state had become so strong and autonomous that top-level supremacy might be undermined, resisting state and party discipline. This could be the case for powerful State-owned companies (SOEs) like China Telecom and China National Offshore Oil Corporation, and enormous bureaucracies like the Ministry of Railways (with 2.5 million employees).

The lack of downward accountability to society and citizens (only upward) is still a dominant characteristic of the Chinese state, creating a serious legitimacy problem. Village elections in rural areas, electing committees and leaders with limited local powers, were introduced in 1989. A certain degree of independence is reported for representatives all the way up to the National Peoples’ Congress, but all this provides very limited remedy to citizen complaints. These shortcomings are partly compensated by informal feedback mechanisms, provided by permission for Chinese peasant communities to present complaints to local officials, who in turn are often encouraged by higher-level authorities to be responsive to such complaints and offer co-optation solutions (Tsai 2007). One of the reasons may definitely be the quite enormous number of social protests taking place in China (allegedly 2,600 per day, ref. Göbel and Ong 2012). Out of this, worker protests and demonstrations are particularly on the rise, doubling in 2015 compared to the previous year.<sup>58</sup>

Economic problems in China are quite automatically felt in the labour market. During the 1997-98 downturn, as much as 21 million workers at struggling SOEs were sacked. Of these, however, 13 million found new jobs, more than 1 million were transferred

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<sup>58</sup> *Bloomberg Businessweek*, 14.01.16.

internally, while a third lost their jobs.<sup>59</sup> With new economic slowdown in 2016, SOEs expected to lay off 1.8 million workers in the coal and steel sectors as part of its efforts to reduce industrial overcapacity.<sup>60</sup>

What we may observe, thus, is that China seems to have found an apparently effective way to manage this comprehensive social protest. Chen (2012) in his study of this phenomenon introduces the concept of *contentious authoritarianism*, where social protest is handled through what he calls ‘routinized contentious bargaining’ between the government and ordinary people, thus contributing to the regime’s resilience and challenging the conventional wisdom that authoritarian regimes have no alternative to repress popular collective protest. In the present situation, the Chinese regime must deliver in order to survive, at least if it wants to avoid massive repression. As pointed out by Fukuyama:

“Deng Xiaoping and the leaders of the party who followed him understood that the party’s survival would depend on legitimacy, which could no longer rest on ideology but would be based on their performance in governing the country” (Fukuyama 2014:383).

However, the Deng era is over in China. One of the most striking features of Xi’s leadership—completely contrary to Deng’s—is the new emphasis on ideology, almost resembling the Mao era. As underlined by Ringen (2016), in a very insightful study of China under Xi, it seems that Xi is trying to introduce a new ideological legitimacy against the backdrop of less economic growth—which is still far ahead of that of most western nations. The new Chinese ideology is not Marxism, but nationalism, the return to historic national greatness as a guide to the future, ‘the Chinese dream’ as coined by Xi. The nation and the people—as a collective—always stands above the citizen. Xi Jinping is now urging party cadres to “embrace the spirit of Mao Zedong” and “give high priority to work within the ideological sphere”. The 19<sup>th</sup> National Congress of the Communist Party (October 2017) decided to include his ‘socialist thought’ in the Party Constitution, placing him alongside Mao Zedong and Deng Xiaoping in the pantheon of revolutionary leaders. When presidential term limits were abolished half a year later, Professor Ringen claimed that China de facto was becoming a “totalitarian dictatorship”,

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<sup>59</sup> *China Daily*, 13.01.16.

<sup>60</sup> Official at the human resources and social security ministry quoted by *CNBC/Reuters*, 28.02.16.

with one unquestionable leader and without competing factions in the Communist Party.<sup>61</sup>

Perhaps the most significant aspect of Xi Jinping leadership, probably also noticed in Havana, is exactly this: the extraordinary centralisation of power he has orchestrated, unprecedented since the time of Mao. He has created and is chairing the new Central National Security Commission with jurisdiction over the Army, the police, and all foreign-related and national security agencies. He is also chairing the Central Military Commission, directly linked to his position as the General Secretary of the Communist Party. Furthermore, Xi has created and taken the chair of the new Central Leading Group on Comprehensively Deepening Reforms, as well as leadership of central leading groups on foreign affairs, internet security and information technology (see Wo-Lop Lam 2015). In October 2016, the Communist Party Central Committee elevated his status to 'core' leader, putting him in the same revered ranks as Mao Zedong and Deng Xiaoping.<sup>62</sup>

Chinese leadership has clearly changed from being collective and technocratic during the twenty years after Deng Xiaoping, to a one-man party-led rule under Xi Jinping.

Returning to socio-economic development, China has of course performed extremely well over the past several decades, with a somewhat strange combination of dramatic poverty reduction and increasing income inequality.<sup>63</sup> Together with an improved provision of basic social services, this has apparently provided the authoritarian rule with sufficient legitimacy for the time being. However, the growing middle class in the hundreds of millions may be increasingly questioning this status quo.

Fukuyama, in general so concerned with the issue of accountability as a prerequisite for institutional strength, recognises that the example of present-day China stands out in contrast to this—which is of relevance for Cuba:

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<sup>61</sup> Quoted by *Aftenposten*, Oslo, 26.02.18.

<sup>62</sup> *New York Times International Edition*, 20.10.11, p. 5: "Xi named by party China's 'core' leader".

<sup>63</sup> Between 1980 and 2015, poverty (with a line about 21% higher than the World Bank 2011 line of USD 1.9 per day), was reduced by 94% in rural China. In contrast, the Gini coefficient of income distribution among rural residents rose from 0.241 in 1980 to 0.39 in 2011 (the latter is equal to the US), or by 62% according to official estimation. The reason for these contradictory trends is that annual net income growth was much stronger – even percentage-wise – among the top income households (Source: China National Bureau of Statistics (2015): Poverty Monitoring Report of Rural China).

“But China is today growing rapidly with only a strong state in place. Is this situation sustainable in the long run” (with neither rule of law nor accountability)? “Will the social mobilization triggered by growth be contained by a forceful authoritarian state, or will it lead to unstoppable demands for democratic accountability?” (Fukuyama 2011:481).

Fukuyama comes closer to a response in his 2014 Volume (op.cit.), where he claims that the Chinese Communist Party is reaching back into history to prove that you can create a competent state without the benefit of the Western traditions of democracy or the rule of law (p. 370-385). Up against his 1992 thesis of “the end of history”, it is even more interesting how he contrasts this to the USA (even pre-Trump). US political parties polarised along ideological lines and power interest groups, lead the country to what he calls a ‘vetocracy’, even with the danger of degenerating into a ‘neo-patrimonial society’ (Fukuyama 2014: Part IV Political Decay). The 2016 presidential election campaign and the Trump presidency have done nothing to reduce these concerns.

China’s undisputed leader from 2012, Xi Jinping, has made it clear that political liberalisation is out of the question. An internal government memo from 2013 listed seven Western values and institutions that China must struggle against at all costs, including constitutional democracy, media independence, civil society and market liberalism. The universal values of human rights were seen as unfit for the Chinese society, and Xi leaves no doubt that the Communist Party will continue to stand above any other institution, including the constitution and the courts.<sup>64</sup>

There is an academic discussion, highly relevant for Cuban transformation scenarios, about the sustainability of China’s socio-economic and political structures. Acemoglu and Robinson (2012) are much more pessimistic than the later-day Fukuyama. The authors of this standard reference book do recognise “a radical shift away from extractive economic institutions and toward significantly more inclusive economic institutions”,<sup>65</sup> but coinciding with highly authoritarian, extractive *political* institutions.

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<sup>64</sup> For a good discussion of this, see the cover story of *Time Magazine*, November 17, 2014 (pp. 20-25): “Emperor Xi: China’s Leader Looms Large at Home and Abroad”.

<sup>65</sup> Ref. definition of these concepts in Chapter 2.2. Fukuyama (2014:26) suggests that their concept ‘extractive institution’ (what we have called ‘exclusive’ here) is more or less equivalent to what other

They recognise that Deng Xiaoping's model for significant economic growth could be achieved without endangering the Communist Party's political control. They are convinced, however, that the Chinese authoritarian growth under extractive (what we call 'exclusive') political institutions will ultimately come to an end and is unlikely to translate into sustained economic development. It is rather difficult to take this prognosis very seriously, considering the still on-going Chinese growth—although at lower rates than before—against the backdrop of recent economic and financial crises in the western capitalist world. It may seem that these authors have fallen hostage to their own theory's absolute application in a highly uncertain world.<sup>66</sup>

Acemoglu and Robinson offer some examples of limits to free enterprise in China, which do resemble some of the foot-dragging in Cuba. GS Jiang Zemin made some very suspicious remarks about entrepreneurs by in 1989, and many entrepreneurs were expropriated and even jailed in the 1990s. Private companies competing with the state may be met by serious trouble, and entrepreneurs need to enjoy the support of party cadres and offer mutual benefits if they want to have investment security. The heads of big state companies are assumingly given constant orders by party officials. But most serious of all, according to these authors, is that "Chinese growth is based on the adoption of existing technologies and rapid investment, not creative destruction" (p. 438-9). The Chinese growth, they claim, "will run out of steam unless extractive political institutions make way for inclusive institutions" (p. 441).<sup>67</sup>

Another pessimistic forecast for Chinese sustainability is offered by Friedman (2010:88-100). His claim was that Chinese growth falling from 10-15% prior to 2009 to a level between 6-7%, would imply substantial social and political problems.<sup>68</sup> He raises doubts as to whether China will hold together as a unified country, with increasing contradictions between the rich coastal and the poor interior regions.

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authors (including himself) term as 'neo-patrimonialism'. I am not so sure that these concepts are directly comparable.

<sup>66</sup> Also in this case the Trump presidency should be seen as a wake-up call.

<sup>67</sup> We return to other relevant aspects of Acemoglu and Robinson (2012) in a later sub-chapter.

<sup>68</sup> GDP Annual Growth Rate in China averaged 9.66 percent from 1989 until 2017. In 2017, the economy grew by 6.9 percent. The growth in Vietnam has fluctuated between 5 and 9.5% (1995) during the same period, with 7% in 2017. The OECD average, by contrast, fluctuated during the same period between 1.3 and 4% growth, apart from the financial crisis in 2008-2009 (minus 3.5% in 2009). 2016 OECD growth was 1.7%. [https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?cid=GPD\\_30&locations=OE](https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?cid=GPD_30&locations=OE)

What all these observers agree on in terms of our politics-economics correlation matrix inspired by Acemoglu and Robinson, is that the successful transformation from exclusive to inclusive *economic* institutions will not lead to any similar transformation along the *political* variable in China today. According to Fukuyama, however, China has a millennium-long state tradition that can make it sustainable in spite of this. Contrary to Acemoglu and Robinson's forecast, he expects that the *economics only transformation* may be sustainable on its own.

Cuban leaders will undoubtedly watch very carefully which of these prognoses will materialise as the island nation is seeking its own way forward.

#### 4.9.5. The case of Vietnam as a reference point

Vietnam shares one crucial historic characteristic with China: the very early development of a strong state. Vietnam was one of the world's first peoples to practice agriculture (some 20,000 years ago). The need to have a single authority to prevent floods of the Red River Delta (comprising present capital Hanoi and its port city Haiphong) made this region the cradle of the Vietnamese nation state. This created the first Vietnamese state formation almost 5,000 years ago. The need to cooperate in constructing hydraulic systems as well as defending this rich civilization against foreign invaders, were other state-strengthening factors. For a long time, Vietnam was an independent and self-contained state. For 1,100 years, however, from around 200 BC, Vietnam was governed by a succession of Chinese dynasties, which also left some of the same statehood impacts as we have mentioned for China. But another founding factor has been the constant struggle against foreign invaders, be they Chinese dynasties, French, Japanese or American colonialists and/or imperialists. Anti-imperialism and national autonomy are therefore concepts with far longer historical roots in Vietnam than in Cuba, and China is the mother of all later Vietnamese imperialists.

When the US started its state-building project in South Vietnam in the mid-1950s, there was little understanding for this history. One historic interpretation is that the catastrophic outcome of the US war in Vietnam was a direct consequence of failed state-

building efforts by the USA.

The Vietnamese state that emerged after defeating the USA in 1975, was built on a combination of a long anti-colonial struggle against the French, led by the legendary Communist leader Ho Chi Minh and leading to the revolution in the North in 1945, and the bloody but finally successful liberation war against the USA. But, much like Cuba, when the USA introduced its embargo in the early 1960s, Vietnam became extremely dependent on the USSR in an attempt to rebuild its destroyed country and modernise—with the expressed objective of becoming an advanced socialist economy by the year 2000. When the USSR collapsed, it presented Vietnam with much of the same challenge as Cuba: “Vietnam was forced to confront the extent of its dependency on external support as aid from its erstwhile allies evaporated [... and] the party leadership was also forced to abandon its illusions of a Soviet-style forced march to modernity” (Elliott:7). But there was also a different challenge: the state sector of the non-agricultural economy was insignificant. Prior to the reforms, the heavy dependence on USSR assistance “created the contradictory picture of an ambitiously expansionary and aid-financed state unable to control an economy still largely based on subsistence farming and small-scale local trade” (de Vylder and Fforde1996:95).

Since reunification in 1975: the Vietnamese economy was plagued by enormous difficulties in production; imbalances in supply and demand; inefficiencies in distribution and circulation; soaring inflation rates; and rising debt problems. Vietnam is one of the few countries in modern history to have experienced a sharp economic deterioration in a post-war reconstruction period.

Already in 1986, before the fall of the USSR, Vietnam launched a political and economic renewal campaign (*Doi Moi*—meaning ‘renovation’, or Big Bang as some have called it) that introduced reforms intended to facilitate the transition from a centrally planned economy to what was officially termed ‘Socialist-oriented market economy’. *Doi Moi* combined economic planning—Vietnam still uses five-year plans—with free-market incentives. The program encouraged the establishment of private businesses and foreign investment, including foreign-owned enterprises, in the production of consumer goods. Furthermore, it abolished agricultural collectives, removed price controls on

agricultural products, and enabled farmers to sell their goods in the marketplace (see Elliott op.cit., and de Vylder and Fforde op.cit.).

While the USSR ceased to be the main reference point for Vietnam's development, this position was quickly taken over by the successful East Asian 'Tigers'. The Vietnamese reading of the lesson from Eastern Europe was to allow for more perestroika (restructuring) in order to avoid economic collapse, but less glasnost (transparency) so as to avoid the loss of Communist Party hegemony. An example of the latter was that a member of the Politburo who openly advocated for political pluralism was summarily dismissed (after 1989).

The early 1990s marked Vietnam's normalisation with the US, including the lifting of the economic embargo, and through that also access to aid and loans from the World Bank and the IMF. By the late 1990s, the success of the business and agricultural reforms under *Doi Moi*, combined with full engagement with the international economic system, was evident. More than 30,000 private businesses had been created, and the economy was growing at an annual rate of more than 7%.

Impressive results were achieved in poverty reduction. From the early 1990s to 2015, the overall poverty rate in the country fell from 58% (1993) to 4.5%; declining on average by 2% per year while the decline among poor households in poor districts was reported to be on average 5% per year. Nearly 30 million people have been lifted out of poverty since the 1990s, and the country has reached most of the Millennium Development Goals. The Boston Consulting Group estimates that by 2020, about one-third of the population will be middle class or higher.<sup>69</sup> That means income of at least 714 USD per month. The Gini coefficient, however, fell almost insignificantly (from 0.357 in 1992 to 0.348 in 2014), but stayed significantly lower than for China.<sup>70</sup>

Most prosperity is concentrated in urban areas, particularly in and around Ho Chi Minh City. In general, rural areas also made progress, as rural households living in poverty

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<sup>69</sup> Quoted by *Forbes*, 20.09.17.

<sup>70</sup> <https://data.worldbank.org/indicator/SI.POV.GINI?locations=VN>

By comparison, Norway had a Gini index of under 0.27 (2014), according to the Gini Index estimate offered by the World Bank.

declined from 66% of the total in 1993 to 36% in 2002. By contrast, concentrations of poverty remained in certain rural areas, particularly the northwest, north-central coast, and central highlands, and increasing inequality is now threatening social progress.<sup>71</sup>

Government control of the economy and a nonconvertible currency have protected Vietnam from what could have been a more severe impact resulting from the East Asian financial crisis in 1997. Nonetheless, the crisis, coupled with the loss of momentum as the first round of economic reforms ran its course, has exposed serious structural inefficiencies in Vietnam's economy. Vietnam's economic policy following the East Asian recession has been a cautious one, emphasising macroeconomic stability rather than growth. While the country has shifted toward a more market-oriented economy, the Vietnamese government still continues to hold a tight control over major sectors of the economy, such as the banking system, state-owned enterprises, and areas of foreign trade.

Still, the internal factors were the more decisive ones. de Vylder and Fforde (p. 95) interpret the political process as an adaptation by the Communist Party to the changing political structures beneath it: (a) the rising state business interests (of a rapidly commercialized state sector), i.a. with the military playing a prominent role in food production; and (b) the fear of massive urban unemployment as non-viable state enterprises had to close, and the potential for social tension and disorder.

Like China, Vietnam has so far managed to hold back any serious political reform in the wake of market economy expansion, although there may—as we come briefly back to—be more openness and pluralism inside the power structure than in China and Cuba. The resistance against more democratic structures seems to come to a large degree, from a domestic coalition of the party and state nomenclature, and from management and trade unions in the state enterprise sector, afraid of losing their privileges.

What is the nature of the Vietnamese state, and “what is the relationship of the state to

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<sup>71</sup> See Elliott 2012, particularly Chapters 5 And 6, discussing this process. Most of the macro-economic data cited by Elliott are taken from various World Bank reports, here supplemented by somewhat more optimistic estimates made by the General Statistics Office based on the 2014 Survey on Household Living Standards (see <http://english.tapchicongsan.org.vn/Home/Culture-Society/2016/622/Poverty-reduction-in-Viet-Nam-Outstanding-achievements-and-solutions-to-overcome-limitations.aspx>).

the political?" as Gainsborough (2010) coins this key question. He finds three key changes during the years he has been studying (1996-2007): changes affecting state enterprises; growing capital markets; and last but not least signs of a widening of the political space and a more vibrant civil society. But, he goes on to say, certain things do not change very fast, and power continuously seeks to re-create itself. The abolishment of one-party rule does not at all seem to be on the agenda. An evolution towards western-style liberal democracy is the least likely outcome, he argues, also seeing this in the context of other Southeast Asian political systems.

Other students of Vietnam have found a more nuanced picture. According to Carlyle Thayer (2009), the omnipotent Party did face challenges to its hegemony as a consequence of *Doi Moi*. The clearest expression of this was precisely the emergence of what he calls the 'political civil society', which grew out of an explosion in the 1990s of more ordinary community-based organisations (CBOs) at the grassroots level (140,000 CBOs in 2005). They had quite ambiguous legal status and were therefore also vulnerable. They tended to see their role more to negotiate improved services with state officials and also deliver services no longer provided by the state, rather than confronting them. National NGOs are matched by the presence of a relatively large number of international NGOs (INGOs) (180 in 2002 according to Thayer), at times dominating the country's civil society.

Around 2006, these groups became more politically active, starting with a number of small groups (often self-described as political parties), very often established by diaspora Vietnamese most often in the US, which in 2006 coalesced into an identifiable political movement: The Bloc 8406. This grouping issued a Manifesto on Freedom and Democracy for Vietnam, with 118 signatories, among them teachers and lecturers, university professors, Catholic priests and other liberal professionals. Half of them were concentrated in Hue and Ho Chi Minh City. They also produced a fortnightly publication. This movement confronted the hegemony of one-party rule. After strong harassment during the 2006 APEC Summit in Vietnam reportedly leading to considerable growth, the movement started making more systematic use of social media to spread its message. An important event seems to have been a farmers' movement protesting over land grievances in 2007, receiving support from the Bloc 8406. There was also focus on

a group of diaspora activists, the so-called Viet Tan Party, which provided financial and material assistance to domestic opposition groups. This phenomenon seems to be comparable to some of the Cuban exile groups.

The bottom-line now, however, is that the Bloc 8406 leadership appears to have been effectively neutralised by Vietnam's security apparatus, just like the political dissidents in the 1990s. We can no longer speak about a 'political civil society' in Vietnam, probably even less so than in Cuba. Social unrest may not be as common in Vietnam as we have seen in China. But at least one kind of protest is very frequent, and very relevant in a country still so dominated by the agricultural and rural economy: land disputes. According to some reports, it is claimed that thousands of such disputes arise each year, "putting groups of citizens against businesses and government. Unresolved or poorly resolved public land taking disputes present a serious challenge to governmental and community legitimacy in Vietnam and contribute to social instability and insecurity". And, perhaps lacking the 'contentious bargaining' mechanism we have described in the case of China, it is claimed that "consultation and mediation was the exception rather than the norm", and that "tight state management of formal dispute resolution has the unintended consequence of driving land users into non-institutional channels of protest and dissent" (T&C Consulting 2014, all quotes from Executive Summary).

An important element in favour of some kind of political reform is the fact that the ruling party has managed to put in place a stable and constant transfer of power to a younger generation of party leaders at each national congress (and also allowed for internal dissent even to overrule party elite positions). So, while the economic change came in the form of a 'big bang' in 1986, political change has been slow and gradual, although a new generation of leaders may be capable of picking up more ideas from their contemporary citizens.

In Vietnam, there also seems to have been a much more open discussion and voting than in Cuba in the various party and state bodies, sometimes leading the top leadership to lose out against the Central Committee, or the government to be overruled by the national assembly in crucial leadership struggles. There are several interesting examples of this. In 2001: a majority vote in the Politburo in favour of the re-election of Le Kha

Phieu as general secretary of the Party was rejected by the Central Committee, leading to his removal (Abuza 2001). In 1997 the national (general) assembly refused to accept the government's proposed candidate as Governor of the Central Bank (Saxonberg op.cit., quoting Thayer op.cit. and others). And in the run-up to the January 2016 Party Congress, the Central Committee again took a clear opposition role by nominating alternative candidates for the election of the Party's new top leadership, including General Secretary, disregarding the sitting leadership's declaration that such nominations were illegal (London 2016). Although this latter attempt failed, it shows that the Central Committee is constantly claiming real authority vis-à-vis the Politburo in nominating and approving candidates.

What attracted most attention among foreign observers at the 2016 Party Congress was of course the competition between the incumbent General Secretary Nguyen Phu Trong and his supporters on the one hand and the camp of the sitting prime minister, Nguyen Tan Dung, on the other. Tan Dung was seen by foreign observers to favour further market liberalising reforms and a willingness to expand freedoms. However, critics claim that he may be talking about 'democracy' and 'human rights' while at the same time silencing critics through draconian means. There is also mistrust that the former prime minister, who has been thought to seek advice from western leaders like Tony Blair, has maintained alleged association with ill-gotten wealth (ibid., see also London 2014).

The outcome of the leadership struggle was that the sitting 71-year-old General Secretary was re-elected. In his closing speech to the Congress, Trong claimed, perhaps in a hidden attack on his counter-candidate that "one-party rule is a far better alternative than authoritarianism disguised as democracy [...] A country without discipline would be chaotic and unstable [...] we need to balance democracy and law and order".<sup>72</sup>

Gainsborough (op.cit.) has his focus on what is taking place within the Vietnamese state. And this is probably very relevant when studying the Cuban case. The reform drive does not come from independent interests made up by social classes, but from an intra-elite

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<sup>72</sup> "One-party rule the best for Vietnam, says leader": *The Guardian*, 28.01.16.

conflict within the state apparatus, as clearly seen in the conflict between the Central Committee and the Politburo. The traditional arguments (ref. e.g. Barrington Moore (1966) or Rueschemeyer et. al. (1992)) that the emergence of strong middle classes will produce a vital pro-democratic force seem so far to have limited relevance in Vietnam, since these classes are all so dependent on the state. The various state institutions are strengthened as political actors, the National Assembly is strengthened, and the concerns of the business sector are also channelled through state-sanctioned (and not independent) institutions.

Noteworthy in the latter category is the way the private economic sector is organised: through a semi-governmental organisation called the Vietnamese Chamber of Commerce and Industry (VCCI) (where also state-owned enterprises participate), rather than through independent employer organisations. The VCCI is not under the direct control of the Communist Party, but Party committees must be established in all private enterprises (Thayer, op.cit:3).

Important for the success of the market economy in Vietnam was the Communist Party decision in 2006 to remove the clause that party members *could not exploit*, i.e. that they were allowed to run private business and hire workers and practice capital accumulation. This was seen as crossing a vital ideological line. But it was probably little more than bringing the party in line with a well-established practice.

This seems to be the underlying logic to Vietnam's political system. According to Gainsborough, we may talk about a transition from a 'socialist state' to a 'capitalist state', where the concept of 'reform' takes on a new meaning, but where the basic idea of 'state retreat' is questioned.

Some foreign observers see the drama of the succession struggle prior to the 12<sup>th</sup> Party Congress as part of a larger process of political evolution. In the words of one of the best informed observers, Jonathan D. London (2016):

"In recent years Vietnam's political culture has become increasingly pluralistic. Vietnam is more open than China. Its citizens are less suppressed and exhibit a thirst for

internationalization. With 30 million Facebook users and innumerable political blogs, the country has seen a rapid revival of interest in politics and in the long lost arts of social and political commentary. All of this is visible in the leadership struggle. In recent weeks (prior to the Party Congress, author's comment) party elites have been leaking and counter-leaking internal memos and accusations and openly expressing their views over the Internet, while retired and even active party members have openly demanded the abandonment of Leninism as part of comprehensive institutional reforms".

If we go back to position the Vietnam experience in our Figure 2.1 matrix, it comes close to China in its *economics first* route. There is very little movement along the path towards political inclusiveness. However, there are some elements of intra-elite conflict even questioning the power monopoly, resulting in slightly differentiating state powers. Elements of an institutionalized economic society are also visible. Yet, what we have seen is that the regime has been very careful to roll back attempts to establish a more political civil society. For all practical purposes, therefore, the Vietnam route must also be qualified as an *economics only* transformation.

The general picture of great social progress and a middle class explosion is complemented by a growing super-rich upper class and increasing social differences. Corruption is clearly playing a part in this socio-economic distribution process. Whether this is a sufficient guarantee for the continued acceptance of political status quo, remains to be seen.

Many aspects of these recent development trends in Vietnam are no doubt carefully studied in Havana. It will therefore be interesting to compare to contemporary trends in Cuba.

#### **4.10. Resilient post-communism and pragmatic acceptance**

In order to put all these different transformation patterns into context, we will in the following present an effort to adapt Linz and Stepan's classical theoretical typification of post-totalitarian regimes more specifically to Communist or Socialist regimes in transformation. Saxonberg (2013) has made an interesting contribution in this regard,

highly relevant for this study. His key concept to understand why, in cases like Cuba, China and Vietnam, there has been much more limited support for regime change than what one might expect is one we have already introduced: *pragmatic acceptance*. This has typically been caused by economic and social progress for a dominant part of the population, in Cuba also combined with nationalism and a high degree of charismatic leadership. In the present situation, stability in China and Vietnam is maintained thanks to people's pragmatic acceptance of regimes that produce impressive and constant economic growth and social progress.<sup>73</sup> The lack of such progress—rather negative socio-economic indicators—may raise questions as to whether the pragmatic acceptance in Cuba is in the process of being lost.

Saxonberg divides post-totalitarian regimes into three variants: early, late freezing and late maturing<sup>74</sup> post-totalitarian regimes (Ref. his Table 1.1, p. 29-30). In an early post-totalitarian regime, ideological legitimacy is still strong and the regime has few incentives to initiate reform. In the late post-totalitarian phase, which is when Communist regimes according to Saxonberg will be likely to fall, there is a clear loss of ideological legitimacy due to economic problems and/or political failures, often accompanied by a strengthened civil society. In the freezing variant of late post-totalitarianism, the loss of ideological legitimacy may be substituted by conservative pragmatic acceptance. In this instance an economic crisis or decline may lead to serious confrontations rather than willingness to negotiate with the opposition, with an uncertain outcome between repression and collapse when faced with a revolt. The maturing type of post-totalitarian regimes is characterised by a situation where loss of legitimacy may be opening up a space for dissidence with intellectuals, workers and ordinary people seeking together in an effort to strengthen civil society and perhaps even challenge the monolithic party structure. Saxonberg describes two different scenarios in such situations: if there is economic crisis but increasing expectations for reform, there will be a case for reformist pragmatic acceptance where the regime is likely to negotiate a pact with the opposition. If there is little expectation of political

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<sup>73</sup> As mentioned above, China under Xi may seem to revert to a more ideological justification of its regime, possibly reducing the role of pragmatic acceptance.

<sup>74</sup> Saxonberg is slightly modifying some of Linz and Stepan concepts, using the term 'freezing' rather than 'frozen', and 'maturing' rather than 'mature'. He has also proposed to change Linz' and Stepan's concept of 'sultanist' regimes, meaning personalised dictatorship, with the concept of 'patrimonial', not necessarily equivalent to the concept 'neo-patrimonial' used elsewhere in this study.

reform in the same situation, the regime will be likely to maintain power, and perhaps apply increased repression for that purpose.

Cuba is one of the cases studied by Saxonberg, although the empirical data are largely secondary rather than primary, often out-dated, and not always relevant.<sup>75</sup> He introduces the concept *freezing patrimonialism*, claiming that “*patrimonial communism is a hybrid regime combining personalized rule with remnants of doctrinal Marxism-Leninism*” (p. 135). He states that Fidel Castro took Cuba through all three stages of his typology—totalitarianism (1960s), early post-totalitarianism (1970s) and freezing late post-totalitarianism (1990s), all combined with patrimonialism and charismatic legitimacy. He argues that the combination of nationalism and welfare policies permitted Fidel Castro to maintain a considerable degree of pragmatic acceptance. The situation under Raúl has been quite different, and pragmatic acceptance for status quo in post-Castro Cuba seems to be even more illusory.

#### **4.11. What makes states fail altogether?**

Given Cuba’s expected deep economic problems and legitimacy challenges, one cannot avoid discussing the issue of *state failure*. The standard reference to this concept is Acemoglu and Robinson (2012), with their intriguing book title: *Why Nations Fail*.

In Chapter 2, we presented their key dichotomy between *inclusive vs. extractive political institutions* and the same concepts regarding economic institutions.<sup>76</sup>

It is difficult to follow the authors on several points (a reason in itself for changing the *extractive* concept, ref. Chapter 2). We may e.g. look at their own country, the USA, which they see almost per definition as politically inclusive (a claim that in itself may be questioned when we observe the deep present inter-institutional conflicts). The US, however, bears many of the trademarks of their definition of extractive economic

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<sup>75</sup> As we have access to primary information however, this is not so important: it is the analytic tools we are interested in here.

<sup>76</sup> For our purpose of constructing Figure 2.1 with more relevance for the study of expected Cuban transformations, we have re-baptized the dichotomy to *inclusive vs. exclusive* institutions. In this section, however, we will keep Acemoglu and Robinson’s original concepts.

institutions (by “expropriating the resources of the many” and concentrating them in the hands “of the few”). As we have seen earlier in this Chapter, Fukuyama actually goes so far as to claim that the US under President Trump bears many of the characteristics of a failed state.

Another key concept is *predatory dictators*, who very often are the personal representation of extractive institutions.

Acemoglu and Robinson also pay extensive attention to the classical Schumpeter concept *creative destruction*, as a vital component of economic growth and technological change, replacing the old with the new (new sectors, new technologies): “fear of creative destruction is often at the root of the opposition to inclusive economic and political institutions” (p. 84). One of the characteristics of countries with extractive institutions, they claim, is the absence of creative destruction.

The declared aim, then, is the:

“[C]reation of virtuous circles, a powerful process of positive feedback that preserves (inclusive economic and political) institutions in the face of attempts at undermining them and, in fact, sets in motion forces that lead to greater inclusiveness [...] based on constraints on the exercise of power and on a pluralistic distribution of political power in society, enshrined in the rule of law” (p. 308).

So, why do nations fail? “Nations fail economically because of extractive institutions. These institutions keep poor countries poor and prevent them from embarking on a path to economic growth” (p. 398). “What they all share is extractive institutions. In all these cases the basis of these institutions is an elite who design economic institutions in order to enrich themselves and perpetuate their power at the expense of the vast majority of people in society” (p. 399).

The Castro-era Cuba has not been characterized by elite enrichment at the expense of the poor. But of course, there has been perpetuation of power.

Inclusive institutions may replace extractive ones, they claim, through major

institutional change and a paradigm shift at what they also call a critical juncture (which they define as major events that disrupt the existing political and economic balance in a society) coupled with a broad coalition of those pushing for reform (p. 427). The relevance for post-Castro Cuba is obvious, although we don't subscribe to all their concepts. We are reminded, however, that a worst-case scenario of full or partial state failure cannot be completely ruled out, as Raúl Castro himself has warned. Alternatively, the critical juncture may also be the historical opportunity to fix things and move towards inclusion. Acemoglu and Robinson's discussion of the phenomenon, with all their deficiencies as a conceptual framework for Cuba, is therefore important to keep in mind.

#### **4.12. The external environment and the emergence of 'alternative world blocs'**

One of the effects of the 'democratic fatigue' in post-transition societies may have been to boost the position of the western world's rival power contenders like China and Russia. For a country like Cuba, itself obsessed since the birth of the Revolution with the fear of US intervention; the outcome of the Iraq and similar interventions may have represented a major relief and an end to the perceived US intervention threats. This may be one of the factors that incentivized the start of the rapprochement with the US. Another intriguing question is whether the loss of realism of this intervention threat under Barack Obama also deprived the Cuban leadership—at least temporarily until he was substituted by Donald Trump—of its principal justification for limited freedoms and repressive measures.

If the multiple crises and attempted but failed pro-democratic interventions have provided serious question marks to the liberal democratic role models of this world, they may thus have added relative strength to alternative political role models. In the words of Whitehead referring to the 2008 global financial crisis:

“The leading candidates to recover first and most fully appeared to be the most independent and successful non-Western economies, with the Chinese economy leading the way. Beijing was one of the most effective promoters of a countercyclical 'stimulus' package led by public investment. But China was not alone. Signs are appearing of a wider breach between the

excessively indebted Western democracies and some leading emerging-market countries where ruling elites could respond to the crisis by favouring developmental semi-authoritarianism” (Whitehead 2010:56).

This idea of alternative political role models—challenging the democratic transition paradigm—has also been discussed by other authors. This is largely the context leading Levitsky and Way (2010) to apply the concepts of ‘hybrid regime’ and ‘competitive authoritarianism’. Gat (2007:60) observes that “[A]uthoritarian capitalist states, today exemplified by China and Russia, may represent a viable alternative path to modernity, which in turn suggests that there is nothing inevitable about liberal democracy’s ultimate victory—or future dominance”.

This alternative international power bloc was to a certain extent overlapping with another global concept of emerging powers: the BRICS (Brazil, Russia, India, China, South Africa); or even the MINTs (Mexico, Indonesia, Nigeria, Turkey), or now Russia, Iran and Turkey coordinating their Syria policies in opposition to the Western powers. It is important to note that several of the BRICS and MINT countries have been mentioned among transition regimes, and that they may have been advancing or retroceding in different ways along the democracy path. But as groups, and in spite of recent backlashes, they are definitely part of what we may term a ‘second world bloc’, challenging a ‘first world’ of North Atlantic liberal democracies. In some cases—but not always—such regimes represent what Whitehead has termed *developmental semi-authoritarianism*, or Levitsky and Way *competitive authoritarianism*. These alternative models are sometimes referred to as ‘large-country’ contexts (particularly in the case of China and Russia) or ‘large-region’ contexts with regional leaders (such as China for East Asia, Brazil for Latin America etc.). The emergence of such alternative world blocs of more or less democratic or semi-authoritarian market economies has obviously provided a country like Cuba with a highly relevant reference—different from a liberal market economy—for its economic as well as its political development.

Some of the most significant expressions of this bloc have been precisely in Latin America, starting with the Venezuela-led ALBA where Cuba was a founding member, and followed up by more general regional blocs like UNASUR and CELAC. The new regional institutional architecture in Latin America did provide Cuba with a very strong

diplomatic tool against US pressure, and more generally against pro-democracy expectations. This is a clear parallel to what Linz & Stepan (op.cit.) refer to as *diffusion* or *zeitgeist*, that is, contemporary spirits or trends in countries with similar cultural characteristics or with leverage on the Cuban reality.

The quite dramatic fading of the alternative regional bloc ALBA may have been a strong driving force behind Cuba's search for rapprochement with the US.

More than anything, it is China's return to world hegemony and the supremacy of the Chinese model compared to western liberal democracy, that manifests the emerging 'second world bloc' of relevance for a country like Cuba. This is how Xinhua, the official news agency, summed up the 2017 Communist Party Congress:

"By 2050, two centuries after the opium wars, which plunged the 'middle kingdom' into a period of hurt and shame, China is set to regain its might and reascend to the top of the world [...] Though it will take immense work, the picture is clear. China is set to become the world's largest economy, and incomes will be high with an effective social welfare system, a responsive and people-serving government, clean politics ensuring people's rights and a beautiful country loved by its citizens".<sup>77</sup>

Western observers tend to agree that China under Xi now offers a far more attractive example for countries in transformation than that of the US under Trump, thus also casting doubts on the above-referred scepticism about the survival of China as we know it today:

"In Xi, the country has the most disciplined and most powerful leader in a generation. Trump, by contrast, is the most undisciplined and, judging by his record in Congress, ineffective president for generations. It is a stark and, for those who believe in democracy's efficacies, depressing contrast [...] the sheer, overwhelming triumphalism in Beijing this week should finally provide a wakeup call to those in the west who have long believed not just that China would fail. Many were convinced that, as an authoritarian state, that it must fail. For the

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<sup>77</sup> "Commentary: Milestone congress points to new era for China, the world." *Xinhua*, 24.10.17 [http://news.xinhuanet.com/english/2017-10/24/c\\_136702090.htm](http://news.xinhuanet.com/english/2017-10/24/c_136702090.htm)

moment, however, China is succeeding. If it continues on its current path, the world as we have known it will never be the same again".<sup>78</sup>

It is quite obvious that Cuban leaders are no less enthusiastic about the fact that China today stands out as more successful in most ways than the US and other Western countries. Yet, the question is how much of the Chinese strategy—particularly in the economic sphere—Cuba is prepared to embrace.

#### **4.13. Exit vs. Voice?**

In order to assess popular reaction to the Cuban revolutionary regime, and also perceptions of possible avenues to transformation, it seems very relevant to make some considerations on the basis of Hirschman's classical discussion of 'exit' vs. 'voice' (Hirschman 1970). Hirschman applies these concepts to any kind of organisation, be it a business, a nation or any form of human association. His basic idea is that members of such associations, citizens in the case of a state or a nation, have essentially two possible responses in a situation of perceived decrease in life quality or benefits. They can either exit or withdraw from the relationship; or they can voice or attempt to communicate complaints, grievances or proposals for change—in short *engage politically*. Very often, this is understood as a dichotomist choice between emigration and protest. The most frequent application of Hirschman's exit concept, clearly relevant in the case of Cuba, is related to emigration. 'Exit' will then be equivalent to leaving the country of original citizenship and migrating to a different nation-state, whereas 'voice' would be an expression of articulating protest or discontent, which according to Hirschman "can be graduated, all the way from faint grumbling to violent protest" (op.cit: 16).

Hirschman seems to have treated these two alternatives as mutually exclusive, and the Cuban leadership seems to have seen it much the same way: the easier the access to exit, the lower likelihood of voice. Emigration then becomes a safety valve, giving the discontent an exit option when there is no opportunity to protest. Hirschman even refers to Latin America as an example of this alleged dichotomy:

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<sup>78</sup> "China's Communist party has come of age – the west should wake up". *The Guardian*, 25.10.17  
<https://www.theguardian.com/world/2017/oct/25/chinas-communist-party-has-come-of-age-the-west-should-wake-up>

“Latin American power holders have long encouraged their political enemies and potential critics to remove themselves from the scene through voluntary exile. The right of asylum, so generously practiced by all Latin American republics, could almost be considered ‘a conspiracy in restraint of voice’” (op.cit. p. 60).

This latter reference is obviously much more relevant for South American military dictatorships than for Cuba.

Repression of dissent may stimulate departure, either as a way of protest or as an expression of withdrawal. The general principle is that the greater the access to exit, the less likelihood there is for voice to be exercised—and vice versa. However, the loyalty issue is also part of this equation: where there is loyalty, for instance in the form of strong political patriotism, exit may be reduced, depending on its availability and attraction.

But exit and voice are not necessarily mutually exclusive; there can also be interaction between the two. By providing more space for feedback and criticism, exit can be reduced. In a later article, observing the 1989 events in East Germany, Hirschman has come to similar conclusions, acknowledging that not always did *exit subvert voice*. In this case, he claims that the escalating dynamic of out-migration led those who wanted to stay to take to the streets to demand change. Exit triggered voice, and the two worked in tandem (Hirschman 1993).

Another interesting aspect of the relationship between exit and voice may be observed among emigrants who maintain strong social ties and indeed loyalty to their country of origin—while voicing heavy opposition to the regime. In such cases, also very relevant for Cuba, they use their exile platform to claim a say in public affairs. Exit, voice and loyalty then are no longer exclusive options; in fact, the very nature of migrant transnationalism is defined precisely by the overlapping and simultaneity of these phenomena (Hoffmann 2010).

It is important to emphasise that the ‘exit’ concept should not be limited to its physical, and literal meaning: it can also be mental or emotional. In a country with heavy

restrictions on emigration, an alternative to physical exit may be the withdrawal from any civic or political participation in the system. In a totalitarian regime, this may simply be a survival mechanism for people who are neither loyal to the regime nor willing to risk their life or wellbeing by voicing their dissatisfaction. In a different context, for instance in cases with a large submerged and illicit economy, such mental exit may simply be a way of withdrawing from control. Both cases may at different times have been occurring in Cuba.

It may be argued that Cuba has never had what we metaphorically may call *acoustic conditions for voice*: there has been no real opposition or alternative leader with a sufficiently strong voice to be heard; no Mandela, no Walesa, nobody remotely comparable to the 1956 performance of Fidel Castro—but quite a lot of access to ‘exit’ (partly promoted by the regime as a safety valve). This is probably the main reason why *exit*—literally or indirectly—has been systematically preferred to *voice* in post-1959 Cuba by those who have not been comfortable with the regime. The question is whether that will continue as the regime first loses its sources of legitimacy while embarking on the generational change, and the legitimate space for the opposition potentially might be expected to grow to the extent that an easily identifiable external enemy starts disappearing.

#### **4.14. Some peculiar Cuban aspects to bear in mind**

##### **4.14.1. Remembering ‘Cuban exceptionalism’**

When discussing applicability of a liberal transition paradigm in Cuba, it must be borne in mind that Cuba in so many ways is a different case from countries where such transitions have taken place. In 2003, the Humboldt University convened a conference in Berlin to discuss exactly that, resulting in a highly interesting book (Hoffmann and Whitehead 2007). One of the editors, Laurence Whitehead, goes through some of the particularities in Cuban history:

- The delayed independence compared to the other Spanish colonies;
- The difference from the other two exceptions of early 19th century independence from Spain (Puerto Rico and the Philippines) in that they were simply transferred to US colonial possession while Cuba gained some kind of semi-independence;
- The very experience of Cuba as the “Platt Amendment Republic” under a permanent threat of US intervention against any ‘unfriendly’ act;
- The Sergeants’ Revolt (led by Batista) in 1933 with a lower level military leadership than known anywhere else;
- The multiparty democracy with a relatively progressive constitution (of 1940) very soon overran by an exceptionally violent and corrupt political system;
- The 1959 revolution itself as a remarkable historic event;
- Cuba as the only communist-ruled country where the previously existing local Communist Party—along with the Soviet Union—played no leading role in the seizure of power;
- Perhaps the only communist-ruled country where the class war was basically solved by a wholesale expulsion of the propertied class to a neighbour country, leaving it largely intact as an exile political opposition supported by the government of that country which happened to be the strongest military power on earth;
- Cuba is also the only Soviet bloc country to have remained under the same leadership and system of government as before the fall of the Berlin wall;
- Cuba is also the only surviving communist-ruled country (apart from North Korea) where private ownership and the market until recently remained essentially suppressed by the authorities.

The question raised in this book—appearing right before the Raúl Castro era studied here—is therefore: does it make sense to suppose that with all this exceptionalism, Cuba can readily revert to normal patterns of politics any time soon? The question is still highly relevant, and one that should be kept constantly in mind when analysing the Cuban change process in a comparative perspective.

#### 4.14.2. Cuba's 'democratic birth defect'

When considering Cuba's development options, and particularly a possible democratic transition, it is unavoidable to consider the country's heavy historical anti-democratic burden.

Francisco Fukuyama (2014) uses the term 'birth defect' to describe the odds against democratic development. Specifically, in terms of rule of law and accountability, in the Spanish and Portuguese Americas, he claims that the authoritarian and illiberal character of their political institutions go back to the slavery-plantation and mining economies of their colonial and even post-colonial history. As he says, with particular relevance for Cuba: "Sugar differs from staple crops like wheat or corn because it is not suitable for family farming. Families cannot live on sugar; it is purely an export product" (p. 245). Slavery, of course, as it predominated in Cuba until it was abandoned there after all other countries except for Brazil (1886 and 1888, respectively), left a particularly heavy burden on social and political patterns of domination.<sup>79</sup> The monoculture dominance of sugar was extreme, with sugar representing between 80 and 90% of the country's export value as late as 1950.

The colonial heritage is not just limited to slavery. The Spanish and Portuguese imposed their authoritarian and mercantilist institutions on their colonies but also reproduced the extremely unequal class structures and authoritarian state system that existed at home. They managed to transfer this legacy to the local elites in Latin America, even after the formal independence in the 1820s (which took another 75 years to materialise in Cuba). The ideas of Enlightenment that were so decisive in democratising other European countries particularly further to the north, were inspirations for some of the Latin American independence leaders like Bolívar, but they never took root among the Creole population of the continent. In the words of Fukuyama (2014:256): "Economic elites were able to dominate nominally democratic political systems to maintain their social status, thereby blocking more democratic access to economic opportunities". Another aspect of the old Spanish regime was a centralised and authoritarian but

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<sup>79</sup> Acemoglu and Robinson (op.cit:79;81) uses the sugar plantation and slave economy in Barbados as a prototypical example of what they call "extractive institutions".

relatively weak state, unable to regulate its own elites. New independent Latin American states were unable to establish any real tax-based state capacity throughout their territories, a problem seen even till today. This is actually one of the big differences when comparing Cuban development prospects to China and Vietnam.

Cuba, where the Spaniards managed to postpone independence for 75 years more than on the Latin American continent, was one of the countries most affected by this structure. Deeper structural change was partly held back when the US—dominated by the economic interests of southern states with similar plantation economies—took control over the country after the defeat of the Spaniards. The US made very few efforts to throw off the historical burden. The ‘Platt Amendment Constitution’ and the peculiar political system it led to, often referred to as ‘the semi-independence’ (or ‘semi-republic’), are just political reflections of these economic relations of dependence.

In Cuba’s pre-revolutionary history, though, there was a period of quite significant democratic institutions and processes, based on the 1940 Constitution. The following are some of the most relevant aspects of this Constitution, passed by a popularly and democratically elected Constituent Assembly where the Communist Party (called PURC at the time) was the fourth most voted:

- Rejection of all discrimination based on race, colour, sex, class or other criteria;
- Introduction of a Semi-Parliamentarian system of government, by creating a position as Prime Minister appointed by the President, and a full division of powers between the Executive, the Legislative (consisting of Senate and House of Representatives) and the Judicial branches of government;
- Establishment of a direct popular vote for all elected positions, through universal and compulsory suffrage for all citizens (men and women) above 20 years;
- Prohibition of presidential re-election for the first eight years after finishing a presidential mandate (of four years);
- Maintenance of the freedom of cult, without other limitation than “the respect for Christian morality and public order”;
- Recognition of the right to free expression and association, with the quite vague qualification that “the creation and existence of political organisations contrary

to the Republic's democratic representative form of government" would be considered as illegal;

- Maintenance of free primary education provided by the State, to be considered as secular, with access to offer private education and establish private universities;
- Establishment of important anti-corruption and countervailing institutions like *Tribunal de Cuentas* and a Tribunal for Constitutional and Social Guarantees;
- Prohibition of worker layoffs without prior explanation of causes, introduction of minimum salary, eight-hours limits on working hours, right to paid vacation and worker maternity leave, prohibition of non-monetary payment;
- Recognition of the social function of private property, which should be respected and protected, while *latifundio* (large-scale) properties were outlawed.<sup>80</sup>

This was a Constitution based on the principles of liberal democracy and a welfare state, internationally considered as quite advanced at the time. The problem, however, was that large parts of its implementation depended on specific legislation that for the most part was never approved, and presidents to a large extent were left to govern by decree. During the following twelve years (from 1940 until the Batista military coup in 1952), Cuba lived under a formal constitutional democracy based on the above-mentioned principles, with Batista as the first constitutionally elected president (1940-1944). Subsequent Presidents and legislators were mostly elected on quite advanced reformist programs. However, corruption soon grew to enormous proportions, and political gangsterism came to gradually dominate the political culture of the country.

During the Second World War Cuba offered its full support to the USA and the other allied countries. President Roosevelt's 'Good Neighbor Policy' was seen by many as the first abandonment of US imperialism against Cuba—in accordance with the fact that the 1940 Constitution formally eliminated the Platt Amendment. As the end of WWII laid way to the Cold War and given the well-organised and unionised working class with a strong Communist presence in Cuba, the country became a prime victim of US-led anti-Communism. This was so in spite of the fact that Communist union leaders actually played a quite active role in negotiations of crucial economic importance for Cuba e.g.

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<sup>80</sup> Based on summary in López Civeira et. al., 2012. Full text of the 1940 Constitution is available in Pichardo, 1980, Tomo IV, segunda parte, pp. 329-418.

regarding sugar quotas.

The mentioned political gangsterism that emerged was particularly directed against the political left, and a number of prominent Communist and union leaders were killed. The popular credibility of democratic institutions soon started to disappear. A very important symbolic expression of this was when Senator Eduardo Chibás, a charismatic and outspoken leader of the so-called Orthodox Party, committed suicide during a live radio speech in 1951. Chibás was clearly leading the opinion polls in front of the 1952 elections, and his suicide came as a desperate act of rejection of how the democratic principles of the 1940 Constitution had been ignored. This, in many ways, became the prelude to the Batista coup in 1952, which again detonated the decision by Fidel Castro and his comrades to take up arms against the Batista regime. Batista, of course, opened the doors further to the US mafia; corruption and political violence reached new proportions, while the armed struggle got underway.

This was the context in which the Cuban revolution took place, not leaving the revolutionary generation with much illusion about the ideals of liberal democracy.<sup>81</sup> Looking ahead, however, it is important to bear in mind that Cuba—despite its democratic birth defects—has a historic experience of formal liberal democracy.

#### **4.15. Theoretical considerations about post-Castro legitimacy**

The whole issue of what legitimacy a post-Castro regime will enjoy is crucial for this study. As outlined under the discussion of neo-patrimonialism (ref. 4.9.1), Max Weber, the classical source in the discussion of legitimacy, distinguished between three types of legitimate authority: bureaucratic-rational authority, traditional authority and charismatic authority. He defined the latter as “resting on devotion to the specific and exceptional sanctity, heroism or exemplary character of an individual person, and of normative patterns revealed or ordained by him”. The charismatic leader, he went on to say, “is set apart from ordinary men and treated as endowed with supernatural, superhuman, or at least specifically exceptional powers or qualities” (Weber 1968:46;

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<sup>81</sup> See Szulc 1986, and Thomas 1971, for good discussions of the historical context.

48).<sup>82</sup>

Weber was particularly concerned with the obvious problem of succession in situations of charismatic leadership, in a way that we may take directly to the present Cuban situation. Fidel had it all: a heroic guerrilla leader turned commander-in-chief; his leadership by moral example; his oratorical skills and unique capacity to communicate with the masses, playing on quasi-religious overtones. Moreover, he had a discretionary and improvised leadership style; the dramatic redistributive and revolutionary reforms that he personally implemented after the revolution, representing an almost complete break with the past.

An undisputed authority on the study of the Cuban revolution, Jorge I. Domínguez, excludes parts of these qualities from the pure charismatic authority when he claims that charisma is but one of four sources of legitimacy in the Cuban revolution, along with political deliverance, distributional performance, and nationalism (Domínguez 1978:201). Another question to keep in mind is how much of these sources will be surviving into the post-Castro era.

A special subject to discuss in relation to the transformation paradigm is the move from charismatic to institutional authority, up against more purely authoritarian/military leadership (from Fidel to Raúl and subsequently to the post-Castro era). A very interesting discussion of this is found in Hoffmann 2006, ref. also Valdes, 2004. As they point out, Fidel Castro no doubt represented one of the strongest examples of charismatic authority in any country in the second half of the twentieth century. At least to a certain extent, Raúl has benefited from the same authority, although his level of charisma is substantially less. When the post-Castro generation is about to take charge of the country after 2018, it may be up against a serious legitimacy crisis unless deep economic and political reforms leading to socio-economic progress for the majorities take place.

Related to Saxonberg's discussion of negotiation prospects in a maturing post-

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<sup>82</sup> Weber uses the German concept of *Herrschaft*, being translated quite imprecisely to English as 'authority'.

totalitarian regime, one could imagine the emergence of a broad reform coalition. The prospects for this, however, have again been diminished by President Trump's help to reinstate the enemy image that was evaporating under Obama—to the extent that the lifting of the US embargo became a realistic potential option.<sup>83</sup> But abrupt changes may also take the country in completely different directions. The case of Angola, well known to parts of the Cuban nomenclature and not least the military elite, showed that it may be relatively easy to change from a Marxist-Leninist oriented central political command to crony capitalism as a method of extraction. In the case of Cuba, of course, there is a much more solid state apparatus in place and it does not possess the oil or diamond revenues so easily available for rent-seeking as the Angolan nomenclature had.

In this discussion of the legitimacy crisis looming in a post-Castro Cuba, it is very tempting to bring in some considerations based on Antonio Gramsci's theories of hegemony, hegemonic crises and the possible construction of counter-hegemony (Gramsci 1971; ref. also Anderson 1976). This Gramscian terminology was of course developed with a view to analyse conditions for a post-capitalist economic and political order. In Cuba, the question today seems to be more whether the hegemony of the revolutionary movement, expressed principally through the Communist Party, is in such a deep crisis that it will have serious difficulties surviving—at least without relying on much more repressive methods. Borrowing another term from Gramsci, there is no doubt that the Cuban revolution has exercised much of its influence on the population through its *cultural hegemony*. Under the domination of the Communist Party nomenclature, there has been a combination of intellectual and moral leadership, based on a variety of social forces united in a historic bloc. Such leadership is no more present.

A 'crisis of hegemony', or of 'authority', is very much the same phenomenon as the looming 'crisis of legitimacy' in Cuba, although the dominant social and class forces may be very different from what Gramsci had in mind. Yet, the alternative Gramscian concepts of a passive revolution vs. the creation of a counter-hegemonic bloc may still be of relevance. In the former, the bourgeoisie (or nomenclature in the Cuban case) would allow certain demands by going beyond its economic-political interests and thus

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<sup>83</sup> A different outcome of the 2016 elections, with Hillary Clinton promising to make all efforts to eliminate the embargo, together with a stronger Democratic presence in Congress, could actually have led to the lifting of the embargo.

allowing the forms of hegemony to change (typically in the way the Nordic model was conceived in the 1930s). This would imply that the Cuban power elite might have to look for a similar adaptation of its hegemonic bloc in order to meet the emerging legitimacy crisis, particularly after 2018-2021. The alternative might well be that a deep organic crisis will tempt new social forces to start building a counter-hegemonic historical bloc aiming at some kind of post-socialism, rather than ‘restoring the old’ through a passive revolution (ref. further discussion about this in Chapter 11).

It may very well be that the use of analytic tools adapted from the Marxist classic Gramsci, might help us understand one of the most intriguing challenges in Cuba in the coming years (ref. also what was said in 4.4.6 on the decisive importance of developing an anti-hegemonic bloc in civil society, with reference to Przeworski).

The role of the military is a key factor to take into consideration here. Alfred Stepan (1988) offers a classical discussion on this in its Latin-American context, but it must never be underemphasised how different the history of Cuba’s armed forces is (ref. Klepak 2012). The concept of ‘military prerogatives’ may still be valid though; given the key role the military-owned corporations play in the country’s economy.

#### **4.16. How and where does the theoretical-empirical literature fit into our “roadmap”?**

We shall try to summarise how we may fit the literature we have been going through here into our roadmap (Ref. Figure 2.1):

*Route 1 (economics only—from c to b):* this corresponds to what we have called *socialist neo-patrimonialism* or *authoritarian market economy* with China and Vietnam as empirical cases. Since China and Vietnam are widely perceived by Cuban leaders to represent a successful inspiration for its own reforms, we have made an effort trying to understand the process in these two Asian countries and make comparisons to what is going on in Cuba. This is clearly the route attempted by Cuba under Raúl, although his economic reforms stopped far short of the two Asian cases.

*Route 2 (economics leading to politics—*from c to b and further towards a*):* The liberal theories that have dominated the transition literature during almost two generations, starting with Lipset (1960) and his modernization theory, to a large extent belong here: claiming a strong causal relationship between economic development (for Lipset equivalent to capitalism) and democracy. Most of the later transition analysts would rather fall in a combination of Routes 2 and 4 (see later).

The discussion about early winners and early losers, and the new struggles inevitably created about the direction of a transformation process like the one going on in Cuba, is also part of Route 2. Hellmann (1998) and Frye (2007) provide interesting experiences from other processes that may help understand how different actors with partly contradictory socio-economic stakes in the Cuban reforms may be positioning themselves politically, and which impact this may have as push versus pull factors along this route.

*Route 3 (politics only—*from c to d without continuing to a*):* In our literature study, we don't find any really visible trace of this path.

*Route 4 (Politics leading to economics—*from c to d and further towards a*):* Kornai (1992) is the clearest expression of this route. In his study of transition from communism, he claims that political-ideological changes spilled over to economic changes—to a large extent contrary to the underlying hypothesis of our study. Kornai has developed a series of criteria both for political and economic reform that constitute a very valuable reference for the interpretation of the Cuban process, where there seems to have been a major concern to avoid *glasnost* as a logical follow-up to *perestroika*, and where the lessons about what led to the fall of the USSR have probably been studied at depth.

We would probably also put Przeworski (1991) along Route 4. His observations from transformation processes both in Eastern Europe and Latin America are of course highly relevant for Cuba. He comes close to Gramsci's concept of hegemony and possible organization of counter-hegemony. It is interesting to use such Marxist terms in a

country like Cuba, where—as it is argued in this study—the dismantling of Leninism will be a prerequisite for the development of a more democratic form of socialism. We will particularly make use of Przeworski’s approach to discuss possible negotiation options if a possible crisis of hegemony were to emerge.

Considerations on the basis of Hirschman’s classical discussion of “exit” vs. “voice” (Hirschman 1970), are important parts of the assessment of popular reactions to the Cuban transformation. Since there are several historic-cultural factors working against any transition to liberal democracy in Cuba, we have introduced the Fukuyama (2014) concept of “democratic birth defects” and discussed how much weight this concept has when considering the future of the country.

Even our discussion of deliberative and consensus democracy would possibly belong in this category.

*Route 5* (Fast track from exclusiveness to inclusiveness—directly from c to a), is probably what liberal democratic optimism after the fall of the USSR and the Communist Bloc was prescribing at its climax. Huntington (1991) coming back to launch his thesis of the “Third Wave of Democracy”, and Fukuyama 1.0 (1989) predicting that the history of ideological evolution had reached its end-point through the universalization of Western liberal democracy, can be seen as examples of this. Today, 25 years later, such claims have disappeared. The entire democratic transition paradigm is now in deep crisis, with “post-liberalism” (ref. Gray 1993 and 2016) representing some kind of a retreat along the same Route. This is seemingly a more relevant characteristic of the present global trends within which Cuba is searching for its new development identity.

Official US Cuba policy prior to Obama, what we have called *Plattism*, meaning regime change through democracy imposed from outside, clearly has this characteristic of a fast direct track to what Acemoglu and Robinson would call economic and political inclusiveness. As argued in this Chapter, the outcome has, in reality, rather tended to be the contrary: full collapse.

*Route 6* (State failure or collapse): This is a crucial element of Acemoglu and Robinson, and even the title of their 2012 classic. Since Raúl Castro himself has claimed that the Cuban economy finds itself on the “border of the abyss”, we cannot avoid discussing the disaster scenario of a failing state. Fukuyama (2014) also touches upon this possibility.

However, we have to look to adapt the ideal-typical categories of the “roadmap” in order to get closer to a more accurate characterization of some of the contributions in this chapter. The *combination of Routes 2 and 4*—a constant exchange between political and economic transformations, is probably the only fair characteristic we can give of many of the theoretical contributions we have discussed: Linz and Stepan, Haggard and Kaufman, Brown, Saxonberg. The later Fukuyama (what we may call Fukuyama 2.0 in his two-volume macro-historical study (2011 and 2014) with his metaphor “getting to Denmark” has prescribed a parallel journey along these two routes. As such, he also provides an inroad to discuss relevant Scandinavian experiences. In the same way, the advocates of the Nordic model belong here, emphasizing the constant interaction between economics and politics and the role of the different social actors through what has been labelled “transformative democratic politics” (Törnquist and Harris 2016<sup>84</sup>). The economists in this tradition (Moene et. al) emphasize economics first, while the political scientists (Törnquist et. al) are naturally more interested in the political dimension. But both are clearly aware of the mutual spill over effects. Some of the variables developed in these studies are also used as a reference for the discussion of which paradigmatic choices the next generation of Cuban leaders will have to make in the years to come, and how this may indicate the direction of Cuban development between more or less democratic or authoritarian alternatives. Again, a parallel focus on routes 2 and 4 will be crucial.

The general consensus among democracy theorists that the world is now characterized by democratic fatigue is also based on a combination of these two routes. The emphasis of the latter is however on democratic and to a certain extent market *regression*, meaning more or less aborted journeys towards inclusiveness.

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<sup>84</sup> Selected chapters of this book have been translated to Spanish for special study by Cuban intellectuals through the SUM project coordinated by the author and published by *cubapossible.com*.

The discussion of the post-Castro legitimacy challenge must also be understood as interplay between Routes 2 and 4. We go back to Max Weber's discussion of legitimacy (1968), distinguishing between various types of legitimate authority. While Fidel Castro represented one of the strongest examples of charismatic authority, Raúl for lack of his brother's charisma—but still benefitting from his role in the revolution—has depended more on the bureaucratic-rational authority. Without a dramatic improvement of the country's economy and social sustainability, the coming leaders will be up against a serious legitimacy crisis. This would make it very difficult to achieve pragmatic acceptance for a status quo situation, perhaps even encountering a crisis of hegemony in the Gramscian term. This discussion will be decisive for the understanding of probable post-Castro Cuban scenarios.

The *oligarchic neo-patrimonialism* we have discussed, with the relevant examples of Angola and Russia, where privatisation of state property took place through what has been called *state capture*, may also be understood as aborted journeys along the combination of Routes 2 and 4. Attempts to throw off Leninism and state-run economies have resulted in systemic political corruption in which state, military and party nomenclature used their influence over government officials to appropriate government decision-making in order to strengthen their own economic positions. These groups would later become known as oligarchs (ref. World Bank 2000; Frieland 2000). We will be on the outlook for any indication of rent-seeking and nomenclature enrichment in Cuba.

#### **4.17. The overarching issues of the study**

With the help of these theoretical and empirical-comparative tools, we can now outline the overarching issues we intend to study.

A first focus of the study is in what way the economic reforms are leading to an *increasing space for the non-state economy*, mostly on the basis of the growing number of self-employed workers carefully opening up a small entrepreneurial sector. This also includes the peculiar process of privatisation in agriculture, and the new cooperative

sector both inside and outside of agriculture. We will be assessing the rise of the private sector, possible joint private/public ownership, and the leasing of state property.

A closely related approach will be whether we can see the emergence of an *institutional infrastructure* that can facilitate the growth of a legal and efficient market economy—which thus may put up serious competition with parts of the state economy.

We will also keep an eye on the country's *economic and social performance*, assessed up against economic and social problems: how it contributed to the undermining of the USSR, and how, in China and Vietnam, economic success and social improvement and mobility for the majority of the population provide the regimes with considerable continued legitimacy (*pragmatic acceptance*).

Related to the expected and necessary growth of the private economy is the question of *how the official ideology is adapted* to the changing state/non-state division of work and correlation of force, and how the bureaucracy is reacting. This question is what Linz and Stepan refer to as the emergence of a 'usable state bureaucracy', and it touches upon two of Kornai's transition dilemmas: the ideological resistance in party and state nomenclature and bureaucracy against the growing private sector, and the *incoherence of the partial reform*. By this he refers to how the logic of increasingly deepening reform, and the speed of its introduction, tend to undermine the entire system. That may be the motivation behind Raúl Castro's reform recipe: "*sin prisa pero sin pausa*"; "without hurry but without pause"—the wisdom of the turtle. Here it also becomes important to discuss the equivalents of the two Gorbachev concepts of *perestroika* and *glasnost*, and how they have been adapted and implemented in China, Vietnam and Cuba compared to their fatal role in the downfall of the USSR.

A specific part of the study will be dedicated to the study of *post-totalitarianism*, and the dilemmas of increasing freedoms and pluralism that are expected to emerge during this phase. Building on Archie Brown, we are particularly interested in the effect of greater access to travel and information (with internet as a decisive factor); we want to assess the role of intellectuals and academics; and watch possible internal leadership disagreements or even fissures. The latter aspect, also a possible source of more reform,

is particularly important during the large generational change expected to characterise the 2018-2021 period. A difference between civilian and military leaders and even military with predominantly managerial versus security functions will be additional factors to watch. The ultimate political transformation question is whether the party's power monopoly starts loosening up. The discussion of possible outcomes of post-totalitarianism will be guided by Linz and Stepan's and partly Saxonberg's attempts to theorise about it.

We base the transformation scenarios against the backdrop of *experiences in China and Vietnam*, where particularly the latter country is seen as a role model by leading Cuban officials. Among the aspects to consider will be whether Cuba will permit more decentralisation, which played such an important role for economic and partly political innovation in the two Asian countries. Further, what complaints and co-optation mechanisms will be put in place if there is more social protest which may be expected in a society with more socio-economic and political differentiation (ref. the Chinese *contentious bargaining* mechanism). And we will observe whether more large-scale private economic initiative and enrichment will be permitted with the nomenclature forging close alliances and common interests with the entrepreneurs leading to a blending of state and non-state economic interests, perhaps with the military corporations as intermediaries. This is what could turn the country into what we have labelled *socialist neo-patrimonialism (authoritarian market economy)* as we know it from China and Vietnam, or *oligarchic neo-patrimonialism*, following the examples of Russia or Angola. The most fundamental question is whether it will be possible to maintain a monolithic power structure if more market economy is allowed, given the historic and cultural differences compared to China and Vietnam.

An alternative vision of *politicising democracy*, perhaps built on recent experiences from some Latin American countries or even elements from the Nordic Model dating back to the crisis of the 1930s, will also be discussed, although its application to a post-totalitarian regime may be of limited relevance. Perhaps the increasingly authoritarian aspects of left-leaning Latin American regimes appeal more to Cuban leaders than the strong popular mobilisation that in many cases brought them to power. Still,

experimenting with new forms of more autonomous cooperatives may be an interesting process to observe in this connection.

The *international context* was changing as a consequence of the normalisation process with the US. This factor has mostly been reversed by President Trump. The Soviet experience, that the easing of the Cold War and reduced tensions with the West led to a weakening of the repression apparatus and a rapidly declining anti-reform influence of the conservatives, is well worth noticing. The issue in Cuba is whether ordinary people still believe in the narrative of the *US representing an existential enemy*, justifying the continuation of authoritarian and anti-liberal practices.

This takes us right to the decisive question of how the post-Castro generation of leaders will solve the *legitimacy challenge* they, with all probability, will be confronted with when the historic and charismatic elements have disappeared. They lack the economic and social progress that has helped the Chinese and Vietnamese regimes enjoy renewed legitimacy. The US enemy image that previously could absorb the blame for almost any problem in Cuba could be hard to reconstruct even with Donald Trump in the White House.

A specific area of interest in the non-state sector institutionalisation is the question of whether, and to what degree, *horizontal interest organisations* are emerging. This would be a logical consequence of perceived common interests among private entrepreneurs and their need for a proper representation channel vis-à-vis the state. Autonomous interest organisation has consistently been impeded by the regime, for fear of losing political control. As argued by Linz and Stepan such organisation could have a strong spill over effect to the strength of civil society and even political society. But, as we will show, there is strong reservation among the emerging entrepreneurs to organise and thus become more visible, for fear of exposing themselves to state intervention, not least because they are obliged to operate largely beyond legal limits. This raises the question of whether private entrepreneurs gradually will *change from exit to voice*, i.e. from withdrawal to engagement in their relation to government and the political arena.

In the next chapter these issues will be spelled out in a number of transformative challenges, hypotheses and indicators, where correlation between the different routes drawn up in Figure 2.1 and discussed theoretically in this Chapter will be tested in practice.

## **Chapter 5: Transformative challenges, hypotheses and indicators**

### **5.1. The meeting of the practical reform agenda and the transition literature**

We will in this chapter formulate a series of hypotheses about nine crucial challenges we may anticipate in the Cuban transformation process during the 2008-2018 period. On that basis, we will organise the empirical discussion, divided between three evolving arenas: the economic arena, the international arena and the political arena.

While the explicit reform agenda forms the basis for most of the economic challenges (1, 2 and 3) and also partly the international challenges (No. 5), the theoretical-empirical discussion drawn up in Chapter 3 will help us formulate challenges and hypotheses about the potential political transformative effects and impact of the reforms (challenges 4 and 6-9).

Regarding the evolving economic arena (Chapter 6), the theoretical considerations are particularly relevant for observing whether a growing market economy will provide non-state actors with more autonomy, and perhaps even a countervailing economic power that may eventually challenge the political power monopoly. In Challenge 4 (Chapter 7), we go right into the issue of possible political implications of socio-economic changes, drawing heavily on the theoretical and empirical-comparative discussion.

The challenges in the international arena (Challenge 5, Chapter 8)—particularly caused by a changing relationship to the USA—will be tested in terms of a possible relaxation of authoritarian-repressive measures and a more pragmatic foreign policy, of a weakened imperialist enemy image.

Chapter 9 presents a discussion of potential transformations in the political arena. The emergence of a more pluralistic civil, academic and media society is partly a consequence of two reform measures: access to cell phones and the Internet, and the emigration reform. The emergence of new social spaces outside of state control is seen as a major game changer in the transition literature and in the study of post-totalitarian transformations. This is particularly the case when there is a coincidence of more autonomous non-state economic actors and a more politically oriented civil society.

The theory chapter also helps us formulate hypotheses about the possible impacts of reforms on the existing power structure (Challenge 7), as well as on moves towards a less authoritarian political system (Challenge 8). Perhaps the greatest of all, from a political science perspective in Cuba, is the need for a new source of legitimacy for the post-Castro generation of leaders (Challenge 9). This will also be discussed in the perspective of theoretical and comparative literature.

The status of these transformations taking place during the Raúl Castro era of government will be summarised in Chapter 10. We will, however, also discuss what challenges the post-Castro generation of leaders are left with, the likely dilemmas during the critical juncture starting with the anticipated 2018 change of guards (Chapter 11), directly leading up to the potential scenarios we will be drawing up for this period with subsequent years (Chapter 12).

## **5.2. The three possible outcomes of the study**

The general question we intend to discuss in this study is where Cuba has been moving during the 2008-2018 period, with three possible outcomes:

1. *Status quo*: The prospects of increasing economic pluralism will be seen as a threat to the very political power monopoly of the present political system in Cuba. The fear of this chain of events may lead to a halt in both economic and political reforms. Illustrated by Figure 2.1, this means that Cuba will be stuck in cell c (exclusive economic and political institutions). The implication of the status

quo outcome is that the Cuban reform process will mostly be about *survival without development*.

2. *Economic change spilling over to the political arena:* A widening of economic pluralism may be taking place in such a way that it will lead to increasing political pluralism and de-concentration of power, and ultimately to a political transformation to less authoritarian and more participatory forms of government (Route 2; movement from cell c to cell b (more inclusive economic institutions), with possible movements further on to cell a (where even the political institutions become gradually more inclusive)).
3. *Political change spilling over to the economic arena:* An alternative overall movement may be that changes in the political and power structure may accelerate the speed of economic reforms (Route 4, where political institutions become more inclusive before the economic institutions, also with possible movements toward cell a).

It is rather straightforward to establish the link between the various challenges and our Politics – Economics Correlation Matrix:

Challenges 1, 2 and 3 (the evolution of the economic arena) belong to Route 1 or 2 (Economics first or economics only).

Challenge 4 (political implications of socio-economic changes) is clearly on Route 2 (Economics first, leading to politics).

Challenge 5 (international arena) is probably a combination of 2 and 4 (mutual effects between economic and political transformations), but the external origin of this challenge makes it a little harder to localize in our matrix.

Challenges 6, 7, 8 and 9 (political arena) find themselves on Routes 3 or 4, depending on how much spill over they identify from politics to economics. Indicators 9.3 (reform

continuity or not) and 9.4 (new source of legitimacy) also have elements belonging to Route 2.

The Principal dilemmas during the critical juncture (Chapter 11) belong to various Routes, but in general to the mixture of 2 and 4.

### **5.3. The nine challenges with hypotheses and indicators**

For each of the nine challenges identified here, we will formulate a zero hypothesis ( $H_0$ ), implying status quo with no or limited structural change, and an alternative hypothesis ( $H_1$ ), implying structural change with potential transformative impact.

#### ***Challenge 1: Significant retreat of the state in the agricultural sector as a measure to meet the massive need for increased food production.***

In situations of major economic-political transformations, like what many expected was underway in Cuba when Raúl Castro launched his reform agenda, what happens in the agriculture sector will always be of primordial importance to watch. It is not by chance that Fukuyama (2011) considers the role of farmers and peasants as decisive in “the way to Denmark”, his metaphor for the transformation to liberal democracy. It is interesting to compare this to the way Prosterman prescribed the promotion of self-owning peasantry as the most effective counter-insurgency strategy during the Vietnam War (and later also to counter the insurgence in El Salvador) (Prosterman and Riedinger 1987). We may then watch how the victorious Vietnamese Communist Party to a large extent followed a similar recipe in the post-war transformation to a highly successful privatised agriculture. Right from the beginning of the Raúl Castro era, we have seen significant agricultural reforms, but even more so a constant hesitance and indecision, zigzagging between pro-reform measures and backtracks. The clear perception when the reform era started was that the government—and Raúl Castro himself—understood the need for a deep structural pro-market reform in agriculture. The national leaders were, however, unprepared to fully implement it for fear of letting loose market forces that also might threaten their political control. This situation reflects an on-going power

struggle about the very soul of the Revolution and the future of the country, between opposing ideological sectors and perhaps between the winners and losers of reforms being put in place. It is a fact that some of the main architects of the Revolution's first important political measure—the agrarian reforms of 1959 and 1963—remain in crucial decision-making positions. One of them is Second Secretary and de facto Communist Party Coordinator Machado Ventura. The strategic decision was to avoid creating a self-owning farmer class that might undermine the collective vision of the Revolution (Szulc 1986:524). This revolutionary continuity inspired by the first ten years of the 100 years old Russian Revolution, may explain the die-hard attempts to block any '*kulakization*'<sup>85</sup> of the Cuban peasantry.

Having been considered as one of the main aims of the Revolution to leave behind the food import dependency, the situation was the same or worse 55 years later. The predominant state control of production and distribution of food products had left Cuba—a country with vast potential for agricultural self-sufficiency and export—with an acute shortage of food products. The country cannot afford spending close to 2 billion USD annually on food imports, whilst only producing 20-30% of its own food consumption. As argued by Cuban agricultural economist Armando Nova and others (ref. Nova and García 2013): only by admitting private peasants and farmers autonomy to produce and commercialise their products will agricultural productivity rise. This argument has been confirmed by cases from a large number of other countries attempting state control of the agriculture (e.g. Nicaragua in the 1980s—see Bye 1990/1991). A good state regulatory system combined with independent farmers—alternatively organised in cooperatives—tend to facilitate such success (ref. also the experiences from the Scandinavian countries, Törnquist and Harris 2016).

In China, the 1986 adoption of the so-called General Principles of Civil Law (GPCL) regulated the usufruct (usage) rights and practices (ref. Chapter 4.9.4).

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<sup>85</sup> We come back to Stalin's war on the *kulaks* in chapter 6 under challenge 1. The concept *kulak* would normally mean a middle-size farmer or peasant; after the 1917 Revolution used as a depreciatory concept for any peasant who resisted handing over their grain to detachments from Moscow. This group was among main contributors to the NEP success, until Stalin in 1929 initiated his campaign to collectivise the peasantry, in what was called *de-kulakization* (Gregory 2004).

In Vietnam, the Doi Moi reform programme, right from the beginning, abolished agricultural collectives, removed price controls on agricultural goods, and enabled farmers to sell their goods in the marketplace. Vietnam's major breakthrough in agriculture came in 1989 when the country had a record output of food production. From a country facing chronic food shortage, Vietnam saw a strong and fast growth in agricultural production and became the world's second largest rice exporter after ensuring adequate supply for domestic consumption. Rural people's life has constantly been improving.

As a consequence of these reforms, poverty fell dramatically in both these socialist countries during the latest 25 years, while the richest grew even richer and social differentiation increased. China now boasts more billionaires than the US, and many of them also belong to the Communist Party nomenclature.

These empirical cases backed up by theoretical literature, form the backdrop for studying the Cuban approach to agricultural development and increased food production.

*H<sub>1.0</sub>: No real independence for individual peasants and farmers; continued state control of food distribution.*

*H<sub>1.1</sub>: Peasants and farmers gaining increasing autonomy (transition to family farming), with good access to implements and markets.*

*Indicators to watch regarding this challenge:*

- *Indicator 1.1: Movement from state to non-state land tenure?*
- *Indicator 1.2: General autonomy and sovereignty for peasants/farmers?*
- *Indicator 1.3: From state-regulated to market-based commercialisation?*
- *Indicator 1.4: De-bureaucratisation of agriculture?*
- *Indicator 1.5: Strengthening of family farming?*
- *Indicator 1.6: Sufficient food supply to urban areas, at affordable prices?*
- *Indicator 1.7: Reduced import dependency?*

***Challenge 2: Loosening of state economy—growth of non-state economy—aiming at sustained economic growth and employment generation.***

Raúl Castro had made very clear the limits to privatisation when *the Guidelines* were approved at the 6<sup>th</sup> Party Congress:

“The growth of the non-state sector of the economy, far from meaning a supposed privatization of the social property as some theorists claim, is called on to turn into a facilitator factor for the construction of socialism in Cuba. It will permit the State to concentrate itself on increased efficiency of the fundamental means of production”.

Early in the transformation process, Raúl Castro and his head officials acknowledged that the state sector could not afford to keep its huge and largely unproductive and redundant workforce. In a situation with a deep fiscal crisis, alternative and liveable employment would be virtually impossible to find without a major restructuring of the labour market. A plan to lay off more than 35% of public employees (1.8 million persons) was presented, with a quite unclear perspective of how this idle workforce should be offered alternative employment. It will therefore be important to study how the state enterprise sector has been re-structured—particularly with regards to the role of military-managed corporations. What has happened with the relationship between state and non-state employment, and to what extent has the latter been moving from simple self-employment to more organised entrepreneurial forms of production, e.g. in the form of micro, small and medium enterprises (MSMEs), alternatively to cooperatives in one form or another?

Self-employment in Cuba may be compared to the growth of labour informality in Latin America. Many Latin American countries have experienced that with rural-urban migration together with traditional industries closing down, the emergence of a vast informal survival sector and increasing economic illegality takes over as a predominant source of survival (ref. de Soto 1989). On the other hand, as most of the theory and empirical experiences from ex-socialist countries indicate (Kornai, Brown, Saxonberg), such loosening of state control may also have politically transformative effect.

In a country like Vietnam massive lay-offs of state workers after the Doi Moi market reform (1986) were largely compensated for by mushrooming employment opportunities in the non-state sector, generally offering better conditions than in the companies they left. But there are two important factors that distinguish Cuba from Vietnam here:

- The high percentage of rural and agricultural population in Vietnam may have eased the process, by strengthening access to land and markets for the peasants;
- The strong and relatively unfettered stimulus in Vietnam to establish private companies, leading to a rapid surge in private savings and investments, and a strong encouragement of the entrepreneurial spirit.

The role of MSMEs was crucial in this regard. More than 30,000 private businesses had been created by the end of the 1990s, the economy was growing at an annual rate of more than 7%, and poverty declined from 50 to 29% of the population from the 1990s to 2005 (ref. de Vylder and Fforde).

In Cuba also, systematic stimulus of MSMEs and perhaps of autonomous cooperatives stood out as a logical alternative to avoid a repetition of the respective Latin American and Eastern European cases, in order to move the country in the direction of the Vietnamese economic success.

*H<sub>2.0</sub>: Status quo: a continuation of state property hegemony, combined with an increasing non-state workforce left to micro-size survival options and “savage capitalism”.*

*H<sub>2.1</sub>: Opening a significant space for MSMEs (micro, small and medium enterprises) and other non-state entrepreneurs (including cooperatives), in a more regularised market economy.*

*Indicators to watch regarding this challenge:*

- *Indicator 2.1: Explicit political will to de-monopolise the state economy?*
- *Indicator 2.2: Increasing de-regulation of state companies?*
- *Indicator 2.3: Continued dominance of military corporations?*
- *Indicator 2.4: Transfer of workforce from the public sector to self-employment?*
- *Indicator 2.5: Private workforce gaining more independence from the state?*
- *Indicator 2.6: Growing weight of the non-state sector in the Cuban economy?*
- *Indicator 2.7: Growth of an autonomous cooperative sector?*
- *Indicator 2.8: Incentives/dis-incentives for other potential non-state growth initiatives?*

***Challenge 3: Massive need for productive investments to spur economic growth and employment generation.***

The Cuban economy suffered a fatal blow with the disappearance of the Soviet Union, leading to the so-called ‘special period’ of the 1990s where large segments of the population were barely surviving on minimum incomes and with little access to basic goods. After some years of recovery, to a large extent due to the new economic relations with Venezuela, economic growth from 2009 again fell to far below what most economists saw as a minimum for recovery: 5% sustained annual growth (Torres 2016). Perhaps most seriously, gross capital formation (investment as percentage of GDP) fell to unsustainable levels (10-13%, less than half of the Latin American average). New sources of investment were desperately needed in order to avoid an economic collapse, while the Communist Party kept insisting (Party Congress 2011) that it was “not yet” prepared to accept private accumulation as a source of new investments. This goes back to Fidel Castro’s dogma that private enrichment was ethically wrong, and that the emergence of a capitalist class would undermine the political foundations of the Revolution (ref. Fidel Castro’s speech announcing “the Revolutionary Offensive”, on 13 March 1968). Under such philosophy, Foreign Direct Investment (FDI) seems to be a lesser evil than domestic investment and the growth of national capitalism.

*H<sub>3.0.1</sub>: No incentives for non-state investments*

*H<sub>3.0.2</sub>: Reform FDI regime and promote investments predominantly through state corporations; spurring significant state sector growth and employment creation*

*H<sub>3.1</sub>: Allow/promote diaspora investments as well as domestic entrepreneur investment; spurring non-state growth and employment creation*

*Indicators to watch:*

- *Indicator 3.1: FDIs playing an increasing role in Cuba's economic development?*
- *Indicator 3.2: Increase in other sources of foreign currency?*
- *Indicator 3.3: Family remittances and other sources of investment promoting private sector development?*
- *Indicator 3.4: Increasing partnership between foreign investors and national enterprises?*
- *Indicator 3.5: Capital formation ratio improving?*
- *Indicator 3.6: Creative destruction taking place?*
- *Indicator 3.7: Macro-economic outcome of Raúl's reform era*

#### ***Challenge 4: Political implications of socio-economic changes.***

The changing economic arena may be posing a series of challenges to a political system that is resisting political transformations. This follows logically from the classical transition theories from Lipset, through Huntington to Linz and Stepan; but also from empirical studies of the fall of the USSR (Kornai, Brown). Kornai, however, believes that the political transitions will be necessary in order to bring about economic transformations (ref. Kornai's (1992:383-386) list of criteria for political and economic transformations).

Linz & Stepan's five arenas (civil society, political society, rule-of-law, usable state bureaucracy, institutionalised economic society) may offer a useful guidance to study the relationship between socio-economic and political changes.

One signal from China (and, as we shall see, from Vietnam) is well noticed in Cuba: *there is not yet any sign that the successful market economy is leading to political liberalisation*. But, as we shall also see, there is more openness and pluralism inside the power structure in Vietnam than in China and Cuba (London 2016).

*H<sub>4.0</sub>: Consistently resisting more autonomy for non-state economic actors that could follow logically from a changing economic arena; thus resisting political transformations.*

*H<sub>4.1</sub>: Accepting more autonomy for non-state economic actors with potential for political transformations*

*Indicators to watch:*

- *Indicator 4.1: Winners and losers of the reforms with conflicting political interests*
- *Indicator 4.2: An emerging middle class with distinct interests?*
- *Indicator 4.3: Evolution of social conditions and previous egalitarian structures*
- *Indicator 4.4: Private sector gaining potential power position?*
- *Indicator 4.5: Ideological acceptance/resistance to private property and capital accumulation?*
- *Indicator 4.6: More autonomous interest organisation permitted?*

***Challenge 5: A changing international context: How to influence the US to abandon the embargo/blockade; and/or compensate the embargo by help of other international alliances.***

The US' commercial, economic and financial embargo against Cuba, on the Cuban side characterised as a blockade (*bloqueo*), has been in force and has been gradually

expanded since October 1960.<sup>86</sup> The stated purpose of the *Cuban Democracy Act* of 1992 was to maintain sanctions on Cuba so long as the Cuban government refused to move toward "democratisation and greater respect for human rights". The Helms–Burton Act (1996) further extended the territorial application of the initial embargo by applying it to foreign companies trading with Cuba. More importantly, while the previous acts had been executive orders that also could be abandoned by any future President through another executive order, Helms-Burton was signed into *federal law* by President Clinton, thus requiring a qualified majority in Congress to lift it. This would for instance make it impossible for President Obama to abolish the embargo/blockade without 60 supporting votes by the US Senate. Barrack Obama had been on record questioning the Cuban embargo since he ran for a seat in the Senate in 2004, and there was speculation that he would take steps in his second presidential term (after 2013) to reach out to Cuba. On the Cuban side, the US blockade, apart from its undoubted serious damage to the Cuban economy, was also referred to as the reason why limitations in democracy and human and civil rights had to be maintained.<sup>87</sup> So, this was the main Gordian knot (or Catch 22 situation) in US–Cuban relations, with the US demanding that democracy and human rights had to be respected before lifting the embargo, and Cuba claiming that the embargo had to be lifted before such rights could be restored. One common claim among critics of the Cuban regime was that the maintenance of the blockade in reality was in their political interest, so as to maintain the authoritarian polity. So, in political terms in Cuba, there is a double side of the US embargo. Another relevant question is whether, in the post-liberal world order (ref. Gray 2016), the Western liberal democracy really represents an attractive role model for a country like Cuba.

*H<sub>5.0</sub>: The relationship of hostility to the US continues, thus also maintaining the justification against political liberalisation.*

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<sup>86</sup> The Cuban embargo is enforced mainly through six statutes: the Trading with the Enemy Act of 1917, the Foreign Assistance Act of 1961, the Cuban Assets Control Regulations of 1963, the Cuban Democracy Act of 1992, the Helms–Burton Act 1996, and the Trade Sanctions Reform and Export Enhancement Act of 2000.

<sup>87</sup> Fidel Castro argues at length about the political justification of limited civic liberties in Ramonet 2007. For instance, when asked about the lack of press freedom, he says that as long as there is a US blockade against Cuba and a threat by the US President, "we cannot give the 'freedom' to the allies of our enemies whose objective is to struggle against socialism's reason for existence" (p. 491). He has also argued that the US would benefit more than Cuba from normal relations: "If the United States makes peace with us, it will take away a little of our prestige, our influence, our glory." (Quoted from a 1961 speech in Leogrande and Kornbluh, 2014:406).

*H<sub>5.1</sub>: There will be a gradual accommodation of Cuban-US relations during the second presidential term of Barack Obama, allowing the introduction of major economic and political reforms as part of that process.*

*Indicators to watch:*

- *Indicator 5.1: Cuba searching for a new international role*
- *Indicator 5.2: US-Cuba relations: Towards the end of the embargo and the Cuban “bunker mentality”<sup>88</sup> justifying lack of civic freedoms?*
- *Indicator 5.3: Strengthened ties to Latin America— isolation of US embargo policy?*
- *Indicator 5.4: Improved relations to the rest of the world?*
- *Indicator 5.5: What international Zeitgeist is framing Cuba at the end of the Castro era?*

### ***Challenge 6: Emergence of a more pluralist civil, academic and media society.***

Civil society in Cuba has been seriously hampered from acting independently of party and state structures. The same has been the case for critical academic debate. The trend has been to treat all critical expressions as “counter-revolutionary” and serving—often also claimed to be financed by—“the enemy” (normally meaning the US). Allowing more space for critical public discussion, through a more independent academia and civil society and more pluralist media structures, would be an important step towards a more pluralist political system. Linz & Stepan’s four dimensions of post-totalitarianism (pluralism, ideology, mobilisation, leadership) would be of great help to analyse this situation.

The relationship between economic and civil society, and political pluralism, has been well documented in Linz and Stepan’s theory of relationship between the various arenas in a transition process and may help us understand the role of horizontal interest

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<sup>88</sup> Defined by Merriam Webster as follows: “a state of mind especially among members of a group that is characterized by chauvinistic defensiveness and self-righteous intolerance of criticism”.

organisation. We will be looking at how empowerment of citizens and social groups in order to organise struggle for change may lead to what has been termed ‘politicised democracy’ and to different forms of social democracy (Törnquist 2016). In this work, Törnquist also discusses the concept of ‘transformative democratic politics’, with its 3-4 dimensions: democratic collectives with potential to build counter-hegemony (ref. Przeworski). Another angle of this discussion is to analyse the composition of broad popular interests (horizontal interest organisation); strong democratic linkages between state and society; structural conditions and efforts for the development of coalitions, social pacts and collective bargaining between sections of capital and labour.

This stands in contrast to China under Xi Jinping, China’s undisputed leader from 2012, who has made it clear that political liberalisation is out of the question.

In Cuba, like we have pointed out in the case of Vietnam, the reform drive is not expected to come from independent interests or social classes as much as from an intra-elite conflict within the state apparatus. Yet, we will be on the outlook for whether the emergence of new middle classes will produce a vital pro-democratic force.

*H<sub>6.0</sub>: Status quo, with heavy restrictions on all independent academic expressions, civil organization and public debate in general.*

*H<sub>6.1</sub>: A gradual opening for a constructive public debate, with organizational expressions and innovative academic positions emerging and being tolerated, also being reflected by non-official media outlets.*

*Indicators to watch:*

- *Indicator 6.1: Towards a more pluralist civil society?*
- *Indicator 6.2: Academics and intellectuals permitted a more autonomous role?*
- *Indicator 6.3: Churches playing an increasing political role?*
- *Indicator 6.4: Increasing role for independent information actors?*
- *Indicator 6.5: More respect for dissenters?*
- *Indicator 6.6: Emerging “agents of change”?*

***Challenge 7: Differentiation of State vs. Party functions; division of state powers (legislative vs. executive)?***

The Leninist political system in Cuba is based on the thesis of the Communist Party being the nation's "organised vanguard" and the "superior leading force of society and the State" (ref. Constitution Article 5), representing the undisputed common interests of "the people". As the Cuban society grows more heterogeneous, the complete concentration of power in the hands of a few persons without distinction between party and state functions, and without any distinction between executive and legislative functions, becomes a major challenge. It is well documented in the literature on post-Communist transitions how the abolishment of the Leninist state model may open up the societies at large, as seen e.g. with the introduction of perestroika and glasnost during latter years of the USSR (Kornai, Brown). As demonstrated in all democracy literature since Montesquieu articulated the theory of separation of powers (see e.g. Dahl 1998), the differentiation of state powers has been considered a sine-qua-non for public accountability and the establishment or consolidation of a rights-based society, with rule of law as the fundamental principle of citizen-state relations.

Cuba, lacking the Confucian and millennium long state tradition of its East Asian role models with their un-differentiated power structures, cannot run away from the legacy of the European state tradition with its implications for the pre- and post-colonial state structures in Latin America. That may have significance for the differentiation of state powers and the relationship between state and citizens, setting Cuba apart from China and Vietnam in terms of the political impacts of deeper market reforms.

*H<sub>7.0</sub>: Continuation of overlap between party and state functions; executive and legislative roles*

*H<sub>7.1</sub>: Distinction between party and state functions; the Legislature operating more independently of the Executive*

Indicators to watch:

- *Indicator 7.1: Communist Party showing any sign of opening up?*
- *Indicator 7.2: Will there be any visible steps away from the Communist Party power monopoly?*
- *Indicator 7.3: How representative are members and leaders of the Communist Party?*
- *Indicator 7.4: More differentiation between Party and State functions and leaders?*
- *Indicator 7.5: Any change in the role of the Military?*
- *Indicator 7.6: Bureaucracy remaining as barrier to reforms?*

***Challenge 8: Moves towards a less authoritarian and more pluralist political system?***

The transfer of power from Fidel to Raúl Castro symbolised the definitive end of a totalitarian political system with a transformation from totalitarianism to authoritarianism (the difference was elaborated in Chapter 4, ref. Linz and Stepan's Table 4.2, pp. 56-60). But still, the authoritarian polity represented a major challenge to a sustainable and legitimate system, capable of surviving through the unavoidable generational transfer of power. Raúl Castro stated, when the economic and social 'updating' was presented at the 6th Party Congress in 2011, that no political reform would be introduced. Cuba continued to have an extremely centralist system, with all major decisions being taken by a small Havana party elite, without transparency and public debate. Municipal and other de-centralised parts of the state structure had minimum autonomy, also allowing very little involvement of local communities in policy-making. Democracy and popular participation is hardly possible without decentralised and bottom-up structures of decision-making. The question we want to raise in the case of Cuba is whether it is possible to start transforming heavy Leninist, authoritarian, centralist, verticalist, and opaque structures without abolishing the monolithic state structure altogether.

In USSR and other communist states, lack of freedom and accountability in the short run ensured regime survival by obscuring and outweighing the relative economic failure—in the long run these factors became at least as important as economic failure in undoing Communism (Brown:587). What perestroika demonstrated was that *Communism could not survive with radical reform of its political system*. With political pluralism, fissures emerged within the ruling party, spelling over to the society at large—“the party’s monopoly of power depended on the preservation of democratic centralism”. But, as Brown claims “in the Soviet Union, reform produced crisis more than crisis produced reform” (Brown:598).

In China and Vietnam, decentralisation has been an integral part of the reforms. Such trends have hitherto not been seen in Cuba. Will that change? Will the increasing pluralism seen in the Vietnamese top political system (e.g. prior to the 2016 Party Congress) also emerge in Cuba? What we want to study under this challenge is how post-totalitarianism has evolved in the Cuban political system during the Raúl Castro era, compared to other Communist regimes.

*H<sub>8.0</sub>: Status quo, with no significant political reforms*

*H<sub>8.1</sub>: Significant ideological renewal and political reforms being introduced.*

*Indicators to watch:*

- *Indicator 8.1: New ideological trends?*
- *Indicator 8.2: More liberal regime characteristics?*
- *Indicator 8.3: Less authoritarian culture inside the Communist Party?*
- *Indicator 8.4: The role of pro-regime mass organisation mobilisation.*
- *Indicator 8.5: Any sign of a more open/pluralistic election process?*
- *Indicator 8.6: Improved rule of law performance?*

### ***Challenge 9: Generational renewal with a new source of legitimacy.***

The new Politburo elected by the 6th Party Congress in 2011 had a serious over-age problem, with the two senior positions in the Party as well as the State structure both being held by men above 80 years of age (Raúl Castro and Machado Ventura) and the majority of members being above 70 years. Raúl Castro had removed all younger aspiring leaders allowed into top positions by his brother Fidel, and he recognised in his presentation of the Central Report to the Congress the lack of “a reserve (of young leaders) duly prepared, with sufficient experience and maturity to assume the new and complex management tasks”. This, he said, would have to be gradually solved during the coming five years (until the 2016 6<sup>th</sup> Party Congress), adding that due to the law of life, the 6<sup>th</sup> Congress would probably be the last headed by the historic generation (quoted by Mesa-Lago 2013:224). We shall assess to what extent this has happened, before the historical leadership generation ultimately retires, taking with them the historical legitimacy of the Revolution. Short of a revival of external enemies, a new legitimacy will then unavoidably have to be based on socio-economic performance.

Cuba has lacked the instruments for a systematic rotation of leadership positions found in China and Vietnam, contributing to stability and legitimacy of the authoritarian rule and a stable and constant transfer of power to a younger generation of party leaders in these countries.<sup>89</sup> Will that change with the unavoidable departure of the historic leaders? China has also put in place mechanisms for co-opting social protest (“routinized contentious bargaining”), which may well become necessary also in Cuba, as the society grows more diversified. These are all elements of the performance-based “*pragmatic acceptance*” that Cuba will need to reconstruct. Will that happen?

Repeated waves of emigration have provided the Cuban regime with a safety valve, providing the disaffected, in various generations, an option for ‘exit’ rather than ‘voice’. The comprehensive illicit economy may be seen as another form of ‘exit’ from government control. The question is whether such exit positions will persist, or whether—in their absence—younger generations will opt for more ‘voice’ in the form of

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<sup>89</sup> This principle may be endangered by Xi Jinping’s apparent wish to stay on after the 2022 Party Congress.

social and possibly political protest (ref. Hirschman's dual concept)?

*H<sub>9,0</sub>: The revolutionary generation, those who have been in power since 1959 and other old-timers, will cling on to their positions until the bitter end (until they pass away or become physically and/or mentally unfit), while also avoiding the necessary economic and political renewal to provide the next generation of leaders with a new source of legitimacy built on performance and merits.*

*H<sub>9,1</sub>: Raúl Castro will initiate a gradual transfer of power to younger leaders, and also introduce economic and political reforms upon which they may build a new popular legitimacy through merits and pragmatic acceptance.*

*Indicators to watch:*

- *Indicator 9.1: Will the 7<sup>th</sup> Party Congress (2016) imply a deeper Party leadership renewal?*
- *Indicator 9.2: How thorough renewal of State leaders (2013 and 2018)?*
- *Indicator 9.3: Reform continuity or counter-reform?*
- *Indicator 9.4: New source of legitimacy emerging?*
- *Indicator 9.5: Voice or Exit?*

#### **5.4 Some dilemmas when entering the critical juncture (2018-2021):**

There is a number of additional challenges that we had in mind when starting this study, which we now realise will be left to the post-Castro era, to be dealt with as part of what we have called the critical juncture (Chapter 11). Since they have not really been handled so far, they cannot be tested like the nine first challenges, although we had formulated the following hypotheses:

*Cuba is doomed by historical authoritarian structures carried over from the colonial to the socialist era, plus the characteristics of post-totalitarianism, to continue rejecting anti-authoritarian transformation.*

Alternatively:

*A deep legitimacy crisis affecting the post-Castro Cuban leadership may lead to the emergence of counter-hegemonic blocs and enforce a political settlement with transformative impact.*

## **Chapter 6: The evolving economic arena**

In this Chapter, we will address the three first challenges of the Cuban reform process: the agricultural sector, the new division of work between state and non-sectors, the quest for productive investments; and on that basis the political implications of socio-economic changes brought about by the reform process.

### **Challenge 1:**

**Significant retreat of the state in the agricultural sector, i.a. as a measure to meet the massive need for increased food production**

#### **1.0. Some baseline notes on Cuban agriculture**

The opening up of agriculture to more private initiative has been seen as one of the most crucial aspects of the Cuban economic reforms, also in terms of potential political effects. It is not without reason that Fukuyama (2011) puts a principal emphasis on the role of peasants in his metaphor of “*getting to Denmark*”, or that Prosterman and Riedinger (1987) see land reform as the crucial step towards capitalist-based democracy in Vietnam and in El Salvador.

The *Guidelines* approved by the 6<sup>th</sup> Party Congress (2011), established the goal (in point 177): “achieve that this sector (agriculture) will progressively contribute to the country’s balance of payments, in order to cease being a net importer of food”.

This goal can be traced all the way back to the early days of the Cuban revolution, when Fidel Castro in a September 1959 speech announced the intention of achieving alimentary independence, going in detail through a long list of agricultural products and

specifying what quantities had to be produced and how much this would represent in monetary savings.<sup>90</sup> Satisfaction of domestic food consumption was among the main objectives of Cuba's 1959 Agrarian Reform Law (Alvarez 2004). This law, and the discussions leading up to it, was considered a pivotal element in the early days of the Cuban Revolution, under heavy influence of Che Guevara. It was based on a recognition that:

“[T]he peasants who belonged to our first guerrilla armies came from that section of that social class which most strongly shows love for the land and the possession of it; that is to say, which most perfectly demonstrates the petty-bourgeois spirit. The peasants fought because they wanted land for themselves and their children, to manage and sell it and to enrich themselves through their labour.”<sup>91</sup>

This first agrarian reform was also quite moderate compared to the restrictions in private property in contemporary socialist countries.

According to the French socialist and initially very pro-Castro agro-economist René Dumont, however, incentives even in this phase were not based on relative performance efficiency but on purely ideological criteria (Dumont 1970:29-31;50-51), providing little incentive for expanded agricultural production. Dumont criticized Castro's intention to create large state farms for the entire agriculture production (he made the exception for the sugar sector), and claimed that Castro was excessively influenced by the Soviet *sovkhozy* system of state agricultural property (Thomas:548).

The agriculture policy would soon be further radicalized, however, for two main reasons: First, that the rural bourgeoisie had been supporting the armed counterrevolutionary forces operating in the country at the time, supported by the CIA and Cuban exiles in Miami. Second, that large farmers had been decapitalising their holdings, probably fearing the expropriation—thereby producing a self-fulfilling prophecy.

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<sup>90</sup> "Premier seeks Mobilization of Savings by Cubans to Insure Growth", *New York Times*, 19.09.59.

<sup>91</sup> Speech by Che Guevara on 9 April 1961: Cuba: Historical Exception or Vanguard in the Anticolonial Struggle?: <https://www.marxists.org/archive/guevara/1961/04/09.htm>

Therefore, when revolutionary Cuba's agrarian policy reached its second phase with the 1963 Agrarian Reform, it had a much clearer anti-private and pro-collective character. The land of most farmers with more than 67 hectares was expropriated, giving the State control over 70% of the land. This particularly affected the mentioned medium-sized farmers. Little by little, the remaining private peasants and farmers were organised—under quite heavy pressure—in cooperatives with limited autonomy with the purpose of socialising their holdings. Agricultural Production Cooperatives (CPAs) were explicitly based on collective production, whereas Cooperatives of Credit and Services (CCSs) were based on individual property but collective access to irrigation, services (including transport) and credits. Neither of these cooperative forms, and not even the remaining individual farmers and peasants, normally had the freedom to decide which crops to produce. In Cuba's centrally planned economy such decisions were taken by the agricultural bureaucracy, who also established production quotas and prices (typically quite low) for sale to the monopoly state purchase agency, *Centro de Acopio*. There were exceptional 'genuine cooperatives', but even CCSs would normally be put under strict state and bureaucratic control.<sup>92</sup>

There was a clear tendency that the more collective forms of production received preference (in the following order: state, CPA, CCS, private). The agriculturalists were also—as other interest groups in Cuba—organised under central and vertical Communist Party control, through the National Association of Small Agriculturalists (ANAP). Fidel Castro later emphasised the importance of promoting "superior forms of production for land socialization", with the final goal of no longer having any independent peasants (Pampín Balado and Trujillo Rodríguez, n.d). Che Guevara's promise to the peasants that had fought for the Revolution that they and their children would manage their own land gradually lost its value. They were no longer masters of their own destiny.

This vicious circle of de-capitalization and increasing conflict between farmers and the Revolution seems, to a large degree, to have originated in the Revolution's neglect of and disregard for independent peasants and farmers. Of particular importance was the

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<sup>92</sup> René Dumont, generally very critical of the centralist and collective-oriented policy, praised some examples of such 'genuine cooperatives', where presidents were apparently freely elected, and elected councils could freely establish production plans.

increasing conflict with intermediate-size farmers, those with properties between 60-600 hectares who might employ a certain number of workers, and who sold the bulk of their products (more and more on the black market, due to increasing food shortage), but hardly could be called *latifundistas* (Thomas:552).

This conflict, however, soon provided the Revolution with really dangerous enemies: the political and military counter-revolution. The majority of the so-called 'counter-revolutionary bandits', with main concentration in the Escambray mountains, were probably drawn from former Castro supporters. No doubt, however, the role of the middle-size farmers seemed to have been important, not least as liaison to exiled Cubans and the CIA (Aranda:189). At the most, according to figures provided by the two Castro brothers, the counter-revolutionary forces commanded almost 3,600 men (San Martín and Bonachea:58-59); easily the double of the number of guerrilla fighters the Castros themselves had had under arms at the maximum moment of the anti-Batista struggle. Although there were apparently few links between these forces and the Bay of Pigs (or *Playa Girón* as the Cubans call it) invasion in April 1961, the perception of individual farmers as a counter-revolutionary class was clearly strengthened by this CIA-supported invasion attempt.

One striking aspect of the agricultural policies of socialist regimes is how little they have learnt from the history of agricultural collectivization. When Lenin introduced his New Economic Policy (NEP) in 1921, it was seen as a survival necessity towards the end of the civil war, which had led to millions dying from famine and pandemics—it is claimed that 3 million died of typhus alone in 1920. And NEP worked; by 1926 agriculture recovered to pre-war levels: "one of history's most rapid (recoveries)" (Gregory 2004:26). During NEP, incentives to agricultural producers together with a flexible tax policy made it attractive to maximise the growth of grain and sell it through private intermediaries. Those farmers who were not openly against the Soviet regime were treated as allies. But this success was soon turned to another disaster when Stalin introduced his 'war on the kulaks' (middle-sized farmers) or 'de-kulakization'. Already in 1928-29, "extraordinary measures were required to extract grain from an unwilling peasantry. Command had replaced markets" (Gregory 1994:112).

“Arguing that the peasantry had conspired to thwart Soviet power, playing on the fear of the war, and asserting that rapid industrialization was imperative and impossible unless collectivization occurred, Stalin demanded the liquidation of the kulaks as a class and massive and rapid collectivization of agriculture” (Zimmerman:56).

Deportation and execution of millions of peasants and their families followed. Once again, the result was mass starvation.

The balancing act of agricultural policies is precarious. There needs to be production incentives for farmers and sufficient food provisions at acceptable prices for consumers. How to relate to middle-size commercial farmers and peasants without fermenting counter-revolution has been a nightmarish dilemma for socialist revolutions and states during 100 years. Cuba is only one example of this.

When Raúl Castro initiated his reform process, Cuba was still plagued by an acute shortage of food products, having to spend scarce foreign currency on imports, in spite of the country’s vast potential for agricultural self-sufficiency and export. Castro made it very clear as early as 2008 what was at stake:

“Food production should be a primary task for Party leaders, who must be conscious of the fact that, in the present and as far as the future may be discerned, this is a matter of maximum national security”.<sup>93</sup> (S/E)

This situation must be seen up against the large but largely unused potential for agricultural production in the country. The previously referred Dumont (1970) estimated that Cuba potentially could have the capacity to produce enough food for 30 million people; before Raúl initiated his reforms the country’s agricultural output stood at a trivial 15% of that potential, for whatever the comparison is worth. To change this situation was evidently a crucial aim of the reforms.

The Ministry of Agriculture itself considers that 60% of the imported foodstuff, representing as much as 1.2 billion USD annually, could rather easily be produced

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<sup>93</sup> “Raul Castro overhauls Cuba's farm bureaucracy”, *Reuters, Havana* (Marc Frank) 01.05.08.

domestically.<sup>94</sup> Cuba is reported to have a total of 6.2 million hectares available for cultivation (*tierras arables disponibles*), out of which only 2.7 million, or 43.5%, were actually cultivated in 2016 (or, in other words, 56.5% of the land available for agricultural purpose was lying fallow).<sup>95</sup> Furthermore, the same Ministry recognises that there is extremely low *agroproductivity*: only 25% of the agricultural land produce above 50% of what is called *capital de cultivo*.<sup>96</sup>

But the problem is not limited to insufficient production. A recent analysis of the Cuban agricultural sector by a Basque government-friendly NGO concluded that 57% of food produced in Cuba is lost before it reaches the consumers.<sup>97</sup> This is very similar to what René Dumont observed when he travelled around in the countryside in 1961, after the *acopios* had taken over the wholesale responsibility: he also claimed that half the crops were never collected from the farms. So, during all these 56 years, the food marketing system in Cuba has been equally non-functional.

For several years in the first decade of the 21<sup>st</sup> century, the US was paradoxically the leading food provider to Cuba, thanks to a special exception from the embargo law allowed by the Bush Jr. administration, offering a concession to the US agricultural industry. This situation has changed over the years, as food exporters from other countries—different from the US—have been able to offer Cuba favourable credit conditions. Now, with Donald J. Trump as President, US food imports have again paradoxically increased in importance. US food exporters are among the US business groups pushing hardest for an end to the embargo and more flexible payment policies.

There is an almost unanimous consensus among agricultural experts that the situation for Cuban agricultural production is simply unsustainable, and that peasants and farmers will be far more efficient producers if they get more autonomy and better access

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<sup>94</sup> According to article reproduced in ASCE News No. 695, 28.01.16: "Cuba planea un precio máximo a productos agrícolas para frenar encarecimiento".

<sup>95</sup> *ONEI Report*, June 2017.

<sup>96</sup> "Cambios en la entrega de tierras cubanas en usufructo": interview with Eddy Soca Baldoquín, Director de Suelos y Control de la Tierra, Ministerio de la Agricultura (MINAG), *OnCuba*, 16.08.17, where he stated that "it is essential to provide the land with the attention it demands, so as not to continue losing the agro-productive capacity, given that only 25 percent of the soils in Cuba have yields greater than 50 percent of the *capital de cultivo*").

<sup>97</sup> Report by the NGO *Mundubat*, quoted by *Martí Noticias*, 20.05.17.

to the means of production and to the market. What is particularly striking here is that privately managed cooperatives<sup>98</sup> (CCSs) and privately owned land, at a time when they represented around 25% of land holdings, produced 57% of food in the country (Nova 2012).<sup>99</sup>

Productivity in terms of food production, in other words, is twice as high on non-state land compared to what it is on state land.

### **Indicator 1.1: Movement from state to non-state land tenure.**

There is no doubt that a very significant shift towards more non-state production has taken place over the last years.

**Table 6.1: Forms of land tenure in Cuba (%)**

<b>Agricultural area</b>	<b>Total</b>	<b>State</b>	<b>Non-state</b>	<b>CCS, usufruct and private farmers</b>
<b>2007</b>	100	35.8	64.2	18.5
<b>2011-2012</b>	100	17.0	83.0	51.0
<b>2015</b>	100	25.1	74.9	48.8
<b>2016</b>	100	19.1	80.9	40.4

**Sources:** Nova González 2012, Table 4.1 p. 136; García and Nova Gonzáles 2013, Table 6.3 ref. table 6.2. 2015 figure obtained privately from A. Nova (March 2016). 2016: ONE 2016, Table 9.1. (% of *superficie cultivada*).

<sup>98</sup> See a separate discussion of the role of cooperatives – agricultural and non-agricultural – in the next section of this chapter.

<sup>99</sup> More recent figures from ONEI, for the first nine months of 2017, confirm these figures: with only 18% of the country's cultivated land, private owners and CCS cooperativists produced 75% of vegetable roots, 78% of plantains, 81% of tomato, 65% of rice, 84% of fruits, 83% of corn, 73% of beans, 84% of poultry meat, 66% of fresh milk (ONE: *Sector Agropecuario, Indicadores Seleccionados Enero-Septiembre 2017*, Tables 1.2 and 2.2).

Adding together private property and cooperatives where land is worked individually (the so-called credit and service cooperatives CCSs) plus land held by individual peasants through leasing contract (*usufruct*), their share of land holdings almost doubled from 18.5% to 35.3% between 2007 and 2010-2011. Later it increased to around 50%, before it again fell quite significantly to 40% towards the end of the period. The initial growth is partly explained by the massive leasing out of state land, and partly by the conversion of the so-called UBPC cooperatives (where land in reality is held and worked collectively, but formally not state-owned) to CCSs. UBPC's share of the land fell from approximately 37% to 24% during the period<sup>100</sup> following reports of very low efficiency and heavy losses.<sup>101</sup>

The percentage of non-state *producers* has increased in a similar pattern: private, CCS members and leaseholders—*usufructuarios*—have exploded since 2007, in 2012 representing 55-60% of the country's total agricultural labour force of 1 million.<sup>102</sup>

The most important initial increase in non-state agricultural holdings has taken place through lease-arrangements, *usufructo*, of state or semi-state land lying idle. Since this was legalized through a *Decreto-Ley* passed in 2008, and gradually modified, we may summarize the status of the *usufructuarios* as follows:<sup>103</sup>

- Two key reforms in their favour have been implemented, apparently against strong bureaucratic resistance: the right to build houses on the land and to pass on the leasing contract to the next generation (inheritance right).
- One *remaining* reform measure is to prolong the very limited time perspective of the leasing contract. It has been extended from 10 to 20 years and is in principle renewable, but most farmers would like to see this period significantly extended

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<sup>100</sup> Armando Nova González (2012:136, Table 4.1, later updated through private information from Nova).

<sup>101</sup> Dimas Castellanos: "Why the UBPC Cooperatives Failed", *Translating Cuba*, 201.1.12; *Diario de las Américas*, Miami, 15.09.12.

<sup>102</sup> García and Nova González (2013). According to the Cuban statistical office, ONEI, the agricultural labour force in 2011 was approximately 1 million, 20% of total workforce in the country, dropping to 902,000 in 2014 and further to 820,000, 18% of the total workforce, in 2016 (ONE 2016, Table 7.3).

<sup>103</sup> This summary is based on Armando Nova (2013ii) op.cit., updated in interview with Nova in January 2016, and later figures published as specified below.

with reference to similar discussions in Vietnam where land leasing has led to a veritable production boom.<sup>104</sup>

- Another remaining problem is the threat that leasing contracts will be cancelled if less than the required 70-80% of production is sold to the state, and rather to non-state market outlets with much better prices.<sup>105</sup>
- Private farmers were from then on allowed to lease up to 67 hectares (up from 40).
- The land offered for leasing often did not have appropriate conditions (infested by the *marabú* plant; situated far from residential areas and infrastructure, etc.).
- Many of those obtaining such rights were not very experienced farmers, and access to implements, technical support, transportation facilities etc. is as haphazard for this group as for agriculture in general.
- The number of *usufructuarios* immediately exploded when this reform was introduced, reaching a maximum of 250,000 (25% of the agricultural workforce) in 2014-15. In mid-2017, this figure was reduced to 150,000. This means that 40% of the initial license holders returned their licenses (or had it invalidated) during the last couple of years of the Raúl Castro era. The land they occupied was reduced from 1.8 to 1.2 million hectares, the latter figure representing slightly more than half the idle land that was made available for leasing as part of the agrarian reform.<sup>106</sup> These trends have left a great question mark about the success of this modality.

The very significant relapse in non-state land tenure in 2016 is probably for the most part explained by the falling number of *usufructuarios*.

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<sup>104</sup> In Vietnam, under the 1993 Land Law, people were issued 20-year land leases for agricultural purposes, a period farmers now want to see extended to 50 years or indefinitely. During the term, they also reserve rights to transfer, lease and mortgage the given land.

<sup>105</sup> It is quite obvious that far less than the officially required percentage is being sold to the state, but the problem is that by violating these official requirements, peasants feel threatened with reprisals including the loss of lease rights. As an example, it was reported that 3500 lease rights were withdrawn in one province only, Pinar del Rio, during 2015.

<sup>106</sup> Most recent figures quoted by *Cubadebate*, 16.08.17.

## **Indicator 1.2: More peasant/farmer autonomy.**

Some important steps have been taken towards more autonomy for agricultural producers. But the evolution of policies has not been very clear. For years, leading Cuban agricultural economists (Nova and García) have been arguing for a package of integral market reforms in order to drastically increase productivity and production of agricultural products.<sup>107</sup>

The structural changes in agriculture needed, according to these experts, to include property or user rights, access to production implements and credit, transport, and, not least, freedom to sell the products on an open market—wholesale or directly to consumers including to hotels and restaurants (state as well as private). The possibility to venture into industrial processing of food products—for instance through second-degree cooperatives (see about this under Indicator 1.3) would give the peasants an extra incentive. We are therefore speaking about a dramatic shift from state control to market conditions, a shift that would also unavoidably have repercussions on the general balance between plan and market in the economy at large. We can assume that such a shift would be politically very important, and no less controversial.

Nova (2012), establishes the following five criteria for a more independent and effective farmer:

1. *The establishment of a market for production goods and implements.* There are some positive elements in this respect in the Guidelines (*Lineamientos*) approved by the 6<sup>th</sup> Party Congress (2011). Guideline 09 makes a reference to the development of markets for the supply of inputs and leasing of equipment, which would also be supposed to supply services to the non-state sector of the economy. This decision has not been implemented.

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<sup>107</sup> The following recommendations and discussion, and the information provided, is to a large extent based on two articles by agricultural economist Armando Nova Gonzales of CEEC (now CIEI): Nova Gonzales (2013i); and Nova Gonzales (2013ii).

2. *That the producer can decide—according to the market and social requirements—what to produce and where and to whom to sell.* On this point, the draft Guidelines had a very interesting proposal of allowing cooperatives to sell independently of state intermediation, but it was substantially changed in the finally approved Guidelines: free sale was in the final version only permitted after fulfilling state quotas, and non-state intermediation was not permitted. This is linked to the whole discussion of wholesale markets, which we will come back to.
3. *Diversification of market channels; abolishment of state monopoly.* Again, there are interesting reform proposals in the Guidelines, proposing the gradual abolishment of state monopoly of the wholesale market (see later about implementation).
4. *Free hiring of necessary labour force.* This is now partly permitted.
5. *Access to credit and technical assistance:* Limited credit schemes for private producers have been opened, but only in non-convertible currency.

Summarising these reform criteria, Nova claims that a consistent reform program must give the peasants and farmers an integrated control of the entire production-distribution-sales cycle in agriculture.

Starting in 2018, a new tax on agricultural land property and tenure has been imposed.<sup>108</sup> This represents another negative incentive for agricultural production. As commented by a foreign journalist following Cuban agriculture closely during many years: “While farmers in other countries are subsidized, in Cuba they will now be taxed even more—that will not boost production”.<sup>109</sup>

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<sup>108</sup> “Se pagarán impuestos sobre uso y tenencia de tierras”, *EFE* (Havana), 27.09.17.

<sup>109</sup> Fernando Ravsberg: “La burocracia agraria vuelve a sabotear la producción”, *Cartas desde Cuba* 29.09.17: <http://cartasdesdecuba.com/la-burocracia-agraria-vuelve-a-sabotear-la-produccion/>

### **Indicator 1.3: From state-regulated to market-based commercialisation.**

The market reforms during several years resulted in a growing share of *reported* production being sold outside of state channels. The previously compulsory state buying institution *Centro de Acopio*, infamous for its inefficiency, was gradually and significantly scaled down, and the percentage reported to be sold through the state fell from about 80% before the reforms were introduced to about 50%, the rest going through non-state channels. But then again, as a consequence of the new tightening of state controls introduced in 2016 (see later), this situation was reversed and farmers again were obliged to sell the larger part of their products to the state.<sup>110</sup>

The flip-flopping policies with wholesale markets are quite illustrative of how complicated the issue of food sales channels has been, and how difficult it has been to implement this part of the 2011 Guidelines.

The first large wholesale market near Havana, outside of Rancho Boyero, emerged more or less spontaneously in 2012, without really being legalised but mostly tolerated. Products not only from Havana's neighbour districts but arriving in lorries practically from the entire country, were sold by representatives of cooperatives or other middlemen, to thousands of different private outlets around the capital: state and private markets, street vendors (the so-called *carretilleros*), and to the hundreds of private restaurants (*paladares*) popping up in Havana and other Cuban cities.

Then the first legal and official non-state market, *El Trigal*, was opened very close to this informal market in 2014. Similar markets were authorized in the two experimental provinces of Artemisa and Mayabeque (near Havana). These were declared to be pilots,<sup>111</sup> but plans to set up similar markets elsewhere in the country were never followed up in practice until also *El Trigal* was closed again in May 2016 after heavy criticism in the official press for "legal violations, bad management, corruption, lack of

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<sup>110</sup> According to Frank (2013:270), chief reform manager Murillo, in a speech to *Asamblea Nacional* in July 2012, said that state share of food sales had fallen from 80 to around 50%. The latest figure was still quoted by Armando Nova early in 2016 (ref. interview Feb 2016). Other sources (e.g. Ravsberg) claimed it had again risen to 80% in 2017. It is probable, however, that a major part of the agricultural products is sold through informal channels and not reported in statistics.

<sup>111</sup> During the Parliament session in December 2015, minister of Economy and Planning Marino Murillo declared that wholesale markets for food products should be established in order to sell to private restaurants at prices "20% below those at the retail markets" (*Granma*, 21.12.15).

control”.<sup>112</sup> With the new restrictions against self-employment being announced in August 2017, a decision was taken that no new permits would be given to sell agricultural products neither in wholesale nor in retail, including through *carretilleros*. This must be interpreted as a permanent ban on private wholesale agricultural markets in Cuba, and a drastic reduction of private retail food sales (limited to those existing at the time).

The lack of wholesale access for agricultural implements represents an even more serious problem. The only pilot experience in Isle of Youth province has not been repeated anywhere else in the country.<sup>113</sup>

Access to transport has been another critical factor for non-state producers, going through much of the same zigzagging movements.

While action was never taken on decisive parts of the reform agenda referred to above, and now appear to be further away from implementation than ever, things are happening in the *informal Cuban reality*, fast outdistancing legality. Production goods and implements are being sold and bought on the black market; food products are being increasingly sold outside of official state and other legal channels, e.g., to hotels and restaurants (notably to private *paladares*). Although the state in most of the country maintains a formal monopoly, informal private wholesale markets have emerged around major urban areas; it is common to see considerable numbers of workers harvesting private property crops; credit in convertible currency is being frequently obtained by private producers (e.g. through family remittances), thus permitting farming in much larger scale than one could expect from formal regulation.

Although capital accumulation has been prohibited (see discussion later), there is no doubt that many successful private farmers have managed to accumulate considerable amounts of cash—even in convertible currency—but without access to convert it to productive purposes. This may also be a justification for the new above-mentioned tax being imposed in 2018. Foot-dragging is the dominant official response to demands for

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<sup>112</sup> *14ymedio*, 16.05.16, quoting *Cubadebate*.

<sup>113</sup> See more about the dilemma of wholesale markets under Indicator 2.4.

reform, stopping peasants and farmers from really leaping wholeheartedly into a qualitatively different production mode.

One of the controversial issues regarding agriculture and cooperative policies is about access to form so-called *cooperatives of second degree*, a measure that could have increased the economic and political strength and thereby also the potential political autonomy of the members. This principle was explicitly permitted in the 6<sup>th</sup> PCC Congress Guidelines (G-29), supporting the creation of secondary cooperatives, opening for the emergence of marketing cooperatives, both for foodstuff and agricultural inputs, based on already existing cooperative organisations. Such innovations have so far not been allowed (see a more general discussion of cooperatives under Indicator 2.7).

The government is unwilling to allow more independent and autonomous forms of organisation among peasants and farmers, still depending on a highly centralised and strongly Party-loyal ANAP (National Association of Small Farmers) with its 200,000 members. Some had expected the ANAP Congress in 2015 to represent a step away from its role as an instrument of the Party, in the direction of really representing the increasing independent status of peasants and farmers. This did not happen. The reluctance of ANAP to support opportunities for individual farmers was again confirmed when the Obama administration during the bilateral US-Cuban talks for normalising relations opened up for import of privately produced coffee, thus offering an exception from the trade embargo. The response from ANAP's National Bureau was:

“The objective of such measures is to influence the Cuban peasantry to separate itself from the State”, and that this “could not be permitted since it would destroy a revolutionary process having provided the participatory democracy, liberty, sovereignty and independence”.<sup>114</sup> (S/E)

Talking to peasants and farmers across the country, it is not difficult to perceive an increasing impatience with the lack of a real interest group advocacy vis-à-vis State and Party. As expressed by Pedro Antonio Alonso Pérez, one of the founders of a self-

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<sup>114</sup> Quoted by *14ymedio*, 5.05.16.

proclaimed independent CCS cooperative named *Transición* in the Santiago province in 1997 and head of a small study center:

“It is obvious that ANAP neither represents nor defends the interests of the Cuban (agricultural) producers. Its purposes and objectives are to represent the interests of the Communist Party and the government in power.”<sup>115</sup> (S/E)

The two government-employed agricultural economists quoted throughout this chapter seem to be of the same opinion, as they emphasize the need to permit horizontal organisation of peasants and farmers.<sup>116</sup>

A question raised by the left-wing critic of Cuba’s government, Samuel Farber, in 2006 seems to be more relevant than ever:

“May we see agriculture as a strategic and more small-scale/democratic entrepreneurial alternative to the military entrepreneurship—unless the military also moves in to take control there? The question is whether the survival issue of enhanced food production will oblige the opening up of family agriculture with associated entrepreneurial functions” (Farber: 2006).

#### **Indicator 1.4: De-bureaucratization of agriculture.**

When some of the reform proposals have slowly been put in place, it has most often been against heavy resistance and barriers (*trabas*) from the huge agriculture bureaucracy in the country. The peasant organisation ANAP is generally seen as part of this bureaucracy, rather than working as an interest organisation for the peasants. But the main bureaucratic instrument has been the Ministry of Agriculture (MINAG) on national, state and municipal level, and not least the administration of state-dominated cooperatives and local buying monopolies (*Centros de Acopio*). Paradoxically, the decentralisation that has been taking place in the agriculture sector—with the supposed

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<sup>115</sup> Quote from interview published in *ASCE Cuban Economic News Clippings Service*, Release No 526, 6.01.12, p. 156. It is interesting to note that the ANAP President during 25 years, Orlando Lugo Fonte, who was at the same time member of the Consejo del Estado and the Central Committee of the PCC, was relieved of this function in September 2012. It came as a deception to many that the new ANAP President, Félix González Viego, previously provincial ANAP President in Villa Clara, never took any initiative towards a renovation of the organization, as many had hoped.

<sup>116</sup> Garcia and Nova, 2014.

purpose of cutting bureaucratic red tape—may have made things even worse, by strengthening local power structures built up around the state’s agricultural monopoly, and their bosses (Frank 2013:261-264).<sup>117</sup>

For the lack of survey data, it may be difficult to analyse in objective terms how the peasants and farmers perceive the agriculture bureaucracy functions. The previously quoted conclusion that more than half of the food production is lost before it reaches the consumers is one illustration of this. We have observed on several occasions that specific products are unavailable in Havana, while they have been harvested not far away, but getting lost while waiting for state-organised transport.<sup>118</sup>

A potential “big bang” in agricultural organisation was announced in 2014, when the Minister of Agriculture declared that Acopios (formally known as Unión Nacional de Acopio (UNA)), would be closed and that as much as 6,000 ‘agricultural bureaucrats’ (41% of administrative personnel at all levels of the Ministry, ANAP, state-dominated cooperatives etc.) would be fired.<sup>119</sup> This could potentially have had deep impact. It seems to be the case that the bureaucratic burden with which peasants and farmers have been struggling has been particularly heavy at local levels. But this announcement has never been implemented to any significant degree.

All in all, there have been important efforts to modify the agricultural production and distribution structure over the latest years, but against strong resistance.

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<sup>117</sup> Based on interviews with local farmers, this veteran Cuba correspondent describes how this works in practice, in situations where the state monopoly on agricultural supplies and commercialisation in most rural areas is the only significant business, and traditional bosses are afraid of losing their privileges, positions and powers. This may explain much of the resistance against the necessary reforms that we discuss in the following. Interestingly, the same veteran correspondent in Havana reported several years earlier (2008) about Raúl Castro’s bureaucratic decentralisation in agriculture (*Reuters, Havana*, 1.05.08, op.cit).

<sup>118</sup> One concrete example was in March 2011 when tomatoes were nowhere to buy in Havana, while they abounded on cooperative farms in Güines, only 50 km southeast of Havana, allegedly being stuck for lack of transport. A similar situation was described in 2017: “Cuba and Its Rotting Tomatoes”: <https://www.havanatimes.org/?p=124319>. The Uruguayan journalist Fernando Ravsberg, through his blog *Cartas desde Cuba*, reports regularly on the overwhelming bureaucratic barriers experienced by Cuban farmers and peasants. See for instance: “What Cuba Loses Because of its Incompetent Farm Bureaucracy”, *Cartas desde Cuba*, 19.10.17: <http://cartasdesdecuba.com/what-cuba-loses-because-of-its-incompetent-farm-bureaucracy/>

<sup>119</sup> *Martinoticias.com*, 5.07.2014.

Nova concludes that there is not yet a real recognition of market requirements in Cuban agriculture. In 2013, he summed up the state of affairs in Cuban agricultural transformations as follows:

“It is evident that productive forces in the agricultural sector are still detained. The elimination of the obstacles that are slowing down development is required. Transformation of production relations in this sector, so strategic for the Cuban economy, should continue to accelerate as much as possible”.<sup>120</sup> (S/E)

After this statement was made, development has rather been going in the contrary direction.

### **Indicator 1.5: Strengthening of family farming.**

On a more general level, it may seem that Cuban agriculture is moving towards a dual-track system: food for the domestic market is increasingly produced at middle-size family farms, whereas the plantation and agro-export economy (historically completely dominated by sugar, later with an important citrus component) dominated by large state farms some of which under military corporation management, has been drastically reduced in importance. There has been an ambition to attract foreign investment to the agro-export sector and also combining it with bio-energy production; so far with limited success. The exception to this pattern is the production of two export products, coffee and particularly tobacco, which remains mostly in the hands of private farmers, while the entire export chain is tightly controlled by the state.

As we saw in Table 6.1, the relatively independent land tenure dominated by small-scale land holdings increased quite dramatically during the first years of the Raúl Castro era (although it has dropped again during the latest couple of years), also reflecting a strengthening of family farming at the expense of large-scale cash crop production. The continued resistance to provide agricultural producers with more autonomy and incentives, however, has not permitted family farming to exploit its comparative

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<sup>120</sup> Ibid:152-153.

advantages to drastically increase Cuba's food self-sufficiency, particularly of staple goods.

### **Indicator 1.6: Sufficient production to supply urban areas at affordable prices?**

Cuba is still far from meeting the market conditions in agriculture, and the latest statistical information confirms that the modest agricultural reforms have failed to boost production. According to public statistics, the production output for some key staple food products had the following evolution for the 2009-2016 period:<sup>121</sup>

- Cow milk: plus 2%
- Cattle: plus 3%
- Rice: minus 9%
- Corn: plus 32%
- Beans: plus 35%
- Egg: no change
- Potatoes: minus 66%
- Tomatoes: minus 36%
- Onions: minus 31%

The overall trend is that production of beans and corn has increased significantly; potatoes, tomatoes and onions have failed miserably; while production of rice, milk, cattle meat and egg has been more or less maintained.

Another trend to note is that the 2016 production was below the 1989 production—before the 'special period', for seven key products.<sup>122</sup> The following conclusion is unavoidable: Cuban agriculture never took off to reach self-sufficiency before the Raúl Castro reform era, and the Raúl Castro decade reforms also failed with its intentions to take the decisive step forward to feed the Cuban people from domestic production.

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<sup>121</sup> These calculations are based on ONE Annual Reports 2012 (Tables 9.9, 9.18, 9.19, 9.22, 9.23) and 2016 (Tables 9.10, 9.18, 9.19, 9.23). There are quite significant variations in production from one year to the other, so these trends may vary depending on which years are compared.

<sup>122</sup> Private information from Mesa-Lago, 20.01.18.

A similarly disappointing trend is that the production failure also has led to constantly rising food prices. It was reported towards the end of 2015 that the price for a basket of the most common food products had increased by 49 per cent between 2010 and early 2015,<sup>123</sup> to levels that only the new groups of affluent Cubans could afford. Economy Minister Murillo claimed early in 2016—hardly exaggerating—that low income Cubans spend 75% of their salary on food.<sup>124</sup>

It is quite telling that the World Food Programme (WFP) during 2015-2018 has a programme benefitting 900,000 persons in 43 municipalities and six provinces around the country.<sup>125</sup>

These negative production and price figures must be very disappointing for the government. This stands in stark contrast to China and Vietnam, where far more consistent market reforms in agriculture have led to impressive production success.

The reduced production, accompanied by increasing prices, have later been quoted as main motives for reform reversals and return of state control in commercialisation.

### **Indicator 1.7: Reduced import dependency?**

The amount of hard currency spent on food imports, standing at 1,863 million USD in 2011, has since fluctuated between 1.7 and 2 billion USD. There are many ways to calculate the degree of import dependency; if we take the value of agro-export into consideration it will be about 60-65%.<sup>126</sup> It must therefore be concluded that Cuba's dependence on food imports and the amount the country is spending on these imports, have hardly been reduced during the reform period.

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<sup>123</sup> According to an article in the official newspaper *Juventud Rebelde*, quoted by Marc Frank in a *Reuters* article right after the 7th Party Congress in April 2016.

<sup>124</sup> Information based on news cable from *Thomsonreuter*, Havana, 21 January 2016: "In a reversal, Cuba tries price controls to tame food inflation."

<sup>125</sup> *Prensa Latina*, 27.01.18.

<sup>126</sup> *ONE* 2016, Table 8.10 for the period 2011-2016; for 2017: Omar Everlenny Pérez: "Retos y resultados para Cuba desde 2017", *Pregreso Semanal Weekly* 5.01.18, reprinted in *AsceNews* No. 786). For 2017, it is estimated that the value of food imports will ascend to 2 billion USD, and food is representing an increasing share of Cuba's total import value – 17.3% in 2016 (Armando Nova: "La alimentación en Cuba una variable estratégica no resuelta. El pronosticado estancamiento de la producción agropecuaria al finalizar 2017 tendrá un impacto desfavorable en la economía nacional", in *Camino al andar*, 13.11.17).

This fact becomes particularly paradoxical if we compare the prices paid by the state to what the state has to pay when importing the same products: when taking the distorted Cuban currency rates into account, the state pays the domestic producers only around 45% of the price for imported beans, 30% for rice and 20% for milk.<sup>127</sup> *So the big question is: why is the state not willing to pay better prices to domestic producers, and generally incentivise domestic production more, when so huge amounts of foreign currency are spent on food imports?*

The *counter-reform* starting in 2016 also affected the agricultural sector very directly (see Indicator 9.3).

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<sup>127</sup> Nova (2013i:152), Table 5.

## Challenge 2:

**Loosening of state control and dominance of the economy – growth of non-state economy – aiming at sustained economic growth and employment generation**

### **Indicator 2.1: Explicit political will to de-monopolise the state economy?**

The Cuban regime has repeatedly made it clear that maintenance of ‘socialism’ means rejection of ‘capitalism’ and market economy.

The private (or, as officially referred to, non-state) sector that is allowed, is based on individuals holding personal licenses to work within a number of pre-defined self-employment categories, plus private small-scale farmers and cooperatives of different kinds. Private *enterprises* with legal status for instance in the form of SMEs, are until now not legally recognised. Legalisation of SMEs was approved in principle by the National Assembly in mid-2017, but it may take a long time for this to be implemented.<sup>128</sup>

Comprehensive private property arrangements like those permitted (and encouraged) under the Chinese “socialist market economy” or the Vietnamese “socialist-oriented market economy” have so far been rejected, although there is an obvious admiration for the economic success of these “socialist brother” societies. As declared by Raúl Castro in his report to the 7th Party Congress:

“The introduction of rules for supply and demand is not at odds with the principle of planning. Either concept may co-exist and complement each other to the benefit of the country, as has been successfully demonstrated in the processes of economic reform in China

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<sup>128</sup> A reform-minded Cuban law professor, Narciso Cobo, has gone through the necessary constitutional and legal “updating” that would be required in order to distinguish between “empleadores” y “contratistas” etc., and accommodate the new private sector as formal part of the Cuban economy (including distinction between employers’ associations and unions): Narciso Cobo: “Cuentapropismo y pequeña empresa: una mirada desde el Derecho”, *Cuba Posible*, 18.01.16 (reprinted in ASCE News No. 698). According to a private source, the legalization of private companies would first require a constitutional reform, and also the re-writing of several specific laws. As the political situation in Cuba is now, there would be heavy resistance against this to happen for the time being.

and renovation in Vietnam, as they qualify it. We have called it ‘updating’, because we are not going to change the fundamental objective of the Revolution” (Castro 2016:10) (S/E).

The reality in Cuba is that most enterprise development that takes place beyond the individual or family level (and as we shall discuss in a later section that is quite considerable) is in principle informal and in many cases also illicit.

Earlier on in the reform process, there were expectations from many observers that a dual-track model might become a realistic option in the case of Cuban business structure, following the example of Vietnam.

There has never been any doubt that the strategic sectors of the economy (sugar with derivatives, petroleum, nickel, big tourism corporations, and agriculture export including privately produced tobacco and coffee), would definitely continue to be controlled by the state, in many cases by military-controlled corporations. Until a new foreign investment regime was introduced in 2013 and 2014, foreign direct investment (FDI) had been exclusively concentrated in these sectors (although the sugar sector was until a few years ago blocked for foreign investment), plus a couple of domestic consumption sectors (Nestlé’s ice cream production probably being the most important example of this).

If there was a clear initial intention to de-monopolise the state economy and strengthen the market economy, it appeared that this intention evaporated towards the end of the Raúl era.

First Vice President Díaz-Canel, in his internal pep-talk to Party leaders in February 2017—later leaked to the public—was painting a parodic image of proposals for the introduction of market reforms, in reality including those proposed by his own President, and even more by role models like Vietnam and China. Taking stock of such proposals in 2017, the conventional wisdom apparently consolidating at the top of the Cuban Communist Party was that there is no such thing as gradual and cautious market reforms that could take place even within a solid state regulatory framework: it is either the continuation of the status quo or a return to Batista:

“What are they (i.e. those arguing for market reforms, author’s comment) talking about when the intention is to impose a platform for the capitalist and neo-liberal restoration? For Cuba—as we all understand – this would mean a return to the Cuba we had before 1959. What would this mean for Cuba? We would lose all social conquests, everything would be privatized, there would be an enormous de-motivation, alienation, de-politization. This would mean a break with our values related to our identity as a country, above all our cultural identity (...) Whenever you hear anybody saying that we don’t need a state institution, they are mounting a neo-liberal platform. One who believes that the state is not necessary in our society is proposing something based on neo-liberalism.”<sup>129</sup> (S/E)

It is hard to find anybody among independent economists or civil society actors—except for the most pro-capitalist dissidents on the island and in the diaspora—who would even think of a total privatization and a return to Batista-era economics. Rather than engaging in a serious dialogue with those arguing for necessary reforms of the Cuban economy, the Party leadership after 2016 seems to have bounced back to a bunker mentality of rejecting any need for reforms, without considering alternatives to status quo.

## **Indicator 2.2: Increasing de-regulation of state companies?**

Raúl Castro at the 6<sup>th</sup> Party Congress called for:

"[T]he gradual decentralization of faculties, from the Central Government to local administrations and from ministries and other national entities in favour of the growing autonomy of the socialist state enterprise. The excessively centralized model that currently characterizes our economy must change, with order and discipline and with the participation of workers, towards a decentralized system" (Castro 2011) (S/E).

New legislation introduced in 2013—in principle but perhaps not so much in practice—provided more autonomy to state companies. Ministries were basically letting go of their previous business responsibilities, setting up holding companies with proper control of annual plans. They would be allowed to sell excess production at the open market and keep as much as half of their profits for re-investment. If that was the carrot, there was

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<sup>129</sup> [http://www.diariodecuba.com/cuba/1503707216\\_33520.html](http://www.diariodecuba.com/cuba/1503707216_33520.html)

also a very visible stick: those state companies which continued running at a loss would have to be closed—or to be re-organised as cooperatives (see more about this later).

However, it was soon announced that ministerial control would be substituted by an intermediary bureaucratic level, a new institution, called *Organización Superior de Dirección Empresarial (OSDE)*, and that much of the announced corporate autonomy thus would not be implemented in practice. According to one leading Cuban expert on state corporations, “[company] directors will [still] be lacking necessary conditions to assume risks and promote innovation”, and “companies are still missing key instruments for the development of productive forces in support of economic growth” (Díaz Fernandez 2014). (S/E)

It is evidently very hard for the Cuban leadership to give up the command economy and to increase the autonomy of publicly owned firms, although there is an intention to separate state and company functions. Minister of Foreign Trade and Investment Malmierca stated (November 2016) that state companies “are called upon to convert themselves to more and more autonomous companies, to take their own decisions”, so that the State may simply regulate them and behave like a stakeholder, but without directing them.<sup>130</sup>

A report from the Controller General recognised that six out of every ten state companies are assessed as being in a “deficient or bad” state.<sup>131</sup> State companies were reported to receive a total of 650 million USD in state subsidies compensating for losses in 2013,<sup>132</sup> hardly sustainable under the country’s present economic conditions. Probably very much as a result of this, the number of state companies (known as OEEs – *organizaciones económicas estatales*) has been rather dramatically reduced: the total number of OEEs has been reduced by 37% between 2009 and 2017 (from 2886 to

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<sup>130</sup> Speech at Havana International Trade Fair, quoted by *14ymedio*, 2.11.16 (S/E).

<sup>131</sup> “Auditorías evidencian problemas en aplicación de Lineamientos en empresas cubanas”. *Cubadebate*, 31 de marzo de 2016: <http://www.cubadebate.cu/noticias/2016/03/31/auditorias-evidencian-problemas-en-aplicacion-de-lineamientos-en-empresas-cubanas/#.WgRRMjtrxaQ>

<sup>132</sup> According to former Minister of the Economy José Luis Rodríguez, 2014i: “Cuba y la compleja transformación de la empresa estatal”, published on the website *Cuba Contemporánea* 07.08.2014.

1811).<sup>133</sup> A large number of these companies have been outsourced to *usufructuarios* or converted to cooperatives. Evidently, much remains to be done.

The re-organisation of state companies was expected to be of particular importance for such sectors as petroleum and nickel, with *CUPET* and *Unión del Niquel* operating as independent business entities outside of the national budgets and accounts<sup>134</sup>, both reporting to the recently created *MINEM–Ministerio de Energía y Minas*. In the slowly recovering sugar industry, the previously so powerful Sugar Ministry was abolished, giving way to a holding company (*Grupo Empresarial de la Agroindustria Azucarera*) with its 26 subsidiaries replacing the ministry's previous 139 companies.

In order to interpret the direction in which the Cuban economic system will be moving in the post-Castro era, it may be indicative to watch these more autonomous state corporations—the ones owned by the military or operated as holding companies supervised by ministries. Will they gradually permit their top management or other high state, party or military officials (the nomenclature) to obtain property interest and not only management positions in these corporations? Patterns in this regard have been different in the privatization process in Russia and other previously socialist countries (ref. Chapter 4.8.3). So far, it is too early to judge in the case of Cuba. A clear indication of this will only be visible in the post-2018 or -2021 period.

One sector of very special interest is telecommunication, with the monopoly position of *ETECSA*, one of the state companies presently contributing most cash to the state coffers, with an assumed value in 2014 of 3 billion USD.<sup>135</sup> *ETECSA* falls under the control of *Ministerio de Comunicaciones (previously Ministerio de Informática y Comunicaciones) (MIC)*.<sup>136</sup> The company has been in an enviable position to grow as the access to

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<sup>133</sup> See ONEI 2016 Table 4.1. See also: "Las reformas en las empresas estatales cubanas", Elías Amor Bravo: *Cuba-economía*, 11.01.18, based on statistics published by ONEI.

<sup>134</sup> *Unión del Nickel* operates in a joint venture with General Nickel Co. S.A., a daughter company of the Canadian corporation Sherrit.

<sup>135</sup> This and the following information about *ETECSA* is based on Morales, 2014.

<sup>136</sup> The ownership structure of *ETECSA* is as follows: 51% *Telefónica Antillana* (100% owned by Ministry of Communications, under minister Maimir Mesa Ramos), 27% *Rafin* (the non-bank financial branch of *Gaesa*). Politburo member and re-elected Vice President of the State Council, Ramiro Valdes had the superior political responsibility for the telecommunication sector (plus energy and mining).

telecommunication (via mobile phones and internet) has been exploding since mobile telephones were carefully permitted from 2008.<sup>137</sup>

Looking only at pre-paid mobile telephone usage, it is calculated that ETECSA during the first six years since 2008 had incomes amounting to 2 billion USD. Diaspora family members pick up more than half of the telephone bills. Growing tourism is another main source. One very interesting thing about ETECSA is that it is providing crucial service to the country's self-employed, in addition to provide employment to a large number of *cuentapropistas*: agents selling prepaid telephone tickets is actually one of the most numerous groups (5%) of self-employed.

But perhaps more important is the fact that ETECSA is providing those communication services that effectively are breaking down the state's information monopoly. It suffices to visit one of the Wi-Fi areas at night to observe the thriving search for realities beyond Cuban shores.

So this is a very profitable monopoly state business that at the same time may be undermining monopoly state power.

### **Indicator 2.3: Continued dominance of military corporations?**

The prominent role of military-controlled corporations in the Cuban economy dates back to the Special Period in the 1990s. In the deep emergency following the demise of the USSR, the armed forces (FAR) under Raúl Castro's leadership were called on to play a key role in dealing with the crisis. In the first place, the military would have to feed itself and help feed the nation. It did not take long before the military were basically self-sufficient in food, according to one claim reaching 80-90 per cent of their consumption (Klepak 2012:58).<sup>138</sup> Additionally, they would have to pioneer efforts in earning foreign exchange. The military budget was cut dramatically, the number of troops as well, and

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<sup>137</sup> In 2003, there were only 43,000 mobile telephone lines in Cuba; in 2014 the number had increased to almost 2 million (source as above); 3 million were reached in 2015, 4 million at the end of 2016 and 5 million (representing 43% of the population) in April 2018 (*14ymedio* 12.05.18: [http://www.14ymedio.com/cienciaytecnologia/Cuba-millones-moviles-America-Latina\\_0\\_2417158264.html](http://www.14ymedio.com/cienciaytecnologia/Cuba-millones-moviles-America-Latina_0_2417158264.html)).

<sup>138</sup> Citing an interview with General José Ramón Fernández.

Cuba—shortly after pulling its troops out of Angola—basically gave up its internationalist military role. Many of the leading military officers were in this situation re-trained in corporate management and re-deployed to take on management roles in state corporations. When it was hesitantly decided to open the country to massive foreign tourism, as a way of meeting the crisis, the new tourism corporations (the *Cubanacán* chain was probably the first) were left to military officers to manage. This was also when the later so dominant Business Administration Group, GAESA, was established with Raúl Castro's deputy defence minister as the head. But, very significantly, these military men turned business leaders did not retire from the armed forces:

“Hundreds of officers, instead of simply facing retirement in these very difficult times, were given new and testing jobs and a large number could be retained in uniform while taking on such employment. Indeed, giving them these positions while they were still serving in the forces was considered essential as they could then remain active and subject to military discipline and justice until their retirement, thus remaining visibly military; additionally, the government could avoid the accusation of giving plum civilian jobs to former military officers” (Klepak 2012:66).

Early in 1985, the Soviet-style enterprise planning system (called *Sistema de Dirección y Planificación de la Economía*) collapsed. The Armed Forces then moved to introduce its own *Sistema de Perfeccionamiento Empresarial*, SPE (enterprise improvement system). The SPE was responsible for the management of the country's major military-industrial complexes (e.g. Ernesto Guevara in Manicaragua, Villa Clara), under the responsibility of General Casas Regueiro, reporting directly and personally to the then Minister of the Armed Forces, Raúl Castro. Raúl Castro qualified this as “the most transcendental and the deepest change in the economy” to date, applying capitalist management forms with corporations, joint share companies, and management contracts with foreign corporations. The SPE became a vital survival instrument during the ‘Special Period’ of the 1990s. In 1994, pressured by the deterioration of the economic situation, Fidel Castro accepted that a group of companies under the Ministry of Basic Industry on an experimental basis joined the SPE. Soon, 100 of these companies became part of the SPE, and the 5th Congress of the PCC in 1997 (the last under Fidel's leadership) approved SPE as its economic strategy.

One important implication of this arrangement is that it seems to have been quite effective in preventing high-level personal enrichment and corruption. The two Castro brothers' strong ethical principles in this regard are well known. These ethics seem to have penetrated the military institution, and—at least on the surface—survived in the new business roles of the re-educated and re-deployed higher officers. Klepak (op. cit.) says this impression is predominant among senior foreign businessmen working in partnership or joint venture with military-managed corporations:

“[...] [I]n conversations with any number of senior foreign executives working with Cuban senior and not so senior officers in or on *empresas mixtas* issues, the overwhelming majority opinion is that those officers are generally honest and that the dubious approaches foreign firms have to take in most of the rest of Latin America rarely apply in Cuba” (Klepak 2012:76).<sup>139</sup>

There have evidently been cases where such officers have been found guilty of corruption. But a high-profile anti-corruption campaign, and several cases of long prison sentences, send a clear message that there is no impunity for high-level corruption in Cuba, contrasting dramatically—as we shall see—with the omnipresent petty-corruption culture in the rest of the Cuban economy. Whether this situation will survive the Castro brothers remains to be seen. The close links between Cuban political, military and state business leaders and those responsible for extreme corruption practices and personal enrichment in countries like Brazil, Venezuela, Angola and Russia, may point towards a very different rent-seeking practice in the future.<sup>140</sup>

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<sup>139</sup> There are other opinions. At least until around 2013 there was a widely held opinion among foreign businessmen that high-level corruption was rampant (although probably mostly in non-military corporations). Several foreign investors also ended up in prison, accused of corruption, along with high-level public officers.

<sup>140</sup> Ref the following documentation of Brazilian-Cuban business relations, in *martinoticias.com* (based on Brazilian media sources): <https://www.martinoticias.com/a/oscuras-negocios-odebrecht-cuba-parte-1/163876.html>; <https://www.martinoticias.com/a/oscuras-negocios-odebrecht-cuba-parte-2/163884.html>; <https://www.martinoticias.com/a/oscuras-negocios-odebrecht-cuba-parte-3/165115.html>. Regarding Venezuelan top politicians's practices, see following report in *El País*: [https://elpais.com/internacional/2017/12/13/actualidad/1513189655\\_511418.html](https://elpais.com/internacional/2017/12/13/actualidad/1513189655_511418.html) Efforts to obtain more recent assessments of high-level corruption in Cuba, particularly in military-managed corporations, have not given any additional response. It seems that no outsiders have information about the internal life of these corporations or their leaders.

After ten years with Raúl Castro's reforms, and soon two decades into the 21st century, there is no doubt about the dominant role played by military corporations in the strategic and key areas of the Cuban economy, especially the most dynamic parts of it and those linked to foreign investments. There have been two leading military conglomerates:

- *Cimex* (Cuban Export-Import Corporation), Cuba's largest financial and commercial corporation, said to have more than 80 companies and 25,000 employees;<sup>141</sup>
- *Gaesa* (Business Administration Group), which we shall come back to.

In 2009 the two were fused into one, when GAESA took over CIMEX.

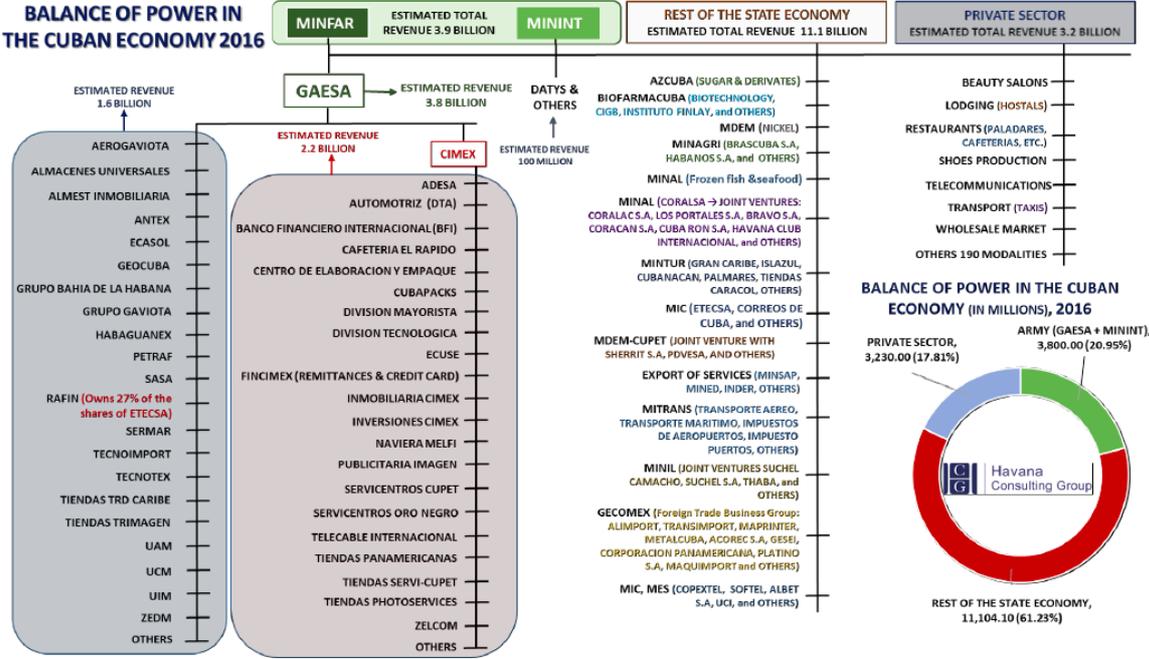
The strongest role of these military corporations is obviously in tourism, the most dynamic economic sector in Cuba. And the strongest of all in this sector is the Gaviota Group (see figure below).

The following figure shows the present composition of Cuban economic sectors, consisting of GAESA falling under the control of the Ministry of the Armed Forces, the rest of the State sector, and the private sector.

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<sup>141</sup> Information based on different articles from Reuter's Havana bureau, and a private interview with a former marketing director of Cimex, Emilio Morales, now residing in Miami and heading the Havana Consulting Group.

**Figure 6.1: Composition of Cuban economic sectors (state and non-state):**

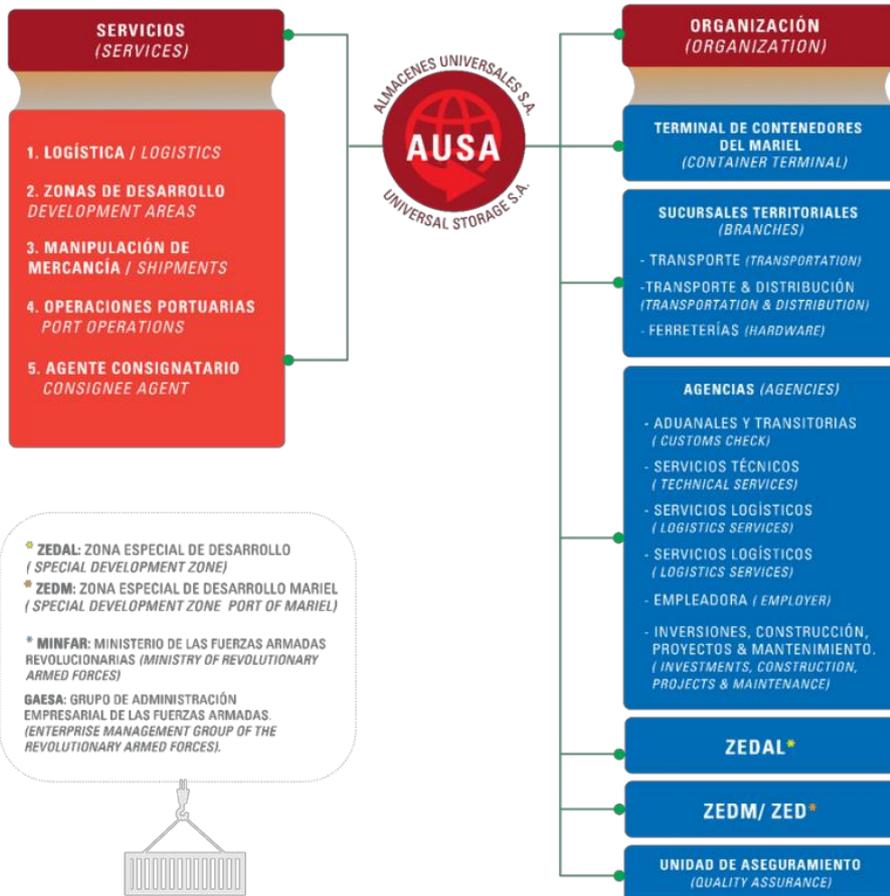


Fuente: Havana Consulting Group.

**Source:** Morales 2017, Figura 5: Estimates made by Havana Consulting Group on the basis of official Cuban statistics and own sources.

The following two figures break down two of the main GAESA subsidiaries, Almacenes Universales (in charge of the Mariel complex—which we come back to under Challenge 3) and Gaviota (the main Cuban tourist corporation):

Figure 6.2: GAESA Subsidiary Almacenes Universales:



**Figure 6.3: GAESA Subsidiary Gaviota Corporation**



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**Source:** Article in *ASCE Newsclippings* No. 692, 12.01.16 (without providing name of any specific author) elaborated on the basis of data provided by ICEX (Oficina Económica y Comercial de España en La Habana) and Hal Klepak, 2012.

After its takeover of CIMEX in 2009, GAESA now holds a conglomerate with about 60 companies, according to Morales' estimate controlling more than 20% of the Cuban economy.

The strongest sector for GAESA is tourism, particularly the hotel business. The 2016 ranking of the major 300 hotel companies worldwide shows the GAESA-owned group Gaviota climbing to 48th place worldwide, with a total of 28,163 hotel rooms.<sup>142</sup> Annual reported growth over the later years has been around 10%. The plan—at least until the election of President Trump—was to reach a capacity of around 50,000 rooms by 2020 in order to meet the fast expanding demand particularly of US tourism. These plans will now probably have to be downgraded, since GAESA has been particularly targeted by Trump's new Cuba restrictions. Adding another group, Cubanacán, with a capacity of around 16,000 hotel rooms, GAESA combined controls close to 45,000 rooms, thus approaching the top 30 hotel chains worldwide.<sup>143</sup>

The most strategic of GAESA's properties may be the entire Mariel complex, managed in the name of *Almacenes Universales*, within the container harbour at the special development zone (ref. Challenge 3).

A symbolically important military takeover occurred in 2016, when the company with financial responsibility for the successful renovation of the UNESCO-renowned Old Havana, *Habaguanex*, was also included in the GAESA-empire.<sup>144</sup> The previously responsible Office of the Havana Historian (headed by Eusebio Leal in an impressive effort to rehabilitate this colonial heritage) was probably not very happy with the military take-over. An un-identified representative of the office was quoted as saying:

“This is like a coup d'état. An offense to Leal's efforts... Speaking in economic terms, Habaguanex has been growing much more than Gaviota, TRD (Gaesa-controlled tourist shops), and all the military companies together. Nobody can reject the efficiency of our work and our marketing strategy. Yesterday, [Old Havana] was a marginal and pestilential zone,

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<sup>142</sup>[http://www.hotelsmag.com/Search/Results/?SearchTerm=hotel%20ranking&SectionIDs\[0\]=2&SectionIDs\[1\]=12&SectionIDs\[2\]=7](http://www.hotelsmag.com/Search/Results/?SearchTerm=hotel%20ranking&SectionIDs[0]=2&SectionIDs[1]=12&SectionIDs[2]=7)

<sup>143</sup> *14ymedio* 6.01.16; *El Nuevo Herald*, 31.01.16.

<sup>144</sup> At the time of the take-over, this conglomerate was reported to include 20 hotels, 56 bars and cafeterias, 39 restaurants and more than 200 specialised tourist *boutiques*.

bordering on collapse. The reality today is that no tourist, be it head-of-state, diplomat or global personality coming to this capital avoids visiting Old Havana”<sup>145</sup> (S/E).

After the take-over, there have been reports of how the alleged Habaguanex corruption case that led GAESA to take over, has continued and grown considerably worse under the responsibility of GAESA, and that the treatment of the professional staff has become much worse and more haphazard.<sup>146</sup>

What this take-over illustrates, is that no economic and perhaps no political power in today’s Cuba can match that of GAESA and the military institution.<sup>147</sup>

The rest of the state-owned companies are estimated to control around 60% of the country’s economy. It is interesting to note that the two leading extractive industries nickel (managed by *Unión del Niquel*) and oil (managed by *CUPET*)—key sectors for Cuba’s economic future and in many countries a preferred source of rent-seeking for military officials—along with the telecommunication monopoly ETECSA, are so far not controlled directly by the military corporations. But they are not exempt from military influence: they are part of the Politburo portfolio of Revolutionary Commander Ramiro Valdés, one of the main veterans of Cuba’s revolutionary 26 of July movement. As mentioned—the GAESA-controlled financial institution Rafin has a 27% share in ETECSA.

The managers of companies under these conglomerates, and perhaps particularly the Mariel complex and the tourism companies (*Gaviota* and others), may be going to play a decisive role in the future Cuban economy and indirectly in the political structures. The same is the case for the de-centralised corporations *CUPET* and *Unión del Niquel*, as well as in the new sugar industry conglomerate *Grupo Empresarial de la Agroindustria Azucarera*. There is reason to believe they will be advocates for further market reforms, but keen to secure that the state corporations keep as much as possible control vis-à-vis

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<sup>145</sup> "El 'Golpe de estado' de los militares al imperio de Eusebio Leal – Habaguanex y otras instituciones empresariales del Historiador de la Ciudad de La Habana pasaron a manos de las FAR". *Martí Noticias*, Juan Juan Almeida, 1.08.16.

<sup>146</sup> Independent journalist Rolando Martínez: "CORRUPCIÓN: El verdadero rostro de GAESA en el Casco Histórico habanero", 21.06.17, reproduced in *ASCE Newsclippings*, No. 760.

<sup>147</sup> For a presentation of prominent leaders within the military corporate sector, see Indicator 7.5.

non-state actors. This is also the case when it comes to strategic partnerships with foreign investors, now seriously hampered by President Trump's decision to exclude military corporations from any US collaboration with Cuba (see further discussion under Challenge 5).

But outside of these strategic sectors, most state industries and other enterprises are more or less obsolete, and this is exactly where massive dismissals were supposed to take place. By outsourcing to *usufructuarios* or cooperatives, part of the dismissals have been postponed.

#### **Indicator 2.4: Transfer of workforce from the public sector to self-employment.**

The Cuban labour market is a complicated mixture of state and non-state, formal and informal, legal and illegal arrangements, which we shall try to analyse under this and the following indicator. This discussion is utterly relevant for the understanding of the entire economic reform process, and for the changing social and political construction of the Cuban society.

From the outset of the process to "update socialism" in 2010-2011, party leaders ruled out the option of ceding significant public property to private hands. Only minor economic activities were supposed to pass over to the non-state sector.<sup>148</sup> The resistance to allow micro businesses develop into real companies should therefore come as no surprise.

Still, for a long time, there seemed to be a growing acceptance that the emergence of at least micro and even small-size private companies was unavoidable, in spite of hesitation regarding the provision of adequate incentives for small entrepreneurs and

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<sup>148</sup> This was repeatedly made clear by then-economy minister, later head of the commission to oversee the implementation of the 'updating' plan (*plan de actualización*), Marino Murillo, in the run-up to the 2011 Party Congress. He even stated in November 2010 that "updating should not be mistaken with reform", since "reform" implied ceding property to private hands, which he said was not on the agenda. (see Frank, 2013:230).

micro-small-medium enterprise (MSME).<sup>149</sup> Yet, the need for change seemed obvious: the state sector recognised that it simply could not afford to keep its present workforce, productivity was dismal, Cuba had a serious fiscal crisis, and alternative and liveable employment was virtually impossible to find. This situation, as we described it in 2012 (Bye 2012) is generally speaking still valid.

A gigantic official labour reduction campaign was launched in late 2010 through various public declarations. First, Raúl Castro said in April of that year that one million state employees would have to be laid off.<sup>150</sup> In July, he raised the figure to 1.3 million.<sup>151</sup> And in December, the Minister of Finance and Prices gave the number of 1.8 million as the aim for public sector dismissals and transfer to the private sector for 2015.<sup>152</sup> She estimated that this would represent 35% of total employment.<sup>153</sup> CEPAL has observed that MSMEs generally in Latin America have “an extremely low productivity compared to the large enterprises” (ref. footnote above). In Cuba, although state sector productivity is still higher than in the micro-size dominated private sector, the difference seems to be less than in the rest of the region. According to the estimates in

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<sup>149</sup> We use this term, MSME, rather than the more common SME, because most private businesses in Cuba are too small to be counted as SMEs, rather qualifying as micro enterprises. There is no internationally agreed standard for the size of these various categories. Kenya, as an example, counts units with up to 10 employees as “micro”, 10-50 as “small”, 50-100 as “medium”. According to these categories, the overwhelming majority of Cuban non-state undertakings would be “micro”, a small number would be “small”, and very few would qualify as “medium” (even if we include non-registered employees). UN’s Economic Commission for Latin America, ECLAC (CEPAL with its Spanish acronyms) estimates that as much as 99% of “the industrial fabric” (“*tejido industrial*”) in Latin America providing the majority of employment, are MiPyMEs (“*micro, pequeñas y medianas empresas*”), which however “have an extremely low productivity compared to the large enterprises”. CEPAL is therefore running programs in support of such enterprises, which never have been implemented in Cuba in spite of the huge potential they could have had (<http://www.cepal.org/es/temas/pymes>, downloaded 28.11.16).

<sup>150</sup> “Discurso en la clausura del XI Congreso de la UJC”. *Granma*, 04.04.10.

<sup>151</sup> “Discurso en la clausura de la Asamblea Nacional”. *Granma*, 01.08.10.

<sup>152</sup> “1,8 million was the target established for layoffs in 2015, and the Minister of Finance estimated that for that year, there would be 1,8 million workers in the non-state sector in order to provide employment to those who were laid off”: Lina Pedraza, “Intervención acerca de las propuestas para el perfeccionamiento y actualización del sistema tributario”, *Granma*, 16.12.10 (S/E).

<sup>153</sup> Intervention by Minister Lina Pedraza in *Asamblea del Poder Popular*, Havana, 15.12.10, further elaborated in: García A, B. Anaya y C. Piñeiro “Reestructuración del empleo en Cuba: el papel de las empresas no estatales en la generación de empleo y en la productividad del trabajo,” *Seminario CEEC*, June, 2011. In internal party meetings, top-level Ministry of Labor officials claimed that as much as 2,5 million state employees were in reality redundant (information privately obtained from a party member listening to an internal lecture on the subject).

the previous section, the private sector (including the informal part of it) contributes around 20% to the Cuban economy, while employing about 30% of the workforce.

Ironically, the plan to lay off one million public employees during one year was officially announced by the workers' and employees' own and only trade union, CTC, through a statement completely supporting the objective of laying off half a million employees during a few months, soon to be followed by another half million.<sup>154</sup>

It is interesting to compare this massive layoff plan for public employees to what happened in Vietnam as part of the *Doi Moi* reform, where alternative employment opportunities emerged in the non-state sector.

de Vylder and Fforde (op.cit.) consider the Vietnamese transition to have been a great success when compared to the IMF-/WB-led macro-economic structural reforms taking place in much of the developing countries and the former socialist countries of Eastern Europe including the USSR at the same time (late 80s and early 90s): the macroeconomic stability led to a rapid process of accumulation and growth, perhaps due to a better phasing of reform elements.

Conditions in Cuba, it turned out, were quite different. So were the results.

The official Cuban plan was to offer those to be laid off to go into self-employment (i.e. to become *trabajadores por cuenta propia, cuentapropistas*, literally "workers on their own account", someone who works for himself or herself, often abbreviated TCP) or to get land for lease and start agricultural production as so-called *usufructuarios* (see under Challenge 1 for more about this). For urban dwellers, estimated to represent 75% of Cuba's population, *cuentapropismo* was the alternative. The categories of non-agricultural cooperatives and *usufructuarios* who were willing to take over the management of mostly non-profitable small state businesses were to be added later (see Indicator 2.7 below).

Already in the 1990s, during the extreme hardships of the "Special Period" following the disappearance of the USSR, the government allowed people to register as TCPs (from 1994). But at the time, this was seen purely as a survival alternative, meeting with all

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<sup>154</sup> Official full-page declaration printed in in the Party organ *Granma* 13.09.10.

kinds of bureaucratic resistance and arbitrariness. As part of Raúl Castro’s reform policies, the TCP was now to be considered a strategic, not only a short-term and tactical category in the labour market, based on a list of 178 professions in 2010, gradually growing to 201 professions and then again reduced to 122 in 2016 (partly by combining some categories). These were mostly petty service categories. As we come back to, new doubts about the strategic and irreversible character of this reform emerged after the 7<sup>th</sup> Party Congress in 2016.

The 2010 announcement of massive dismissals, and the recommendation to find employment as TCPs, led to an immediate explosion in the number of TCP licenses, as can be seen from the following table:

**Table 6.2: Development in number of registered self-employed (absolute numbers):**

Year	Number	Increase per year (%)
<b>2000</b>	153,300	
<b>2005</b>	169,400	
<b>2010</b>	147,400	
<b>2011</b>	391,500	165,0
<b>2012</b>	404,600	3,3
<b>2013</b>	424,300	4,9
<b>2014</b>	483,400	13,9
<b>2015</b>	499,000	3,2
<b>2016</b>	540,800	8,4
<b>2017*</b>	580,000	7,4

**Source:** For years 2000-2010: Mesa-Lago (2013), Table 30 (ONEI data elaborated by M-L). For years 2011-2016: ONEI (Anuario estadístico de Cuba), 2016, Table 7.2, elaborated by author.

\*2017 Approximate figures, given by Mr Murillo in year-end session of National Assembly.

The *explosion*, however, pretty much lasted for one year (2011), after which the growth rate again became more moderate (except for 2014 and partly 2016-2017). Many of the licenses taken out in the first place, at a considerable price by Cuban standards, were soon after returned if the business did not turn out to be successful, or in other cases they were withdrawn if the TCPs did not fulfil very strict criteria.

*Cuentapropismo* was from the outset almost seen as the panacea to absorb those who were dismissed from public employment. It soon became clear, however, that the large majority of those who received such licenses were previously unemployed. Only 16% of those who were registered as self-employed by 2011 were individuals who actually left state employment (Vidal & Perez 2012). Thus, the absorption capacity of this alternative when it comes to new employment creation seems to have been much more limited than what was planned in 2010, which to a large degree explains why the ambition of moving one third of the public workforce out of the state sector in five years failed (see later).

Much of the statistical increase in number of self-employed is explained by formalisation of previously illegal self-employment. In this way, it may be statistically correct that around 430,000 people were moved from the state to the non-state sector between 2010 and 2017 (the difference between number of self-employed for these two years), but many of them were basically doing the same job. According to 2016 figures, 31% were reported as “young”, supposedly in many cases persons without prior employment, while another 11% were retirees. 16% maintained their public employment along with their TCP license (part of the special GESPI<sup>155</sup> category that we come back to). Gender-wise, 32% were women, some of whom may not have had formal work before they were registered as TCPs.<sup>156</sup>

It is quite conspicuous that *cuentapropismo* is not allowed among academic professions. In this way, Cuba is blocking its highly educated population, its brain capital, from seeking more decent income opportunities than what they are presently offered by the State. The first partial exception that emerged was a small mostly informal private market in the education sector (called *repasadores*, or tutors). Gradually, accountants

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<sup>155</sup> GESPI = «Government employee with significant private income» (ref. Table 6.4).

<sup>156</sup> Figures based on above quoted source for 2016 TCP figures: Ministerio del Trabajo y Seguridad Social.

and interpreters, “house designers” (some kind of internal architects), tourist agents, etc., have been included in the TCP category. Real estate broker was a legal category for some time, but most of them seemed to have lost their license in October 2015, allegedly due to much corruption. But professionals such as lawyers, economists, scientists (like bioengineers), many of whom could offer high-level services to foreign clients (and the emerging ‘new rich’ Cubans), are not permitted to do so. One effort to circumvent this prohibition, a very successful cooperative of professional financial management consultants called *Scenius*, i.a. helping the establishment of other cooperatives, was suddenly closed in August 2017 as part of the new measures against successful non-state businesses. As a consequence, 326 of the few professional TCPs in the country would lose their livelihood, supposedly for providing services outside its official permit.<sup>157</sup>

What we saw in practice very early in this process was that the heavy restrictions on private business, in a situation where demand for employment was booming, lead to the mushrooming of non-legal business practices.

To the extent that the TCP sector was supposed to provide a significant employment opportunity for those dismissed from the public sector, there have been several constraints:

- A limited capital market, although family remittances soon emerged as a prominent source of capital; the access to sell houses and cars also provided business start-up capital in many cases;
- Very limited and complicated access to credit (few TCPs seem to have confidence in the existing credit schemes);<sup>158</sup>
- Very limited access to production inputs (not yet a wholesale market for anything but agricultural goods (also closed in 2016) and therefore a widespread use of the black market);

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<sup>157</sup> *Diario de Cuba*, La Habana, 5.08.17.

<sup>158</sup> None of the 25 entrepreneurs interviewed by Feinberg (2013) in Havana and Cienfuegos had made use of credit schemes. The same situation was confirmed by the 25 TCPs interviewed in 2014/15 as published by Mesa-Lago et.al (2016:57). Ref. also Vidal (2012). Torres (2016) claims that this may have improved somewhat.

- Frequent harassment by police and government inspectors—often linked to corruption;
- Disproportionate taxes;
- A previous tax exemption for businesses with less than five employees, was removed in 2017 and taxes were raised for additional number of employees;<sup>159</sup>
- The legal areas for TCPs (and investment) are very limited, mostly limited to petty trade and services, although some artisan production (shoes, furniture) is allowed and is actually growing (see Mulet 2016).

Self-employment, although seen in a politically more positive light after 2010 than before, was still to be entangled in a lot of restrictions, both in terms of what services were legal (productive activities were only exceptionally legal), heavy and normally flat tax burdens, no wholesale market to buy raw materials and implements, red tape, corruption, etc. There seemed to be an endless innovation of measures to make life difficult for people who tried to establish businesses, e.g. levying stiff tariffs in mid-2012 on imported goods brought into the country by people travelling from Miami or Panama (*mulas*) exactly for that purpose, often the only supply source in the absence of wholesale markets. A new crackdown on “mule imports” in 2014 was calculated to reduce the value of products available for informal street sales from roughly 700 to 200 million USD per year.<sup>160</sup>

A survey carried out in 2014 (limited to Havana province) asked TCPs about their perceived obstacles for growth. The main perceived obstacle was the lack of access to supply through wholesale markets (31%), followed by “bureaucracy and legislation” (17%) and inadequate access to the Internet and technology (also 17%) (Mesa Lago et.al. 2016:66, Table 21). Other surveys identify high taxes as an equally important problem as the excess of regulations, thus confirming the problem of an inadequate

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<sup>159</sup> Official of Ministerio de Finanzas y Precios, in declarations to *Granma*, 07.08.17.

<sup>160</sup> The 1 September 2014 restrictions on the value of goods being brought into the country limited the value to 1,000 USD per traveller compared to a previous average of 3,500 (totalling between 1.7 and 1.9 billion USD in 2013, of which roughly 40% was supposed to be destined for re-sale at the black market, according to a survey by Morales of Havana Consulting Group (*Reported by Associated Press September 2, 2014*) (ref. Also Table 6.6 later in this Chapter, particularly what the same author calls “distant wholesale marketing”).

regulatory framework.<sup>161</sup> The degree of state controls and sanctions may be illustrated by an example from Santiago province, where during the first eight months of 2014 no less than 10,000 TCPs were controlled by state inspectors, 40% were fined and as many as 80% were warned of having committed errors.<sup>162</sup>

The serious problem represented by the lack of wholesale markets was also recognised by the then minister of Economy and Planning, Marino Murillo, in late 2015, when he told the Cuban Parliament that “the country should implement a wholesale market for the private sector, where implements could be bought 20% below present retail prices”. This was, interestingly enough, the same Parliament session where attacks on private agricultural sales channels were aired, leading to price control and other restrictions. Half a year later, right before the 7<sup>th</sup> Party Congress, it was reported that the government was planning to open “wholesale markets for food products” available to the private sector.<sup>163</sup> With the new restrictions announced in August 2017, however, it was definitively ruled out that such markets could be run by the private actors. Private businesses were also explicitly excluded from a new measure launched in 2018 to offer special prices for inputs to outsourced state businesses.<sup>164</sup>

Even in the absence of a legal category for private companies, there is a special category of TCP license for *contratistas*, “contracted workers”, (or *ayudantes*, “support staff”) who may be employed by other TCPs. Officially, this category represents only 25% of the TCPs,<sup>165</sup> an expression of the very limited multiplication employment effect in the formal labour market among TCPs: the *cuentapropistas* have so far officially only generated

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<sup>161</sup> Pavel Vidal: “Small and Medium Private Enterprises: a Bridge for Cuba-U.S. Relations”. *ASCENews* No. 721, 23.06.2016.

<sup>162</sup> *EFE*, Havana, 12.09.14, citing the state agency Agencia de Información Nacional.

<sup>163</sup> According to a representative of the Ministry of Internal Commerce quoted by *EFE*, La Habana, 12.04.16.

<sup>164</sup> In February 2018, it was officially announced that “conditions had not been created” for the establishment of wholesale markets with the purpose of satisfying the acquisition needs of the self-employed and the rest of the non-state sector, because there is “no guarantee of a safe supply”. She claimed however, that it would now be possible for self-employed and cooperatives to buy production inputs with a discount of 20%. (*Granma*, quoted by *CubaNet*, 6.02.18). One month later, the Minister of Internal Commerce declared that the first wholesale market exclusively for non-agricultural cooperatives leasing state-owned businesses (Mercabal) had been opened in Havana, offering discounts of 20%. Other cooperatives and self-employed, however, would be excluded from the measure (“Inauguran en La Habana mercado mayorista para cooperativas no agropecuarias», *Marti Noticias*, 17.03.18).

<sup>165</sup> Reported by ONEI, October 2017 (“Crece al número de trabajadores autónomos”, *OnCuba Redacción* 23.10.17). This percentage may have grown somewhat since 2014.

little more than 100,000 jobs (2016) for others than themselves. Whereas the global average is for one self-employed to employ five others,<sup>166</sup> the situation in Cuba is very different: 40% of the self-employed offer work to others, but only 15% of them to more than 10 others.<sup>167</sup> If Cuba had followed the global pattern, the small entrepreneur sector could in 2017 (ref. Table 6.2) have created around 2.9 million jobs, representing almost 60% of employment in Cuba, making a big contribution to solve Cuba's employment crisis.<sup>168</sup> The problem, of course, is that most employment creation in other countries occurs when the enterprises grow to more than 10 employees, something that very rarely is the case in Cuba.

It must be emphasized, however, that these are official statistical figures. As we shall see in the following, the informal reality may be quite different.

### **Indicator 2.5: Private workforce gaining more independence from the state?**

In the following, we will make an effort to estimate the degree to which the Cuban workforce has been de-coupled from the state sector in the period after 2010, when the official campaign of slimming the state was announced, with the purpose of transferring as much as 1.8 million workers from state to non-state employment.

The following table shows how the non-state sector has been evolving since 2000, *according to public statistical data*:

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<sup>166</sup> ILO Report IV: Small and medium-sized enterprises and decent and productive employment creation. International Labour Conference, 104th Session, 2015  
[http://www.ilo.org/wcmstp5/groups/public/@ed\\_norm/@relconf/documents/meetingdocument/wcms\\_358294.pdf](http://www.ilo.org/wcmstp5/groups/public/@ed_norm/@relconf/documents/meetingdocument/wcms_358294.pdf)

<sup>167</sup> According to Jesús Otamendiz, Director de Empleo Ministerio de Trabajo y Seguridad Social (MTSS) y Yamilé Pérez, Head de ONAT (National Tax Administration Office), in *Mesa Redonda*, Daily roundtable programme on *Cuban Television*, 30.08.16.

<sup>168</sup> Even in the US, 30% of all jobs (2014) are held by the self-employed and the workers they hire. Self-employed hired an average of 8.6 employees, with a median of 3 (Pew Research Center, Social and Demographic Trends, Table 1, 22 October 2015: <http://www.pewsocialtrends.org/2015/10/22/national-trends-in-self-employment-and-job-creation/>

**Table 6.3: Development in percentage of non-state employment**

Year	Non-state employment	Self-employment*	Cooperatives	Other private**
2000	18,1	3,3	7,0	7,8
2004	20,0	3,6	5,9	10,6
2007	17,1	2,8	5,0	9,3
2010	16,2	2,9	4,4	8,9
2011	22,7	7,8	4,2	10,7
2012	24,9	8,3	4,4	12,2
2013	26,3	8,6	4,6	11,9
2014	27,7	9,7	4,6	13,4
2015	28,8	10,3	4,4	13,7
2016	28,9	11,8	4,1	13,0

\*Starting in 2011, this category also includes employees of other *cuentapropistas* (TCPs)

\*\*Self-owning peasants, land-leasing peasants (*usufructuarios*), salaried workers (including employees of joint ventures – until 2011 also those employed by other TCPs) – but according to Mesa-Lago et. Al (2016, p. 21) this category may include some “double counting”.

**Source:** For years 2000-2010: Mesa-Lago (2013), Cuadro 30 (ONEI data elaborated by M-L). For later years: ONEI 2014 and ONEI 2016, Table 7.2 (elaborated by author).

But official statistics hardly give the full picture of the highly informal and chaotic Cuban labour market. A more independent attempt to analyse the labour market and calculate its composition, was presented by Feinberg (2016). He puts together official statistics and a host of other sources to estimate the totality of formal and non-formal private work in Cuba:

**Table 6.4: The Cuban Private Sector, 2015 (in thousands)**

Private sector employment (officially registered)

<b>Registered self-employment (TCP)</b>	505
<b>Service and credit cooperatives</b>	353
<b>Land lease farmers (usufructuarios)</b>	172
<b>Private farmers</b>	50
<b>Joint venture employees</b>	40
<b>New urban cooperatives</b>	6
<i>Sub-total</i>	1,126

Other private activities (estimated)

<b>Self-employed (full time, unregistered)</b>	185
<b>Self-employed (part time, GESPI*)</b>	400 – 800
<b>Independent artists</b>	unknown
<b>Migrant farm workers</b>	unknown
<b>Religious workers</b>	unknown
<i>Sub-total</i>	600 – 1,000+
<i>Total</i>	<b>1,700 – 2,100</b>

\*GESPI = “Government employee with significant private income”.

**Source:** Feinberg (2016:137, Table 6-1), based on ONEI: *Anuario Estadístico de Cuba* (2014), plus a wealth of other sources. We know that this table was put together after in-depth discussions with leading Cuban economists.

Archibald Ritter has also made his own estimates about the size of informal employment in Cuba.<sup>169</sup> He claims that Feinberg is exaggerating his guesstimate for unregistered employment in the small enterprise sector. But he may not have taken sufficiently into consideration the GESPI category in Feinberg’s table—which may even have been

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<sup>169</sup> See ASCE News No. 701 (February 2016).

under-estimated (10-20% of the public sector workforce)—when we consider that hardly any public employee may depend only on an official salary.

If we accept Feinberg's estimate/guesstimate, we may conclude that somewhere between 37 and 46% of the Cuban workforce are fully or partly working outside of the state sector.<sup>170</sup> In reality, even that may be a significant under-estimate.

As shown before, the more than 3.5 million public employees<sup>171</sup> can only exceptionally cover their basic needs based on their official salaries. They may either use their jobs to siphon off or embezzle public goods passing it over to the private sector by using it as inputs for proper business or selling it to others; exchange services for a bribe; receive remittances; or find extra income from informal self-employment activities (all known in Cuban popular slang as *resolver*). It is only the latter category that is captured by Feinberg's GESPI concept, according to his estimates representing between 50-70% in addition to those officially registered in the non-state sector. What all this shows is that there is a strong inter-dependence between public employment and non-state incomes: People depend less and less on public salaries, and more and more on illicitly acquired state goods and services. For the latter reason, public employment is still a crucial part of people's survival strategies—although not principally because of the salary.

The official number of non-state employees in 2010 was 800,000 (16% of 5 million). In 2016 it had risen to 1.33 million (29% of almost 4.6 million). So, compared to the declared aim of transferring 1.8 million, the actual figure reached was only slightly over half a million, the same number that was established for the first half year after the plan was announced. The Cuban-American veteran economist Mesa-Lago came to the same conclusion: he concluded in 2017 that the state had freed itself of approximately half a million employees, i.e. less than 30% of the intended number.<sup>172</sup> Another prominent

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<sup>170</sup> The total number of the official Cuban workforce was in 2016 reduced to slightly under 4,6 million, down from 5 million in 2011 (according to Bravo, August 2017, based on new ONEI figures).

<sup>171</sup> With the latest figures for total economically active population in Cuba, quoted above, having been reduced from 5 to 4.5 million persons between 2011 and 2016, while the official percentage of those employed outside of the state according to the same source is 30%, the updated number of publicly employed should rather be 3.15 million. Yet, in order not to complicate matters, we still calculate on the basis of a total workforce of 5 million.

<sup>172</sup> Carmelo Mesa-Lago: "El Gobierno cubano entró en pánico tras la visita de Obama", interview (from Madrid), published in *14ymedio*, 01.06.17.

Cuban economist, Pavel Vidal, calculated that state employment was reduced from 2009 to 2014 by 663,700 workers, while the non-state sector grew by 561,000. New businesses do not compensate for businesses that have closed down, that is, there is a negative net expansion rate, according to Vidal (2016).

Although these figures are not identical, they reveal pretty much the same trend: we see that non-state employment at the end of the Raúl era officially represents close to 30% of employment in Cuba, but that only a minority of the non-state workforce have left State employment. The targeted reduction of State payrolls has been achieved only to a limited degree. Consequently, there is still a large number of redundant employees in state bureaucracy and companies, continuing the bloodletting of a public economy in crisis.

The reason for limited success with the reduction of public payrolls is obviously a serious worry about increasing unemployment, in a situation where robust employment-creation capacity in the private sector has not been allowed to develop.

The most important transfer seems to have been from formal state employment to fully or partly making a living in the *informal* labour market. Contrary to what is perhaps generally believed, the majority of this movement is not due to *cuentapropismo*. Only about 15-20% (between 65,000 and 85,000) of the new licenses were taken out by former state employees, according to previous estimates.<sup>173</sup> The difference is made up of young people and probably a large number—particularly women—who were not registered in the labour records in the first place, plus a number of retired persons.

Another phenomenon to take into account here is that many of those working “on their own” are not licenced and registered as TCPs. The General Comptroller for instance claims that the majority of those employed by other TCPs, so-called *contratistas* (or *ayudantes*), are working without a license. Licensed *contratistas* represent 20% of formally registered TCPs,<sup>174</sup> i.e. around 116,000, so we may conservatively assume that there are a similar number of non-licensed workers in this category. It is impossible to

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<sup>173</sup> Figure given by Omar Everlenny Perez at CEEC Conference in Santa Clara, 07.11.13.

<sup>174</sup> Same source as previous.

determine how many of them were previous state employees but given the growth rate of the TCPs during this period, and that the number of businesses of a certain size perhaps has grown even more, we may assume that the majority of these 110,000 are people who have left the state sector.

With reference to Table 6.1 (forms of land tenure) and based on the quite dramatic increase in non-state land tenure particularly in the form of CCS and leasing agreements (*usufructo*) during the first years of the Raúl era, we may make some rough estimates about similar movements in the agricultural sector. The percentage of those moving from state or heavy state-controlled forms of agriculture (including the cooperative category called UBPC), to the most autonomous cooperative form (CCS), those with leasing contract (*usufructuarios*) plus private landholders, we may very roughly estimate that movement to be about 40% of the total amount of those employed in agriculture in 2010, 920,000 (ONEI 2014, Table 7.3), that is to say 370,000.

We may therefore assume, although on the basis of somewhat speculative estimates, that the majority (conservatively about two thirds) of those who have moved from the state to the formal non-state sector are rural people, linked to agriculture.

What we may conclude from all this is that a significantly increasing percentage of Cuban breadwinners have been leaving the public sector during these five years, almost doubling the non-state sector (formal as well as informal), which now represents between one fourth and one third of the workforce. Additionally, a significant share (conservatively 15-20%) of state workers are also partly engaged in the private labour market (most of them informally). Others have found other forms of relating to the black economy, through illicit appropriation of state property.

Overall, at least half the Cuban workforce depends fully or partly, formally or informally, on the non-state labour market. In spite of that, however, the state has not been able to relieve itself of a heavily overburdened and largely unproductive workforce—one of the main aims of the reform process. *The reason is simple: maintenance of state employment is part of the Cuban parasitic survival strategy.*

Even those who have been able to find sustainable employment in public companies, with a sufficient salary to maintain a family, have often had to make use of bribe techniques. Anecdotal evidence, of common knowledge in Havana, tells that you have to pay a considerable amount of money—perhaps only available if you receive family remittances from abroad—if you want to obtain attractive jobs in the tourism sector. Anywhere from 600 USD to become a taxi driver for *Cubataxi* (the yellow taxis normally occupied by tourists), to between 5,000 and 10,000 USD if you want to work for the *Gaviota* rent-a-car company, particularly in their most attractive bureaus like the International Airport in Havana.<sup>175</sup> The logic is that you bribe in order to get a license in order to bribe even more once you have got it.

The vast majority of the population, therefore, is deriving most of their earnings from the *symbiotic relationship* between the two sectors. This situation of *illicit symbiotic interdependence between state employment and non-state survival strategies* of course exposes workers in both sectors to a high degree of vulnerability. They also fall victims to the whims of all kinds of controls by police, labour inspectors and law enforcement institutions, who themselves almost as a rule make use of illicit methods (bribery) for their own survival strategies.

*One aspect regarding the issue studied in this dissertation is what impact this fundamentally changing social architecture has on people's loyalty to the state, and on the state's power over ordinary citizens, in short, the social contract between the state and its citizens.* That is a question we will come back to in Chapter 11.

Rules for self-employed work (TCP) have been maintained more or less the same since the beginning of the new economic reform drive. It is still difficult to see this opening evolving into a more general permission, let alone incentive, to convert private entrepreneurship from a survival option into a basis for serious business development. The lack of wholesale markets forces the TCPs into illicit practices. The disadvantageous tax system represents a temptation to systematically under-report on sales, or on

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<sup>175</sup> "Pagar por trabajar: ¿cuánto cuesta un empleo en Cuba? Este mercado clandestino se asienta en las empresas estatales": Ernesto Pérez Chang, *Cubamet*, 14.08.17, based on a number of statements, some of them from previous workers in some of these companies.

number of employees. All this contributes to inflate the discretionary powers held by local authorities, police and labour inspectors to clamp down on private entrepreneurs. Contrary to being stimulated, TCPs are very often perceived by the state bureaucracy as a necessary evil, and as easy targets for harassment that plays a crucial role in the survival strategy of public employees.

Ethical standards in the chaotic Cuban labour market are definitely a thing of the past.

### **Indicator 2.6: Growing weight of the non-state sector in the Cuban economy?**

*The Guidelines*, with their updating of the Economic and Social Model, had as its *objective*, said Raúl Castro at the 6<sup>th</sup> Party Congress:

“[T]o guarantee the continuity and irreversibility of socialism [...] The growth of the non-state sector of the economy, far from signifying a supposed privatization of social property, as some theoreticians affirm, is destined to become a facilitating factor for the construction of socialism in Cuba, since it will allow the State to concentrate on improved efficiency of the fundamental means of production” (Castro 2011) (S/E).

Morales (2017) has made an attempt to estimate the relative weight of state and private sectors in the Cuban economy. Some previous estimates have claimed that GAESA controls as much as 70% of the Cuban economy. This seems to be largely exaggerated, while Morales’ estimate appears to be quite realistic.

Without including the home-market agricultural sector (which may lead to a significant revision because—as we have seen—of the relative importance of the non-state sector in agriculture) he has arrived at the following distribution, based on *percentage of gross incomes in the Cuban economy*:

**Table 6.5: Estimated composition of state and non-state sectors in the Cuban economy:**

<b>Military-controlled companies*:</b>	3.8 billion USD	21%
<b>Rest of state-owned companies**:</b>	11.1 billion USD	61%
<b>Private sector:</b>	3.2 billion USD	18%

\*of which GAESA 3.7 billion=97%

\*\*the most important being: sugar export, niquel, petroleum derivates, medical services, rum, tobacco, seafood, biotechnology, telecommunication

**Source:** (ref. Morales 2017, as reproduced in Figure 2.1).

The private sector’s *share of official GDP* is only about 7%, but the share has doubled during Raúl’s presidency (from 3.7% in 2006 to 7.2% in 2014).<sup>176</sup>

If we look beyond the official figures, however, we find a Cuban private sector that is gaining an increasingly significant space, and potentially more power, in the Cuban economy.

The following table is the most credible estimate encountered of the private sector composition in Cuba:

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<sup>176</sup> Information based on private information from Pavel Vidal, calculated on the basis of data for aggregated consumption provided by the official statistical yearbook during several years.

**Table 6.6: Estimated invoicing in different private sectors, 2016**

<b>Sector</b>	<b>No. of licences</b>	<b>Min. estimated invoice value (mill. CUC)</b>	<b>Max. estimated invoice value (mill. CUC)</b>
<b>Restaurants (paladares)</b>	1,712	370	693
<b>Body treatment*</b>	17,837	80	120
<b>“Distant wholesale marketing”**</b>	-	1,500	2,000
<b>Lodging***</b>	35,066	164	430
<b>Shoe production</b>	7,902	104	143
<b>Telecom</b>	24,440	97	129
<b>Transport</b>	54,350	215	287
<b>Others</b>	393,693	50	80
<b>Total</b>	<b>535,000</b>	<b>2,580</b>	<b>3,882</b>

\*This includes beauty salons, makeup service, barbers, manicure, personal trainers, masseurs etc.

\*\*This sector, fully unregistered, is a calculation of the value of goods for sale or production inputs brought into the country as passenger luggage

\*\*\*This adds together lodging paid both in convertible and national currency

**Source:** Morales (2017, Figure 3), based on statistics published by *Ministerio de Trabajo y Seguridad Social*

If these estimates are trustworthy, 18% of total revenue creation in Cuba—outside of home-market agriculture—comes from the private sector if we include both the formal and the informal economy. Compared to the official private share (7.2% of GDP), it means that more than 60% of Cuba’s non-state economy is informal, or that the private economy is two and a half times the size of what is officially registered. Still, given that about 30% of the workforce is officially employed outside of the state, it means that the average productivity is significantly lower in the private than in the state sector—

although the difference seems much less than what the previously cited CEPAL figures reveal about the situation elsewhere in Latin America.

This table needs some further comments. First of all, as already noted, it does not include agriculture where the non-state sector as we have seen have increased its weight considerably. The largest private activity in economic terms, according to this estimate, is what the author (Mr Morales) calls *mercado mayorista a distancia*, “distant wholesale marketing”, the informal way of providing Cuban businesses with imported inputs for the lack of a proper wholesale system. This takes place through personal imports of goods, either provided by visiting relatives or friends or so-called “mules” (as mentioned above): Cubans travelling to neighbouring countries with the specific purpose of importing goods. All this ends up in the gigantic Cuban black market.<sup>177</sup> Among the registered business sectors, restaurants (*paladares*) is clearly the most profitable sector, estimated to generate 50% more gross incomes than bed & breakfast businesses, in spite of only representing a fraction of the number of licences.

The sector with the largest number of licences is transport, of persons as well as goods, a sector where the public economy has revealed great vulnerability. But it is also a sector where the private service providers have shown an impressive adaptability in the grey zone between the formal and the informal economy by pulling out and with their incredible ingenuity keeping afloat the large fleet of pre-revolutionary cars and trucks.

Although, as we come back to, a considerable number of Cubans, in the hundreds of thousands, have been able to make a relatively good living in many of these businesses, the majority of the TCPs, principally the three quarters falling in the “others” category of Table 6.6, are dedicated to a variety of petty services with miniscule sales. Most of them are eking out a marginal income and struggling to survive. They include small sidewalk cafeterias, direct sale of food (ref. the category “elaboration and sale of food” with almost 60,000 licenses in mid-2017), sale of clothes and other small retail business, carpentry, plumbing and other crafts, minor repair, etc. Such activities can hardly employ more than one or very few people, and mostly generate very limited profits—although often much better than public salaries. This majority of *cuentapropistas* enjoy

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<sup>177</sup> This does not include the immense stealth of public property that ends up on the black market, or the informal private wholesale of agricultural products.

little more than a survival opportunity. They are also exposed to so many restrictions, so much red tape and such heavy taxing policies, implemented by government inspectors apparently acting under the logic that *cuentapropistas* should not have the opportunity to get rich or enjoy a substantially higher income than that of public employees. There is a jungle of legal provisions that may be applied,<sup>178</sup> in a situation where most of the micro entrepreneurs are left to informal and illegal activities in order to survive and prosper. In this situation, the whims (*caprichos*) or corruption of public controllers are often what decides whether a small business survives or not. As claimed by Henken (2002) long before the period under study here, and strengthened by Wig (forthcoming), this often amounts to a zero-sum game between risk-taking and profitability.

We will in a later section (under Indicator 4.4) come back to the potential power position of the private sector, particularly in the tourism sector.

*We may have seen the growth of a Cuban private sector, now representing as much as 20% of GDP, fully or partly providing a livelihood for half the Cuban population. However, this has mostly happened through informal and largely illicit mechanisms. No strategic development plan providing serious incentives for private entrepreneurs has been formulated. As one leading economist has claimed: "The [state] institutions do not consider the non-state sector as a strategic component of development".<sup>179</sup>*

### **Indicator 2.7: Growth of an autonomous cooperative sector?**

The potentially decisive contribution to the non-state Cuban economic society could be coming from a new and potentially more independent *cooperative* sector. Ideologically, there has been a declared intention to stimulate cooperative forms of property as a "higher level of social organisation" than private business, and therefore clearly to be preferred in accordance with the "updated Cuban socialism" (ref. various statements from 'Reform Czar' Murillo).

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<sup>178</sup> Just to mention one example: if the holder of a *cuentapropista* license is not physically present at the workplace due to illness, pregnancy or whatever reason, the local authorities have the power to withdraw the licence until the person is back (Resolución 41/2013, No. 20, Article 12). It was reported in 2017 that this restriction would be flexibilized.

<sup>179</sup> Omar Everleny Perez, interviewed by Ariel Terrero (2014): "Doce economistas en pugna" ("Twelve economists in conflict"), published on the website *Cubaprofunda* hosted by an institution belonging to the Ministry of Culture (S/E).

The role of *agricultural cooperatives* has been discussed under Challenge 1.

In an evident effort to stimulate non-state enterprises without nurturing private capitalism, the Government started stimulating the creation of *non-agricultural (or urban) cooperatives*. It was first announced that experiments with “mid-size” non-state cooperatives in sectors ranging from food services and fisheries to transportation would begin by the end of 2012. These co-ops would be given preference over private single-owned businesses. A budget support of 100 million USD was supposed to be set aside in order to stimulate this sector.<sup>180</sup>

Two legal measures were approved in late 2012 (Decree-Law 305 and Decree 309 of the Council of Ministers),<sup>181</sup> establishing some completely innovative principles for Cuban cooperative organisation. Ultimate authority in these cooperatives would be left to the General Assembly (GA), which includes all members. The GA would have the power to elect a President and other directives by secret ballot. Financial management of the cooperative would depend on size and complexity: left to a single member in small cooperatives and a financial committee in larger ones. The legal principles for these cooperatives are not too different from the International Cooperative Alliance (ICA) principles.<sup>182</sup> Rather than “democratic member control” the Cuban statutes speak about “collective decisions and equality of rights”; rather than “autonomy and independence” there is a concept called “autonomy and economic sustainability”. There is no reference, though—as there are in the ICA principles—to economic participation, open membership and training/information.

During 2013, a group of 200 urban cooperatives were approved, signalling a new category of companies of potentially great significance in Cuba. There were two quite different categories of new cooperatives, based on the origin of the initiative.

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<sup>180</sup>Announcement made by Cuba’s ‘economy czar,’ Marino Murillo, at a session of Cuba’s Parliament in July, 2012 (according to a cable from *Associated Press*, dated Havana 23.07.12).

<sup>181</sup>Published in *Gaceta Oficial* No. 53, 2012.

<sup>182</sup><http://ica.coop/en/whats-co-op/co-operative-identity-values-principles>. The International Co-operative Alliance (ICA – ACI with its Spanish acronyms), founded in 1895, is the most important world-wide co-operative organisation. It has a strong presence in Latin America and the Caribbean. The ICA Congress established seven basic principles, which all cooperatives are supposed to follow, in 1995.

The first group is what we may call *state-initiated cooperatives*, previously state-owned businesses, very often in a bad financial state where workers have been given the choice between closure and dismissal, and the re-organisation into cooperative. We are speaking about groups of people who rent premises or production means from the State for ten years (this contract may be renewed), with the possibility of defining prices and distributing the profit.<sup>183</sup>

But a second modality was also made possible: cooperatives set up in alliance between *cuentapropistas*, which we may call *TCP-initiated cooperatives*. This may for instance be an opportunity for individual artisans to develop into small-scale industrial production.

Some very few cooperatives of *professionals* (around 10 reported in early 2016) have also been established, but most of them had very limited practical functionality since they are only allowed to offer the same categories of services as those allowed for TCPs (ref. the previously mentioned case of *Scenius*, closed by the state in 2017).

The political signal was that cooperative organisation in Cuba would enjoy several advantages compared to other non-state businesses (based on self-employment). The most important was that cooperatives, as legalised companies, would be eligible to receive foreign investment according to the new foreign investment law (ref. Challenge 3.1). That was not the case for self-employment initiatives converted to informal “companies”, since they lacked a legal personality status.

One of the problems with the new urban cooperatives, which the legislation presented as “experimental” and up for reappraisal and modification after the first 200 had been allowed to function for a while, has been the terribly cumbersome approval process. Every single of them has to be approved by the Council of Ministers, after previous assessments of financial, legal and other aspects by special commissions at local, provincial and national level. The need for firm control still penetrates the official thinking, in an almost absurd case of centralism.

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<sup>183</sup> An alternative way of ‘out-sourcing’ such state enterprises would be through the *usufructuario* modality, discussed in a previous section of this Chapter.

By 2014, a total of 570 such cooperatives had been authorised,<sup>184</sup> but only about half had actually been constituted. Three quarters of them were state-initiated, whereas 25% were TCP-initiated. Most were in the sectors of commerce and restaurants, some in construction, very few in industry or production. 80% were concentrated in the greater Havana region (including the two experimental provinces—along with Havana—Artemisa and Mayabeque).

A highly interesting review of the experiences with these cooperatives (limited to Havana, only covering period until first quarter 2014) showed that the non-state based cooperatives were much more successful than the state-based, in spite of very limited access to information and incentives. Members of this cooperative category had for instance experienced a tripling of their incomes. In both categories, however, the principle of internal democracy was reported to be frequently violated (Piñeiro Harnecker 2014). The study observed that no real cooperative culture had been created; it was hardly to be expected after such a short period.

The same quasi-international cooperative principles were also in theory established for the most independent agrarian cooperatives, the previously mentioned CCSs, at least judging from official training material. A cooperative training project within the agricultural sector—organised jointly between UNDP and the Ministry of Agriculture with EU funding (part of the so-called Palma project)—developed some very interesting training material<sup>185</sup> where the basic international principles of cooperative organisation<sup>186</sup> were emphasised. These include such remarkable principles in the Cuban society as *open and voluntary membership*, *democratic control by the members* (one member, one vote; full accountability of elected leaders to members), *economic participation by the members* (democratic control of the capital, where members also decide how the surplus is to be used), *autonomy and independence* (organisations should be fully controlled by members; implicitly being independent of government). This training program was supposed to be rolled out among cooperative members in a total

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<sup>184</sup> *Granma*, 24.09.14.

<sup>185</sup> Ministerio de Agricultura (2013): *Gestión Integral Cooperativa: Guía para formadores y facilitadores* (La Habana).

<sup>186</sup> The training guide prepared for the purpose of this project in Cuba refers directly to, and is based upon, these principles.

of 37 municipalities in five different provinces all over the country. If these principles had been taken seriously and respected as a basis for existing or new agricultural cooperatives, it would almost imply a revolution in the way cooperative members could take control of their own economic situation in Cuba. The fact that the Ministry of Agriculture put its stamp of approval on this training material and actively supported the training was in itself quite extraordinary.

At least judging by these legal principles, members of the coops should be able to exercise substantial control, almost resembling the workers' management system in Tito's Yugoslavia. But of course, the proof is in the pudding: the question asked from the beginning of this experiment was whether the local nuclei of the Communist Party really would accept democratic governance in these new cooperatives and avoid taking control over workers' assemblies, and thus also stay out of the enterprise management function they normally control? If that had happened, it would really have been innovative for the Cuban society, with a possible spread effect into the political system.<sup>187</sup> The reality, however, seems to be that the Party never dared to let these principles rule in practice.<sup>188</sup>

Even with all its limitations, the Government seemed to be very worried that experimentation with the new cooperative model could accelerate too much. In a 2015 meeting of the Council of Ministers, President Castro made a call against "massive creation of (non-agricultural) cooperatives; the priority ought to be the consolidation of the existing ones and advance in a gradual way". He also emphasised that these cooperatives had an experimental form, and that one should not go too fast: "we need to accommodate to the rhythm of events", he said (S/E).<sup>189</sup>

We see some of the same caution signals in the way new cooperatives are being treated when they approach state companies for business opportunities, particularly regarding

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<sup>187</sup> A good presentation of these measures is to be found on the blog of the Canadian economist and Cuba-watcher Archibald Ritter (October 7, 2013), published in ASCE Newscippings.

<sup>188</sup> The author has made several attempts – in vain – to get access to UNDP's internal evaluation of this interesting training experience, but according to informal informants there has been no change from the traditional top-down style of management.

<sup>189</sup> Leticia Martínez (2015), "Cooperativas, Sistemas de Pago, Corrupción y Sistema Bancario en la mira de la reciente reunión del Consejo de Ministros", *Cubadebate*, 1.06.15 (S/E).

one of the main obstacles for their development: access to wholesale markets. Such access should in principle be available for cooperatives with their own legal status. The perception of many cooperative leaders, however, is that “the bureaucracy of state companies applies different ways of presenting obstacles in order not to lose control”, particularly when it comes to access to production inputs from wholesale markets.

“Up till now, efforts by non-agricultural cooperatives to enter into contracts with certain state enterprises fail to materialize because these enterprises delay or de-stimulate whatever commercial agreement, due to the fact that superior instances have not elaborated the procedures that normalise contractual relations between the parties”.<sup>190</sup>

The intention to open up for cooperatives of second degree, as stated in the *2011 Guidelines*, has never been implemented. A good opportunity to increase the economic and political strength and thereby also the potential political autonomy of the cooperative members has thus been missed.

In his report to the 7<sup>th</sup> Party Congress (April 2016), Raúl Castro acknowledged that restrictions in access to wholesale supplies and services represented a deficiency for non-agricultural cooperatives, and the Government did present a plan to allow some previous state businesses converted to cooperatives (what we have called state-initiated cooperatives), to buy supplies from private producers and wholesalers.<sup>191</sup>

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<sup>190</sup> Osmar Laffita Rojas (2015), “Tribulaciones de las cooperativas no agropecuarias”, published 14 April 2015, reproduced in *ASCE Newscippings* no. 658 (S/E).

<sup>191</sup> EFE, La Habana, 12.04.16. Castro also included small restaurant businesses—perhaps in a reference to the *usufructuario* modality—in this plan.

**Table 6.7: Evolution of various forms of cooperatives (absolute numbers), 2011-2016**

	<b>CNA</b>	<b>UBPC</b>	<b>CPA</b>	<b>CCS</b>
2011	-	2165	1002	2644
2012	-	2038	1006	2644
2013	198	1811	909	2502
2014	345	1754	903	2504
2015	367	1699	897	2510
2016	397	1593	887	2471

*CNA*: Non-agricultural (=urban) cooperatives

*UBPC*: Basic Unit of Cooperative Production (transformed from previous state farms during the Special Period, in 1993)<sup>192</sup>

*CPA*: Agricultural Production Cooperatives, where the land is worked collectively and according to centralized economic planning, but operated at a greater level of autonomy from the state than a *UBPC* or a state farm

*CCS*: Credit and Service Cooperative, where members have the highest degree of autonomy and in principle work their own plot of land (either privately owned or held in usufruct)

**Source:** ONE 2016, Table 4.1

We see from this table that the growth of non-agricultural cooperatives was considerable during the first two years they were permitted (2013-2014), but then stagnated (7% annual growth 2015-2016). Three quarters of the CNAs were located in Havana and the two previous Havana provinces Artemisa and Mayabeque.<sup>193</sup> The number of UBPCs were reduced by 25% during this six-year period, CPAs by 9%, while the number of CCSs has fallen by 7%.

<sup>192</sup> The negative performance of UBPCs is discussed under Indicator 1.1.

<sup>193</sup> ONE 2016, Table 4.2.

In an effort to avoid real independence for the cooperatives, it has been reported in the Cuban press that the government is preparing a program whereby the cooperatives applying for authorisation need to respond to central planning and accept state management controls.

Archibald Ritter has discussed the option of “mixed economy with intensified *cooperativization*” as one of several scenarios for Cuba. In his words:

“[T]his would involve permitting cooperatives in all areas, including professional activities; opening up the current approval processes; encouraging grass-roots bottom-up ventures; providing import & export rights; and improving credit and wholesale systems for coops” (Ritter 2016).

In his rather speculative forecast, a cooperative sector in Cuba could employ as much as 35% of the workforce (1.7 million workers), vs. 4.6% at present. For whatever these numbers are worth, they illustrate that there is a huge potential for cooperative sector expansion in Cuba. The prominent Cuban economist Juan Triana forecasted as late as 2016 that 13,000 state-owned businesses would be converted to cooperatives “in one or two years”.<sup>194</sup>

The reality has shown that the growth of cooperatives has been far from these expectations: *no massive urban cooperativization has been permitted to take place*. This sector, which was thought to become a major form of labour organisation in Cuba between the state and the private sector, had hardly become significant before new heavy brakes were turned on in August 2017. By the end of the first semester of 2017, 431 non-agricultural cooperatives (abbreviated CNA), with a total of no more than 12,000 affiliates, were operating in the country. The largest numbers were dedicated to services related to hotels and gastronomy, and to commerce and repair of personal effects. Smaller numbers were active in construction and manufacturing. 60% were concentrated in Havana.<sup>195</sup>

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<sup>194</sup> Juan Triana interviewed by *OnCuba*, June 2016.

<sup>195</sup> *14y medio* 9.08.17, based on figures provided by ONEI.

The stated intention was that the 2012 decrees would be substituted by a general cooperative law after a period of experimentation. But “experimentation” is still the name of the CNA cooperative game in Cuba. As late as mid-2017, President Castro was still full of hesitation about the role of such co-operatives, apparently reflecting a worry that they may escape the strict political control rather than a determination to finally let them flourish as a significant economic sector, referring to numerous problems, illegalities, abuse of power by leaders of these institutions, and “an excess of enthusiasm and wishes to advance more rapidly than we are really capable of” (S/E).<sup>196</sup> As part of the reform process halt announced in August 2017, the Government also decided to paralyse the creation of new cooperatives, once again with reference to the need to “*perfeccionar su funcionamiento*”<sup>197</sup>.

The well-informed Uruguayan journalist and long-time Cuba resident Fernando Ravensberg made the ironic commentary that the sin of the cooperatives was simply that they had been too efficient. He documented this with reference to a report by members of the National Assembly to its July 2017 session, based on a series of visits to CNAs in different parts of the country. The Parliamentarians had noted that the CNAs were “increasing their contribution to sectors of high economic and social importance to the country, contributing to the improvement of their members’ quality of life and satisfying the demands of the clients, above all in the construction sector”. The problem, they noted, was that this “could negatively affect the human capital of state companies, since the exodus of qualified personnel towards the cooperatives is increasing”, plus that they were operating outside of their own territory, “thus limiting the access to control and fiscalization” (S/E).<sup>198</sup>

If the government had lived up to its own legal and political commitments to let agrarian as well as urban cooperatives develop into autonomous and democratic institutions, which might actually have changed the entire state vs. non-state equation. It might have produced some of the desperately needed results in terms of food production, job

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<sup>196</sup> Castro in his closing speech to the July 2017 session of the National Assembly: “Raúl Castro critica las irregularidades en el sector privado y cooperativo”, *14ymedio*, 14.07.17 (S/E). The following month, a government official was more specific by accusing the cooperative directors of operating like private business owners (*14ymedio* 9.08.17).

<sup>197</sup> *Granma*, 8.08.17.

<sup>198</sup> Fernando Ravensberg’s blog, 13.07.17: “Peligro!!! Las cooperativas son demasiado eficientes” (S/E).

generation and productive growth in Cuba. Of particular importance could be the appearance of serious “second degree” production cooperatives that might grow into a manufacturing industry, for instance linked to agriculture and construction.

In practice, however, the same over-cautiousness of losing state control has until now been predominant here, both in terms of authorising new cooperatives in general, and particularly when it comes to allowing more autonomous forms of cooperative organisation. A completely new policy direction would be required in order to make the cooperative sector thrive in Cuba.

The big political question here is—as with the rest of the reform process—whether the state will let go of its complete top-down control of the economy, and whether a strong cooperative sector shall be allowed to develop as autonomous and people-controlled structures. A democratic cooperative movement in Cuba could also be a key building stone in a development towards more general democracy in the country. It is difficult to observe signs in that direction so far.

### **Indicator 2.8: Incentives/dis-incentives for other potential non-state growth initiatives.**

The 17<sup>th</sup> of December 2014 (later referred to as 17D) joint US-Cuban declarations to start a process towards normalisation with a gradual but still only limited lifting of the US embargo, might have offered a historic opportunity for a strengthened and relatively autonomous private sector to emerge and flourish in Cuba. Once the embargo is completely lifted, an autonomous and national small and medium enterprises (SMEs) sector would probably have serious difficulties to flourish in competition with a rapid influx of large and world-class efficient companies from the US and elsewhere. If the Cuban government had permitted the emerging entrepreneurs to develop more robust businesses with the help of the increased family remittances and trade that was now permitted by the Obama administration, and had allowed the legal recognition of MSMEs, it might also have freed the state of much of the redundant and non-productive workforce. What is more, it could have created a stronger national economy that would

be less vulnerable to the expected—or at least desired—deluge of US and other capital once the embargo/blockade had been lifted.

One clear perception, however, is that throughout this period of historic opportunity the systematic discrimination of domestic entrepreneurs continued, even when compared to the conditions offered to foreign investors (ref. Henken and Ritter 2015 Chapter 7; Torres 2016). As we will come back to under Indicator 5.2, we may even have seen an *increasing* government resistance to allow a real entrepreneurial development in the post 17D period, and that the opening of relations with the US actually hampered rather than stimulated acceptance of this sector (Bye 2016). There were early signals that certain government circles considered US efforts to foster entrepreneurship as a sinister plan to undermine socialism—some going as far as claiming that the eternal enemies in the CIA were behind such plans, i.a. by using the Catholic Church as their tool.<sup>199</sup> Such conspiracy theories seem to have gained increasing influence on public economic strategies, gradually ending up as a general resistance to more systematic market reforms.

17D no doubt opened many new opportunities for private sector development. In addition to removing most limits on remittances (as discussed later under Indicator 3.3), President Obama also explicitly allowed US companies to “support the emerging Cuban private sector”. This was part of his “empowerment through engagement” policy (which of course *did* have a side-objective to strengthen political pluralism in Cuba). Different forms of stimuli were now allowed from the US side while the embargo was still in place:

“Direct U.S. engagement with Cuban entrepreneurs through freer travel and more remittances; access to banking and other financial services; increased exports of badly needed inputs to island cuentapropistas; the import of private or cooperatively produced Cuban goods and services to the U.S.; and technology and know-how transfer are all encouraging elements of Obama’s new Cuba policy. These changes have the potential to both

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<sup>199</sup> See Arthur Gonzales (2013): “The #CIA and the manipulation of the Catholic Church”, posted 30.10.13 by *cubainsidetheworld*, <http://cubainsidetheworld.wordpress.com/2013/10/30/the-cia-and-the-manipulation-of-the-catholic-church/>, downloaded 2.12.13, where the author interprets plans by the Cuban Catholic Church to train entrepreneurs in Santiago and Havana as part of the subversive plans of the US government against the Cuban revolution, with the purpose of replacing socialism with capitalism in Cuba.

‘empower’ individual entrepreneurs—the stated goal of the U.S. policy shift—and incentivize the initial, if exceedingly cautious, private sector reforms already begun by the Cuban government” (Henken and Vignoli 2015).

In February 2015, the US State Department stated that independent and self-employed Cuban producers would now be allowed by US legislation to export a number of products to the US. A list of products that *could not* be exported was drawn up, leading a customs attorney in Miami to analyse the complicated US Harmonized Tariff Schedule, and come up with what he called his “yes list”—imports from self-employed workers that were permitted even while the US trade embargo against Cuba remained in place:

“The State Department says its new rules [for products that independent Cuban entrepreneurs could sell in the United States] will encourage private Cuban entrepreneurs to develop products for export. While all live animals and animal products are prohibited, raw hides, skins, leather, furs, saddlery and harnesses, handbags, and travel goods are allowed. So are paper products, plastics and rubber articles, ceramics, glass and glassware, articles of stone, plaster and cement; footwear, hats, umbrellas, toys and games, artificial flowers and feathers.

Independent entrepreneurs who make soap, cosmetics, candles, waxes and polishes, perfume or photographic or cinematographic goods are also in the clear. Jewellery makers, including those who work with pearls and precious and semiprecious stones, also got a green light as did producers of cutlery and tools.

Importation into the United States of an array of home goods, including furniture, lamps, illuminated signs, bedding, mattresses and cushions, clocks, wicker products, baskets, and articles made from wood, cork and straw, is allowed. Watches and musical instruments are on the ‘yes’ list, too”.<sup>200</sup>

Yet another relaxation came in April 2016, in the aftermath of President Obama’s historical visit to Cuba, when the US government announced that it would permit the import of coffee and textile products produced by “independent Cuban entrepreneurs”,

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<sup>200</sup> “Cuban entrepreneurs can sell everything from shoes to soap in the United States”, *Miami Herald*, 23.02.15.

previously limited to Cuban artisans.<sup>201</sup> The US also made 300 million USD available for trade with Cuba in 2016.<sup>202</sup>

If private producers had been allowed and even stimulated to take advantage of the new US measures, the private shoe industry and similar sectors might potentially have, quite quickly, developed into a thriving part of the Cuban economy.

The problem, however, was that such US-Cuban business relations were never allowed by the Cuban government (ref. Indicator 1.3, with the quoted rejection by ANAP, the Party-controlled peasant organisation, to turn down the coffee export invitation). Consequently, the two sides could not come to terms about such private sector relations. President Obama's Secretary of Commerce, Penny Pritzker, characterised the negotiations on renewed commercial relations as going much slower than the US would like. A US proposal that Cuban government agencies facilitate trade with the non-state sector was flatly rejected. Pritzker met with Cuba's Minister of Foreign Commerce and Investments, Rodrigo Malmierca, in February 2016. She noted that while the normative changes in US policy were not expected to be met with a reciprocal response, the Cuban government would need to permit the country's private sector to have access to these new measures in order to unblock the opportunities for the Cuban people.<sup>203</sup>

The opposition Cuban economist Elías Amor Bravo noted:

“US officials quietly acknowledge that while the current structure of the economy depends exclusively on government entities, trade relations between the two countries will advance little, very little [...] From the US side, the possibility has been raised in the negotiations that importing government agencies on the island, all state-owned, take care to facilitate US exports while at the same time US employers might contact private Cuban entrepreneurs directly and do business with them without going through the government circuit. This proposal has been met with an absolute rejection by the Castro regime. In such conditions, everything will move very slowly” (S/E).<sup>204</sup>

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<sup>201</sup> *EFE*; Havana, 22.04.16.

<sup>202</sup> “EEUU autorizó ya \$300 millones para negocios en Cuba este año”. Posted on 18.02.16 by *Café Fuerte*.

<sup>203</sup> *Café Fuerte*, *op.cit.*

<sup>204</sup> Elías Amor Bravo (2015), “La reanudación del comercio con Cuba es lenta”, in *Cubaeconomía*, posted 1 April 2015, reproduced in ASCE NewsClippings no. 658 (S/E).

The Cuban government showed no sign of picking up the new opportunities offered by the Obama administration in terms of economic collaboration with Cuba's private sector, apparently out of fear of US political considerations about stimulating a capitalist sector with the purpose of undermining the political regime. As we come back to under Indicator 9.3, the paradoxical effect of US engagement therefore seems to have been a Cuban counter-reform. The Trump presidency will not be of any help in this regard, either.

The foot-dragging in response to the investment potential of the Cuban-American diaspora may also have provided a significant signal regarding a crucial question for Cuba's political future: whether increasing co-investment opportunities—when they ultimately emerge—will be dominated or monopolised by the Cuban state, not least military corporations, or whether non-military Cuban entrepreneurs will be allowed to develop such links. The left-wing Cuban-American academic Samuel Farber (2006) predicted the response more than a decade ago, possibly in a quite prophetic way:

“A more likely scenario is that the heads of the Cuban army will welcome the investments of the Cuban-American capitalists with the clear understanding that the army will politically run the show. Of course, over the longer term, these two forces would tend to merge with each other. These army leaders will be in a position, as we indicated above, to make deals directly with the even bigger U.S. capitalists, without having to depend on or need the Cuban-American capitalists as intermediaries, although many of the latter may feel encouraged to play that role”.

The open and mutual interest between leading US capital sectors and Cuban military-controlled corporations during the Obama era (ref. Indicator 3.4) is a good illustration of the potential in this relationship.

### **Challenge 3:**

#### **Massive need for productive investments to spur economic growth and employment creation**

#### **Indicator 3.1: Foreign investment playing an increasing role in Cuba's economic development and employment generation.**

"In a 2011 official document outlining proposed reforms, foreign investment was derided as "complementary", a secondary afterthought. In contrast, when addressing Havana's annual international trade fair in 2017, Raúl's minister for foreign trade and investment sang a very different tune: "Today foreign investment ceases to be a complement and has become an essential issue for the country.'" (Feinberg 2017)

Until a new foreign investment regime was introduced in Cuba in 2013/2014, such investments were very limited and actually falling by as much as 50% since the beginning of the century, riddled with all kinds of legal uncertainties and political foot-dragging (see Feinberg 2012 and Perez 2014). Consequently, there were few signs of the country attracting significant foreign investments. Some estimates (or perhaps rather 'guesstimates') put the 2013 level of accumulated foreign investments in Cuba at anywhere between 3.5 and 5 billion USD, a very limited amount for the size of the country and its economy<sup>205</sup>.

The situation of chronic deficits of trade and payment balance, and a very limited and expensive access to international credit, makes FDI even more important for Cuba.

The FDI appetite was obviously stimulated as the first optimism about offshore oil drilling subsided after 2012, and the economic lifeline to Venezuela started getting increasingly uncertain after the death of President Chávez and growing economic problems in that country. A dramatic increase in FDI was also seen as a necessity for

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<sup>205</sup> Feinberg's estimate of total FDI in 2012 was 3,5 billion USD; Perez's estimate was 5 billion USD. Feinberg, in a presentation at the ASCE conference, Miami, 1-3 August 2013, considered the 2013 level of FDI in Cuba to represent approximately 15% of what would be normal for Cuba's size. 3 billion out of the 3.5 billion investments, he estimated, are concentrated in 20 companies, with a total of 35,000 workers.

improving the extremely low gross capital formation from its present low levels (ref Indicator 3.5 below; see also Torres 2016).

Two legal steps in 2013 and 2014 were intended to change this situation. The first (2013) was related to a new strategic project for the establishment of a special development zone; the second was a new general law on FDI.

The Mariel Container Port, and the related 460 square kilometres Special Development Zone (*Zona Especial de Desarrollo Mariel—ZEDM*) located 45 km west of Havana, was inaugurated by Presidents Castro and Rousseff (Brazil) in January 2014. 80% of the 1 billion USD infrastructure investment was provided by Brazil's state development bank, BNDES, and constructions managed by the Brazilian mega-company Odebrecht, which continent-wide corruption scandal exploded soon after and also came to involve its operations in Cuba.<sup>206</sup> Some observers went as far as seeing ZEDM as Cuba's version of China's "one country, two systems", the constitutional concept created by Deng Xiaoping for relations to Hong Kong, Macao and Taiwan in the 1980s.<sup>207</sup>

The legal framework drawn up for the ZEDM (*Decreto Ley 313/2013*) to be operated by a Singapore company as to underline that this is serious capitalism—includes a 10-year tax holiday, almost complete freedom to import raw materials and repatriate profits, 50-year contracts, up to 100% foreign ownership of businesses, guarantees against expropriation. The hope was that this would lure manufacture plants as well as research centres and operational hubs to Cuba. The special objective with the deep-water container port is to handle the new wave of larger 'Post-Panamax' ships expected to dominate global commerce after the expanded Panama Canal became operational from mid-2016. The Cubans had particular expectations that Chinese firms would be looking

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<sup>206</sup> See e.g. "Operación anticorrupción en Brasil pone punto final a obras de Odebrecht en Cuba", *Martinoticias.com*, 11.12.16. For a more comprehensive report on Odebrecht's questionable operations in Brazil, not least ex-President Lula's involvement in them, see the following three articles by *martinoticias.com*, from March 2018: <https://www.martinoticias.com/a/oscueros-negocios-odebrecht-cuba-parte-1/163876.html>; <https://www.martinoticias.com/a/oscueros-negocios-odebrecht-cuba-parte-2/163884.html>; <https://www.martinoticias.com/a/oscueros-negocios-odebrech-cuba-parte-3/165115.html>

<sup>207</sup> Special Development Zone or Special Economic Zone (SEZ) is normally a geographical region that is designed to export goods and provide employment. SEZs are exempt from federal laws regarding taxes, quotas, FDI-bans, labour laws and other restrictive laws in order to produce the goods manufactured in the SEZ at a globally competitive price.

for a modern shipping container terminal in the Caribbean, but there will definitely be competition from other countries in the region that have already established SEZs, like Dominican Republic and Jamaica.<sup>208</sup>

The big drawback with which Mariel was struggling from the outset was of course the US embargo, which has prohibited ships that stop on the island from calling at US ports during the following six months. This ban was lifted by President Obama,<sup>209</sup> but re-introduced by President Trump. If and when the US embargo one day is lifted, the port may evidently become an ideal point for US-Cuban trade, i.a since most ports on the south coast of the US are situated at river estuaries with quite limited capacity.<sup>210</sup> There is all reason to believe that this perspective has been part of the motivation behind ZEDM.

One of the great disincentives for foreign investors in Cuba so far has been that labour force can only be hired through a Cuban state employment agency, which keeps the lion's share (often as much as 90%) of the salaries. Direct recruitment is ruled out in Mariel like in the rest of the country, but workers in ZEDM keep a major part of their salaries, thus providing much more incentives.<sup>211</sup> That may increase the attraction for investors and workers alike and be an incentive for better productivity eliminating the pressure on foreign investors in Cuba to offer extra-official benefits to workers. But many companies are still reluctant to engage with the Cuban labour regime.<sup>212</sup>

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<sup>208</sup> see <http://cubainsidetheworld.wordpress.com/2013/11/06/mariel-special-zone-the-jewel-of-the-cuban-economycuba/>; or Nick Miroff (2013): "At Mariel Port, Cuba follows Chinese blueprint", in *Global Post*, 23/11/13.

<sup>209</sup> As part of the October 2016 Presidential Executive Order, the US amended the Cuban Asset Control Regulations to ease the 180 Day Rule prohibiting vessels from calling at US ports for 180 days after leaving a Cuban port. If a foreign vessel calls at Cuba with cargo from a third country which would not be subject to the US Export Administration Regulations or Commercial Control List for anti-terrorism reasons, that vessel would not be prohibited from thereafter calling at a US port. Vessels carrying Cuban goods or passengers might not enter a US port, unless expressly authorized to do so.

<sup>210</sup> As an illustration, it was interesting to note the great interest shown by the Ports Association of Louisiana, controlling 5 of the top 15 ports in the US, situated on the southern coast line right across from Mariel (message from *Engage Cuba*, 25 February 2016).

<sup>211</sup> The special payment rules in Mariel are as follows: the employees keep 80% of the salaries paid by the foreign investor (normally it is the other way round), but receives only 10 Cuban pesos per USD (vs. official value of 24:1). The net result is that a Mariel employee earns 12 times that of an average Cuban worker. (Omar Everlenny Perez interviewed by *14ymedio*, 1.08.16).

<sup>212</sup> In 2016, the French contractor company Bouygues, one of the major foreign construction companies present in Cuba, was allowed to import several hundred construction workers from India in order to accelerate the construction of hotels in Havana, with a salary of 1,500 Euros per month – as much as fifty

After establishing the ZEDM, the next step was the passing of the new law on foreign direct investment (*Ley 188/2014*) in March 2014. The intention of the new law was to offer more fiscal incentives, more transparency and less discretion than the previous law from 1995. The main drawbacks, highlighted by potential investors, is that non-state Cuban businesses (apart from cooperatives) are excluded, the mentioned state control of employment ridding Cuban workers of most incentives, that there are limited rule-of-law guarantees, that the Cuban labour force has limited experience with modern assembly plants and advanced technology. The limited access to the Internet and other infrastructure weaknesses are other negative factors.

Another negative factor for FDIs is the high uncertainty about Cuba's willingness and capacity to permit profit repatriation, also linked to Cuba's debt situation. Cuba reached a Paris Club deal in December 2015, that forgave 8.5 billion USD of the total debt of 11.1 billion official debt it had defaulted on since 1986. Repayment of the remaining 2.6 billion USD debt was structured over 18 years, with the first payment of about 40 million USD due by 31 October 2016. It was seen as a very significant sign in this regard, and received with great relief by foreign investors in Havana, when the first instalment was paid, actually ahead of schedule, in October 2016<sup>213</sup>, and again in 2017. These payments were seen as an indication that Cuba was now finally getting serious about its intentions to honour international payment commitments more in general, understanding this as a necessary condition for FDI of any magnitude to be forthcoming. However, Economy Minister Cabrisas hinted in his speech to the 2016 year-end session of the National Assembly that Cuba would be unable to honour all its payment obligations.<sup>214</sup>

Moreover, Cuba provides no timely information on its finances. Western bankers and creditors estimated that the government fell behind by more than \$1bn in its 2016

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times a Cuban salary. Bouygues officials, interviewed by the author, claimed that the import of this workforce was justified by their higher labour efficiency.

<sup>213</sup> "Cuba begins to pay debts to Western creditors, beats deadline". *Reuters Business News*, Havana, 27 October 2016.

<sup>214</sup> The London Club, coordinating commercial creditors with a total of 1.4 billion USD claims against Cuba, reported in 2018 that «significant debt relief» would be offered during on-going negotiations. No result had been achieved by mid-May, 2018.

payments to creditors, and claimed that Cuba was seeking payment terms of two or more years.<sup>215</sup> A western financier with long Cuba experience added after Hurricane Irma had devastated the country in September 2017: “The perception will be that credit worthiness has been affected [by Irma], and the Cuban government will doubtless take advantage of those perceptions to push through whatever deferrals they can.”<sup>216</sup> Such perceptions will definitely not help attract more FDI.

Based on a personal experience as advisor to an FDI initiative in the Freezone (ZEDM) and elsewhere in Cuba,<sup>217</sup> there is little doubt that the Cuban bureaucracy is very ill prepared to handle foreign investors, in terms of institutional culture, tender and vetting procedures, and a minimum of transparency in the handling of decisions. Without addressing these shortcomings, it will be very difficult to attract serious foreign companies. Another barrier is the very limited access to international credit as long as Cuba is not a member of any major international development bank (partly because of US veto and partly because Cuba maintains its ideologically motivated decision not to apply for membership).

Many Cuban economists perceive a technical assistance relationship with the IMF as a desirable first step to approach international financial institutions, not least in order to facilitate the long overdue unification of Cuban currencies (Vidal and Scott Brown, 2015).

Some possible relief to Cuba’s isolation from the international financial institutions appeared in second half 2016, but this was of course before the US presidential elections. Latin America’s second largest development bank (after IDB), *Corporación Andina de Fomento* (CAF), signed an MOU with Cuba with the immediate intention of providing technical assistance. A tripartite MOU was also signed between Cuba, CAF and the Moscow-based newly revived International Investment Bank where Cuba is a

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<sup>215</sup> According to an anonymous source in the Directorate for Foreign Investment, Ministry of Foreign Trade and Foreign Investment, “the debt with investors now amounts to 1,300 million USD” (S/E), quoted by Ulises Fernández: “Cuba: la crisis irá a peor durante 2018”, 5.02.18 (article re-printed in *ASCE News* No. 790, 10.02.18.).

<sup>216</sup> Reuters’ veteran Havana correspondent Marc Frank in a cable from Havana, 14.09.17.

<sup>217</sup> Working as an advisor to a potential foreign investor in the high priority solar energy sector.

member dating back to the old Soviet era.<sup>218</sup> In a similar move, Cuba in August 2017 became a *member* of the Central American Bank for Economic Integration (CABEI), with the right to draw on its portfolio.<sup>219</sup> Cuban membership in CABEI, and perhaps in CAF, could be a breakthrough for access to international financing, and it is quite clear that the principal international finance institutions (IMF, WB, IDB) are carefully observing this relationship as a possible door opener to its own engagement with Cuba.

On various occasions, it has been stated (among others by Foreign Trade and Investment Minister Malmierca) that Cuba needs annual FDIs of at least 2.5 billion USD in order to reach an acceptable growth rhythm. Optimistic investment plans have not been missing: the official portfolio presented to potential foreign investors at the Havana Trade Fair in 2016 amounted to 9,500 mill USD, with another 3,500 million being added in 2017. The reality is dramatically gloomier. The official figure for 2015-2016 is that total FDIs *approved* reached around 1,350 million USD, i.e. 675 million USD per year, saying nothing about actually *implemented* FDI.<sup>220</sup> At year-end 2016, economy minister Ricardo Cabrisas said that FDIs were only expected to represent 6.5% of the 2017 investment plan, and 0.5 of the GDP, which would represent around 400 million USD. Based on these numbers, FDIs would not play the fundamental role for the country's economic development as established by the 7<sup>th</sup> Communist Party Congress.<sup>221</sup> One year later, at year-end 2017, Mr Cabrisas announced that the ambition for 2018 would be to implement FDIs at a value of 600 million USD.

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<sup>218</sup> According to a press release, CAF and IIB agreed "to establish a cooperation scheme for identifying and promoting programs and initiatives of mutual interest, including technical assistance for the development of micro, small, medium, and large enterprises in Cuba." ("Cuba continues to edge towards multilateral credit", *CubaStandard*, 27.09.16) A private mail message received from CAF's desk officer for Cuba (19.10.16) clarified the state of the agreement: "Cuba is not yet a member of CAF, we are working in that direction, but for the moment it is not possible for CAF to finance projects in Cuba."

<sup>219</sup> "Cuba ingresa como socio a Banco Centroamericano", *El Nuevo Herald*, 28.08.17:  
<http://www.elnuevoherald.com/ultimas-noticias/article169810512.html>

<sup>220</sup> This figure was given by Foreign Investment Minister Malmierca in November 2016, also quoted by Ex-finance minister (now CIEM Advisor) José Luís Rodríguez: "La aconomía cubana: actualizando el 2016 y una primera mirada al 2017" (II), article reproduced in *ASCE News Clippings* No. 766, 26.07.17, says that "FDIs during the two latest years accumulate 1,346 million dollar". Raúl Castro also said in his traditional end-of-year speech to the National Assembly in December 2016 that Cuba had *approved* just \$1.3 billion worth of projects since the new legal regime on FDI was passed more than two years earlier. This of course says nothing about how much has been or will be implemented. According to Reuters, two of those projects were for luxury golf courses, valued at a combined \$900 million, but no ground had yet been broken at the sites. That would leave only \$400 million, or an average of \$200 million per year.

<sup>221</sup> Cabrisas speech at December 2016 NatAssembly session, December 2016. Cuba's GDP stands at around 80 billion USD; 0,5 % of which would be 400 million USD.

We may conclude, therefore, that the ambitious plan of attracting 2.5 billion USD in annual FDI, has been downgraded to around one fourth of that amount.<sup>222</sup> Tourism is the leading FDI sector in Cuba, with 27 joint ventures.<sup>223</sup>

As an illustration of the slowness in implementing FDIs, the first ever 100% foreign investment in Cuba, a 67 million USD solar energy project in Mariel EDZ, awarded to a British company (Hive Energy) in 2015, took two years to reach a formal power purchase agreement (January 2018), but still without having reached a financial close. China seems to be the only financial source for projects of this character and magnitude in Cuba, as a result of Cuba not having access to any of the international development banks.<sup>224</sup>

Cuba has a worse record than any other Latin American country both in terms of FDI as percentage of GDP, and as percentage of gross capital formation. Still, FDI plays a decisive role for Cuba's exports: companies with mixed capital represent approximately two thirds of the value of Cuba's export of goods. It has also been completely decisive for the development of the country's tourist industry, today one of the main sources of foreign currency incomes, and for the only operative mineral industry in the country (nickel).<sup>225</sup>

President Castro, in light of this quite pessimistic prospect, has emphasized the need to "overcome the obsolete mentality, full of prejudices towards foreign investment [...] We are not going towards capitalism, but we cannot be afraid of, or put obstacles in the way of, that which we can do within our laws"<sup>226</sup> (S/E).

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<sup>222</sup> More optimistic reports do exist. At the 2017 Havana International Trade Fair, the Minister for Foreign Trade and Investment, Malmierca, claimed that "Cuba had managed to attract foreign capital of more than 2 billion USD in 2017". He said nothing, however, about how much of this had actually materialised ("¿Crece la inversión extranjera en 2017?" *Cubadebate*, 2.11.17).

<sup>223</sup> Travel Trade Caribbean, 17.01.18. Some of them – like the U.S. Marriott – have only management contracts without FDI. The Spanish hotel corporation *Meliá* represents 69% of the hotel rooms with foreign capital in the country, distributed among 29 hotels, and announced plans for the building of another 11 hotels in 2018 (DDC 18.01.18).

<sup>224</sup> <http://www.cubatrademagazine.com/hive-energy-foreign-owned-solar-park-cuba/>

<sup>225</sup> Juan Triana: "Inversión extranjera y desarrollo", 24.10.17, reproduced in ASCE News Clippings No. 780.

<sup>226</sup> *Reuters*, Havana, 27.12.16, and *Granma*, 27.12.16.

The lion's share of FDIs—planned or actually realised—seems to have been concentrated in the Freezone (ZEDM), reported in March 2017 to have “captured” 966 USD as FDI (24 companies from 10 countries), with a potential employment generation of only a little over 1,000 jobs.<sup>227</sup> Considering that Mariel has been presented as a job-generation program, that figure must represent a great disappointment.<sup>228</sup>

### **Indicator 3.2: Family remittances and other sources of investment in the private sector.**

When market reforms were introduced in Cuba, and particularly when President Obama launched his normalization policy, it was expected that Diaspora investments could play an important role in kick-starting a market economy in the country, the same way they had in the early phase of the reform process in China and Vietnam. There were increasingly strong signs that rich Cuban-Americans were getting ready to invest in Cuba, but many of them were concerned that also Cuban nationals be allowed to take part in common enterprise. One of the most vocal advocates of this vision has been Carlos Saladrigas, an influential Cuban-American investor with strong links to the Catholic Church in Cuba:

“The Cuban entrepreneur in exile has a lot to contribute in future Cuba. We are part of that enormous human capital of the Fatherland. I know almost all big entrepreneurs in Miami [...], I know well the interest they have in contributing their talent and their treasure to help a prospering and progressing Cuba... We also believe in the need to create a Creole, Cuban capital. We are worried about a Cuba where the capital once again becomes mostly foreign. After so many years struggling for sovereignty, it would be ironic to return to a Cuba dominated by foreign capital. ... [I]t would be ethically unacceptable to allow [the Diaspora entrepreneurship] to invest in Cuba, as foreign investors, if the same opportunity is not offered to Cubans living in Cuba [...] Many exile entrepreneurs will like to invest in Cuba in association with Cubans from the Island who know intimately the peculiarities of the Cuban market and the idiosyncrasy of contemporary Cuba”<sup>229</sup> (S/E).

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<sup>227</sup>*Cubadebate*, 9.03.17. Again, we are probably talking about *approved* projects. By year end-2015, it was reported that ZEDM had approved only eight projects with a cumulative investment value of about \$200 million.

<sup>228</sup> The issue of investments and other economic relations with different countries is discussed under Challenge 5.

<sup>229</sup> Carlos Saladrigas, interviewed by Orlando Márquez (2011): “No es fácil cambiar, pero lo hice,” Palabra Nueva, La Habana, May 2011. Even some leading figures of the most successful conservative Cuban-

Saladrigas' concern about much better conditions being offered to foreign investors than to Cuban nationals were not removed; it remains to be a great paradox (ref. Torres, 2016, ref. also previous remarks about pricing of domestic agricultural production).

But this window of opportunity did not seem to provoke much interest in Cuban power circles at the time. It must have been highly frustrating for people like Saladrigas to observe the lukewarm reception from Foreign Minister Bruno Rodríguez at a 2012 meeting in New York with a group of would-be Cuban diaspora investors. It was difficult to avoid the interpretation that the development of small and medium entrepreneurship spurred no real interest in the Cuban government, when the Foreign Minister was quoted as saying that "Cuba is looking for investments of a magnitude that normally does not come from the emigration." The government, he said, is chasing thousands of millions of dollars rather than some few hundred thousand.<sup>230</sup>

This was said at a moment when the Cuban government had unrealistic expectations about its ability to attract FDI, including in offshore oil explorations.

It should be added that the Consul General at the then US Interest Section in Washington, Llanio Gonzales, gave quite different signals during a visit to Miami one year later, by saying that the Cuban Government wants to promote and facilitate the repatriation of the diaspora Cubans who "during more than five decades have accumulated capital and a wish to return to their country and invest there"<sup>231</sup> (S/E).

Still, the impression is that the Cuban government is more interested in another brand of US investors: the really big ones, some of whom have roots all the way back to the old comprador bourgeoisie that left Cuba in 1959<sup>232</sup>. A typical case of these would be the Fanjul family, the second biggest sugar operator in Cuba prior to the revolution and now

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American families with leading economic roles in pre-Castro Cuba are now returning to Cuba to find out whether the ongoing reforms offer possibilities for investments in the country, perhaps afraid of "missing the train": Paul L. Cejas (a former US Ambassador and close friend of the Clinton family), and Alfonso Fanjul (whose family was one of the major sugar industry entrepreneurs) both visited Cuba in April 2012, and at least Fanjul has been back on several occasions.

<sup>230</sup> Quoted in ASCE News, No. 541, dated 2/10/12.

<sup>231</sup> El País, Madrid, 11/07/13.

<sup>232</sup> For a rather complete list of this, see Jimenez, 2008.

producing a total of 6 million tons of sugar per year (three times the Cuban production) in Florida and the Dominican Republic. Part of this family has expressed strong interest in investments in Cuba.

*The potential* for rapid growth of private business is there, thinking of possible productive use of *family remittances* from the Cuban diaspora in Florida and elsewhere.

A 2011 survey-based analysis showed that restrictions from both the US and Cuba seriously limited the employment creation potential of remittances, limiting the effect basically to economic survival:

“The findings show that remittances continue to play an important role in the economic survival of Cubans, with money coming from the U.S. and other parts of the world. We find that an important proportion of recipients wants to own a business and some already have established one. The businesses that remittance recipients have established or aspire to establish are geared toward the service sector and led by micro-enterprises aimed at achieving self-subsistence rather than wealth generation” (Orozco and Hansing 2011).

This situation has changed, particularly with the Obama-initiated easing of US restrictions. Prior to the Obama Administration, Cuban emigrants residing in the US were able to send only \$300 every three months to first-degree relatives (parents, brothers/sisters, grandparents). The Obama Administration initially set the limit at \$2,000 per quarter, and later raised it to \$10,000 per traveller to Cuba. These measures completely changed the situation.

One rather moderate estimate of money transfers is done by the Inter-American Dialogue (Orozco 2016). Based on the combination of a survey among 100 Cubans in Miami and data from a variety of other sources, he concludes that 750,000 Cubans in Miami (50% of those living there), sends an average monthly amount of 200 USD, totalling 1,800 million USD in 2015.<sup>233</sup> This, of course, does not include merchandise.

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<sup>233</sup> This figure was conveyed in a private email exchange (28.11.16) and is slightly higher than the one published in the quoted source.

The most quoted source, arriving at much higher estimates, is the Cuban-American Miami-based consultant Emilio Morales of Havana Consulting Group.<sup>234</sup> His estimate is that total remittances in 2017 reached a record sum of 3,575 million USD, 100 million more than the previous year in spite of new restrictions imposed by the Trump administration,<sup>235</sup> and that the total amount sent to Cuba between 2009 and 2016 amounted to an almost incredible 21 billion USD. If merchandise remittances are included, the amount from the latest years may be almost the double, about 6,400 million in 2016 (Morales, 2016 and 2017). Orozco believes that these figures are clearly exaggerated.<sup>236</sup> Others believe—and we tend to agree—that Morales, with his network of insider informants in the money transfer system on both sides of the Florida Strait, is a quite reliable source.<sup>237</sup>

It is interesting to compare these observations with other studies of remittances in neighbour countries. Studies from Guatemala and El Salvador conclude that such transfers enable the recipients to spend relatively more on education and housing, significantly raising investment in basic human and physical capital and quite dramatically reducing the rate of school drop-out (by as much as 54% in urban areas of El Salvador) (Adams and Cuecuecha 2010; Edwards and Ureta 2003). In Cuba, education is in principle free, whereas spending on food and house improvements may be expected to consume main parts of the received funds. A study from Mexico is particularly relevant since it reveals data about investment in micro enterprises with less than 15 workers. The authors find that international migration (to the US) is associated with a 35 to 40% increase in the level of capital invested in such enterprises, particularly in tools and vehicles (Woodruff and Zenteno 2007). One would expect to find quite similar results for Cuba.

Whatever the exact amount of family remittances flowing to Cuba, there is no doubt that this has become a strong weapon in the hands of the non-state sector in competition

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<sup>234</sup> Morales was an employee of the Cuban military-controlled conglomerate CIMEX, before he settled in Miami to establish the Havana Consulting Group. He has been doing systematic research of the remittances since around 2012.

<sup>235</sup> *Martí Noticias*, 6.03.18

<sup>236</sup> Private email to author, 29.11.16

<sup>237</sup> The author has had a quite extensive exchange of Q&A with both Orozco and Morales and has arrived at the conclusion that Morales has had the best access to sources and probably is arriving at a quite reliable conclusion.

with the state for an extremely scarce resource in Cuba: investment capital. Although perhaps the major part of the remittances is spent on consumption—by a population that cannot survive on their salaries—observers and experts disagree about the percentage of remittances ending up as capital investments in small businesses and among self-employed, within a variation between a quarter and a half.<sup>238</sup>

A comparison with our estimates about the size of FDI (see previous section) is interesting: If we use Morales' figures, and assume that 30% of the remittances are used for investment purposes, we may estimate that the private sector receives around 1 billion USD per year, easily the double of FDI directed at the state economy. A more moderate figure is estimated by Cuban economist Juan Triana: he also assumes that 30% of remittances are destined to investments, but estimates total remittances to be 2,000 USD, concluding that remittance-based investments would be around 600 mill USD/year<sup>239</sup>—an amount that also compares very favourably with FDI in the state sector.

Since the remittances enter the country without any raw material or production costs, and most profits normally stay in the country, the net contribution to the Cuban economy is also much larger.

So, in spite of a very conscious policy of reserving foreign investments exclusively for the state sector, the private sector seems to attract at least as much—or even considerably more—foreign investment than publicly owned companies. In addition, there is of course also considerable re-investment from accumulated profits in private businesses.

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<sup>238</sup> Economic analyst Jorge Salazar Carrillo estimated that between 30 and 40% of remittances went to investments, at a July 2016 Conference organized in Havana by International Money Transfer Conferences (IMTC) (*Martinoticias*, 17.07.16). About half of the 25 *cuentapropista* cases studied by Feinberg in Havana and Cienfuegos had benefitted from family remittances to set up the business (Feinberg, 2013:15), whereas the surprisingly low share of 12% of the 25 TCPs interviewed by Mesa-Lago & al (2016:56) said the same (vs. 24% of all non-state economic actors interviewed, p. 171-172). The authors believe that many of the interviewees wished to hide this information, since it is not strictly legal to use remittances for business investment.

<sup>239</sup> <https://elestadocomotal.com/2018/01/09/dos-decadas-de-inversion-en-cuba-antesala-del-momento-chino-de-la-reforma/>

These factors pointing towards considerable investment dynamism in the private sector against heavy odds may in fact be one of the reasons behind recent measures against private entrepreneurs. One of these measures is exactly to block them from expanding their businesses, even if they have capital available. We know successful entrepreneurs with plans ready for business expansion, who have no other alternative than spending their earnings on frequent travels overseas including to Europe and other distant and high-cost destinations. Others are undoubtedly investing in informal and illicit projects. So one question is how much of the potential investment capital in the hands of the private sector can possibly be mobilized for productive and employment generating purposes, without the government restrictions.

New restrictions passed by the Trump administration could be expected to have quite dramatic effects on future remittance flows from the US, potentially banning hundreds of thousands of Cuban citizens—everybody with any link to military, security or Party-controlled institutions—from receiving such transfers (ref. Indicator 5.2). In spite of serious potential humanitarian consequences, this measure will perhaps not hit most Cubans using remittances for investment purposes.

Another possible source of investments in the non-state sector was opened up with the legalization of trade with real estate, which became effective by 2012. This had a quite immediate impact in terms of the emergence of an investment capital market, the expansion of domestic demand, and thus the creation of new entrepreneurial incentives (with risks and benefits). This may have been an opportunity, but it also contained serious risks:

“The central challenge for the government now is to create a system of contracts and institutions to tap this potential increase in productivity, while avoiding predatory and corrupt practices. A corruption boom is a permanent threat to the transition to a mixed economy since the current Cuban power structure is filled with rent seeking opportunities and lacks supervisory capacity and transparency” (López-Levy 2011<sup>ii</sup>) (S/E).

As we have noted before, the official credit system seems to have had marginal relevance for the private sector.

Another source of investments in small business is *Cuban returnees*, bringing back some capital and entrepreneur experience to set up business in Cuba under the TCP modality. If they have stayed in a European country and obtained a passport there, they do not need to give up their new citizenship, whereas it is still illegal (under the embargo laws) for US residents to run a business in Cuba. There are no updated statistics, but immigration officials gave the number of repatriation cases in 2012 to be around 1000. They can return with a shipping container's worth of goods and a rather unlimited amount in cash, buying real estate, setting up *paladares* and houses for renting out rooms, or running consulting businesses. This is a group of entrepreneurs that could potentially develop to medium-size business.<sup>240</sup>

There may however also be a negative capital movement, caused by the ban on re-investment by private entrepreneurs. Rather than re-investing in Cuba, they may bring their earnings out of the country and invest in small businesses or properties there. It is of course impossible to quantify this capital flight.<sup>241</sup>

### **Indicator 3.3: Increase in other sources of foreign currency?**

Apart from FDI and family remittances, which are the *principal Cuban sources of foreign currency*?<sup>242</sup>

The first source is *professional (mostly medical) services to other countries*. The official figure given for this is 11.5 billion USD at the peak in 2013, of which 9.5 billion earned in Venezuela. There are estimates of drastic reductions of this amount in 2016 and 2017 due to the crisis in Venezuela and Brazil, the two most important receivers of the services.<sup>243</sup> The situation in these two countries represents a great threat with

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<sup>240</sup> Nick Miroff (2016): "Amid a historic wave of emigration, some Cubans are returning home". The Washington Post, 1 January 2016.

<sup>241</sup> Emilio Morales of Havana Consulting Group (Miami) has estimated the annual amount of this capital flight to be between 280 and 350 million USD, which would represent almost half the official FDIs. The basis for such calculations is not known. (EFE, Miami, 20.02.18: "Las trabas del régimen al sector privado generan una fuga de millones al exterior").

<sup>242</sup> The following estimates of currency earners (not fully reported in official statistics), are based on an interview with economist Omar Everlery Perez, *14ymedio*, 1.08.16.

<sup>243</sup> According to official daily *Granma*, Cuba in 2016 had approximately 55,000 health workers in 67 countries, including more than 25,000 doctors. The crisis in Venezuela resulted in significant cuts in oil shipments going to Cuba. Thus, the two countries' long-standing arrangement to provide cheap

devastating consequences for the Cuban access to oil deliveries, foreign currency and balance of payments. One guesstimate is that incomes from these services may have been halved—to around 6 billion USD.

The export of Cuban health services has been the source of great controversies, i.a. due to the quite massive desertion of Cuban health workers on mission abroad to the US (8,000 desertions from 2006 to 2016).<sup>244</sup>

The second currency source is *family remittances*, which as we have seen could amount to more than 3 billion USD per year. This monetary inflow ends up in private hands, although the State receives some commission from it and of course benefits from whatever is spent in the State-dominated consumption establishments in Cuba.

*Tourism*, the third category of currency incomes, had an estimated annual turnover in 2016 of 4 billion USD based on 4 million foreign tourists visiting the country in that year (up to almost 4.7 million in 2017). According to estimates of non-state invoicing in the tourism sector (restaurants plus accommodation—referred to under Indicator 2.6), between 500 million and 1 billion, as much as one fourth of the total value of the tourist industry is invoiced by the private sector (Morales, 2017). But only a fraction of the gross incomes in the tourism sector may be calculated as net income after the deduction of imported goods and merchandise necessary for the operation of this industry. An unofficial estimate claims the net incomes to be as low as 25 to 30% of total turnover, representing 1–1.2 billion USD.<sup>245</sup> A more official estimate concludes that Cuba in 2017

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Venezuelan oil in return for Cuban professional services, as well as Venezuela's role as a sponsor of Cuban medical aid to third countries, became increasingly uncertain. The change of government in Brazil in 2016 also seemed to have consequences with a planned one third reduction of the medical cooperation from 2016 to 2017. (Source: Vito Echevarría: "Forced to diversify – crises in Venezuela and Brazil puts Cuba's medical service exports to the test", in *CubaStandard*, 27.09.16). See also Mario J. Pentón: "Nuevas cifras revelan cuánto gana Cuba con la exportación de profesionales", *El Nuevo Herald*, 17.04.17, i.a. quoting ex-Minister of the Economy José Luis Rodríguez; and Camilo Mesa-Lago. Mesa-Lago claims that the reduction in medical service incomes from Venezuela fell by one third in 2016, to a total of 6.3 million USD. Similar incomes from Brazil were also reduced substantially.

<sup>244</sup> Mario J. Pentón: "Cuba suspende envío de médicos a Brasil por temor a deserciones", *El Nuevo Herald*, 14.04.17.

<sup>245</sup> Estimates made by Carmelo Mesa-Lago (same Madrid interview as quoted above).

will have an income of 2.5–3 billion USD from tourism<sup>246</sup>. The reality may lie somewhere in between these estimates, perhaps around 2 billion USD/per year.

*Official export incomes* for 2015 totalled 1.4 billion USD (vs. an *import* value of 6.8 billion, resulting in a negative trade balance in goods of 5.4 billion USD). Composition by export sectors was as follows:<sup>247</sup>

- Raw sugar: 378 mill
- Rolled tobacco: 213 mill
- Refined petroleum: 148 mill<sup>248</sup>
- Hard liquor: 98.8 mill
- Nickel mattes: 89.7 mill

We see that export of goods counted for a minor part of Cuban currency incomes—corresponding roughly to the net income from tourism (according to Mesa-Lago’s estimate; only half of it according to that of Rodríguez’s), and that professional services, remittances and tourism were the service sectors compensating for the negative trade balance in goods. What they are far from able to compensate is the budget deficit, estimated to reach 12% of GDP for 2017, a figure that certainly is going to be even higher after the enormous losses caused by Hurricane Irma.<sup>249</sup>

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<sup>246</sup> According to José Luís Rodríguez, former minister of economy, the country had 1,5 billion USD in “incomes directly associated with tourism” in first-half 2017, expected to rise to 2,755 billion for the whole year. This calculation was made prior to the devastating effects of Hurricane Irma (September 2017). José Luís Rodríguez, “La economía cubana: actualizando el 2016 y una primera mirada al 2017” (I), re-printed in *ASCE News* 766, 26.07.17. It has been pointed out that Cuba is getting much lower net profits per tourist than other Caribbean countries.

<sup>247</sup> Observatory of Economic Complexity (OEC), official trade figures for 2015  
<http://atlas.media.mit.edu/en/profile/country/cub/>

<sup>248</sup> This is re-export of petroleum imported from Venezuela (as payment for professional services), refined in Cuba. Due to reductions in deliveries from Venezuela, no significant export value is expected for 2017 (according to information from Ex-Economy Minister JL Rodríguez). These incomes are offset by a higher amount of *import* of the same product: 174 mill. USD for 2016, substantially more in 2017.

<sup>249</sup> “If the budget deficit for this year had been estimated to around 12 percent, that would undoubtedly have increased with these enormous losses”. Omar Everleny Pérez, quoted by *Reuters, Havana*, 13.09.17. Official figures put the losses caused by Hurricane Irma at 13.5 billion USD, the double of a full year’s import value (cited by Economy Minister Murillo at December 2017 session of National Assembly)

If we return to Morales' estimates, he calculates that the *net profit* from all exports (excluding professional services) in 2016 was only 1,14 billion USD, whereas the net income from remittances of cash plus merchandise was 5.6 times higher.<sup>250</sup> One may have doubts about the reliability of these estimates, but they no doubt illustrate the relative strength of the non-state part of Cuba's foreign economy.

Cuba's credit worthiness continued its negative trend throughout the Raúl reform era. Moody's credit rating agency operates with a baseline in 1999 of 'Caa1 Stable', falling to 'Caa2 Stable' in April 2014, rising slightly to 'Caa2Positive' in December 2015, and falling again to 'Caa2 Stable' in November 2017.<sup>251</sup> The main reasons for the negative trend are said to be "reduction in growth perspectives; limited external financing; high dependence on imports; and the lack of data transparency".<sup>252</sup>

#### **Indicator 3.4: Increasing partnership between foreign investors and national enterprises?**

One particularly relevant issue to watch in the coming years will be *the possible alliance building between Cuban military corporations and big foreign capital*. During the Obama administration in the US, there were clear signs that many big corporations of that country were actively on the outlook for investment opportunities in Cuba. The fact that President Trump has been particularly eager to prohibit these relations does not exclude the possibility that they in the future will become decisive.

During the Obama-era détente, there were several interesting signs of such relation building. Texas Governor, Republican Greg Abbott, on visit to Havana in late 2015, expressed a special interest in business links with CIMEX (now part of GAESA). Looking at the map it takes little imagination to see the interest oil and other major Texas businesses (including Houston-based) have with access to the Mariel port, built explicitly to serve the new generation of Panamax ships now able to pass through the expanded Panama Canal, once the US embargo is lifted. We have above noted the

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<sup>250</sup> Private e-mail correspondence, 12.05.18

<sup>251</sup> Caa2 indicates "a country with a difficult economic situation representing very high credit risks".

<sup>252</sup> *Moody's annual credit analysis; Cuba*; 7.12.17.

interest shown by the Ports Association of Louisiana in dealings with the Mariel Container harbour, also operated by a GAESA-controlled company.

A more concrete sign was the administration contract signed in March 2016—symbolically during President Obama’s visit to Havana—between Gaviota (and thereby GAESA)-owned Hotel Quinta Avenida Habana, later also Hotel Inglaterra, and the major US hotel chain Starwood Hotels and Resorts Worldwide. This is one of the world’s largest hotel companies which according to its own website owned, managed, or franchised over 1,200 properties employing over 180,400 people.<sup>253</sup> This was the most sizeable business deal to be closed under the embargo law. It was, however, met with heavy protests from Republican Presidential candidates Cruz, Rubio and other defenders of the embargo, who together presented a law proposal that would explicitly ban business agreements between US and military Cuban enterprises.<sup>254</sup> This is exactly the logic behind President Trump’s new Cuba restrictions. What Starwood has is only an administration contract—the only way to get into the Cuban market as long as investments are incompatible with the still existing embargo law. So far, this kind of existing deals are not threatened by Trump policies.

The large number of US airlines opening flights to Cuba in 2016 during the détente, obviously had to collaborate with the Cuban public sector—including the military. The US agricultural sector reached a maximum export of 685 million USD to Cuba in 2008, picking significantly up again in 2016 and 2017<sup>255</sup>—also trading with Cuban state importers. All these companies pulled together considerable lobby efforts vis-à-vis the new Trump administration in 2017. This may have succeeded to reduce the effect of the turn-around in US-Cuban relations.

The most important relationship with foreign investors is in the tourism sector, where Spanish, Dutch, French and Canadian hotel chains and tourism agencies are working closely with Cuban military partners, either in co-investments or in management

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<sup>253</sup> In September 2016, Starwood was acquisitioned by Marriott International for \$13.6 billion, together becoming the world’s largest hotel chain.

<sup>254</sup> "EEUU, Negocios, Hoteles: Militares y Hoteles. Los negocios estadounidenses continúan su avance en Cuba, pese a las limitaciones y las presiones en todo sentido". *Redacción CE*, Madrid. Reproduced by *ASCE News*, No. 719.

<sup>255</sup> US Department of Agriculture Foreign Agricultural Service, reproduced as Figure 1 in: <https://fas.org/sgp/crs/row/R44119.pdf>

contracts. Another prominent and long-lasting partnership is the one between the Canadian mineral company *Sherriot* and the state monopoly company *Cubaniquel*, not directly part of the military complex.

For a country of Cuba's size, however, these rather few examples are telling of one tremendous challenge: the lack of significant foreign investments that are badly needed in order to get the country out of its economic trap.

Since no foreign investment is permitted outside of the state sector (in principle with the exception of cooperatives), there is of course no investment partnership developing between foreign corporations and the Cuban private sector. The only big US corporate interest working with the Cuban private sector is *Airbnb*.<sup>256</sup> On a minor scale, many foreign tour operators are working with private restaurants and other tourism businesses.

It is quite clear, however, that the Cuban government wants to reserve foreign business relations for the public sector, where the military corporations have a preferential position. It will be interesting to observe what will happen to these relations as a consequence of President Trump's imposed total ban on US companies having links with Cuban military partners.

### **Indicator 3.5: Capital formation ratio improving?**

The overall investment rate in the Cuban economy is very low—much too low for a necessary economic recovery to take place. During the Raúl Castro era, capital formation ratio as percentage of GDP has been fluctuating between 12 and 14% (with one exception of 14.8% in 2008)<sup>257</sup>, about half of the Latin American average. In Vietnam, for a comparison, the average investment ratio has hovered around 30% during the last ten years. In spite of all efforts to mobilize additional resources i.a through FDIs, there are

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<sup>256</sup>Airbnb reported in February 2018 that they counted with 32,000 rent options in Cuba, having realized 1 million reservations during the three years of their operations there. (Brian Chesky, Airbnb CEO, quoted in a note posted by *Cartas desde Cuba*, 23.02.18: "Airbnb llega al millón de reservas en Cuba".

<sup>257</sup>Torres (2016), Table 1, based on ONEI, various years. Due to negative economic growth and a serious negative impact on balance of payments in 2016 and 2017, capital formation ratio is probably also falling for these years.

no realistic expectations that these would help raise this ratio under present circumstances.<sup>258</sup>

### **Indicator 3.6: Creative destruction taking place?**

Few countries need what the classical economist Schumpeter (2017) has called *creative destruction* more than Cuba. This is about the economic replacement of the old with the new: resources being moved from old to new sectors; existing skills and technologies giving way to new ones. As Acemoglu and Robinson (2012:84) have pointed out:

“The process of economic growth and the inclusive institutions upon which it is based create losers as well as winners in the political arena and in the economic marketplace. Fear of creative destruction is often at the root of the opposition to inclusive economic and political institutions”.

With its obsolete economic structures, this need is massive in Cuba. But without replacing the destruction of the old with creation of something new, the social cost—the price for the losers—would be colossal. That is certainly the reason why inevitable decisions keep being postponed or laid on the shoulders of the post-revolution generation. In Acemoglu/Robinson’s logic, however, this is precisely the recipe for state failure.

In Schumpeter’s vision, the innovative entrepreneurs are the basic agents for the creative part of this process to take place: people who come up with ideas and embody those ideas in high-growth companies. The Cuban self-employed could have played such a role, if the abundant professional human resources available in Cuba had been allowed to; if private businesses had been permitted to grow, expand and re-invest within the framework of supportive regulatory institutions, coupled with the productive use of family remittances. Instead, it seems that the Cuban government has preferred to starve innovation and incentivise illicit capitalism: rather than supporting Schumpeterian-style

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<sup>258</sup> As previously quoted, economy minister Ricardo Cabrisas said that FDIs were expected to represent 6.5% of the 2017 investment plan, which in turn would correspond to 0.5 of the GDP. That would imply an investment ratio of 13%.

entrepreneurs within a well-balanced mixed economy, it has promoted savage entrepreneurs and ditto capitalism.

The most urgently needed measure for creative destruction in Cuba is the elimination of the dual Cuban currency system, where the Cuban peso is worth only 1/24 of the 'convertible Peso', the CUC. This was announced in the 2011 Guidelines. In March 2014, three resolutions (19, 20 and 21) were passed, laying out the judicial process to eliminate the dual monetary system. No specific deadline was announced, apart from a mysterious 'Day Zero'. Since then, nothing has happened, and the Raúl Castro era is running out without any implementation of this crucial measure. The effect of this has been summed up as follows:

"The postponement of monetary reform has in no way been favourable. It is impossible achieving a significant and sustained improvement in the productivity of an economy that operates with two national currencies, with multiple exchange rates, and an excessively overvalued official exchange rate. The price paid by the economy during all this time, in terms of transaction costs, competitiveness, accounting transparency, and inefficient allocation of resources, is incalculable."<sup>259</sup>

From a macro-economic perspective there is, beyond doubt, need for the monetary unification. However, the drastic short-term effects in terms of inflation and social costs are probably what has caused the postponement: a 24 times devaluation of the local currency, requiring 'shock absorption funds' which in the absence of access to foreign credits may only be obtained through FDI.<sup>260</sup> Juan Triana has made some quite dramatic calculations about the potential impact of the monetary unification, obliging state companies to import according to USD rather than national currency rates. Triana claims that—without compensatory measures—this might imply the closing of more than 60% of state companies and the destruction of two million jobs (almost 40% of total Cuban jobs),<sup>261</sup> leading to massive unemployment and a social disaster. Such considerations may help us understand the justification of initial plans to reduce the state sector payroll. Another Cuban economist, Pedro Monreal, has proposed a two-stage strategy in order to avoid this disaster: he claims that monetary unification can

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<sup>259</sup> *Cuba Standard Economic Reports: "Economic Trend Report, Third Quarter 2017"*.

<sup>260</sup> Remark by Cuban economist Pavel Vidal at *Cuba Possible* seminar in NYC, 26.05.16.

<sup>261</sup> Quoted in *Ravsberg blog*, May 2017.

only take place after a process where, first, the non-state sector is strengthened, and then, non-profitable state companies are closed; i.e. a much more fundamental market reform than until now.<sup>262</sup>

Since other sources of investment have also been insufficient to permit the state to create alternative and sustainable production and employment, we must conclude that Cuba's long overdue need for creative destruction has not been met.

### **Indicator 3.7: Macro-economic outcome of the reform era.**

We may now summarise what the reform era has led to in macro-economic terms.

First of all, one must bear in mind the spectacular economic downturn in Cuba caused by the demise of the USSR, from which the country has never recovered. The Cuban economist Pavel Vidal found GDP per capita—taking purchasing power into account—to have fallen dramatically by 35% from 1985 to 2014 (to 6,205 USD/capita),<sup>263</sup> representing only one third of the Latin American average.

At the end of the Raúl Castro reform era, Vidal offers the following overview of the intended economic recovery:

"[...] from 2008 to 2016 the economic reform brought about a major rise in the weight of services within the aggregated value of national production. In spite of the priority the goods production sector seemingly enjoyed in the 'actualización of the economic model', its weight drops from 25% to 18% in 2016 [...] This productive structure, which fails to coincide with the most pressing needs of the economy and families, could be indicative of the disproportionate relations and anomalies of the Cuban economic model. It's a result that produces a country with outstanding social indicators that coexist with economic indicators on a subsistence level."<sup>264</sup>

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<sup>262</sup> Pedro Monreal: "Un Programa de Estabilidad Económica para Cuba", *Cuba Posible*, 14.11.17.

<sup>263</sup> This calculation is based on "the medium currency exchange", which gives a figure that is about half the officially reported – but it still includes the free social services (health, education and housing).

<sup>264</sup> *Cuba Standard Economic Reports: "Economic Trend Report, Third Quarter 2017"*, p. 7.

Table 6.8 gives an overview of growth and some other key macro-economic trends in Cuba during the Raúl Castro era:

**Table 6.8: Selected macroeconomic indicators, Cuba (2008-2018)**

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
<b>Real GDP growth (%)</b>	4,1	1,4	2,4	2,7	3,0	2,7	1,0	4,4	-0,9	1,6*
<b>Budget balance (% of GDP)</b>	-6,9	-4,9	-3,6	-1,7	-3,7	-1,3	-2,3		-6,9**	-11,0**
<b>Gross capital formation (% of GDP)</b>	14,8	12,7	12,3	13	13,6	13,7	12,9			
<b>Trade balance (goods and services) (mill. USD)</b>	-2300	1245	3119	2240	3771	2991	3947		1900**	2000**

**Source:** Torres 2016, Table 1, plus ONE 2016 and sources marked with \*:

\*Official estimate given by Economy Minister Cabrisas in speech to National Assembly end of December 2017; seriously questioned by independent economists.<sup>265</sup>

\*\*EIU estimate (EIU Country Report November 2017)

Concluding his analysis in 2017, Vidal found that the reforms have produced a modest growth in incomes as well as in productivity, so that the reforms *“are moving in the right direction, but they are still falling short”*.<sup>266</sup>

<sup>265</sup> Pavel Vidal estimates that the real growth continued to be negative in 2017: somewhere between -0.5 and -1.4% (private communication, February 2018). Mesa-Lago had the following comment to the official figure: “The abnormal delay in the macroeconomic indicators for 2016 casts doubt on the official estimate for GDP growth in 2017 [...] How is it possible authorities can release that estimate at the end of December and not release the entire national accounts for 2016 more than one year later?” (Marc Frank: “Cuban economy ever more opaque as data omitted from 2016 accounts”. *Reuters Havana* 15.01.18). Even the negative growth figure initially given for 2016 (-0.9%), was later adjusted to a 0.5 % growth (ONE February 2018: Cuentas Nacionales de Cuba 2016), but such figures failed to convince the critics.

“The reform had promised a GDP growth of 5.1%, which was later adjusted to 4.4%. What we know now is that the annual average growth during 2008-2016 has only been 2.3% (...) Nine years with President Raúl Castro’s reforms have not been sufficient in order to provide the promised dynamism to economic growth in Cuba, a task that we now know will stay pending for the next generation of leaders”<sup>267</sup> (S/E).

The economist veteran Carmelo Mesa-Lago summarises the situation in much the same way:

“I have in numerous publications analysed the structural reforms implemented by Raúl between 2007/08 and 2016, concluding that they are the most important during the revolution, that they intend to solve the problems inherited from Fidel, and that they are on the right track. But they are too slow, they encounter serious obstacles, high taxes and disincentives, reasons for which they have not until now achieved a palpable impact on the economy and the social services. In fact, some of the reforms have been reversed [...]”<sup>268</sup> (S/E).

The gross capital formation on average represented 13% (of GDP) between 2008-2015 (and it has probably dropped even further in 2016 and 2017 although official figures have not been given for the two latter years), only half of the 25% that is required for sustained economic growth. The GDP in 2016 was 23% below the 1989 level, and 35% below the 1985 level. The industrial production in 2015 was 38% under the 1989 level (Vidal 2017).<sup>269</sup> A similar drop is registered in agricultural production (ref. specific figures given for Indicator 1.6) The structural reforms have had negative effects on the social indicators (ref. Indicator 4.3) While Cuba used to be on the top in the (Latin

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<sup>266</sup> Pavel Vidal: “La reforma quedará incompleta si no nos despegamos del modelo de economía centralmente planificada”, *Cuba Posible* (New York Seminar), 20.09.17.

<sup>267</sup> Pavel Vidal: Comentario a las medidas anunciadas por Cabrisas en diciembre 2016 (IPS, 30.12.16). 2016 was officially a year of negative growth, and Vidal estimates that the recession continued through 2017 with a negative growth between -0.5 and -1.4% (Skype interview 26.01.18).

<sup>268</sup> Mesa-Lago: “A fin de enmendar el legado de Fidel, a Raúl le queda poco más de un año para acelerar y profundizar sus reformas estructurales.” *ASCENews* 742, 13.01.17.

<sup>269</sup> The veteran economist Carmelo Mesa-Lago awarded great importance to this study, commissioned by the Inter-American Development Bank: “I have spent 55 years studying the Cuban economy, and there is no study that is more important than this one”, he was quoted by *El Nuevo Herald* (22.01.18) as saying. The study is based on a re-calculation of Cuban economic indicators, following a new index model developed by Vidal where errors originating in the use of official currency rates in Cuban national accounts are eliminated. Real GDP per capita in 2014, it is argued in the study, stood at 3,016 USD, only 42% of the official figure of USD 7,177. While Cuba in 1970 had an economy 5.3 times larger than the Latin American average, this relationship was in 2011 reduced to 1.5, according to this study.

American) region in terms of equality, the reforms have changed this situation completely, due to a non-state group with high incomes coinciding with insufficient state salaries (ref. Indicator 4.3).

At the end of the Raúl Castro era, Cuba is experiencing its worst economic crisis since the 1990s. With Trump throwing out most of Obama's rapprochement measures, and the reforms moving backwards rather than forwards, the Cuban crisis will not be eased without radical macro-economic reform. Drastic cuts in Cuban imports are occurring between 2015 and 2017, in most cases simply because of Cuba's serious payment problems:<sup>270</sup>

- Imports from *China* are falling by 30%
- Imports from *Brazil* are falling by 25%
- Imports from *Spain* are falling by 26%
- Commercial exchange with *Canada* is falling by 35%

Imports from Venezuela are reduced from 8.5 billion USD in the peak year 2012 to 1.6 billion in 2017, while Venezuela is also pulling out of the petroleum refinery complex in Cienfuegos once presented as a piece of strategic bilateral development. Venezuela's oil deliveries dropped by almost 50% from mid-2016,<sup>271</sup> all-but eliminating the currency-valuable re-export opportunity and obliging a 28% cut in fuel allocation to state companies in mid-2017 and rationing of electric power.<sup>272</sup> Brazil is pulling out of the sugar biogas industry leaving the future of the Cuban sugar industry in even more uncertain waters than before.<sup>273</sup> The wider impact on Cuba's economy is substantial but difficult to quantify.

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<sup>270</sup> Figures based on study from Havana Consulting Group, published 5.05.18

<sup>271</sup> According to Jorge Piñon, one of the leading experts on the Cuban oil economy, the reductions were more than 40% (*El Nuevo Herald* (Miami), 23.03.17). Carmelo Mesa-Lago, in information provided privately to the author in February 2018, estimates reductions to be from 105,000 to 55,000 bpd, closer to 50%.

<sup>272</sup> "Venezuela oil exports to Cuba drop, energy shortages worsen": Reuters, Havana, 13.07.18 <https://www.reuters.com/article/us-venezuela-cuba-oil-exclusive/exclusive-venezuela-oil-exports-to-cuba-drop-energy-shortages-worsen-idUSKBN19Y183> "Slim pickings. Clueless on Cuba's economy": *The Economist*, 30.09.17.

<sup>273</sup> See figures quoted by *Reuters Havana*, 6.12.17; and Emilio Morales in *ASCENews* No. 785, 29.12.17. According to another source, the corruption-implicated Brazilian mega-company Odebrecht also pulled out of its most important Cuban sugar operation, the management contract with perhaps the most modern Cuban sugar factory (5 de septiembre in Cienfuegos province), where it had made investments in the magnitude of 60 mill USD, due to lack of return payments by the Cuban sugar monopoly AZCUBA: <https://www.martinoticias.com/a/oscuras-negocios-odebrecht-cuba-negocio-azucarero/165163.html>

## Chapter 7: Political implications of socio-economic changes

### Challenge 4: Political implications of socio-economic changes

#### Indicator 4.1: Winners and losers of the reforms with conflicting political interests.

The Cuban society has undergone a quite dramatic socio-economic differentiation during the years of the Raúl Castro reforms. Raúl himself signalled very clearly at the 6<sup>th</sup> Party Congress that Cuba could no more continue to offer everything for free. He insisted that the principle to follow would be the socialist principle of “from everyone according to their capacity and to everyone according to their work”.

We discussed in the theory chapter that both early losers and early winners might represent specific challenges in a social transformation process.

In Cuba, the *winners so far* have been:

- Managers and officials of successful military corporations;
- Owners of private restaurants;
- Owners of “bed & breakfast”-houses;
- Other successful segments of the self-employed workers (e.g. in the transport sector);
- Recipients of family remittances;
- People working in tourism and activities related to the convertible currency economy (private as well as state sectors);
- Private farmers.

Among these groups, only the first may have accumulated both economic and political power, while the two next in many cases have benefitted from property either left over from prominent pre-revolutionary families or from the nomenclature. Recipients of family remittances are mostly concentrated to the white population, most frequently living in Havana and to a lesser extent in other major cities. There is a heavy concentration of such remittances among a minority of the population—the majority receiving very little, if anything at all. As an indicator, 82% of those who send remittances from Miami are white (compared to the official 65% of the total Cuban population), 12% are colored and only 6% are black.<sup>274</sup> So receipt of remittances to a large extent seems to represent a re-production of pre-revolutionary privileges. On the other hand, a significant portion of the successful self-employed, and others reaping benefit from the convertible economy, owe their success to informal and often illicit activities.

Turning to the “*early losers*”, it is obvious that those who do not belong to the above-cited winners, and also receive no or very little remittances, are the most typical losers of the reforms. Old retirees without family connections abroad have seen their incomes and access to basic goods drastically reduced. Afro-Cubans are clearly over-represented in this group. Representing the historical core supporters of the revolution, and being concerned about what the alternative to the status quo would be, they do not yet seem to represent a serious political challenge.

An important section of this group of *losers* is a large part of state and party employees, those who have few if any resources to offer in the informal exchange economy and who rely on the extremely low public salaries. People with professional education, such as teachers and health workers, are often included in this group (although doctors and others with leading jobs in the health sector have seen their salaries substantially increased over the later years). There is no doubt that a large part of the bureaucracy, including low-level officials in the party and mass movement structures, are also among

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<sup>274</sup> According to a survey carried out by Havana Consulting Group in 2014, conveyed in a private e-mail on 12.05.18

the losers of the reforms, although many public employees—particularly in higher and decision-making positions—tend to find ways of benefitting from their positions of influence. Rather than being usable for the market transformation or transforming itself into a tool that may help facilitate the reforms, the *bureaucracy*, where most functionaries find themselves on the losing side of the reform process, is mainly perceived by entrepreneurs as a barrier and a stumbling block against their opportunities. It is not by chance that many Cubans claim that the ‘internal blockade’ may be even more of a problem than the US blockade.

The reaction from Juan Carlos, a taxi owner who claims to have a fleet of old *almendrones* circulating in the streets of Havana, expresses his contempt for the bureaucrats on the losing side of the reforms:

“This is pure Marxism: a group of bureaucrats has the power but live miserably, they eat badly, they dress worse, and for that reason they don’t accept that we—another group of Cubans—make money because we have not lost our time with meetings and slogans”.<sup>275</sup>

Resistance against reforms is obviously coming from several of the loser groups, particularly those with a strong ideological commitment to the socialist traditions of the revolution. These groups are well represented among party rank-and-files, and have probably contributed to the later reform backlash, for instance at the 7<sup>th</sup> Party Congress. Many of them have been personally hit by rising food prices in the non-state markets, and have understandably argued for the price controls that were introduced in 2016.

This may be a parallel to what we have seen in post-socialist societies in Eastern Europe. Some observers argue that the right-wing populism and neo-authoritarian tendencies now manifesting themselves in several Eastern European countries may be seen as *a vengeance from the losers of the transition*.<sup>276</sup>

Most influential in this group in Cuba are the public and party officials in decision-making positions on different levels. This is also where we would find the core of what

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<sup>275</sup> From conversation during a taxi ride in Havana, March 2017 (S/E).

<sup>276</sup> Uwe Optenhagel in *Cuba Posible* Seminar, NYC 26.05.16.

Raúl used to refer to as the ‘bureaucratic resistance’ to reforms.<sup>277</sup> What alternative they see for Cuba is not at all clear, apart from the continuation of ‘socialism’ in one form or another. Market economy, or capitalism, is often despised, a position frequently finding its echo in official rhetoric and in opinion articles on official or quasi-official websites like *Cubadebate.cu*.<sup>278</sup>

But what do the ‘early winners’ want—in which direction are *they* pulling transformations? Since the arguably most important group among the winners—managers of military-controlled enterprises—also have significant political influence, this is probably the most critical group to watch. However, very little is known about their thinking and future ambitions.

The leaders of military corporations are probably the only group within the party and state nomenclature that really has benefitted from Raúl’s reform. According to Hellmann (1998:i), they may have incentives to freeze the reforms in order to keep the gains to themselves. That is obviously also one possibility in Cuba. It is more probable, however, that they want to expand their power further, get access to a much more privileged life style than party ethics so far has allowed, and possibly use their connections to foreign investors—including the rich Cuban-American elite—to really join the higher ranks of the global economic elite. That could imply much deeper market reforms, but probably not allowing a vast space to small and medium enterprises that could challenge their positions.

To go any further in forecasting their ambitions, for instance whether they would aspire for Russia-like oligarch positions or would be happy with more managerial positions as in other post-Communist states (refer the discussion about recirculation of post-communist elites in Chapter 4.8.3, ref. Coenen-Huther 2000; Windolf 1998), would at this point be pure speculation. The following reasoning may however be relevant:

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<sup>277</sup> Such criticism from President Raúl Castro, strongly expressed early in the reform process, later seems to have disappeared from his vocabulary, when this resistance proved to be even stronger but now mostly reflected in the official positions of the Communist Party.

<sup>278</sup> See for a typical example, party organ *Granma*’s front-page title when reporting on President Castro’s speech at the year-end National Assembly session in December 2016: “We are not going nor will we ever be going towards capitalism; that is totally ruled out” (“*No vamos ni iremos al capitalismo, eso está totalmente descartado*”). *Granma*, 28.12.16.

“Military involved in business can be problematic, not only in the very long term. Cut off from ordinary people's interests, they contribute to the continuity of the system. But they are always haunted by temptations. Contact with foreign capitalists promotes greed and corruption. This has been taking place for years. When they feel that their privileges and the property left in their custody by the patrimonial state are threatened, their loyalty to the bosses or their successors will be tested. We will see then what happens” (Álvarez 2016) (S/E).

One question is whether military corporations will put pressures on the furthering of market reforms in Cuba, in a situation where such reforms are put on hold and the economy in general is constantly deteriorating. One example may be the 2010 decision to massively lay off idle state employees, first being partly and temporarily moderated but then again triggered by the new economic hardships starting in 2016 (when the solutions has been more to outsource state companies than to dismiss the workers). Will the leaders of military corporations, with the unquestionable political power they are accumulating in Cuba, accept another delay of necessary layoffs and other market economy reforms? There may be a conflict looming with the intransigent party leaders on such an issue. And if further layoffs or closing of unprofitable state businesses are allowed to take place, will there be a risk for social unrest? Will in that case the military act as a united institution, or will there be rifts between active officers and ex-officers who have shifted to a corporate career, still waging great political influence? These are open questions at this point.

Many of the successful self-employed, the new middle class as we come back to, would of course like to see their business grow into medium-size enterprises, perhaps even attract significant investments from Cuban-American partners or other foreign investors to become large-scale economic actors. There are many indications that the Cuban diaspora in the US is more than ready to invest in Cuba and be part of such a project if permitted by US law—an option that of course has suffered a temporary setback by President Trump’s reversal of the rapprochement. During the reform years it has become increasingly clear, however, that such entrepreneurship is not really wanted by the Cuban leadership, probably because of a fear for the emergence of an entrepreneurial class beyond the full control of the state, party and military system.

There may be a conflict of interest, here, with the operators of military corporations, and by implication the privileged or even monopolised access of the nomenclature to constitute itself as a new entrepreneurial class. It seems quite likely that the tough Cuban resistance against taking advantage of the Obama administration's invitations to let private entrepreneurs benefit from rapprochement before economic relations with the state sector is permitted (Ref. Indicator 2.8), may be partly explained by this fear.

This contradiction is not made easier by the fact that many of the most successful of the new private entrepreneurs have their origin in the old upper middle class, or even a bourgeois or aristocratic property owner group, with houses of high quality combined with substantial investments often originating with diaspora family members with available capital. To the extent that owners of such tourist-related businesses may take the step to form a new private business class in Cuba, they are often descendants of old pre-revolutionary elites taking the opportunity to re-claim their ancestors' elite status. In other cases, they may be retired high-ranking military officers or former officials from leading state-owned companies, with important connections both in and outside of the island, and with expertise and know-how. Or, they are children of these officials who inherited the best-situated houses that their parents received for free from the State in compensation for their high-ranking positions. They have used their connections to acquire valuable property and found different ways to transform similar properties into sophisticated *paladares* or *casas particulares* with great appeal to tourists looking for nostalgic treatment in socialist Cuba. This is a paradox worth dwelling upon, in a country now searching for a new identity.

In the meantime, as long as there is no incentive for the legal expansion of private business, the danger is that Cuba's pre-revolutionary tradition of illicit and even mafia-controlled business (ref. the concept 'savage capitalism', Hogan 2009) will continue to flourish beyond what we have called Schumpeterian entrepreneurship.<sup>279</sup>

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<sup>279</sup> Ref. Schumpeter 2017, defining entrepreneurs as "individuals who exploit market opportunity through technical and/or organizational innovation".

#### **Indicator 4.2: An emerging middle class with distinct interests?**

Conventional thinking about transitions to liberal democracy puts much emphasis on the appearance of *a more independent peasantry* (often the main element in predominantly peasant societies, ref. Barrington Moore 1967; Fukuyama 2011) or *middle classes* (in more urbanised situations, ref. Linz & Stepan 1996).

As we have discussed under Challenge 1, the Cuban peasantry is emerging as more autonomous than ever since the 1959 revolution, in spite of an array of barriers and resistance to recognise them as independent actors. The urgent need to let loose the market forces in agriculture, recognised by most Cuban agriculture economists (Nova 2012; García and Nova 2013), will only become more accentuated under the pressure of failing food production.

We identified the decisive political decisions for the role of peasants to be the degree of market autonomy, the degree of organisational freedom, and the degree of autonomy for agricultural cooperatives. All these issues will have deep political implications.

In spite of all the limits to reforms, there is no doubt that many independent farmers have been accumulating considerable wealth (by Cuban relative standards) in recent years. There are no reliable statistics confirming this because this capital is mostly kept under the mattress, but there are plenty of anecdotal indications. In Güira de Melana, municipal capital of one of the best agricultural areas of Cuba right south of Havana, there is a neighbourhood called “*el Barrio de los Ricos*”. The quality of the houses, furniture and electronic equipment as well as the number of old and well-maintained American cars parked in front, leaves little doubt about the relative well-being of the private farmers living there.

The official reaction to this emerging farmer middle class among the Communist Party conservatives, who have been increasingly calling the shots over the last couple of years, seems to be more dictated by a Marxist interpretation of this new-rich phenomenon as some kind of a Kulak class according to Lenin’s classical analysis. Such analysis converts

them to class enemies of the poorer peasants and indeed of the poor urban population. This approach does not look very promising for economic reforms to continue in the agricultural sector.

Looking beyond agriculture, some observers (Feinberg 2013, Morales 2017) claim that Cuba already has a vibrant middle class. Even titling his report “emerging entrepreneurs and middle classes”, Feinberg goes on to say:

“[So] by several measures—such as educational attainment, women working outside of the home, women’s access to contraception and reproductive rates, and common indices of economic security—Cuba looks very much like a middle class society. But there is one measure whereby Cuba would certainly not qualify: access to individual consumer items” (Feinberg 2013:42).

Not least for the latter reason, and the fact that most of those benefitting from other middle- class characteristics depend on a meagre public salary, it is difficult to consider Cubans in general as a middle class. What has taken place during the reform years we study here, however, is that a very peculiar Cuban social group has visibly been emerging with spectacular new consumption patterns by Cuban standards. They are mostly based in the entrepreneurs<sup>280</sup> growing out of the *cuentapropista* category and additionally fuelled by increasing family remittances. This new group of relatively well-off Cubans does in many ways fit the traditional concept of a new middle class. The following example may be illustrative:

A taxi driver, the owner of an old but well-functioning *almendrón*, married to a doctor with high management responsibility, earns as much (or more) in convertible currency as she with one of the highest public salaries in Cuba earns in Cuban pesos. Her income of 2,000 Cuban pesos, about 85 USD/month, insufficient to feed a family, is dwarfed by 1:24 up against the taxi-driving husband’s income. Thanks to his taxi business, the family enjoys a good material standard, a well-equipped house and no shortages, and

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<sup>280</sup> An *Entrepreneur* may be defined as an individual who organizes or operates a business or businesses. The Irish-French economist Richard Cantillon defined the term as “a person who pays a certain price for a product and resells it at an uncertain price” and who is “making decisions about obtaining and using the resources while consequently admitting the risk of enterprise” (see Anthony Brewer (1992:51). In political economy, *entrepreneurship* is a process of identifying and starting a business venture, sourcing and organising the required resources and taking both the risks and rewards associated with the venture.

may take the luxury of spending a week every year with their small son at a luxury beach hotel.

As documented by Morales (2017), the number of Cubans who found the opportunity to visit foreign currency hotels increased dramatically from 60,000 in 2008 to almost a million in 2016. In a similar sign of an emerging middle class of hundreds of thousands of Cubans, 670,000 Cubans travelled abroad after the lifting of the travel restrictions in 2013 until the end of 2016, realising a total of 1.7 million travels to other countries. These new consumption patterns are not only explained by incomes from private businesses, but also by the receipt of family remittances and the visits of relatives living abroad (particularly in the US) that take their relatives along to good hotels and restaurants or invite them to visit their new country of residence.

We may have reservations about seeing the new and very peculiar Cuban *entrepreneurial sector* as equivalent to a middle class,<sup>281</sup> with the political interests and roles such classes have been exposing in other transformation processes. Lipset (1959) argued that the middle classes have been the primary promoters of democracy, while Rueschemeyer et al. (1992) saw the way the middle classes entered into class alliances as decisive for democratic outcomes. We have argued against comparing the general social security achievements, which the majority of Cubans have enjoyed during the larger part of the post-1959 period, as middle class characteristics in the sociological and political meaning of the word, as Feinberg (2013) seems to do. The main reason for this is that these social gains until recently have been so completely dependent on state sector performance. We have shown how private economic actors and state employees more recently are caught in some sort of symbiotic mutual interdependence, with clear parasitical aspects in their relationship with the State. Among youth today it is bordering on an obsession to lack all the “gadgets” that are taken for granted in almost all other societies, even in marginal neighbourhoods around Latin America. Morales’ arguments about new consumption patterns is partly changing this picture, and perhaps we are seeing the beginning of a return to the pre-revolutionary Cuban middle class culture, which disappearance is described in the following nostalgic way by Morales:

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<sup>281</sup> A *middle class* may be defined in relative income terms (e.g. between 0.5 and 1.5 times the median income), occupation status and level of income, ownership of assets such as a proper house or consumer durables, etc., see Fukuyama (2014:440-441).

“Never more could the Cubans buy a house or a car on the free market [...] To travel abroad was converted to a privilege for the few, just as staying at a hotel. The white shirt and tie disappeared from the Cuban public scene, like the good manners, disappearing little by little with the imposition of the new political-economic model” (Morales 2017:1) (S/E).

So, many Cubans can in this sense now at least be seen as *aspiring for middle class status*, and with that qualification we can follow Feinberg’s argument: “Whether these middle classes eventually challenge state power or decide to co-exist with a strong state sector will depend on, among other factors, whether the state is willing to accommodate their interests, or whether it closes off opportunities at its own peril” (Feinberg 2013:45).

#### **Indicator 4.3: Evolution of social conditions and previous egalitarian structures.**

Raúl Castro recognised at the 2011 Party Congress that the proposal to eliminate the rationing card (halfway approved by the Congress, ref. Indicator 8.1) was the issue that had created most debate. However, he argued, “this instrument of distribution [...] has over the years become an unbearable burden for the economy and a disincentive to work, in addition to generating various illegalities in society” (Castro 2011) (S/E).

The economic and social collapse of the USSR and its neighbourhood bloc was probably the most important de-stabilising factor explaining their regime breakdown, as frequently quoted by e.g. Brown (2009) and Kornai (1992) in their respective historic and economic analysis. In China and Vietnam, on the other hand, by the time the USSR collapse came about the two Asian nations could start blessing their populations with sustained economic growth. Most notable was the partially dramatic process of upward mobility and social security improvement for increasing segments of the population, lifting millions out of poverty and into the growing middle classes.

This is what is missing for Cubans today (apart from a small aspiring middle class). Cubans experienced quite unique social improvements and upward mobility for the majority of the population during the first 30 years of the Revolution, reaching almost incomparable third world levels in health, education and social security. Most Cubans hardly cared about the fact that the necessary strength of their economy for sustaining

social progress had been decidedly determined by the “disinterested aid of the Soviet Union”, as it was officially known in Cuba, much more than by a rational domestic economic policy. As one of Cuba’s leading economists has pointed out: “Rather than being productive, Cuba has always had a rentier economy, by applying a surcharge of 240-300% on the price of imported product or with the re-export of fuel oil—in the Soviet era and later with Venezuela”.<sup>282</sup> (S/E)

What mattered was “the achievements of the revolution”—*los logros de la revolución*. These achievements were offered to the population in the very paternalistic manner so typical for the Cuban Revolution. Benefits were trickling down through the highly centralized and vertical state institutions, not as social and political conquests based on citizen and mass movement struggles like in other welfare state societies, and without being codified by a social and civic rights regime (ref. Chaguaceda 2014<sup>ii</sup>; Acosta 2018). When the State-dominated economic and welfare system ended up in a deep crisis, as we saw in the 1990s, the citizens had no instrument to defend these achievements. Ordinary Cubans have no real channel for expressing complaints and demands, and no stake in budgetary priority setting—not even on the local level. The dramatic loss in social security during this so-called ‘special period’—when the basics of the health and education regime survived but with the quality of both being seriously undermined—could in no way be met by popular mobilisation, and it has never been compensated. By some accounts, it has rather been accentuated during the reform era:

“The reforms initiated in 2008 [...], although some of the social policy principles and mechanisms implemented between 1959-1989 were not dismantled, they have been unable to detain the deterioration of almost all indicators and social services that only achieved a partial recovery with the modest market-oriented reforms between 1994-1996 [...] [N]ew or renewed social problems related to poverty, inequality and unequal access have appeared and increased, although not homogeneously [...] This takes place in a context of re-stratification of the current Cuban society” (Acosta 2018:3) (S/E).

The negative social effects, first from the deep economic crisis in the 1990s, and later from the not very successful market reforms of the Raúl Castro era, have been aggravated by a double demographic phenomenon:

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<sup>282</sup> Omar Everleny Perez interviewed by *14yMedio*, 1.08.16.

“[T]he sustained increase in emigration has contributed to the (social) deterioration, especially since the displacements have been dominated by an increasing number of young people and women [...] Consequently, the economic prospects of an aging, under-industrialized country with no replacement of its workforce are uncertain, in order to solve the growing problems that arise from the relationship between migratory and aging processes” (ibid) (S/E).

The existence of reliable statistical data on social conditions in Cuba is very limited,<sup>283</sup> but some indicators are available to illustrate the unfolding drama.

People’s incomes have fallen dramatically to far below subsistence minimum. In 2013, the purchasing power of the average income represented only 25% of the 1989 level (Vidal 2015:7). A 2014 survey on poverty in Cuba—where again public statistics are missing—conclude that about 25 % of the population live in poverty.<sup>284</sup> According to personal and extra-official information provided by then-Minister of Economy Murillo, the *canasta básica* (‘basic basket’ of necessity consumption which is not revealed in Cuban statistics), i.e. what is needed to survive, was in 2015 calculated to be CUP 1,450 per person per month, while average salary according to official figures, was CUP 740 (mid-2016). That is to say that a family of four with two breadwinners would cover only 25% of the family’s basic needs through their average incomes.<sup>285</sup> It is interesting to see how the highest Cuban trade union leader, CTC Secretary General Ulises Guilarte de Nacimiento, also member of the Party’s Politburo, characterises this income gap: it is “recognized by the majority—and the trade union movement agrees—that salaries are insufficient to cover the necessities of the workers [...] This provokes apathy, disinterest,

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<sup>283</sup> This is reflected in the fact that in the annual reports of the UN Economic Commission on Latin America (ECLA/CEPAL), data on Cuba are missing regarding poverty, Gini Index, social protection, coverage/access of social services (except for education). There is no information on basic family basket (*canasta familiar*), purchasing power, etc.

<sup>284</sup> A study carried out by a group of young researchers through the NGO Centro Félix Varela and the Cuba Chapter of FLACSO, under the guidance of the two prestigious researchers María del Carmen Zabala and Mayra Espina. There is no precise definition of which degree of poverty the percentage refers to, beyond what is termed “below the subsistence threshold”. The study was referred to by Monreal 2017, and was originally reported on: “Jóvenes investigadores analizan la pobreza en Cuba”, *IPS Cuba*, 20.09.14: <http://www.ipscuba.net/sociedad/jovenes-investigadores-analizan-la-pobreza-en-cuba/>

<sup>285</sup> The figures were presented by the Cuban Minister of Finance and the leader of the economic reforms, Marino Murillo Jorge in a meeting with economy students at the University of Havana on April 23rd 2015 (obtained from a private source that was present at the meeting). It is unclear whether these figures include the subsidised food every family is given through food coupons, supposed to cover approximately 10 days of basic food supplies per month. When asking several Cuban families whether these figures are representative, the general response is that they are rather too optimistic than too pessimistic. This estimate coincides quite well with a 2105 household survey from *Consejo Popular Santa Fe* quoted by Monreal 2017.

and significant labour migration”.<sup>286</sup> (S/E)

The economic crisis is also having its effect on social services. Most indicators of social assistance fell significantly even before the reform era started (Mesa-Lago 2012), and has continued in the same direction since then.<sup>287</sup> The number of hospitals has fallen by 32% over the last ten years. Health personnel have been reduced by 22% (partly due to currency-earning foreign missions). The once so successful figure of Family Doctor (*Médico de la Familia*) now has only 40% of positions covered. Many patients now need to be transferred to health centres far from their communities.<sup>288</sup> During the same period, the share of GDP going to education fell from 14.1% to 10.2%, and a serious shortage of teachers has been reported. The government has recognised a deterioration of school achievements like orthography and levels in science and mathematics. School enrolment has fallen rather drastically since the turn of the century, with the shutdown of rural schools, reduction of the emerging teachers’ programme, and an end to the previously so ambitious municipalisation of universities.

Those who have been hardest hit by the erosion of the welfare state (according to most of the quoted studies they include elderly, Afro-Cubans, unsupported single mothers, handicapped etc.) have also experienced a drastic reduction in social welfare spending. Between 2006 and 2015, social assistance fell from 2.2 to 0.4 of the State Budget, while the share of the population receiving such assistance fell from 5.3 to 1.6%.

So, how dramatic is socio-economic differentiation in Cuba now? Mesa Lago<sup>289</sup> has made the following estimate of differences in annual incomes 2015-2017, based on a comprehensive collection and elaboration of public data:

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<sup>286</sup> EFE, La Habana, 31.07.17.

<sup>287</sup> The following figures are quoted from an analysis of the new Cuban poverty by prominent economist Mesa-Lago: “Mesa-Lago: Cortes en ayuda social, precios en las TRD, han expandido la pobreza en Cuba”. *Marti Noticias*, 17.03.17. Other figures are quoted by Mesa-Lago 2017. According to the author, they are based on official figures provided by *ONEI*, various years.

<sup>288</sup> Official statistics (ONE Annual Report 2016, Chapter 9 *Salud y Asistencia Social*) reported that the number of hospitals were reduced from 215 in 2010 to 150 in 2016, and even more critically that all rural *centros hospitalarios* and so-called rural health posts were closed in 2011, and reorganised as policlinics.

<sup>289</sup> Carmelo Mesa-Lago: “El estado actual del bienestar social en Cuba”, *Cubaanálisis, Palabra Nueva*, Primera parte, Cuadro 2: Ejemplos de Desigualdades Extremas del Ingreso Anual, 2015-2017: <http://www.cubanalisis.com/ARTÍCULOS/EL%20ESTADO%20ACTUAL%20DEL%20BIENESTAR%20SOCIAL%20EN%20CUBA.htm>

- The minimum annual state salary (2,700 CUP or 108 CUC) is worth 30% of the average state salary;
- The average state salary is 8,244 CUP or 330 CUC per year, here representing the 1.0 factor;
- An average self-employed or worker in the tourism sector earns 5.8 times as much as the average state salary (1,900 CUC);
- The owner of a luxury *paladar* earns 285 times as much (94,000 CUC);
- The owner of a luxury room rental mansion earns 424 times as much (140,000 CUC).

The most extreme difference, between the owner of the luxury mansion room rental and the social security beneficiary (20% of average salary), is an astonishing 1413:1. Inequality, for instance measured through the Gini index, is not officially reported in Cuba. But one unofficial attempt to measure this, under the responsibility of one of Cuba's most respected experts in this academic field, concluded that the Gini Index increased dramatically from 0.24 in 1986 to 0.4 in 2013 (Espina 2014); i.e. from Norwegian to Chinese and US levels.<sup>290</sup>

To be poor in and of itself is hard. To be falling from a relatively acceptable socio-economic status in a country with minimum social differences, all brought about by the Revolution, to a situation where you simply cannot make ends meet while a new elite is perceived as super-rich (by Cuban standards), is of course not at all compatible with any idea of social justice, the very bedrock of the Cuban Revolution. This is one of the great differences compared to China and Vietnam, even if social inequality may be about the same level.

The downward spiral for the lowest income strata has continued, with new hardships being signalled as a consequence of Venezuela's survival crisis, to the extent that warnings about another 'special period' were frequently heard from mid-2016

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<sup>290</sup> According to World Bank estimates, some of the countries we use as comparative cases in the analysis of Cuba have the following Gini index scores: Angola (2008): 0.42; China (2012): 0.42; US (2013): 0.41; Russia (2015): 0.38; Vietnam (2014): 0.35. Norway (2014) had 0.27. No official data is available for Cuba (<https://data.worldbank.org/indicator/SI.POV.GINI?>, downloaded 12.04.18).

onwards.<sup>291</sup> People, and particularly the youth and even more particularly the educated youth, are increasingly giving up any hope for a decent future in Cuba unless they can find it in the non-state and often illicit activity. Additionally, they are losing any confidence in the capacity of its political leadership to manage the country in a sustainable way. This is a generation without any proper memory of pre-revolutionary times, the reference point for those who really believed in the achievements of the revolution and therefore represented Cuba's version of pragmatic acceptance, particularly when combined with Fidel's charismatic leadership.<sup>292</sup>

It is simply inconceivable that the present Cuban polity will survive another *período especial*.

#### **Indicator 4.4: Private sector gaining potential power position?**

While frequent warnings against the growth of the non-state sector are heard from political leaders, there is also an alternative official logic; an increasing recognition over these years that the state is incapable of running small-service businesses, even that the non-state actors must be seen as a part of a larger strategy. The following 2014 statement by the *Havanatur* President is well worth noting: "The state must free itself from activities that aren't decisive for the economy and that experience is showing function better privately".<sup>293</sup> In the tourism sector, state agencies have announced for a while that they would be making increasing use of private establishments for foreign tourists, something previously unheard of but gradually accepted as necessary in order to accommodate the fast increase of foreign tourism.

As a response to this, a number of very successful businesses have emerged, that may employ a considerable number of people. Private restaurants (*paladares*) now have a limit of 50 chairs (except for special establishments permitted to organise music and

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<sup>291</sup> The general impression from the situation of ordinary Cubans in early 2018 is that the fear of another 'Special Period' has so far not materialized.

<sup>292</sup> This is of course a very subjective assessment, without basis in any opinion polls – but based on conversations with a number of Cuban youth (particularly intellectuals), and sharing the claim with many other observers.

<sup>293</sup> Associated Press, Havana, 27 September 2014. State agencies are increasingly sending their tourists to private *paladares*: the owner of one of the best *paladares* in Trinidad reports that as much as eight different state tourist agencies are sending their tourists to his restaurant.

dance events), which of course means that a sizeable workforce is required. In many cases, this limit is not respected. Private 'bed & breakfast'-facilities (*casas particulares*), which tend to offer a certain range of services to tourists, and transportation by private vehicles, are other examples.<sup>294</sup>

*Tourism* is obviously a special case, a strategic sector where private business is now putting up stiff competition to the state in two of the basic services (accommodation and restaurants) in this crucial currency-gaining sector. The private are particularly dominant in destinations where more individual tourism dominates, i.e. *outside of the larger beach tourist resorts*. With the steep increase in tourism, dependence on private businesses is expected to increase rapidly, partly through remittance-based investments in private real estate. There is insufficient state capacity, and recognition that private establishments are often offering better service through a personalised attention preferred by large segments of tourists coming to Cuba. In mid-2017, the system by which state-owned tourist agencies are referring foreign tourists to private restaurants and B&B houses, was reported to have been put on hold.<sup>295</sup> The case of the colonial tourist magnet Trinidad is emblematic, as pointed out by one of the prominent entrepreneurs there in late 2016:

“Problems between the private and state sectors are constantly being sorted out. The state tourism actors used to think that we in the private sector took away tourists from their hotels and restaurants, but they have come to realize that we are important for the tourism development here”.<sup>296</sup> (S/E)

The state managers of this principal money-making machine of the military corporations clearly recognise—as for instance expressed by the Minister of Tourism

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<sup>294</sup> The urban private transport solutions vary from city to city. In Santiago de Cuba, practically all public transport in the city is now left to privately-owned pre-revolutionary lorries in conspicuously good condition, adapted with sitting facilities (although quite crude) for passengers. At the same time, literally thousands of motorcycle taxis are also providing a significant part of the urban transport during rush hours. In another eastern city, Holguín, as well as in Cienfuegos, most urban transport is provided by bicycle taxis and horse-drawn carriages. In Havana, the enormous fleet of surviving old American cars, known as *almendrones*, are providing collective taxi service at an affordable price for those who have incomes above the average.

<sup>295</sup> IPS Havana, 10.07.17.

<sup>296</sup> Based on email exchange with a prominent Trinidad Palador owner (12.11.16), also repeatedly interviewed before.

who himself has a military background<sup>297</sup>—that they need to work with high-standard private *paladares* and tourist hostels as a significant segment to attract tourists to the country.<sup>298</sup>

There are a total of 1,700 private restaurants reported to exist in Cuba (2016 ref. Table 6.6, compared to only 300 in 2012). In terms of lodging capacity, the private sector represented around 25% of available tourism rooms in Cuba by mid-2016 (68,000 ordinary hotel rooms vs. 23,000 rooms in dollar-permitted *casas particulares*).<sup>299</sup> The *casas particulares* may even be considered as an alternative ‘hotel chain’, second in capacity in Cuba only to the biggest state chain Gaviota, and with ample informal exchange and reference mechanisms, but not allowed by the state to formally organise as such.<sup>300</sup> In places like Trinidad, Cienfuegos, Viñales, Baracoa, the colonial part of Havana, crucial areas for international tourism and consequently for currency incomes, private sector tourism is probably stronger than the state sector (ref. Simoni 2017).<sup>301</sup> This is also the sector and geographical areas where it is most viable that non-state self-employment may grow into real business companies in Cuba, against heavy odds. In the tourism sector, businesses with 25 and even up to 50 employees do occur; in some cases, the same family may be running a combination of room renting, restaurant, a makeshift travel agency, perhaps employing several dozen workers.<sup>302</sup>

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<sup>297</sup> Manuel Marrero Cruz was a 40-year-old army colonel when he was appointed to head the Ministry of Tourism in 2004, a post he has maintained since then. It was then seen as a sign that the Armed Forces would secure their control on this important currency-earning sector.

<sup>298</sup> A prominent owner of a large *paladar* has told me of frequent meetings and strategy discussions with the Minister of Tourism and his colleagues, and of partnership with a large number of state tourist agencies.

<sup>299</sup> Economist Juan Triana quoted by News Agency EFE: “Turismo floreciente en Cuba: expectativas, retos y nuevos récords”, EFE, La Habana, 3.01.16 – in July 2016 article updated to 68,000 vs. 23,000. In January 2018, the same figure is still given for state sector hotel room capacity, but 5,000 rooms are planned to be added during 2018 (Travel Trade Caribbean, 17.01.18).

<sup>300</sup> According to several private entrepreneurs interviewed by the author.

<sup>301</sup> Through conversations with restaurant owners in Trinidad, one of Cuba’s favourite tourist destinations, we can conclude that there are about the double number of both restaurant chairs and tourist beds available in the private sector compared to the state sector (2016: 87 restaurants, 1,400 private rooms, in addition to taxis, artisan shops, musicians, tourist guides etc., all that keeps tourism running in Trinidad).

<sup>302</sup> Cienfuegos may be an example, where the MINTUR delegate recognized that the service provided by the private sector was “more personalized” and “comfortable”, also representing a competition that has obliged the state hotels to improve. In Cienfuegos, eight hotels have the total capacity of 860 rooms, whereas the number of private rooms to let was said to be 1,497, meaning that 63% of accommodation capacity was covered by the private sector. (EFE, Havana, 9.06.17).

The *transport sector* is another case where private services are gaining a very strong position, after decades of collapsing public transport systems. According to the official weekly *Trabajadores*, the 2 million inhabitants of Havana are served by no more than 700 omnibuses, which only cover 50% of the need.<sup>303</sup> This means that most of the other 50% is serviced by the private sector, mostly private taxis but also including cooperatives.<sup>304</sup>

The Ministry of Interior Commerce (MINCIN) announced in 2014 that the government planned to sell off 9,000 cafeterias and small restaurants to the private sector.<sup>305</sup> Rather than selling, a practice was initiated of leasing out these and other publicly-owned businesses like taxi services, hairdressing shops, bakeries etc. to the employees, who then were left to run these businesses on their own. Numbers from mid-2017 show that MINCIN had leased out a total of 4,271 business units to private management; representing 33% of the total MINCIN network. The overwhelming majority of these were leased out *en usufructo*, according to the official Cuban term. These state businesses have very often been running at heavy losses, and many of them would go bankrupt if they lose state subsidies. This situation does not provide much incentive for workers to take over at their own risk, but this has often been the only alternative to being laid off. An initial intention to incentivize MINCIN employees to form cooperatives—e.g. by providing them with preferential access to state wholesales—has apparently not been significantly implemented, since only 174 cooperatives of ex-MINCIN business had been formed at the same time.<sup>306</sup>

Few private *production sectors* have thrived in Cuba so far. One study carried out in late 2014 and early 2015 about one of the few examples of this—namely shoe production—gives us a very interesting picture (Mulet Concepción 2016). The productive chain of footwear in Cuba is fundamentally made up of self-employed workers, some of them organised through a special cultural fund. The study documents how this sector has completely outdistanced state production—by 4:1—mostly relying on the informal

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<sup>303</sup> In early 2018 it was reported that many of the Havana bus drivers had left their jobs, apparently attracted by better incomes in the private transport sector, making it increasingly difficult to keep the public bus fleet moving.

<sup>304</sup> *Diario de Cuba*, 28.02.17, quoting *Seminario Trabajadores*.

<sup>305</sup> CNN, 19.09.14.

<sup>306</sup> According to information provided by an MINCIN official (Ramírez Santana), quoted by Fernando Ravensberg in a 12.07.17 blog. From 2018, this sector was given preferential support (20% lower prices) through the newly established Mercabal wholesale market, ref. Indicator 2.4.

(black) market, and how the lack of public incentives is hampering its integration into the formal structures of the economy.

Other interesting cases of quite successful small businesses are found in the IT sector; what we could call dotcom start-ups, developing quite sophisticated applications for the country's emerging digital market. The Cuban government for some time appeared to have taken little notice of the country's growing start-up community, but there are growing fears about increasing restrictions against it. While economic reforms that began in 2008 have opened the door to an increasing number of private businesses, there are no provisions for tech start-ups, often making them illegal and in some cases obliging young talents to flee the country rather than developing a promising industry on the island.<sup>307</sup>

The private sector in Cuba is characterised by an increasing differentiation between those trying to stay within the relative legality, and other parts that are more or less completely operating illicitly (with or without license). If Cuba wants a serious and development-oriented private sector (with Schumpeterian entrepreneurs, as we have called them), much stronger incentives for the legal and formal exercise of private business are required.

Similarly, on the state side, we may perhaps perceive an increasing difference in attitude between those state actors struggling to keep up with increasing international market demands—to a large extent military corporations in the tourism sector, and those politically in charge of the macro economy. This may become a politically quite interesting situation.

#### **Indicator 4.5: Ideological acceptance/resistance to private property and enrichment.**

The long-delayed process of legalising private businesses has been closely linked to the discussion about 'accumulation of capital'. It has been at the centre of the ideological

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<sup>307</sup> "Cuba's emerging startup scene given a Canadian tech boost"  
Posted on February 1, 2016 by Arch Ritter, Special to *The Globe and Mail*, Canada, reprinted in *ASCE News* No. 701.

discussion in Cuba since Raúl Castro raised it when presenting the ‘updating guidelines’ at the Party Congress back in 2011, explicitly ruling it out as being in contradiction to the essence of socialism,<sup>308</sup> and then adding ‘enrichment’ through “concentration of wealth” to the sins at the 2016 Congress.

Many in the party leadership still see such things as contradictory to the revolutionary principles. The problem with this logic of continuing to treat the private sector as informal and ban the re-investment of profits is of course that it holds back the development of a formal and well-regulated private sector in the economy.

Still, there may have been forces in the Party that behind the scenes have criticised Raúl Castro for moving too far towards privatization. He recognised in his Report to the 2016 Party Congress that there had been forces at play with “veiled aspirations for the restoration of capitalism as solution to our problems”, but also that many had suspected the recognition of private property to be a first step in that direction. “In my condition as First Secretary of the Party’s Central Committee”, he stated, “I have the duty to assure that this is not, in the least, the purpose of this conceptual idea” (Castro 2016) (S/E).

Raúl Castro himself may have been surprised by the explosion of new middle-class consumption patterns—as documented above—and how this challenged the traditional egalitarian values of the Cuban revolution. He remarked in a mid-2017 speech:

“Malfeasance has been committed; there is information about cases where the same person already has two, three, four and even five restaurants—not in one province, but in several”, Castro said. He also mentioned an entrepreneur who had travelled more than 30 times to different countries. “Where did he get the money? How did he do it?” Castro asked<sup>309</sup> (S/E).

The debate about the principles of personal enrichment, up against the critical need to promote growth in a crisis-ridden economy, apparently provoked heavy internal contradictions. This made it impossible to present a consensus around the strategy

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<sup>308</sup> In his speech to the Congress, Castro said that there had been a total of 45 proposals to permit capital accumulation when the draft *lineamientos* were discussed in the run-up to the Party Congress. This would “for the time being” continue to be ruled out, he said, but he promised to come back to the issue. And indeed he did!

<sup>309</sup> “Raúl Castro critica las irregularidades en el sector privado y cooperativo”, in *14ymedio*, 14.07.17.

documents<sup>310</sup> to the 2016 Party Congress, and even postponing the approval of these documents for more than a year *after* that Congress.

The following points in the documents presented to the Congress should be emphasised regarding the role of the private sector:

- There is recognition of the complementary role of private property of determined means of production (development model point 91).
- Medium, small and micro enterprises may be recognised as legal persons, i.e. as legally registered private companies (development model points 128 and 182)—a principle that as we have seen has not yet been implemented.
- Small and medium companies will be permitted to associate with public companies in sectors with low capital requirement, and where they can contribute to reduction of fixed costs (development plan point 248).
- Concentration of property and wealth among natural or legal non-state person will not be permitted (development model point 104) (but this point was as we shall see later modified).

Part of the discussion that had been taking place behind closed doors emerged in public when the ‘reform czar’ Marino Murillo re-appeared (after more than a year of being invisible) at the June 2017 National Assembly session:

“We are recognizing a multi-sectorial model in the economy, and the possibility of [private employers] hiring a labour force, which necessarily leads to economic surplus (...) We have to continue adjusting the rules governing the self-employed, because there is a negative phenomenon that is already occurring, and no document can define how to face it (...) Where there is private property there is a certain level of concentration of wealth. We need to know what we mean by concentration of wealth. Then we have to evaluate the tax regime that we

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<sup>310</sup> Three strategy documents were presented as drafts to the Congress, but only approved in mid-2017: Conceptualization of the Cuban Social Economic Development and Social Model; Policy Guidelines for the Party and the Revolution for the period 2016-2021; and the Bases of the Economic and Social Development Plan through 2030: Vision of the Nation, the Priority and Strategic Sectors. As we come back to under Challenge 7, the National Assembly was not invited to vote (approve or disapprove) on these documents supposedly approved by the Communist Party, only to ‘support’ them in its June 2017 session.

have, to form an adequate tax policy that allows us to adequately redistribute income<sup>311</sup> (S/E).

Murillo acknowledged that this had been one of the issues most debated in the consultations about the documents, representing one of the major risks with the reform process.

Raúl Castro himself threw more suspicion than ever on private entrepreneurs, in a National Assembly speech only two weeks later, although as always assuring that there was no intention to question the justification of the non-state sector as such. He spoke about the “policy deviation” of the non-state sector (including cooperatives), i.a. through “the use of raw materials and equipment of illicit origin” and the “sub-declaration of income in order to evade tax obligations”<sup>312</sup> (S/E).

However, while these harsh remarks were made, the wording of Point 104 about “wealth concentration” quoted above had apparently been quietly modified in a significant way, along the lines of Murillo’s statement. The original wording of point 104 of the development model, presented to the 2016 Congress, was in mid-2017 finally modified with the following wording:

“The concentration of material and financial property and wealth with natural or non-state legal persons will be the object of regulation, in order to avoid a conflict with the principles of our socialism” (S/E).

This was further elaborated through principles for re-distribution through taxes.<sup>313</sup> So, it is now officially recognised that private property *will* unavoidably lead to wealth concentration and socio-economic differentiation, but that the way to handle this, rather than prohibiting it, is by redistribution through taxation.

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<sup>311</sup> Quoted by *Havana Times*, 1.07.17.

<sup>312</sup> Raúl Castro quoted in *14ymedio*, 14.07.17, op.cit.

<sup>313</sup> Conceptualización del modelo económico y social cubano de desarrollo socialista, dated July 2017 (Chapter 2, p. 20; Chapter 3, pp. 36-37)

<http://www.granma.cu/file/pdf/gaceta/Conceptualización%20del%20modelo%20economico%20social%20Version%20Final.pdf>

As commented by the opposition journalist Reinaldo Escobar: “The change in nuance shows that pragmatism prevailed over orthodoxy” (S/E).<sup>314</sup> When this was written in July 2017, he was obviously unaware of what was to come shortly afterwards (see Indicator 9.3). Nonetheless, we may conclude that the battle between economic pragmatism and orthodoxy in the Cuban power circles is a continuous one.

#### **Indicator 4.6: More autonomous interest organisation permitted?**

One of the expected political impacts of the increasing non-state sector of the economy is that those operating in this sector will start voicing demands on the basis of their proper common interests. Until recently, we have seen very few cases of this, but they started to pop up towards the end of the Raúl era. There are signs that this may become a new pattern, which the authorities will have difficulties to handle without provoking further protest.

In September 2013—only two months after the first non-agriculture cooperatives were approved—members of newly established transport cooperatives sent a letter to the State Council with some very interesting demands, including: property rights to their vehicles in order to avoid that “our company will continue to relapse in state bureaucracy”; the establishment of a “proper legal framework”, as well as a “rational tributary policy”, instead of stimulating “illegality and corruption”; a wish to work “under a regime of demand and supply” and—importantly—to constitute “an independent association”.<sup>315</sup>

About the same time, a new government decree banning the sale of imported clothing and other goods, provoked strong reactions from small street vendors who sell such goods brought in informally—in more or less organised ways—by relatives and other travellers. The motive behind the ban may have been an interest to protect state monopoly. According to a *Reuters* cable from Havana, this measure may potentially affect as much as 20,000 small businesses and their employees—and perhaps even more critical—their much larger number of clients. Official unionists seemingly also echoed

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<sup>314</sup> Reinaldo Escobar commentary in *14ymedio*, 19.07.17.

<sup>315</sup> *Diario de Cuba* 17 September 2013, reproduced in *ASCE Newsclippings* No. 582.

protests: "We call on the authorities to reconsider. We have a lot of product and money invested in this", Justo Castillo, a representative of the official labour federation who had tried to organise the self-employed, said according to the Reuters report. "Banning this means unemployment for these people forcing them to do whatever. They will move into the black market, return to illegal activity", he said, as the crowd that had gathered applauded.<sup>316</sup>

The first minor concession to this protest was that the implementation of the ban—which strictly speaking was only an enforcement of a previously existing legal situation—was postponed until the end of 2013. But protests continued, along with protest against a clampdown on private 3D movie theatres. Even the party organ *Granma* carried quite objective articles on the complications around this issue, and high-level meetings were reported to have taken place in a clear recognition of growing pressure on the government for speeding up the economic reforms.<sup>317</sup>

Attempts to set up interest groups beyond state control have been effectively discouraged throughout the reform process. There is not yet any sign that the state recognises any independent organisation of private entrepreneurs or businesses that may represent their interests vis-à-vis the state, nor has the state established any formal negotiation mechanism with non-state economic actors.

Some vague attempts have been made to set up independent trade unions, but they have been met by very resolute reactions and permitted no space to organise. An organisation called *The Independent Trade Union Coalition* was not allowed to convene a meeting in 2016 when the venue where the meeting was to be held was surrounded by plainclothes police officers, several activists were arrested, others besieged in their homes and threatened.<sup>318</sup>

Informal mechanisms do exist, and there are several cases of TCPs making spontaneous protests in front of provincial government offices leading to talks and in some

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<sup>316</sup> *Reuters*, Havana, 3.10.13.

<sup>317</sup> Ref. a *Reuters* cable from Havana, dated 22/11/13: "Cuban entrepreneurs reeling over crackdown on 3D movie theatres".

<sup>318</sup> "Cuban Regime Harasses, Arrests and Disappears Independent Labor Leaders", *Diario de Cuba*, 25.09.16.

exceptional cases to government concessions. The moment such conflict resolution mechanisms become formalised (ref. the "contentious conflict resolution mechanism" discussed in the case of China—ref. Chi Chen 2012), it would represent a significant step towards an *economic society* in the Linz/Stepan meaning (ref. Chapter 4).

Self-employed workers, including de-facto entrepreneurs, are strongly encouraged to affiliate themselves 'voluntarily' to the official and only trade union confederation in Cuba, the CTC, under full control of the Party. According to reports from provincial meetings preparing for the 7<sup>th</sup> Party Congress in April 2016, there was a strong drive to strengthen unionisation of TCPs, *usufructuarios*, cooperative and private farmers. Until the end of 2015, 70% of TCPs were said to be unionised.<sup>319</sup> The political message, as expressed by Vice President Miguel Díaz-Canel, was that "the present context imposes new challenges on the ideological level, where the enemies of the Revolution are trying to impose a new platform of capitalist and neoliberal restoration" (S/E). Those who so far had stayed outside of the official trade union were subject to heavy pressure to join; independent farmers and even their family members and employees were pressured to join cooperatives (CCS) and a new phenomenon called *organizaciones de base*, basis organisations. A special effort was directed at the 30% of TCPs characterised as 'young' (without specifying age), because—as reported from a local party assembly in Villa Clara province—this group is "the principal focus of attention for political-ideological subversion".

By mid-2017, the percentage of TCP unionisation was claimed to have increased to 81.9%, organised in 16 separate sector unions with the purpose of supporting "a thriving sector that has come to stay", but that still is the victim of "much legal dispersion". According to *Granma*, "it seems that CTC officials are recruiting workers individually, visiting each business and speaking with each worker, without distinction [...] so that they see in us a way to solve their doubts and difficulties". There have even

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<sup>319</sup> This figure and the information in the following paragraphs about new efforts to keep private sector practitioners within party-controlled unions, is based on: Aleida Yanes (2015): "La sindicalización de los cuentapropistas cubanos", in *Economía Análisis*, 1.12.15, reproduced in ASCE Newsclippings No. 686, 4.12.15.

been considerations about the creation of a separate union for all non-state actors, which so far has not been seen to be feasible.<sup>320</sup>

The impression from talking to dozens of self-employed license holders around the country is that they do not at all consider the CTC to be relevant for the defence of their interests, even if they feel obliged to be unionised (ref. Wig, forthcoming).

There are several cases of how the growing strength of certain private sector groups, and the state's dependence on them, is forcing the state to implicitly accept extra-official expressions of private sector organisation, or at least coordination. This may take two different forms: through the trade union channel, or in direct confrontation.

Perhaps the most interesting example of an institutionalised interest representation is found in Trinidad. Both private restaurants and private B&B establishments, as well as taxi and horse cart owners, have organised liaison directly vis-à-vis government both on municipal, provincial and national levels, partly using the trade union (CTC) to which both employers and employees (both officially considered as self-employed workers) belong, as a channel. The intention, it seems, has been to set up specific 'bureaus' within the hotel and tourism union (SNTHT) of the CTC for independent tourism agents. As one of the entrepreneurs behind this initiative says:

"This serves us well to raise whatever problem we encounter. They listen to us, and they attend our requests. Problems of a national character evidently take more time, but we do get a response. We are recognised as entrepreneurs within our territory. We meet every three months with union leaders to discuss issues and problems that have occurred in the previous period [...]. The issue of a wholesale market has so far not been solved. Our request to expand the restaurant capacity is now awaiting a response from the maximum authorities. We also have contact with entrepreneurs from other places who have come to Trinidad to be informed about our work and bring the reference to their respective provincial authorities. Trinidad has become a national reference municipality regarding self-employed work"<sup>321</sup> (S/E).

These employer representatives in the tourism sector even have access to regular bi-annual meetings on minister level through a labour union channel, discussing their

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<sup>320</sup> *Granma*, 10.05.17; 25.05.17.

<sup>321</sup> Quoted from a mail received from the owner of a Trinidad *paladar* (12.11.16).

indispensable role in the country's tourist industry.<sup>322</sup> As long as no entrepreneurial organisation is allowed, the Trinidad employers have creatively chosen this quite paradoxical approach to seek representation through the trade union.<sup>323</sup>

We saw another example of the de facto recognition of private restaurants *as an economic sector*, when the Havana municipal government in October 2016 summoned the owners of some of the most well known capital restaurants to warn them against alleged illegal activities (see details under Indicator 4.4).<sup>324</sup> This was probably the clearest example to that date of the government having a collective meeting with a whole sector of private entrepreneurs.

An interesting case emerged in late 2017, in response to President Trump's attempt to discourage US tourism to Cuba. Presenting themselves as "an association of Cuban businesswomen", they asked for a meeting with Republican Senator Marco Rubio of Florida—one of the main lobbyists behind Trump's Cuba measures—to explain the impact on the country's nascent private sector of rolling back the *détente* in US relations.

"We want to invite him or part of his team to come and learn about Cuba, the Cubans here and our businesses", said Niuris Higuera, owner of the Atelier restaurant in Havana, where she said business is down 60 per cent from a year earlier due to negative impact of the Trump policy. Other persons behind the letter were a lady renting vintage US automobiles, *Nostalgicar*, and a third lady who runs a 10 room bed and breakfast business. There has been no official Government reaction to such initiatives, but it shows that the private sector, if allowed to be organised, could become a critical ally in the struggle against the Trump administration's restrictive measures.<sup>325</sup>

Other examples of attempts to organise self-employed have been registered. One Havana group calling itself *Asociación Cubana de Hombres de Negocios (ACHN)*, has as an explicit aim to "empower non-state management", counting with legal advice, training in

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<sup>322</sup> The author had access to discuss this experience in detail with one of the employer representatives after a meeting they had with the Minister of Tourism and other high-level government representatives in March 2017. *Granma* (10.05.17) recognized that the private tourism sector through their union channel benefitted from a 'direct attention' by the Ministry of Tourism, considering their importance as the second most important income source for the country.

<sup>323</sup> This example was also discussed in Bye (2014<sup>1</sup>:35).

<sup>324</sup> *Thomsonreuters* 20.10.16 op.cit. According to the quoted Havana municipal government official, there was at that time a total of 500 private restaurants registered in Havana and 1700 across the country.

<sup>325</sup> "Cuban businesswomen seek Rubio meeting as U.S. policy bites". *Reuters* (Marc Frank), 17.11.17.

marketing, business administration, accounting, etc.<sup>326</sup>

In a potentially important signal that such initiatives among private entrepreneurs are being taken seriously and constructively, it was reported that ‘high officials’ of the Ministry of Work held a meeting in late December 2017 with two private sector representatives. Key concerns like wholesale markets, access to import production inputs, tax issues and not least “the need to maintain spaces of dialogue” were discussed, on the basis of a letter sent by 41 *cuentapropistas* four months earlier.<sup>327</sup>

The conclusion we may draw from these examples is that the Cuban government is very slowly realising the need to open a certain dialogue with—and perhaps against its own intentions offering a stimulus to the institutionalisation of—a ‘non-state economic society’. What is pushing the Government increasingly in this direction is no doubt recognition of the more and more strategic role for the country’s economy played by the private sector—and the increasing power it commands.

The case of independent collective taxis (called *boteros*) in Havana is quite different. Based on exchange with a great number of private taxi drivers in Havana, it may be concluded that they do not perceive the official trade union as a meaningful channel for their interests. They have rather preferred more open confrontation.<sup>328</sup>

Everybody who wants to know is aware that these taxis, as well as other non-state transport providers, have been working almost exclusively with black-market petrol, bought at about half the official price from workers in state enterprises. The very system for sale of black market petrol is in the first place an expression of an informal and quite effective organisation.<sup>329</sup>

In July 2016, when Venezuela drastically reduced its oil provisions to Cuba, a similar

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<sup>326</sup> Osniel Carmona Breijo: “Asociación de Hombres de Negocios, una apuesta contra las trabas del Gobierno”, 19.05.17, *ASCE News* 756. It is not clear whether this is the same group of businessmen that also applied for legal status, without even getting a response (reported by *Associated Press*, Havana, 1.06.17).

<sup>327</sup> “El Ministerio del Trabajo acepta dialogar con un grupo de cuentapropistas”, *Diario de Cuba*, 5.01.18.

<sup>328</sup> Official union leaders have claimed that 10,000 private taxi owners (*boteros*), truck owners, bicycle taxis, tire repairers (*poncheros*) etc. in Havana are unionized, in a sector with considerable labour conflicts (source: Romilio Salazar Lora, Secretario General del Sindicato Nacional de Trabajadores del Transporte y Puertos, Havana).

<sup>329</sup> This situation was reported in an article by Orlando González, published by *ASCE News* no. 719 (8.08.16): “Boteros’ aumentan un 50% el precio del pasaje en La Habana”. The account was confirmed, with more details, by a taxi driver to whom I have access of confidence in Havana (October, 2016).

reduction of petroleum quotas to state enterprises occurred, resulting in black market prices rising by about 50%. The taxi drivers had no other choice than increasing their tariffs as much, leading to strong public protests and the government trying to introduce maximum prices (just as they had done with food products). Taxis then started to disappear from the streets, in a show of state powerlessness, soon obliging the state to restore parts of the previous petrol quotas so that illegal petrol again could be provided in sufficient quantities and to more acceptable prices, and taxi tariffs also reduced more or less to previous levels. According to our sources, there was no explicit organisation of taxi drivers behind this, but informal contact turned out to be very effective.

A new round of conflict with the Havana taxi drivers, spreading to the rest of the country, took place in February 2017, when an open strike was organised and appeared to successfully rebuff—at least for the time being—new government efforts to introduce price control and other restrictions. One of the strikers had some interesting observations about this occurrence:

“The transport workers learnt that by uniting, they may achieve things and that the Government is afraid of them (because they depend on them). The idea about the strike did not come from one person; it was an idea that emerged spontaneously among many transport workers from all over the country [...] There is no formally existing network. The *boteros* (taxi drivers) inform each other, unite and help each other spontaneously as large group of friends [...]. The strike started the same day as the Government announced new maximum prices. Many cars ceased to work or they worked very little. Then a group of transport workers decided to call a national strike starting on 27 February, urging that no car should circulate, thus pressuring the Government to permit wholesale market, reduction of taxes, etc.”<sup>330</sup>

This strike was summarised by the above-quoted striker as “a partial success”. But the power struggle did not end there. As part of the restrictions announced on 1 August 2017, new measures against the *boteros* were announced, including new measures to eliminate the black market gas sales, maximum prices, stricter technical controls (of old cars that in many cases would not pass such controls), frequent controls of all documentation along the routes, and an attempt to organise the private taxis in state-controlled cooperatives with access to preferential gas prices and wholesale prices for

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<sup>330</sup> Private e-mail correspondence with a person with intimate knowledge of the action (S/E).

spare parts and tools.<sup>331</sup> The taxi owners saw these measures as just another attempt of unwanted state interference. However, reports from early 2018 indicated that the taxi owners and drivers continued to find elegant ways around these restrictions, e.g. by re-organizing their routes. The state seems incapable of winning this battle, simply because of the market share and thereby the power position occupied by the private transport sector.

Transport workers have been organising protests also in other parts of the country, depending on the most common means of transportation: horse cart drivers (*cocheros*) in Holguín, Santa Clara and Cienfuegos, motorcyclists (*motoneteros*) in Santa Clara, Santiago and Guantánamo, and—as mentioned—*almendrones* in Havana.

Other professional groups vertically organised under strict party control have also attempted to obtain more autonomy. There are clear signs that journalists and artists are becoming increasingly independent, in spite of recent attacks on journalists in official media, who simultaneously contribute in non-official media outlets.<sup>332</sup>

As shown in the agrarian reform section, the government has been equally unwilling to allow more independent and autonomous forms of organisation among peasants and farmers.

Anybody visiting the wholesale farmer market *El Trigal* outside of Havana when it existed (see discussion of wholesale markets under Challenge 2), would have observed that there was an institutionalised non-state economic society in the making. Farmers, transport providers, middlemen and retailers of all kinds were mingling in a hectic market economy, but frequently overstepping the narrow legal borders. For over-cautious guardians of socialist principles, the decision to close this biggest spontaneous market experiment to date in Cuba must have been an easy one. Similar signs of a hectic market life could be seen in other parts of the country, as the one reportedly set up by the provincial Party Secretary in Camagüey around 2015.

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<sup>331</sup> Ministry of Transport official in declarations to *Granma*, 1.08.17.

<sup>332</sup> According to privately obtained information early in 2018, the most recent generations of journalist graduates care less and less about official restrictions: to them, employment in official media is now so little attractive that sanction threats against them have hardly any effect.

The emergence of virtual market mechanisms like the website *revolico.com*, where almost any goods and services may be bought and sold, available on the memory stick *El Paquete* which so many Cubans buy every week, is another expression of how really existing market institutionalisation is taking place, up against heavy official resistance. The government may decide to close down *physically existing* real estate agencies (as it seems to have intended in late 2016), but they cannot close virtual channels like *revolico.com*.

In a situation with increasing economic and information independence and with increasing segments of the population paying scant attention to the old power structures, it remains to be seen how well the Party will succeed to repress independent and horizontal interest organisation or coordination among non-state economic actors. When the Cuban government has been so resistant to allow more independent interest organisation, it may also be based on a worry about how social protest has increased in China and Vietnam after the growth of the market economy. The political structure of the Chinese reform process seems to have encouraged a variety of social actors to pursue their interests and claim their rights by staging collective protests. First among them are farmers—clearly with an increased level of independence as a result of the reforms, whereas it is unclear to what extent the new urban middle classes have been prominent in such protests. But workers, pensioners, disabled people and not to forget demobilised soldiers have played prominent roles, to a large degree controlled through ‘contentious authoritarianism’ (ref. Chen 2012).

At the end of the day, this is all a question of the Communist Party’s power monopoly. As Samuel Farber, a self-declared champion of “revolutionary democratic socialism from below”, pointed out many years ago:

“[But] there is also the question of political power, and the central bureaucracy isn’t going to share power with newly minted capitalists unless they totally assimilate into the ruling bureaucracy. But this has also happened in China—you have capitalists joining the Communist Party and becoming a part of it” (Farber 2006).

He could have added that the same pattern is seen in Vietnam. Whether a similar trend will appear in Cuba is still impossible to predict—simply because we cannot yet speak about a capitalist class per se in Cuba. But it will be an aspect to watch carefully.

The stated intentions of a massive promotion of *cooperatives*, and even the possibility of letting them organise independently of state and party structures according to international cooperative principles, would have been another important factor for autonomous interest organisation in Cuba. There is reason to believe that the Government's over-cautious policy with the proliferation and authorisation of urban cooperatives is another expression of the fear to see such interest organisation running out of control.

The main conclusion is that early and careful trends towards the establishment of an *institutionalised economic society*, based on the emerging non-state sector, is being met by an ideological counter-offensive and heavy-handed measures to stop independent interest organisation. There are signals, however, that the re-structuring of the socio-economic reality in the country has already come too far to keep this logical political impact at bay. The final outcome of this is still highly unclear.

## Chapter 8: The evolving international arena – fitting into a new context

**Challenge 5: A changing international context: How to influence the US to abandon the embargo/blockade; and/or compensate the embargo by help of other international alliances.**

### 8.0. The setting

It is impossible to discuss the political prospects of Cuba without taking the international context into consideration. Cuba has always been dependent on foreign powers: Spain during the colonial era, the US during the first 60 years of the 20<sup>th</sup> century, and the USSR since the revolution until the demise of the Soviet superpower. During the deep crisis of the 1990s, following the fall of its socialist benefactor, revolutionary Cuba saw itself obliged to take its first turn towards the capitalist world: direct foreign investments had been legalised already in 1988—particularly in the tourism sector. This was largely as a consequence of Gorbachev's *perestroika* policy signalling reduced subsidies to the Cuban economy; *cuentapropismo*, agricultural markets and the circulation of the US dollar were also later legalised (1992-94).<sup>333</sup> When no external supporter was at hand, Hugo Chávez came to power in Venezuela and soon offered Cuba a new lifeline in terms of oil deliveries and other crucial support in exchange for medical and other professional services. With Chavez' death, and his successor Nicolás Maduro steering the country towards a deep and perhaps total crisis,

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<sup>333</sup>The consequences of the disappearance of the USSR were dramatic for Cuba: between 1989 and 1993, Cuba's exports and imports were reduced by 75-80%, gross investments by 60%, and GDP by 35%. While sugar (mostly being sold to the USSR) represented more than 90% of export revenue in 1990, tourism (mostly from Western Europe and Canada) had become the number one export earner (45%) in 2000, while health services (mostly to Venezuela) had the same position in 2006 (with sugar and tourism each representing about 25%). See Sánchez-Egozcue and Triana Cordoví (2010), figures 1 and 4.

Cuba is once again seeing a benefactor gradually disappear. No other country is prepared to take over a similar protection role. Rightist political forces are definitely on the offensive in Latin America. Cuba is actively diversifying its international relations, and no single country now accounts for more than 20% of total merchandise trade—with China and Venezuela as main trade partners but with Venezuela's role fast diminishing. With US relations sliding back to full confrontation under President Trump, this international context is one of the rather pessimistic framework conditions as Cuba is preparing for the post-Castro era.

**Indicator 5.1: Cuba searching for a new international role.**

Cuba under Fidel Castro used to be the non-disputed champion of anti-imperialism, with or without the tutelage of the Great Socialist Fatherland (the USSR). It is now convincingly documented that Cuba was the active driver of military and political support to the anti-colonial wars in Africa often against the strong will of the USSR (ref. Gleijeses 2002). It was always well known that Cuba's support to the anti-imperialist struggles on its own continent was its own invention—also very much against the wish of the USSR and in most cases the local communist parties (ref. Wickham-Crowley 1992).

After ten years of wandering in the international wilderness in the 1990s when the USSRs had ceased to exist—almost left alone in a stubborn and all-but suicidal rejection of what some called “the end of history”, Cuba around the turn of the century found a new international affiliation among the emerging Latin American leftist regimes. An aging Fidel left the international anti-imperialist front position to Hugo Chavez, who was at the same time willing to spend his ample petrodollars on a new solidarity axis with Cuba, to some extent compensating for the loss of Soviet internationalism. At the same time, given the new correlation of forces in Latin America, Cuba could now patiently solidify diplomatic and political relations to the entire Latin America, irrespective of political colours, to the point of isolating the US embargo policy. So successful was this effort in building regional alliances that it was the superpower that in the end had to blink and ‘cry uncle’, obliged to initiate a normalization process with Cuba as a necessary price for acceptance in Latin America. The paradox is that Cuba by

befriending Obama's US and helping the old enemy rebuild its relations to Latin America, at the same time as the Latin American left and Cuba's best friends lost the regional hegemony, helped the US partly reconquering its western hemispheric hegemony.

Another important role taken by Cuba in this context was to host and co-facilitate the peace negotiations in Colombia. So, almost in parallel, Cuba helped finalise the last remnant of the Cold War (US vs. Cuba) and also of internal civil strife in the Western Hemisphere (in Colombia, although it remains to be seen whether the peace accord will be successfully implemented).

Much less known is the role Raúl Castro was discretely playing during complicated multilateral negotiations. During the preparations of the COP21 summit in Paris in November-December 2015, the ALBA alliance—to which Cuba belongs—threatened to block this essential agreement for which the entire world was waiting. In this situation, ex-President Hollande of France, the summit host who had invested so much prestige in the outcome, was reported to have called on Raúl Castro to intervene with his friends and allies to abstain from sabotaging the agreement. He did so, and successfully helped the most historic agreement on climate change, so far, being adopted. As a reward, President Castro was promptly invited on official state visit to France, in his case the first ever to a EU country.<sup>334</sup>

One of the noteworthy evolutions from Fidel's to Raúl's presidency, then, was a *change in Cuba's international role from an anti-imperialist vanguard—almost an outcast among most western countries—to a diplomatic facilitator.*

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<sup>334</sup> This account is based on conversation with a high-level French diplomat, intimately involved in the preparation of the state visit. President Hollande made a similar phone call to President Morales of Bolivia (according to a personal account to the author by a minister who was present when President Morales took this call).

## **Indicator 5.2: US-Cuba relations: Towards the end of the embargo and the Cuban 'bunker mentality' justifying lack of civic freedoms?**

The US-Cuban rapprochement, initiated by the quite sensational declarations by Presidents Obama and Castro on 17 December 2014 (referred to in the following as 17D), did of course have a direct impact on the Cuban political situation, directly or through its effect on the economy.

First of all, it is important to see the new situation emerging pre- and post-17D as a relationship being played out between different actors in each country. In many ways, the core relationship was the one between the two presidents, both clearly expressing a wish to march towards normalization, of course without hiding their political differences and the difficult road ahead.

When the two presidents met for the first time at the Summit of the Americas in Panama in April 2015, there was one key statement from each of them that marked their respective wish for the future process. President Castro said of Obama: “In my opinion, President Obama is an honest man [...] I admire him, and I think his behaviour has a lot to do with his humble background”. President Obama’s key statement was the following, given as an answer at the press conference at the end of the meeting: “We are not in the business of regime change. We are in the business of making sure that the Cuban people have freedom, and shape their own destiny and their own lives. And supporting civil society [...]”<sup>335</sup>

Both statements must be understood in their historic context. The previous US regime—that of George W. Bush—was clearly “in the business of regime change”. By setting up the infamous ‘Commission for Assistance to a Free Cuba’ in 2003, Washington’s firm belief at the time was that it was the United States’ right, and, indeed, its duty, to decide Cuba’s political future. The Commission’s mandate amounted to nothing less than a program of government for a foreign country that had never asked for this kind of assistance. The Bush Administration even appointed its own modern-day version of a US Pro Consul, called the Cuba Transition Coordinator. The Cuban government, quite

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<sup>335</sup> Both quotes are based on the CNN report from the meeting, 11.04.2015.

unsurprisingly, described his mission as “part of a broader US plan for Cuba’s annexation”. What this illustrated was that, until December 17 2014, the US’ Cuba policy essentially adhered to the Platt Amendment philosophy from 1901, which allowed the US to intervene unilaterally in Cuban internal affairs whenever the US Government saw any reason to do so.<sup>336</sup>

It is interesting to see this in contrast to US military thinking, and the fact that Pentagon since the 1990s no longer saw Cuba as a military threat (ref. the Graham amendment and Pentagon’s response, Klepak 2017), and that military leaders of both countries quite consistently were looking for ways to engage in such a constructive way that it could build a more positive political relationship (see Klepak 2012:84-85 and following).

The intervention philosophy (in Cuban Spanish termed *plattismo* or *anexionismo*), so crucial in Cuban political discussions since the beginning of the 20<sup>th</sup> century, has influenced both sides for more than 100 years. On the one hand, *plattismo* has been the US’ justification for the embargo and for the establishment and maintenance of the Guantánamo Naval Base. It has been embraced by Cuban dissidents and exile leaders and has been perceived by the Cuban government as supporting annexation. On the other hand, it has also been used by the Cuban government to justify limits to civic-political freedoms, and to repress most of its internal opposition. A major dividing line in Cuban civil society has been between defenders and opponents of the embargo/blockade: the former were automatically considered as enemies of the fatherland, whereas the latter were tolerated under certain conditions (see Bye 2015).

This takes us to the context for Castro’s description of the US President, until that point the ultimate enemy image of the Cuban revolution. In January 2015, in Fidel Castro’s first public comments to the sensational announcement one month earlier, the historic Commander of the Cuban revolution displayed a very different tone than that of his brother: “I do not trust the US policy nor have I exchanged a word with them [...]”<sup>337</sup> (S/E).

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<sup>336</sup> Ref. <https://2001-2009.state.gov/secretary/rm/2005/50346.htm>

<sup>337</sup> Quoted in *Havana Times*, 26 January 2015, from a letter to the Federation of University Students (FEU).

It is a matter of speculation whether or not Fidel was ever supportive of Raúl's decision to start the normalisation with the US. It may be pointed out that Fidel Castro approached all new US presidents coming and going during his reign, with proposals for better relations. As stated by LeoGrande and Kornbluh (2014:405) in their state-of-the-art documentation on US-Cuban negotiation efforts since 1959:

“Although Fidel Castro professed to believe that the imperialist United States could never accept Cuban socialism, every time a new president took office in Washington, Castro held out an olive branch to see if the new administration—no matter how conservative or antagonistic—might be open to better relations”.

But they also go on to observe—in a text published before 17D:

“Finally, Raúl Castro is not Fidel. Whereas Fidel took a certain satisfaction in defying the United States and exploited U.S. hostility to rally nationalist sentiment, Raúl has focused on Cuba's domestic problems. Anti-U.S. diatribes feature much less prominently in his speeches, and he blames Cuba's economic problems on the shortcomings of Cuban policy rather than the embargo. If Fidel was motivated to maintain an acrimonious relationship with Washington for domestic political reasons, Raúl is not” (p. 407).

It may be discussed to what extent the quite unenthusiastic post-17D comment by Fidel has served as inspiration, or justification, for the continued or perhaps even strengthened general mistrust about the US that, from the very beginning, seemed to dominate the attitude of Communist party hardliners in the aftermath of the historical steps of rapprochement. This attitude was for a while difficult to exemplify with explicit quotes; it was rather implicit in the lack of enthusiasm, calls of caution, non-public statements and off-the-record instructions (*orientaciones*) to party cadres, basically with the message that “US imperialism is still out there to defeat us—be on the watch and keep the guard up!”<sup>338</sup> As an example, it was noted that several official commentators saw Secretary of State Kerry's visit to Havana on 14 August 2015 to raise the Stars and Stripes over the US Embassy in Havana as “a continuation of imperialism's destructive strategy”, whereas others on the eve of Kerry's visit characterised his remarks as much more constructive. In a sign of increasing pluralism, or perhaps of increasing internal

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<sup>338</sup> Several Communist Party members conveyed such messages in private to the author during 2015 and early 2016, before they were made in public.

contradictions that no more could be hidden from the public, these two contradictory views were openly displayed in the very official TV program *Mesa Redonda* on that historic day.<sup>339</sup>

Another sign of mistrust was the continued detention of people taking part in opposition manifestations, for instance a wave of detentions in the days immediately after Mr Kerry's visit. A similar pattern was repeated during the visit by Pope Francis in September 2015. One of the leading irreconcilable dissenters, Guillermo Fariñas, claimed that since the Cuban Government had no more external enemies, "the confrontation is now with the Cuban citizen, because the enemy is the people".<sup>340</sup> In August-September 2015, it seemed to have become standard procedure to detain those participating in the Sunday marches of *Damas en Blanco*, to the extent that even a Chilean MP participating in the march was detained in September, in an embarrassing sign that the Ministry of the Interior was acting against the most elementary political wisdom. There were also clear signs of a narrowing space for parts of the civil society that previously had been accepted, for instance when academics employed by universities and other state institutions were now warned to stay away from more independent-thinking and liberal-minded institutions like *Cuba Posible*.<sup>341</sup>

On the US side, there was still considerable confusion even within the Obama administration about the aim of its own policies, perhaps depending on the audience to which a message was directed. A mantra still being applied by leading State Department officials when speaking to Cuban-American audiences, was that the objectives and strategies of the US' Cuba policy had not changed; only the tactics. When compared with the explicit objectives of the Bush administration—which obviously was regime change—such statements may have been helpful in order to calm down opposition in Congress and Cuban anti-dialogue groups in Havana as well as in Miami, but it also provided the opponents of rapprochement within the Cuban government with all necessary ammunition to continue harassing and detaining opposition activists.

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<sup>339</sup> See Pedro Campos (2015), "Notas al margen de la visita de Kerry a Cuba", *14ymedio*, 17 de agosto 2015.

<sup>340</sup> *14ymedio*, 17 August 2015.

<sup>341</sup> All these observations were made by the author through quite close contact with both academics and civil society actors during 2015-2016.

When John Kerry made his speech during the flag raising ceremony in Havana, he made it very clear that *“Cuba’s future is for Cubans to shape. Responsibility for the nature and quality of governance and accountability rests, as it should, not with any outside entity; but solely within the citizens of this country”*. Then he added, in a way that the Cuban government could hardly consider as undue interference, based on generally accepted rules for international co-existence within the framework of the UN:

“But the leaders in Havana—and the Cuban people—should also know that the United States will always remain a champion of democratic principles and reforms. Like many other governments in and outside this hemisphere, we will continue to urge the Cuban Government to fulfil its obligations under the UN and Inter-American human rights covenants—obligations shared by the United States and every other country in the Americas”.<sup>342</sup>

This US policy of abstaining from regime change efforts but providing political support to what the US sees as pro-democratic forces, increasingly became a basic principle of President Obama’s foreign policy, by many considered an ‘Obama doctrine’. President Obama elaborated on this in the following way:

“You take a country like Cuba. For us to test the possibility that engagement leads to a better outcome for the Cuban people, there aren’t that many risks for us. It’s a tiny little country. It’s not one that threatens our core security interests, and so [there’s no reason not] to test the proposition. And if it turns out that it doesn’t lead to better outcomes, we can adjust our policies. The same is true with respect to Iran, a larger country, a dangerous country, one that has engaged in activities that resulted in the death of U.S. citizens, but the truth of the matter is: Iran’s defense budget is \$30 billion. Our defense budget is closer to \$600 billion. Iran understands that they cannot fight us. [...] You asked about an Obama doctrine. The doctrine is: We will engage, but we preserve all our capabilities”.<sup>343</sup>

This must be exactly the kind of legitimate US positions that President Raúl Castro had in mind when he said in his D17 speech: “we should learn the art of living together in a civilized form with our differences”, also reiterating his willingness to dialogue about all

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<sup>342</sup> Quote based on US State Department’s official version, downloaded from their website 19.08.15.

<sup>343</sup> Thomas L. Friedman (2015): “Iran and the Obama Doctrine”, *New York Times*, 5.04.15.

of the deep US-Cuban differences regarding national sovereignty, democracy, human rights, and foreign policy.<sup>344</sup>

Those opposing the rapprochement in Congress, as well as their supporters among Cuban-Americans and the Cuban opposition, continued to argue as if the US still has the legitimate right and duty to change regime in Cuba, i.e. the Platt Amendment logic. The fact that regime change was not included in the bilateral dialogue during the Obama administration, was seen by them as proof that the dialogue was completely futile.

It was interesting to note the different views within the Cuban opposition regarding this situation, clearly demonstrated during Mr Kerry's 2015 visit to Havana. The "irreconcilables" chose not even to be present in Havana on this historic day, and rather organised a meeting in San Juan, Puerto Rico (*El Encuentro Nacional Cubano*), and issued a declaration, *La Declaración de San Juan*, aiming at "the full liberty of the Cuban people and a genuine Rule of Law".<sup>345</sup> When Mr Kerry invited a group of the dissenters to a separate conversation at the US Embassy Residence in Havana, those invited also reacted differently. At least two of the most prominent irreconcilables, Antonio Rodiles of *Estado de Sats* and Berta Soler of *Damas en Blanco*, turned down the invitation, whereas a group of a dozen dissidents—those in favour of the new US policy—met with Mr Kerry in what they characterised as "30 fruitful minutes". The same pro-dialogue opponents also clearly recognised—like the Obama Administration—that Cuban regime change was not to be negotiated with the US, but must result from a political process in Cuba. The following quote from the co-editor of the opposition online daily *14ymedio*, two days before Secretary Kerry's historic visit, is a quite significant sign that the support to the US-Cuban dialogue was expanding on the Cuban opposition side:

"What will not be coming by that way (US-Cuban talks) is democracy, just as independence did not follow behind the North American gunships. The political system that we deserve should originate from our own efforts, independently of whatever solidarity that comes from the outside".<sup>346</sup> (S/E)

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<sup>344</sup> Quote based on *Granma's* official version, uploaded 17.12.14 at 13:12:32.

<sup>345</sup> "Opositores cubanos reunidos en Puerto Rico apoyan plebiscito a favor de elecciones libres", *14ymedio*, 16.08.15.

<sup>346</sup> Reinaldo Escobar (2015), "Que Cuba no deba su democracia a Estados Unidos", *14ymedio*, 12.08.15.

The same message was repeated by the editor-in-chief of the same daily on the day when President Obama's historic visit to Cuba was announced: "[...] the US President cannot change Cuba, and he'd better not intend to, because this national injustice (*"entuerto"*) is our responsibility".<sup>347</sup> (S/E)

The pattern was quite clear. The two Presidents and their respective government apparatus engaged in a serious dialogue process with the aim of lifting the embargo/blockade, fully accepting their political differences including whether or not a different political regime in Havana would be desirable.

- On the US side, this position had the support of a popular majority, even among Cuban-Americans, and by the Democratic candidate largely seen as the favourite for the 2016 Presidential elections, Hillary Clinton. The majority in Congress, mostly Republican but including some Democrats, and all Republican presidential candidates initially with the interesting exception of Donald Trump, promised to do everything to boycott and change this policy.
- On the Cuban side, all indications were that the immense popular majority was in favour of the normalization process.<sup>348</sup> Two very different groups seemed to coincide in working against the dialogue, with very different means and objectives. A group of irreconcilable dissidents (people like Fariñas, Soler and Rodiles) stated their opposition to the new Obama dialogue policy, claiming that only a negotiation about regime change would be meaningful. They therefore sided with the majority in the US Congress. They did however take advantage of the dialogue to test out new limits for civil society protest in Cuba, but by so doing they also provoked reactions from forces within the regime that—like themselves—were negative to the dialogue.

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<sup>347</sup> Yoani Sánchez (2016): "Una visita más simbólica que política", *14ymedio*, 18.02.16.

<sup>348</sup> In a poll of residents on the island conducted by Bendixen and Amandi International for Univision Noticias and Fusion in collaboration with The Washington Post in March 2015, one of the questions was: "Do you think that the normalization of the relationship between Cuba and the United States is good for Cuba, bad for Cuba, or do you think that it is not of importance for Cuba?" An overwhelming 97% responded that it is good for Cuba. (*Washington Post*, 8.04.15: <https://www.washingtonpost.com/graphics/world/cuba-poll-2015/>).

The latter group was of course much more difficult to identify explicitly. Nobody within the Party or government institutions would protest openly against their own President. But there were clear indications of an internal opposition to Raúl Castro's official policy: the reference to unfortunate US statements about "same strategy but new tactics" as proof that the goal of destroying the revolution remained intact; the wave of dissident detentions continuing with the same justification of going against those who serve 'enemy interests'; plus, the apparently increasing opposition to economic reforms.

Two principal forces seemed to be at play. One was ideological, coming from party hardliners mostly of the old generation, perhaps coinciding with forces within the party that also worked against the general economic reform process. Many of these were among the socio-economic losers of the reforms (ref. Indicator 4.1). They seemed to be part of a warning campaign at workplaces and in neighbourhoods, apparently with the Ideological Department of the Party as the main source.

The second source of opposition against the normalization process would come from the security and intelligence apparatus, organised under the Ministry of the Interior.<sup>349</sup> They may have been motivated by the fear of losing relevance and legitimacy, as the narrative of US imperialism as the historic enemy was losing ground. A reference to how the end of the Cold War impacted on the internal correlation of forces in the USSR may be indicative for what was happening in Cuba during this period (prior to President Obama's visit): while Cold War tensions worked invariably to the advantage of hardliners within the USSR and in Eastern Europe in general, the end of this global conflict and the disappearance of historical enmity with the West led to a weakening of the Ministry of Defence and the KGB, and furthermore to a rapid decline in the anti-reform influence of conservative communists.<sup>350</sup>

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<sup>349</sup> Quite indicative of these attitudes may be some rare public comments by Alejandro Castro Espín, the son of Raúl Castro. Castro Espín, the senior member of the Commission on defence and national security (*Consejo de defensa y Seguridad Nacional*) was part of the top-secret Cuban team negotiating the start of the normalization process with the U.S. He seemed to have maintained the same and strong anti-imperialist rhetoric and rejection of 'bourgeois democracy' even after his father initiated the normalization process (see 16 January 2015 interview in Acropolis, Athens, published in *Project Censored*, 27 February 2015: <http://projectcensored.org/interview-with-alejandro-castro-espino/>). Yet, Castro Espín was apparently present at both personal encounters between the two presidents later in 2015 (April in Panama and September in New York).

<sup>350</sup> This argument is well developed in Brown (2009: Chapter 5).

What these two sources of opposition (ideological and security-based) had in common was the fear of their own situation in case of *regime change*. The *14ymedio* co-editor, who supported the rapprochement, may have been right with the following pessimistic statement on the first anniversary of 17D:

“In Cuba there is a repressive apparatus composed of tens of thousands of individuals in charge of rejecting that those in opposition express themselves or meet. If the country turns democratic, they would not only lose their job and their privileges, but they also fear becoming victims of revenge”.<sup>351</sup>

The obvious climax of US-Cuban rapprochement was President Obama’s March 2016 visit to Havana.

Communist Party organ *Granma* brought an editorial prior to Obama visit which may have been illustrative of the schizophrenic attitude to his visit: it was welcoming Obama, but clearly demanding that Washington cease meddling in its internal affairs.

“The interventionist programs aimed at provoking destabilization and political, economic, and social changes in our country should be eliminated. The policy of ‘regime change’ should be definitely buried. Also, the pretence of fabricating an internal political opposition, paid for with money from US taxpayers, should be abandoned”<sup>352</sup> (S/E).

On the magic first day of President Obama’s historic visit to Cuba, on Palm Sunday 20 March 2016, with live coverage on all major US and international television networks but remarkably no coverage on Cuban state television (which in the first place produced the images televised internationally), both Fidel and Raúl Castro very symbolically chose to receive Venezuela’s hard-pressed President Maduro. President Castro was not personally present to receive Obama at the airport—by some observers erroneously seen as a snub: Following Cuban protocol, even China’s President Xi was not received at the airport by his Cuban colleague when he arrived on an official visit to Cuba two years earlier. On the other side, Castro went out of the protocol to see him off two days later. Havana residents were mostly kept away from the streets when President Obama walked through Old Havana—perhaps partly for security reasons but probably also

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<sup>351</sup> Reinaldo Escobar: “17D: Cómo se esfuma el optimismo”, *14ymedio*, 17.12.15.

<sup>352</sup> *Granma*, 8.03.16.

because of concern that he would be too enthusiastically applauded. Earlier the same Sunday, a number of the *Damas de Blanco* were routinely bullied by pro-government mobs and detained by the police, after reportedly having been warned by security officers to cancel their Sunday march on that day. It is difficult to read these events as anything but a quite clumsy attempt by the old ideologues and the security apparatus to downplay the importance of the Obama visit, keep ordinary Cubans from watching it, and mute the enthusiasm around the visit. The message would be that a US President has no power to change things in Cuba. Perhaps even President Castro did not have full control of the script of events during these historical days in Havana. An internal power struggle quite obviously went on behind the scenes. One of the characteristics of the transition stage Linz & Stepan (op.cit) called *mature post-totalitarianism*, is that opposition often succeed to create 'a second culture' or 'a parallel society'. What seemed to be confirmed in Havana this week, with Obama being followed by The Rolling Stones in concert and a month later by Chanel's fashion show on *Paseo del Prado*, was that the old guard PCC simply was about to lose its cultural and social hegemony in Cuba.

The Obama visit, however, became a remarkable geopolitical success—for both presidents. Obama was allowed to meet with all internal dissidents—many of them experiencing repeated detention both before and afterwards—in a closed meeting at the US Embassy. Several of them had previously argued strongly against the rapprochement and for instance turned down the invitation for a meeting with State Secretary Kerry half a year earlier. Now the opposition to Obama's dialogue line seemed to have muted. He also met with a group of entrepreneurs, and, of course, he made a historic speech in the elegant and newly renovated Gran Teatro, transmitted live on Cuban television, with Raúl Castro and most other leaders in the audience. The shared press conference between the two presidents, after their political consultation, was a very rare opportunity for journalists to ask questions to Castro, a situation with which he obviously felt very uncomfortable. But all this happened with Castro's acceptance.

A general worry soon emerged in Havana party circles about the visit and the way Obama was charming the country. It seems that there was a collective feeling among Party cadres of having been trapped and outsmarted by the enemy. The way First Vice President Díaz-Canel explained this in a leaked briefing with Party leaders in February 2017 is quite telling of how they felt manipulated:

“They (the North Americans) are picking an aspect of a country’s history, they modify it and put together the pieces in ways where the great winner and hero is the North American. They use communication as a show, all is set up intentionally as a Hollywood production, in order to draw attention to leaders that are attractive and charming, with a wide use of symbols. President Obama’s visit was a typical case of this. We saw it from the moment he arrived at the airport, holding the umbrella for his wife and his daughters, the way he presented himself to the public, the things he did, the contents of his speech in the Grand Theatre in Havana, the way he behaved in the Teatro Latinoamericano (sic), all this is part of the set-up”,<sup>353</sup>

In later sections, we will elaborate on how the hardliners in the Party took the offensive at the 7<sup>th</sup> Party Congress only four weeks after the Obama visit, e.g. by apparently obliging the two main responsible for the visit (Castro and foreign minister Rodríguez) to make strongly anti-Obama speeches. Here, we will see how the contradictions about the reading of the new US-Cuba policy went on during the last months of Obama’s presidency.

One of the documents of principle presented to the 7<sup>th</sup> Party Congress maintains the traditional characteristic of how “the US and its allies struggle to conserve their positions of imperialist domination”, and follows up with the following response to new US-Cuban relations:

“In full exercise of independence and self-determination, in defence of sovereignty and national interests, we will respond to the challenges and opportunities arising from progress in relations with United States of America, in particular to any changes that may occur in the application of the economic, commercial and financial blockade”<sup>354</sup> (S/E).

Foreign minister and Politburo member Bruno Rodríguez, photographed with the same broad smile as President Obama when he received him in Havana one month earlier, now said at the Party Congress: “In this visit, there was a deep attack on our ideas, our history, our culture and our symbols”<sup>355</sup> (S/E).

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<sup>353</sup> <http://www.diariolasamericas.com/america-latina/diaz-canel-vuelve-el-ala-dura-del-regimen-cubano-n4129974>. When Díaz-Canel said “Teatro Latinoamericano”, he obviously meant “Estadio Latinoamericano”, where the two president were sitting together to watch a historic US-Cuban baseball match.

<sup>354</sup> *Conceptualización del modelo económico y social cubano de desarrollo socialista*, points 324 and 328, respectively of the original text presented to the Party Congress, reproduced in full in a *Granma* Supplement and sold on the street for 1 USD. These paragraphs were taken out of the final versions approved 15 months later (published in July 2017, ref. Indicator 8.1).

<sup>355</sup> *Granma*, 18.04.16.

On the other hand, his subordinate, the chief responsible for negotiations with the US (and newly elected member of the Central Committee), Josefina Vidal, said at a Conference in New York at the end of May: “the Obama visit to Cuba was an important impulse to advance the normalization process”.<sup>356</sup>

In spite of these attacks, President Obama continued his rapprochement policy towards Cuba as he approached the end of his administration, fall of 2016, within the brutal context of the Clinton-Trump presidential campaign. Three weeks before the presidential elections he issued a presidential decree assumingly with the intention of making his Cuba policy irreversible.<sup>357</sup> Ms Vidal, the chief negotiator, recognised the decree as a “significant step in the process towards the lifting of the blockade”: “For the first time in an official document of the US government, appears the recognition of Cuba’s independence, sovereignty and self-determination [...] [There is also a recognition], also for the first time of the Cuban government’s legitimacy”. Further down she notes: “It is made clear that the USA does not pretend to impose a new model on our country, and that it is up to the Cuban people to take its own decisions”.<sup>358</sup> (S/E)

The official media, however, traditionally controlled by the Ideological Department of the PCC, responded with stronger condemnation than ever of US imperialism and interference (*injerencia*) in Cuba’s internal affairs.<sup>359</sup> In preparation for the next annual UN General Assembly vote to reject the US Cuba embargo (where the US for the first

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<sup>356</sup> According to own notes (the author was present).

<sup>357</sup> “Obama moves to make Cuba policies ‘irreversible’”, in *Miami Herald*, 14.10.16  
<http://www.miamiherald.com/news/nation-world/world/americas/cuba/article108195527.html>

<sup>358</sup> Josefina Vidal in address to a student mobilization against the blockade at the University of Havana on 17 October 2016, reproduced *in extenso* in *Granma* 20.10.16 under the title: “President Obama is leaving, but the blockade remains”. Vidal’s speech and a long round of Q&A with the students, was printed in a special 12-page annex to *Granma* on this date, where also a translation to Spanish of President Obama’s decree was reproduced in full, with the following explanation at the end: “Granma is printing in bold those sections which it considers as ‘*injerencistas*’ (meddling in Cuba’s internal affairs) or remnants of the past policies between Cuba and the United States.” During the same week, Cuban official media ran a strong campaign against the US blockade, seen for instance in *Granma*’s 22 October printed edition running the full-space cover title: “Condemnation of a homicide and obsolete policy”.

<sup>359</sup> The most concrete object of protest was the so-called pro-democracy programmes (support to NGOs including Radio/TV Martí) which continued under Obama, probably as a politically necessary trade-off with his opponents in Congress that he shared the goal of democracy in Cuba. According to off-the-record remarks by Cuba handlers in State Department, seen by the author, they would be delighted if Congress would end the funding or repeal the programmes themselves by repealing Helms-Burton or its Section 109, which authorizes them.

time went to the extreme of abstaining from a resolution condemning its own policy), a popular mobilisation effort was launched against the US, trying to revive old anti-imperialist sentiments. A battle for ordinary Cubans' hearts and minds in the event of a possible complete lifting of the embargo after US elections (at that time generally expected to be won by anti-embargo candidate Hillary Clinton) seemed to be going on.

However, two weeks later, Donald J. Trump was elected as the new US President. Mr Trump has changed position on the US Cuba embargo time and again. In the 1990s, when his real estate business was in deep trouble, he must have been in a quite desperate mood when he had the crazy idea of setting up a Casino business in Havana. Later, he courted the anti-Castro Cubans in Miami for support. At the beginning of the Republican nomination process he was the only pre-candidate who expressed few problems with President Obama's normalisation process. But at the heat of the presidential race he once again wanted to distance himself from Hillary Clinton's approval of the Obama line, hoping to get the Cuban-American support by saying he would reverse the rapprochement towards Cuba.

Since the normalisation process began, US businesses took several steps towards the Cuban market, within the limited space offered as the embargo was still in place, made possible by President Obama's executive orders and regulatory changes: A Miami-based cruise line began sailing to Cuban ports; US telecom companies established roaming agreements with Cuba; commercial airlines started flying from US cities to Cuba; Marriott—through its acquisition of Starwood—entered into a joint venture to manage some Cuban hotels; and Cuba became Airbnb's fastest growing market. A pharmaceutical joint venture for clinical trials in the United States was prepared; other US companies were preparing deals with Cuba; and travel to the island by Americans citizens expanded rapidly.

On the eve of President Trump's inauguration, Cuba and the United States signed an agreement to cooperate in the fight against terrorism, drug trafficking, money laundering and other international criminal activities. Mr Obama also made another concession to Cuba by ending the longstanding 'wet foot, dry foot' policy that had allowed automatic permission for Cubans to arrive in the United States without a visa.

This last-minute measure was taken against the backdrop of Mr Trump's general anti-immigration attitudes, thus handing him an early dilemma vis-à-vis the staunchest anti-Castro Cuban-Americans who would have liked the free entry of Cuban migrants to have been maintained.

The warming of relations with the US obviously made it difficult for the Cuban leadership to maintain the US imperialism enemy image in front of its population, at least until President Trump handed them another opportunity to keep it alive. In January 2017, at the biggest entertainment theatre in Havana, *Teatro Karl Marx*, the four favourite Cuban humourists presented the show *Ésta es otra historia*. By far the biggest applause and the loudest laughter was released by the following comment from *El Médico*, a clumsy figure representing the Party and the System among the four figures: "What a difficulty we find ourselves in now, that our main enemy is disappearing. I think the only solution is that we find another enemy on whom to blame our problems!"<sup>360</sup> (S/E)

President Trump waited half a year after taking office, before he announced a new Cuba policy, reflecting the fact that Cuba was far down on his foreign policy agenda: in fact it was probably much more relevant to his electoral-tactical considerations. When he finally delivered his first Cuba speech, loaded with heavy anti-Castro confrontation rhetoric, it was in Miami to an enthusiastic audience of Cuban-Americans, in a show of gratitude to what he apparently—but erroneously—believed was their decisive role in winning Florida as part of his election triumph.<sup>361</sup>

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<sup>360</sup> Recollection from memory (no available manuscript), Teatro Karl Marx, Havana, Sunday 22.01.16 (second performance at 9 pm). During three weeks in January/February, there were a total of 18 performances, all sold out, with a total number of spectators above 50,000.

<sup>361</sup> "Trump outlines new Cuba policy in speech in Miami's Little Havana", *USA Today*, 16.06.17: <https://www.usatoday.com/story/news/politics/2017/06/16/donald-trump-cuba-miami/102917748/> Trump claimed in this speech that the Cuban-American community "supported us by tremendous margins" in the presidential elections. This is simply wrong: Post-election analyses showed that Clinton actually won the Cuban-dominated Miami-Dade district over Trump by 290,000 votes (63.7 vs. 34.1%), with wide margins in the most heavily Cuban-American neighbourhoods. According to a [2016 Cuba poll](#) by Florida International University, with a sample of 743 Cuban-American voters in Miami-Dade, nearly 70 percent said they support the US decision to open diplomatic relations with Cuba and 63 percent oppose the US embargo of the island nation. ("Was vote by Miami's Cuban community a referendum on Obama's policy?", *Miami Herald* 16.12.16: <http://www.miamiherald.com/news/politics-government/election/article121426379.html#storylink=cpy> ). Also see <https://www.npr.org/2016/11/08/501084734/florida-2016-presidential-and-state-election-results>

When analysing Trump's Cuba speech in Miami,<sup>362</sup> one crucial question is this: did he return to the pre-Obama policy of promoting regime change in Cuba? The wording in the speech offers no clear response to that. Phrases like "with God's help, a free Cuba is what we will soon achieve", and "America will expose the crimes of the Castro regime and stand with the Cuban people in their struggle for freedom" may point in that direction, and likewise his salute to the Bay of Pigs Veterans. But the following phrase does not promise any direct regime-changing intervention: "We all accept that all nations have the right to chart their own paths—and I'm certainly a very big believer in that—so we will respect Cuban sovereignty". Trump's general preference for more international isolationism may in this case be a comfort to Cuba.

*The conclusion – at least so far - seems to be that President Trump is full of anti-Castro rhetoric, but stops short of designing another regime change strategy.*

The more concrete policy revisions were announced in November 2017.<sup>363</sup> Most relevant among them were the following measures:

- A prohibition on engaging in any "direct financial transactions" with businesses controlled by the Cuban military or security forces if they "disproportionately benefit" those forces. This is a potentially significant prohibition hitting 20% of the Cuban economy, particularly dominant in the tourist sector but also in banking and port management. A list of prohibited enterprises includes 180 entities, including 84 hotels. The new regulations exempt existing contracts from the prohibition on doing business with military-linked enterprises.
- After two years of restored diplomatic ties, new US regulations on Cuba are bringing back a number of travel, financial and trade restrictions. The goal of these restrictions, according to President Trump, is to starve the Cuban government of money from travel, remittances and commercial ties. But the immediate victims of the new sanctions will be Cuban families who depend on remittances to survive, the struggling Cuban private sector, as well as US

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<sup>362</sup> <https://www.whitehouse.gov/briefings-statements/remarks-president-trump-policy-united-states-towards-cuba/>

<sup>363</sup> [https://www.treasury.gov/resource-center/sanctions/Programs/Documents/cuba\\_faqs\\_new.pdf](https://www.treasury.gov/resource-center/sanctions/Programs/Documents/cuba_faqs_new.pdf)

residents whose right to travel is curtailed—thereby also affecting private services offered to tourists. In direct contradiction of the interest of private entrepreneurs was the new rule that individual private trips were particularly restricted. As a consequence, private restaurants and lodging establishments lost disproportionately more business in 2017.<sup>364</sup>

- The new regulations also ban remittances from US nationals to "prohibited officials of the Government of Cuba", including all employees of the Ministry of the Revolutionary Armed Forces and Ministry of the Interior, thousands of Cubans working voluntarily for local Committees for the Defence of the Revolution, as well as senior government and party officials. The new definition may potentially encompass hundreds of thousands of people, since the armed forces manage a significant number of commercial enterprises, again especially in the fast-growing tourism sector.

While President Trump chose not to follow the pressure from the most confrontational Cuban-American lobby to break off diplomatic relations, a mysterious claim of injuries brought upon US diplomats in Havana, allegedly caused by acoustic signals affecting their telephone communications,<sup>365</sup> led to a 60% reduction of diplomatic staff in Havana and also the expulsion of 15 Cuban diplomats in Washington. This came as a serious additional blow to bilateral relations, leading to intensified rhetoric exchanges.

President Trump said in his speech at the United Nations (September 2017) that sanctions would not be lifted until the Caribbean island restores democracy and capitalism. Cuba's First Vice President Díaz-Canel responded: "Cuba will not make concessions to its sovereignty and independence, nor negotiate its principles or accept the imposition of conditions [...] The changes needed in Cuba will solely be carried out by the Cuban people" (S/E).<sup>366</sup>

While this may have sounded as very confrontational anti-imperialist Cuban language, it is actually the same principle as the one repeatedly expressed by the Obama administration: it is up to the Cuban people to choose its political system. Perhaps

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<sup>364</sup> "Trump contra los emprendedores cubanos", *El Nuevo Herald*, 19.01.18.

<sup>365</sup> "Mystery of sonic weapon attacks at US embassy in Cuba deepens", *The Guardian*, 14.09.17: <https://www.theguardian.com/world/2017/sep/14/mystery-of-sonic-weapon-attacks-at-us-embassy-in-cuba-deepens>

<sup>366</sup> *Reuters*, Havana (Marc Frank), 8.10.17.

somebody in Havana realised which historic opportunity they had lost by turning against President Obama after his Havana visit.

The hypothesis that steps towards normalisation of relations to the US would lead to a relaxation of the guard and the bunker mentality<sup>367</sup> in Cuba, removing the justification of missing civil liberties, has so far been proven wrong. Fidel Castro seemed to undermine the rapprochement from the very beginning, followed up by increased rather than decreased hardliner attacks on US imperialism, claiming that ex-President Obama was practicing the same strategy only with new and even insidious tactics. This Cuban rhetoric and the narrowing of the space for civil society (ref. Challenge 6), reaching a climax right before the 2016 US elections that were generally expected to be won by the strongly anti-embargo Hillary Clinton, can hardly be interpreted as anything but a tremendous snub to Mr Obama's extended olive branch and a badly veiled concern for the loss of anti-democracy justifications, cleverly picked up by President Trump.<sup>368</sup>

With President Trump's new diplomacy vis-à-vis North Korea, one may of course ask whether a new Cuba diplomacy might also appear on his agenda. It is difficult to see what that would entail, short of demanding that the Cuban side 'cries uncle' and gives up all historic principles of national sovereignty. Cuba has no nuclear bombs to put on the negotiation table – they were removed back in 1961. What is pretty clear is that any diplomatic move made by President Obama are considered as "bad deals" by President Trump. So, a new Cuba – US negotiation would have to start from a completely different angle as long as Mr. Trump is the resident of the White House, and as long as he uses Miami Cubans like Senator Marco Rubio as his diplomatic stand-ins in the handling of Cuba.

### **Indicator 5.3: Strengthened ties to Latin America – isolation of US embargo policy?**

Latin America took almost a U-turn to the left during the first decade of the 21<sup>st</sup> century, providing Cuba with much friendlier regional relations, ranging from direct partnership through the ALBA alliance (Venezuela, Ecuador, Bolivia, Nicaragua and some smaller Caribbean nations), significant political and economic ties to countries like Brazil and

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<sup>367</sup> Defined by Merriam Webster as follows: "a state of mind especially among members of a group that is characterized by chauvinistic defensiveness and self-righteous intolerance of criticism".

<sup>368</sup> This argument has been further elaborated in Bye 2016.

Argentina, and also improved relations with the rest of the continent. The other side of the same coin was that US influence in Latin America fell significantly, leading to the unanimous OAS vote in 2009 to repeal the nearly half-century ban on Cuban membership in the regional organisation.<sup>369</sup> The US was the only country in the western hemisphere without diplomatic relations with Cuba; and several new regional organisations excluding the US but including Cuba emerged, with CELAC (the Community of Latin American and Caribbean States), established in 2010 as a potential substitute for the OAS: so to say an ‘OAS without the US’.

The political economy of Latin America in the early days of Raúl’s reform era offered a very interesting context for the economic reforms in Cuba: market economy with increasing state intervention and the application of Keynesian regulatory and anti-cyclical policies, and also vibrant civil societies. Politically, Latin America was basically ruled by democratic and popularly elected governments. Growth rates were generally on competitive international levels, with a quite positive re-distribution effect over the first decade and a half of the 21<sup>st</sup> century. This was a regional context within which Cuba might—much easier than ever since the revolution—find an echo for economic and even political transformations, without giving up on its basic revolutionary visions.

All these characteristics ought to be attractive to the new generation of Cuban leaders looking for a future Cuban model of development. They could see that their political friends being repeatedly re-elected and perhaps observed that their legitimacy was more sustainable than the one they themselves might imagine to enjoy in a post-Castro Cuba. We were therefore observing that *Cuba was increasingly approaching a Latin American normalcy*, with prospects for some degree of democratic opening with the maintenance of significant authoritarian aspects (see Bye 2014<sup>i</sup>).

At the same time, however, the new Latin American left exposed evident signs of authoritarianism and democratic deficiencies e.g. in terms of a non-independent judiciary, restrictions on press freedom and the space for civil society including on quite friendly international NGOs in several of the Latin American democracies (both ALBA

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<sup>369</sup> But Cuba consistently refused this invitation to rejoin the OAS.

countries and others).<sup>370</sup> It was quite illustrative that the Inter-American Commission on Human Rights and even the Inter-American Court of Human Rights, institutions that had been fundamental in the defence of movements bringing the leftist governments to power, were increasingly questioned by many of the same governments as the Commission started to bring issues against them (even including Brazil during the Presidency of Dilma Rousseff).<sup>371</sup> What this meant in practice was that the democratic-authoritarian dichotomy simply became more blurred. Cuba—when looking for its own development path—could find many role models both on its own continent and elsewhere with formal democratic systems, but with increasing restrictions in civil and political rights.

When Cuba showed no interest in returning to the OAS, from which it was so dramatically suspended in 1962, it was partly due to pride and partly because the OAS was perceived to be less and less relevant compared to the many new and parallel regional organisations that were emerging. The most important for Cuba was CELAC, without proper resources but with a symbolic significance. At the end of 2012, the conservative Chilean president Sebastián Piñera handed over the 2013 one-year CELAC Presidency to no other than Cuba's Raúl Castro, in a telling show of political support from a Latin America where the US was clearly losing its dominance.

In hindsight, it may very well be that the Cuban leadership may regret not to have taken some different strategic decisions during the height of its diplomatic success vis-à-vis both the US and Latin America, for instance by letting pragmatism overrule ideology and re-join the OAS, approaching the IDB and the international financial institutions, and accept the international market economy with far easier access to foreign investments as a framework for the rehabilitation of its own economy. By comparing with how such key decisions contributed to Vietnam's economic success story (ref. 3.9.5), a historic opportunity might appear to have been lost here.

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<sup>370</sup> A very serious example of this is the December 2013 decision in Bolivia to expel the Danish NGO IBIS, which has been working in support of social movements very close to President Morales since long before he became President, apparently because some of their national partners have become more critical to him.

<sup>371</sup> The Inter-American Court ordered the halt of a gigantic dam construction in Brazil due to its expected negative effects on the environment and the indigenous population.

The difference with Vietnam is of course also explained by fundamental geostrategic differences. Both countries received US President Obama on official visit in 2016 (in Vietnam 23-25 May). The setting was much of the same: a careful US President trying to balance correct bilateral talks with meetings with civil society and opposition. Apparently, there were more restrictions in this regard in Vietnam than in Cuba, with a number of individuals from the opposition being prevented from attending a meeting with the President. But, as Obama was still prevented from lifting the *trade embargo* against Cuba, in Vietnam he could go much further and lift the *arms embargo*. The contrast became even starker when President Trump visited Vietnam in November 2017 with the words "today, we are no longer enemies, we are friends",<sup>372</sup> while Cuba is definitely back in his enemy camp. In March 2018, for the first time since the end of the Vietnam War, a US Navy aircraft carrier (USS Carl Vinson) paid a historical visit to the country, with the obvious purpose of countering China's alleged aggression in the South China Sea.<sup>373</sup> What this illustrates is the fundamental difference between Cuba's and Vietnam's geostrategic position vis-à-vis the US: Vietnam may play on its neighbourhood conflict with and hegemonic inferiority to China in order to gain a room of manoeuvre towards the US—which is completely unavailable to Cuba.

The crises in Venezuela and Brazil and political shifts to the right in countries like Argentina, Peru and Chile meant that Cuba from around 2016 no longer enjoyed the same cosy relations to the region. The loss of economic support from Venezuela and generous investments from Brazil began to deal serious blows to Cuba's economy.

The Venezuela-Cuba barter trade exchange of oil for professional services has been a lifeline for the Cuban economy since the early years of Chávez presidency. Venezuela's crisis is evidently dealing a major blow to Cuba's economy (ref. Indicators 3.3 and 3.7).

During the governments of Lula and Rousseff, Brazil was in the position to become Cuba's main source of FDI, basically financing the construction of the Mariel harbour and export zone with investments of around 850 million USD. Since 2016, this source

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<sup>372</sup> CNN, 10.11.17.

<sup>373</sup> <https://edition.cnn.com/2018/03/03/asia/vietnam-us-uss-vinson-intl/index.html>

has dried up, further complicated by the Odebrecht corruption scandal that affected Cuba like so many other Latin American governments.<sup>374</sup>

It remains to be fully seen how Cuba will react to the new regional situation with the left losing hegemony in Latin America, the increasing authoritarianism on the left with efforts to extend executive mandates beyond what used to be regulated by the Constitutions (ref. countries like Bolivia and Nicaragua—but different from Ecuador), the loss of vital economic partnerships and the new geopolitical situation more in general.

Another factor to bear in mind is President Trump's conflict with Mexico and Latinos, and his threats against Venezuela including a military option. This may once again be leading to a loss of US legitimacy in Latin America, with possible new elements to bear in mind for Cuba's external relations. When ex-State Secretary Tillerson made his five-country trip to Latin America in February 2018, he was met with scepticism and negative popular opinions similar to what the Bush administration experienced ten years earlier, even before Trump further strengthened the hawkish dominance of his administration. The April 2018 Summit of the Americas, where there had been a certain expectation that Castro might shake hands with Trump less than a week before leaving the presidency, ended with none of them attending and clear signs of another left-right confrontation in Latin America with Cuba again raising its anti-imperialist rhetoric. During the 2018 Summit, and clearly confirmed by the Latin American reactions to the hand-over of the Presidency from Castro to Díaz-Canel, Cuba was losing much of the political and diplomatic capital it had been constructing in Latin America over the recent years. Only a minority of the Latin American presidents extended congratulation to the new Cuban president. The declaration of the OAS Secretary General Almagro was quite illustrative of the new climate. Calling the "ascension" of Díaz-Canel an "illegitimate transition" of the Cuban "dictatorship", he went on to say:

"The presidential succession that we have been witnessing in Cuba is an intended perpetuation of an autocratic regime of a family dynasty. That is called dictatorship."<sup>375</sup>

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<sup>374</sup> <http://www.bbc.com/news/business-39194395>

<sup>375</sup> <https://www.nodal.am/2018/04/comunicado-de-luis-almagro-secretario-de-la-oea-sobre-cuba-una-transicion-ilegitima/>

The cold war of the Americas was not yet over, after all. In spite of Latin America's indignation with US President Trump, it seemed that Cuba again was the odd man out on the continent, again left in the cold.

#### **Indicator 5.4: Improved relations to the rest of the world?**

Cuba's relations to the *European Union* had for more than 20 years (since 1996) been seriously limited by the so-called 'Common Position', approved after heavy pressure from the then staunchly anti-Castro Spanish Prime Minister José Aznar. This measure made the normalisation of economic and political links dependent on democratisation in Cuba.

Negotiations for normalisation of EU-Cuba relations had been going on since before the US-Cuban rapprochement was announced. Then, right before the Obama visit to Havana, the EU and Cuba signed an agreement in Havana to establish normal relations, bringing Cuba further into the international fold and paving the way for full economic cooperation with the 28-member bloc. Cuba was the only country in Latin America and the Caribbean without such an agreement with the EU.

Bilaterally, most of the major EU countries had maintained normal economic and political relations with Cuba, and also voting consistently in favour of the annual UN condemnation of the US embargo. Still, this lifting of the 'Common Position' was important for Cuba.<sup>376</sup>

Canada may have been the NATO country with closest cooperation with Cuba, and also by far the country sending most tourists there.

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<sup>376</sup> EU's top diplomat Federica Mogherini visited Havana in January 2018, signalling that the EU was ready to fill the vacuum left behind by President Trump's reversal of US rapprochement towards Cuba. She stated that "The EU has become Cuba's first trade partner and was already the first in investment and development cooperation ... which means it is possible to increase the level of economic relations and investments". She said cooperation agreements in renewable energy, sustainable agriculture, culture and expertise valued at 49 million euros (\$59.1 million) would be signed shortly, and that a delegation from the European Investment Bank would visit Cuba later in January. ("EU diplomat meets Cuban President at end of visit", *Reuters, Havana*, 5.01.18).

As Venezuela increasingly was obliged to reduce its economic support due to its economic crisis, it was particularly Russia and China that moved in to partially, but far from entirely, compensate the political and economic relations.<sup>377</sup>

*Russia* never cut off the Cuban relations from the Soviet era completely, but it was only during the later years of the Raúl presidency that the two countries started a return to what may resemble a strategic alliance. Vladimir Putin visited Cuba in 2014; and Raúl Castro went to Moscow the following year. The huge Cuban debt was mostly forgiven while the last 10% was converted to potential Russian investments. What Cuba most of all is seeking from Russia is probably oil deliveries that may partly compensate for drastically falling shipments from Venezuela—a life line that may be in danger of being lost completely if the crisis in Venezuela deepens further. So far (April 2018) the amount of oil received from Russia is but a trifle of what is needed, but the Cubans may be hoping for a further increase.<sup>378</sup> Russia greeted the new Cuban President with a declaration that the country is prepared to increase the energy collaboration, notable in offshore exploration, as a counter-measure to the US embargo.<sup>379</sup> While still being a relatively moderate but growing trade partner, Russia is investing in development of infrastructure, energy, aviation, and telecom. Most importantly, the military and intelligence cooperation—once the bedrock of Cuban security and of great concern to the US—is being geared up, with Russia now delivering logistics and software to modernise the Cuban military, and even rethinking its 2002 decision to close the huge Lourdes intelligence base.

The common interests between Russia and Cuba are no doubt determined by their shared worry about US foreign policy. Mr Putin's hope for improved relations to the US after the Trump election does not seem to materialise. He has no problem sharing Cuba's concern for what he calls Mr Trump's 'Cold War-rhetoric' against the island, just

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<sup>377</sup> In a speech prior to his Latin America trip in February 2018, Secretary of State Tillerson warned about Latin American countries' "excessive reliance on economic ties with China", and Russia's sale of arms and military equipment to "unfriendly governments" (obviously including Cuba), ironically (in the perspective of US historical policies) saying "the region did not need new imperial powers": <https://www.reuters.com/article/us-usa-diplomacy-latam-china/latin-america-should-not-rely-on-china-u-s-secretary-of-state-tillerson-idUSKBN1FL6D5>

<sup>378</sup> Algeria reported to have delivered 2.1 million barrels in 2017, with the intention of doing the same in 2018. This represents approximately 20 days' needs of oil imports. (*Reuters*, 11.01.18).

<sup>379</sup> "Rusia abre sus brazos al nuevo presidente Cubano", *Redacción Sputnik*, 19.04.18.

as Cuba supports Russia's controversial policies in Ukraine and Syria and its general conflict with the West. Perhaps more important than seeking new strategic military-security ties with a Cuba that no more has global ambitions, Mr Putin's interest may rather be to retaliate what he perceives as the US and NATO mingling in Russia's neighbourhood, and the new Cold War relations taking hold during March-April 2018.

*China* has during most of the Raúl era been Cuba's second trading partner—number one in provision of non-petroleum goods—with exports fluctuating between 1-1.5 billion USD/year. Particularly after President Xi's visit there in 2014, there have been strong expectations from the Cuban side that China would provide much of critically needed foreign direct investments. Plenty of investment agreements were signed when Chinese Prime Minister Li Keqiang visited the country in 2016, including for a car assembly plant, a new nickel processing complex, biotechnology collaboration, etc. Very little of this has materialised, however, and China is still lagging behind Spain, Canada and Brazil as investor nations in Cuba. Cuba is not among the top Latin American countries for Chinese investments, probably for lack of Chinese confidence in Cuba's economic reform process and its payment capacity.<sup>380</sup> It will probably take a decision to follow the Chinese and Vietnamese style of deeper pro-market reforms, before China is willing to make Cuba a priority investment country.

Chinese exports to Cuba peaked at about 2 billion USD in 2015 but were expected to fall sharply (by almost one third) back to little more than 1 billion in 2017. The reason for this is obviously Cuba's serious payment problems,<sup>381</sup> showing clearly that China has no intention of playing a solidarity game with Cuba beyond its own pragmatic economic interests. This contrasts with an official Cuban reading of the bilateral relations as being at an "all-time high" in mid-2017.<sup>382</sup> As such, the drastic reduction of Chinese exports is an indication of Cuba's increasingly serious economic situation.

There has also been exchange of high-level military visits, including the Chinese defence minister visiting in March 2017. Little information is available about concrete follow-up

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<sup>380</sup> "China-Cuba Relations: Assessing US Stakes", *The Diplomat*, 24.12.16 (i.a. based on interview with Emilio Morales).

<sup>381</sup> "China's exports to Cuba slump as island's cash crunch deepens"; *Reuters Havana* (Marc Frank) 6.12.17.

<sup>382</sup> "Cuba-China relations at all-time high", *Granma (English edition)*, 2.06.17.

of verbal agreements to strengthen military cooperation. But just as in the case of Russia, such declarations are probably meant to send a signal of caution to the US.

**Indicator 5.5: What international *Zeitgeist* is framing Cuba when entering the critical juncture?**

In Chapter 3.12 we discussed the importance of the external political environment for countries in transformation, the emergence of alternative 'world blocs' or role models, and the concepts of international and regional *zeitgeist* or *diffusion*. The *zeitgeist* surrounding Cuba when looking for role models in today's world is clearly more illiberal than liberal.

We have over the last decade, coinciding with the *raúlita regime*, witnessed a series of quite serious crises in international capitalism, which for that reason has lost much of its magical attraction among countries and political actors in the South. Many Cubans may even be asking themselves whether Fidel in the end will be proven right: that capitalism has no future, and many would possibly also agree that 'authoritarian capitalism' (or 'socialist market economy') as practiced in China and Vietnam in 2018 seems to offer a better alternative.

Liberal democracy, at the same time, is in a critical shape. Cuba can see that many of its international partners take relatively little interest in some of the liberal-democratic ideals that were believed to become universal after the fall of the Soviet system. One thing is that two role models like China and Vietnam have quite similar political systems to that of Cuba. Also worth noting is the fact that Russia and many of the former Soviet-allied countries in Eastern Europe and Central Asia are so clearly moving in a more authoritarian direction, with liberal values seen as a serious threat to national values and national security. Putin's Russia may seem to have become a default setting in terms of international role models for countries and populist political movements on the right and left alike, at odds with liberal western values. Cuba is no exception here.

In the US, the deep inter-institutional crisis and the 2016 election campaign—let alone the unexpected outcome of those elections—do not exactly add to the attraction of

western-style democracy for a country like Cuba. Mounk (2018) makes a comparison between *illiberal democracies* in countries like Hungary and Poland and *undemocratic liberalism* emerging in Western Europe and the US. In the latter cases, he claims, people have maintained their formal rights, but the real power holders are “billionaires and bureaucrats” along with international institutions. This is what has brought about the populist reactions, as symptoms of the crisis of traditional democracy, and that in the worst of cases may represent the beginning of a populist era taking the place of democracy as the political system we in the West have taken for granted, according to Mounk.

And perhaps even more important, international terrorism has obliged western democracies to clamp down on a string of liberal freedoms, strengthened the policing and surveillance structures and in general increased authoritarian aspects of our societies, also curbing criticism of authoritarian regimes that form part of the international anti-terrorist alliance. Turkey may be an example of this. The whole experience with ‘the Arab spring’, starting with popular uprising and ending with terrible civil wars in many countries, does not at all serve as an inspiration for rebellion in Cuba. Television images of chaos in many Arab nations are hardly an incentive to initiate a similar social experiment. The stability that Cubans after all are enjoying is for most people clearly preferable to the fears of heading towards a failed state. These different global trends may also contribute to help the police and intelligence forces maintain a powerful hand in Cuba.

Compared to the repeated terrorist threats to the way of life we are accustomed to in western societies, Cuba stands out as a haven of safety. The refugee challenges in Europe and in the US have also weakened certain human rights standards that we previously took for granted in western societies.

In Cuba’s own region, Latin America, the political pendulum has increasingly been swinging towards neo-authoritarianism. Given the Cuban elite’s largely western socio-cultural heritage and the success of capitalist democracy that for several years dominated in many Latin American countries such as Brazil, a similar style of

government could for a while seem to represent a diffusion effect in the case of Cuba.<sup>383</sup> But soon it became more probable that neo-authoritarian trends in Latin America, as in many other parts of the world, would rather work against a liberal market model in Cuba.

In his study of the Russian and Eastern European transformation process, Kornai (1992) put heavy emphasis on the *outside example and the possible domino effect*, at that time dominated by the so-called *third wave of democracy*. This wave is definitely over, and a similar impact on Cuban transformation cannot be expected.

Kornai is also discussing how the gradual opening towards the capitalist world, including through more widespread personal and professional relations, contributed to the Russian and East European transformation to market economy. To a certain extent a similar trend may be observed in Cuba. With tourism exploding from the 1990s, such contacts became an everyday occurrence for people in Havana and other tourist destinations, but also elsewhere in the country. With the abolishment of exit visa in 2013, Cubans got an unprecedented opportunity to travel themselves. There are increasing international intellectual and business contacts, including with the US. The normalisation with the northern neighbour (even if it is partly rolled back by President Trump), a new agreement with the EU, and a new regime for foreign direct investment, are all elements working in the same direction. But again the crisis of the global market economy may cool down enthusiasm, and the concern for political impact of a capitalist economy may partly explain the new efforts to slow down market reforms in Cuba.

On one point there is little change: the party leadership protects itself very carefully against contacts with western regimes. Apart from official state and party visits, there is no mingling with outsiders. Even diplomats in Cuba have very limited access to the top leadership of state and party. Different from Fidel, top leaders hardly ever give press interviews. It is mostly a mystery what the new generation of Cuban leaders are thinking about the country's future, apart from official statements. Cuba's leadership is more protected from exposure to the outside world, and they stand out as more monolithic,

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<sup>383</sup> Compare to what Gainsborough (2010) described as the authoritarian regional factors impacting on the transition in Vietnam.

than leaders in almost any other country (ref. the 'autism' phenomenon discussed under Indicator 6.2).

On the opposite side of the *zeitgeist equation*, there is a growing need to come to accommodation with the institutions ruling the global economy. In a situation of returning economic hardships (as observed from second half 2016 onwards), the country will more than ever need foreign direct investments (FDI) in order to keep its economy afloat. As we have seen (Challenge 3), it has not been sufficient to reform the FDI regime in order to lure foreign investors to the country. For that to happen, a complete turnaround of Cuba's rejection of the international financial institutions (IFIs), seen as the ultimate symbols of international capitalism, will be required. Without access to these, the massive inflow of FDI that the government recognises as a *sine qua non* for economic recovery will not occur, and the long-delayed monetary unification will represent an almost existential challenge. Continued ideological rejection of the IFIs is becoming more and more of a dead-end street for economic rehabilitation. Like in China and Vietnam, there is no alternative to international economic pragmatism. As we have seen, even Chinese investments in Cuba are held back due to this anti-imperialist stubbornness.

## Chapter 9: The evolving political arena

### Challenge 6: Emergence of a more pluralist civil, academic and media society

#### Indicator 6.1: Increasing civil society pluralism.

Linz and Stepan's define *civil society*, their second transition arena (after economic society), as self-organised groups, movements and individuals that operate in relative autonomy of the state. A common assumption is that reinforcement of an independent economic society will also contribute to a strengthened civil society, and probably vice-versa. There is no doubt that such a causal relation has occurred in Cuba during the reform period we study here. Although at least up until 2015 there has been a trend to permit a wider space for civil society activity and debate, civil society in Cuba is of course still weak and vulnerable, just as the economic society is.

Let us first look at the *constitutional basis for restrictions* to civil society freedom in Cuba.<sup>384</sup>

The Cuban Constitution of 1976, in its Article 1, upholds "the enjoyment of political liberty" as one of its founding principles, and Article 9 "guarantees the full liberty and dignity of man, the enjoyment of his rights, the exercise and fulfilment of his duties and the integral development of his personality".

Article 7 goes on to say:

"The Cuban socialist State recognises and stimulates the mass and social organisations, emerged in the historical process of the struggles of our people, gathering in their midst the

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<sup>384</sup> All quotes from the Constitution are translated by the author (S/E).

various sectors of the population, representing their specific interests and involving them in the tasks of building, consolidating and defending the socialist society”.<sup>385</sup>

Article 53 recognises “freedom of word and press”—but “in accordance with the aims of the socialist society”, adding: “Material conditions for the exercise (of that liberty) are provided by the fact that the press, radio, television, cinema, and other mass media are state or social property and can never be private property”.

Article 54 recognises the “right to reunion, manifestation and association”, and Article 55 “liberty of consciousness and religion”.

These freedoms for individuals and organisations, however, must be understood as part of “the historical process” of struggles leading to a “socialist workers’ state”, as also stated in Article 1. But most importantly, as emphasised by Cuban constitutionalists, they are subordinated to the principle of “*la voluntad soberana de todo el pueblo*”, “the sovereign will of all the people” (Article 69 about *Asamblea Nacional del Poder Popular*). What this means is that the will of the people is one and united, expressed through “Cuba’s Communist Party [...], the organised vanguard of the Cuban nation” and “the highest leading force of society and the State” (Article 5).

Or, to quote one of Fidel Castro’s key phrases about the extent and limit of freedoms: “Within the Revolution: everything—against the revolution: nothing”.

It seems that Raúl Castro, as soon as he took over as Cuba’s formal leader, had a serious intention to do something about these restrictions. The two basic human rights treaties (ICCPR and ICESCR) were *signed*, but announcements about their *ratification* were never followed up.<sup>386</sup>

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<sup>385</sup> It is interesting to note that Article 7 of the Constitution, “recognizing” and “stimulating” “social organizations” representing “specific interests” of the “various sectors on the population”, if permitted to be free of State and Party control, would take the country a long way towards establishing what we termed an ‘economic society’ under Challenge 4. It is important to remember that the Constitution was formulated by a very different society, before economic interests became so differentiated as they are today.

<sup>386</sup> In July, 2017, The Commission on international relations of the Cuban *Asamblea Nacional* made their observations to a declaration from the European Parliament about their concern about human rights in

What may explain this sequence of events?<sup>387</sup> According to two observers, the ratification of international human rights covenants was part of a political agenda Raúl Castro brought with him when he took over, along with normalisation of relations with the Church and with the US, economic reforms and re-negotiation of the country's foreign debt. The first issue he launched was human rights ratification. It was immediately met by mobilisation for faster and more general political reforms from civil society forces, giving the opportunity to hardliners in the Party (particularly the Ideological Department) to start a counter-mobilisation by attacking human rights defenders as counter-revolutionary, thus obliging Raúl to drop this intention. The rest of this agenda has been quite systematically implemented—but always met with resistance and watered out by the same forces.<sup>388</sup>

In spite of the fact that the international human rights law has never been properly domesticated in Cuba, there has been an interesting movement towards an expanded space for civil society during the years since Raúl Castro took over as head of state, very closely linked to the economic reforms we are studying. The trend towards permitting a wider space for civil society activity and debate, can be seen as an aspect of a general redefinition of citizen-state relationship that follows from the fact that the state has allowed more space for private economic activity, what we refer to as a *new social contract between the state and its citizens*. This trend, however, has not manifested itself without resistance, leading to reverse movements particularly from 2016.

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Cuba when endorsing The Political Dialogue and Cooperation Agreement between the EU and Cuba: The concerns were called "unnecessary and interfering": "We do not recognize any right for the European Parliament to address issues about which the Cuban people has exclusive responsibility, a people that continues building a sovereign, independent, socialist, democratic, prosperous and sustainable Nation" (S/E). The message is clear: Human rights in Cuba are not the business of any foreign institution. The variety of documentation submitted to the 2018 Universal Periodic Review of Cuba (under the UN Human Rights Council) offers a good cross section of assessments about the human rights situation in Cuba: <https://documents-dds-ny.un.org/doc/UNDOC/GEN/G18/056/17/PDF/G1805617.pdf?OpenElement> ; <https://documents-dds-ny.un.org/doc/UNDOC/GEN/G18/066/23/PDF/G1806623.pdf?OpenElement> ; <https://documents-dds-ny.un.org/doc/UNDOC/GEN/G18/060/00/PDF/G1806000.pdf?OpenElement>

<sup>387</sup> One may speculate that the motivation for ratification of the basic human rights treaties was related to Cuba's strong interest in the membership of the UN Human Rights Council. Cuba has succeeded to sit almost continuously on this body since it was re-organised in 2006 with a strong appeal that members should ratify basic treaties. But Cuba managed to maintain this position without ratifying the treaties, and has since belonged to a group of countries repeatedly accused by most international human rights organisations for spoiling an active human rights advocacy within the Council.

<sup>388</sup> Interview with Roberto Veiga and Lenier Gonzales, February 2016.

Two aspects of the changing Cuban society have impacted on the civil society space more than others: the travel and migration law that came into effect in 2013, and the informatics and telecommunication revolution that finally also reached Cuba.

The new *travel and migration law* that was made effective from January 2013 was one of the real game-changers for people's individual freedom in Cuba since the 1959 revolution. People no longer needed the exit visa, and a decision to travel abroad and see other countries—a dream not least for young Cubans—was from now fully possible without taking the terrible definitive decision of leaving the motherland behind by asking for *la salida definitiva* (“definitive exit”). Suddenly, Cubans could travel abroad and return whenever they wanted (normally within a time limit of two years). It became quite common for young Cubans to go to Miami, find a job there, and return to visit their family in Havana several times a year, of course conditioned by the economic means to do so. Even political dissenters now had this right and used it. One of the consequences of this was the emergence of what we may call an ‘opposition diplomacy’: Cuban dissenters travelling the world to protest against human rights violations in Cuba, gathering support and even financial resources for their case and then returning to Cuba most often without the harassment they had normally been exposed to before (until they engaged in what was still seen as illegal political activity *inside* Cuba). Two examples of this are quite telling: the opposition blogger Yoani Sanchez was able to tour a larger number of countries in Latin America, Europe and the US in 2013, raising sufficient funds to set up an independent, and gradually quite high-level quality internet daily in Cuba (*14ymedio*). Even though it is still blocked from being legally accessed in the country, it is emerging as a prominent source of alternative journalism. The second example is from the Americas Summit in Panama in April 2015, when Presidents Castro and Obama had their first face-to-face meeting, when a sizeable group of Cuban dissenters had a very tough confrontation with regime supporters in the streets of Panama, and afterwards returned to Cuba without being penalised.

As part of the shrinking space towards the end of the Raúl Castro era, however, persons identified with opposition groups (more and more generically called “counter-revolutionaries”) experienced increasing travel restrictions. One example was when two farmers without any penal record were stopped from travelling to Florida in February 2018 to take part in a seminar organised by the think-tank *Centro de Estudios*

*Convivencia*, with the only oral (no written) explanation that the seminar was “unrelated to the Government” (“*no es afín al Gobierno*”) and that they appeared as “regulated” on a national ID system (SUIN). Such episodes seem to have become part of a general pattern in 2018, also with reference to “bad behaviour” on previous travels abroad.<sup>389</sup> Another even more serious example is the way dozens of non-official activists were barred from travelling to Geneva to take part in sessions related to the examination of Cuba in the Universal Periodic Review (UPR) of the UN Human Rights Council, which took place in May 2018, in a clear violation of the principles for this important international procedure.<sup>390</sup> This practice was also officially denounced by the UN High Commissioner for Human Rights (OHCHR).<sup>391</sup>

The *informatics revolution* has also hit Cuba during these reform years. Cuba was the last country in the Western Hemisphere to join the Internet (1996), having decried it earlier in the 1990s as an imperialist weapon used to subvert the Revolution (see Sánchez Villaverde 1995). Public access to own mobile phones was only allowed in 2008. The country still has a very low Internet penetration particularly when compared to its literacy rate (39%, number 118 in the world in 2017, but a dramatic and rapid increase from the negligible access ten years earlier; and a significant increase from 25% in 2015).<sup>392</sup> A significant leap took place with the establishment of public Internet navigation points (more than 1,000 in November 2016), and even more with the more than 500 public Wi-Fi hot spots around the country. Particularly young people congregate in parks and other public open-air spaces around the country to access what they literally perceive and appreciate more than most other people around the world as

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<sup>389</sup> “No pudieron salir de Cuba por querer asistir a un evento ‘no afín al Gobierno’”. *14ymedio*, 16.02.18.

<sup>390</sup> «Exigen al Gobierno cubano cesar hostigamiento a relatores de la ONU», CubaNet, 13.03.18; [http://www.14ymedio.com/nacional/Gobierno-escala-prohibiciones-viajes-opositores\\_0\\_2417158266.html](http://www.14ymedio.com/nacional/Gobierno-escala-prohibiciones-viajes-opositores_0_2417158266.html)

<sup>391</sup> EFE, 11.05.18: [http://www.14ymedio.com/internacional/ONU-Cuba-bloquear-activistas-derechos\\_0\\_2434556526.html](http://www.14ymedio.com/internacional/ONU-Cuba-bloquear-activistas-derechos_0_2434556526.html)

<sup>392</sup> Downloaded from Wikipedia 9.12.17:

[https://en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_number\\_of\\_Internet\\_users](https://en.wikipedia.org/wiki/List_of_countries_by_number_of_Internet_users) Data is based on a list of countries by number of Internet users as of mid-2016, with internet users defined as persons who accessed the Internet in the last 12 months from any device, including mobile phones. Estimates are derived from either household surveys or from Internet subscription data. Cuba is the only country in the Americas reporting a 100% adult literacy rate, according to the World Bank: <http://data.worldbank.org/indicator/SE.ADT.LITR.ZS/countries>. The most recent figure given by ETECSA is that 5 million mobile lines were reached in April 2018, representing 43% of the population, but it is not known how many of these were subscriptions opened by tourists or diaspora Cubans (*14ymedio* 12.04.18: [http://www.14ymedio.com/cienciaytecnologia/Cuba-millones-moviles-America-Latina\\_0\\_2417158264.html](http://www.14ymedio.com/cienciaytecnologia/Cuba-millones-moviles-America-Latina_0_2417158264.html)).

joining a *worldwide web*.<sup>393</sup> In terms of the number of mobile phone subscriptions per capita, Cuba, in spite of doubling its rate from 2011 to 2016 and reaching a total of 4.5 million mobile phone users in 2017. This is still, by far, the lowest in the Western Hemisphere (35 per 100 inhabitants, but up from 22 in 2014), only better off than four other countries: North Korea, Eritrea, Central African Republic and South Sudan.<sup>394</sup> A country like Vietnam has 128 mobile phone subscriptions per 100 inhabitants, China has 97.

Yet, use of mobile smart phones and the Internet is probably the second biggest game changer for civil society in Cuba over these years, largely due to the impressive innovative and creative capacity of young Cubans, making it impossible for the government to stem this information tsunami. Hoffmann (2016) lists four phenomena demonstrating how the digital technologies are leading to a “pluralisation of Cuba’s public sphere” and “reshaping the country’s media landscape, bringing in new actors and new modes of social contestation”: The first is a number of incidents where digital voice has impacted public life. The second is the spread of what we may call ‘offline Internet’ with an explosion of blogs and other new unofficial digital media emerging. The third he calls “the emergence of digital media platforms ‘from below’”, with Cuba probably being one of the countries in the world with the most common use of memory sticks for exchanging Internet-based information from hand to hand. And finally there is the rise of opposition or independent journalism and media, with the above-mentioned *14ymedio* headed by Yoani Sánchez as one of the most well known.

Outside the party and state apparatus, there are many actors whose importance has clearly increased until recently.

- Some academics with relative autonomy, especially economists who have more legitimacy to debate reform requirements than other social scientists;
- Bloggers and independent journalists;
- A few independent think-tanks, among whom *Cuba Posible* is the most well-known;

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<sup>393</sup> 250,000 daily users, according to national telecom company Etecsa, November 2016.

<sup>394</sup> According to World Bank statistics from 2016: <http://data.worldbank.org/indicator/IT.CEL.SETS.P2>, downloaded 9.12.17.

- What we generally may call NGOs, which in Cuba never have had real independence from state institutions (perhaps with a certain exception for church groups offering charity support, such as the Catholic Caritas);
- The emerging entrepreneurs, what some have called “the new Cuban middle class”, is still quite invisible as actors in public life;
- The hierarchy of the Catholic Church, which used to play an active intermediary and dialogue role during the first years of Raúl Castro’s reforms, and then criticised by some for being too friendly to Castro. This role has been largely downplayed over the latest years.

These groups constitute what some have called “a grey zone” in Cuban society, described as far back as 2011 in the following way:

“A grey area has emerged where intellectuals and groups that promote citizen interests without directly challenging the state’s power are tolerated. These efforts include women rights, opposition to racial discrimination, consumers’ rights, gay rights, protection against anti-religious discrimination, the environment, anti-abortion groups, death penalty abolitionists, the right to freedom of movement, among many other non-overtly political groups that do not challenge the monopoly of power of the PCC but demand policies that address their concerns” (López Levy 2011:384-385).

We have not included the open dissenters in this group, but will be coming back to them later.

As pointed out by Hoffmann (op. cit.) five years later, there is no doubt that civil society was able to eke out an increasing space outside of state and party control, in spite of new efforts to limit it. Prominent Cuban historian Rafael Rojas, living in Mexico but following the Cuban situation closely, has titled one of his articles “civil pluralism and political authoritarianism in Cuba” (Rojas 2015). That was probably quite an accurate description until a couple of years ago. New and genuine expressions of people organising spontaneously emerge constantly. Young bloggers, musicians and artists, independent journalists, news outlets and magazines beyond state control, organisations of sexual minorities, *Cuba Posible* bringing up debates on crucial matters about Cuba’s future, and particularly the increasing involvement of critical academics—

many party members among them—in such activities, were all expressions of this. But this part of the changing Cuban society has also suffered a certain backlash during the last couple of the Raúl era years.

We shall now look a little closer at the role played by several of these civil society categories.

There have been two limits for civil society activities to be tolerated: there should be no explicit questioning of the existing political power regime; and—perhaps even more important—such groups should not occupy the streets, seen as the exclusive arena for party-affiliated groups. Both limits have become more visible. At open discussion forums for instance organised by *Cuba Posible*, very critical debates with broad participation that were tolerated until 2015, are impossible to organise today. Those dissenter groups that dare to demonstrate in the streets, like *Damas de Blanco*, are increasingly harassed and detained.

The lid on autonomous civil society, and on censorship, was heavily tested during the normalization process with the US. The justification of these democratic limitations has always been the need to keep a strong defence against the historic enemy, US imperialism. As long as the enemy image seemed to be weathering, how could these limitations then be defended? That has again become easier with the change from Obama to Trump. Accused under the label *centristas* (ref. Indicator 8.2), it is particularly those belonging to ‘the grey sector’ of the civil society that have been singled out for heavy and increasing attack during 2016 and even more so in 2017, to the extent that this group offering constructive criticism and dialogue around development alternatives has seen its space of operation severely limited. It may seem that the hegemonic forces in the Party towards the end of the Raúl Castro era feel more threatened by this ‘loyal opposition’, as some of them call themselves, than by dissenters openly supporting President Trump’s new policy and calling for the overthrow of the regime. While dissenters are mostly repressed through pro-regime mobs and arbitrary detentions, the ‘centrist’ groups have been increasingly subject to more discrete Stasi-like supervision, threat and divide-and-rule methods. The regime also seems to have succeeded in threatening European diplomats to keep more distance from this group than they used

to some years ago, thus contributing to further silence most of the constructive debate at a moment when it ought to be more critical than ever.<sup>395</sup>

### **Indicator 6.2: More autonomous role for academics and intellectuals?**

The role of academics and intellectuals is crucial in any transformation process, so also in Cuba.

As a point of comparison, it may be useful to refer to the role of intellectuals in the transformation process in the USSR. According to Brown (2009), highly educated city dwellers and full-time officials (well-educated specialists) had a disproportionately large presence in the party, with a very strong reformist influence. USSR was a typical case of liberalisation from above, like Hungary, as opposed to liberalisation from below as the case was in Poland. In the USSR, the vast majority of leading specialists in the social sciences (academic lawyers, economists, sociologists, political analysts) were party members, from whom the most influential ideas for change (economic as well as political) emanated.

Brown also remarks that Gorbachev needed reform-minded people one step down in the party hierarchy in order to win the ideological battle that followed. However, he states, “only change at the apex of the political hierarchy could determine whether fresh and critical thinking would remain a mere intellectual diversion or whether it would influence the real world of politics” (p. 594).

According to Rafael Hernandez (2014), 40% of PCC *militantes* are academics. It is therefore of interest to watch whether academics and intellectuals in Cuba will become a more visible pro-reform group within the party or in state bodies. As we shall see, no such faction has been visible after the 7<sup>th</sup> Party Congress in 2016, and practically no academic from outside the Party hierarchy was included in the Central Committee elected there. The same pattern was repeated with the composition of the new National

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<sup>395</sup> A very worrisome account of these trends was reported by the Directors of *Cuba Posible* (Vega and Gonzales), themselves subject to personal threats, in an interview in February 2018. “Over the latest year, ‘the grey zone’ has almost been wiped out in Cuba”, they claim.

Assembly that came together in April 2018. The State Council elected there had allegedly one non-Party member: a sports celebrity.

Among academics, it is particularly the economists who have been paving the way, understandably since economic reforms have been the most visible and officially promoted change issue. They possess the expertise the government needs in order to find a way out of the economic crisis of the country: economists in research institutes formally under the control of universities and even party bodies, most of them party members, are more and more outspoken and critical about the reform process, generally claiming it is too modest and too slow. Quite fundamental criticism of foot-dragging, slowness in the economic transformations, and of the increasing contradictions in the Cuban model have been expressed by this group. More or less open arguments for the introduction of market reforms during most of the reform era *seemed* to be taken constructively at least by the reform-oriented segments of the government hierarchy.

At the outset of the reform era, the then ‘economic czar’, First Vice President and supposed successor of Raúl, then 56-years old Carlos Lage, expressed a strong interest in having a real dialogue between specialists and decision-makers (two years before Raúl removed him from his position):

“We need a true dialogue between the social scientists and the decision-makers. What sense does it make to create institutions and ask the comrades to study and afterwards don’t take them into consideration, not even call on them to see what they think? Errors have been committed in spite of having specialists available. [...] Nothing can justify this”<sup>396</sup> (S/E).

Many of these economists have participated in formal consultation mechanisms as advisors to the ‘Permanent Commission for Implementation and Development of the Guidelines’, headed by the ‘reform manager’ who was appointed in 2009 when Lage left, Marino Murillo. The pattern has largely been, however, that these leading academics—most of them Party members—have been invited to present observations and proposals to the Commission. But there is very little, if any, dialogue between the power elite and external advisors, and almost no osmosis between leading party and state cadres and

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<sup>396</sup> “Sobre la transición socialista en Cuba: Un simposio” (2007): *Temas*:51-52, 126-162.

academic institutions.<sup>397</sup> The Cuban political elite is living in a bubble, without interaction with the outside world, be it academics, journalists, diplomats or other groups that in most other societies would be frequent dialogue partners. There is no open debate with the political leaders although they may read or listen to proposals; they very rarely engage in direct discussions, and they shy away from expressing their own views on controversial subjects, at least until there is an official party standpoint, normally defined by Raúl Castro himself. Those outside the inner circles are left completely in the dark about the outcome of these processes, even more so after 2015.<sup>398</sup> *One is almost tempted to say that the top Cuban leadership suffers from an autism syndrome.*

Yet, at the same time, the same academics do express criticism in scientific papers and lectures, and even in the media and public websites (see the extensive interviews presented in Terrero 2014).<sup>399</sup>

These critical voices of prominent economists get really interesting when they cross the border from economics to politics—a border crossing that may amount to a questioning of the very foundation of the Cuban political system. The quite remarkable quote we reproduce below comes from an anonymous researcher at one of Cuba's most recognised economy institutes, the Centre for the Study of the Cuban Economy (CEEC), a dependency of the University of Havana, in response to the backlash for pro-market reforms in early 2016, when the Government introduced price controls on food products and removed the license of street vendors who had become an important channel for food products in most urban neighbourhoods. The real problem, he claims, is the hyper-control of the State and its fear of losing monopoly control:

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<sup>397</sup> Former Minister of Economy (1998-2009) José Luís Rodríguez is one of the very few exceptions of ex-ministers or persons with a similarly ranking background, who retreated to an academic position from where to take part in academic debate. More recently, Humberto Pérez, economic czar for ten years when he was Minister-President of *Junta Central de Planificación* (1976-1985) and Vice President of the Council of Ministers, re-appeared in academic discussions. He was an advocate of pro-market reforms with peasant markets and major enterprise autonomy – reforms supposedly supported by Raúl Castro – before Fidel Castro sacked him as part of a 'rectification campaign'.

<sup>398</sup> These observations are based on a large number of conversations, over many years, with economists e.g. at the prominent pro-reform Center for the Study of the Cuban Economy (CEEC), and similar institutions.

<sup>399</sup> The fact that the website *Cubaprofunda*, and thereby implicitly the Ministry of Culture gives so much attention to these critical economists is a good illustration of the degree of criticism being tolerated and perhaps even encouraged by those within the power structures who are promoting the economic reforms in Cuba.

"The private sector, in a few years, has proven to be efficient and has grown in every aspect compared to the socialist state enterprise. Although this could seem positive [...] it represents a danger for the stability of an autocratic political system that bases its strength on repression and strict control of all [...]. The more the private sector is enriched, the more it wins in autonomy, thus transforming itself to a political force with which a consensus must be reached. [...] [In this situation] the Cuban government will attempt to create, by all means, mechanisms that curb its growth, and instil fear in the masses in order to create an image of the private sector as the source of all evil, contrary to the socialist state enterprise as the paradise promised. [...] Introducing price control and blame the street vendors and intermediaries for the problem [of high food prices] seem foolish, it's indeed a tactic, because if they are good at anything [referring to the Cuban government] it is to escape responsibility by demonizing potential opponents before they really become opponents. [...] People are not stupid, but when a lie is repeated tirelessly, sometimes it becomes a truth. [...] People on the street repeat the same thing as the government tells them: prices will stabilize by eliminating the middlemen. [...] But who are the middlemen? The street vendors? People do not realize that the intermediary is the state itself, but the government has led them to think that it has nothing to do with the problem because they point to the cause, or one of many, but they transfer the blame to somebody that is not responsible for it"<sup>400</sup> (S/E).

Apparently, however, judging for instance from the highly ironic remarks made by Miguel Díaz-Canel one year before he was elected President (see Indicator 8.3), all alternative ideas about Cuba's economic and political future have fallen on rocky ground even among the future leaders within the top hierarchy, written off as neo-liberal or outright counter-revolutionary. It seems that Carlos Lage's call for "a true dialogue" was never heeded.

Other professional and academic groups who often have played crucial roles in the political debate during transformation processes in other countries, such as lawyers, are very restricted by the fact that the exercise of their profession is held within the boundaries of official guilds. Nobody outside of the official bar association can act as court defenders, and no independent law firm (*bufetes de avogados*) is permitted. Lawyers defending political dissenters in court must also belong to the official *Bufete*.

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<sup>400</sup> Ernesto Pérez Chang (2016): "La propiedad privada sigue siendo el demonio." Article dated 26.01.2016, reproduced in ASCE News No. 695, 28.01.2016, quoting an interview with "a prominent researcher" at the CEEC, whose identity "for reasons of security" is not revealed.

Anthropologists, sociologists etc. do play a certain role. As we have noted elsewhere, there is no political science career at Cuban universities, seriously limiting the more systematic study of the Cuban power structures and decision-making processes.

One of the few arenas for open debate about issues of political significance has been the monthly meetings (taking place since the beginning of the century) “*Último Jueves*”, organised by *Revista Temas* linked to the Ministry of Culture. Here the discussion has been remarkably open, and intellectuals taking part do not seem to shy away from heavy criticism. These meetings have a very special characteristic: the panel members, offering an introduction on a special issue every month, is normally made up of people presenting more or less official positions, whereas the comments and the questions from the audience often takes on a very critical character. But two groups are conspicuously absent, although for different reasons: political leaders on one side are often invited but do not turn up, and anti-system dissenters on the other are apparently not present. The participants here are *those who criticise from within*, while those who would be able to respond to this criticism and take proposals with them when decisions are made, do not take part. The relevance of such fora may be less now that the public debate has moved much more on to the Internet.

What are the critical intellectual forces aiming at? Camila Piñeiro Harnecker (2012) has made an interesting effort to identify three “*principal positions or visions about Cuban socialism*”, particularly among academic economists. She distinguishes between a statist, an economic and a self-management vision of “what is necessary to save the Cuban socialist project”. The statist alternative is basically the status quo “centralized state with a vertical structure”. The economic approach is equivalent to ‘market socialism’ following the Chinese and Vietnamese model; whereas self-management ideas are more utopian but perhaps, according to her, to a certain extent practically applicable through cooperative ideas. No liberal democratic alternative with promotion of personal freedoms is represented in these approaches.

Some theoretical discussions have been going on among a reduced group of intellectuals in magazines such as *Temas*, *Espacio Laical*, and *Palabra Nueva* (the first linked to the Ministry of Culture, the last two to the Catholic Church), also reflected in letters from

readers published in official Cuban dailies, and in a growing number of websites and even glossy magazines like *OnCuba*,<sup>401</sup> that all maintain a language that makes it difficult to accuse them of being voices of ‘the enemy’.<sup>402</sup>

Perhaps the politically most interesting pro-political reform document, released in 2013, came from the so-called *Laboratorio Casa Cuba*, a small group of intellectuals who used to work with *Espacio Laical* and with links to the Archbishop’s office in Havana—but with quite varied ideological orientation. They prepared a manifest called *Cuba soñada—Cuba posible—Cuba futura* (the Cuba we dream about, the possible and future Cuba). This document is in reality a demand for the recognition of full liberal democracy in Cuba, including:

- “Direct, free, secret, periodic and competitive” elections;
- Enjoyment of civil, political, economic, social and cultural rights;
- Separation of legislative, executive, judicial and electoral powers;
- Access to universal, free and diverse information without censorship nor monopoly as well as massive and participatory access to internet;
- Systems for transparency and accountability of public affairs;
- Elimination of the infamous principle of “pre-offense danger” (*peligrosidad predelictiva*) and “pre-offense security”—frequently used as legal basis for arbitrary detentions and previously also for political trials.

The sensational character of this manifest was that it came from a group calling itself ‘Loyal Opposition’, at the time operating fully within the Cuban system, and that there was no attempt by the Government to stop its activity or the circulation of the

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<sup>401</sup> OnCuba presents itself as “a communication platform legally based in Havana through a press Bureau, recognised by the Center for International Press (CPI) of the Cuban Ministry for Foreign Affairs... owned by public U.S. company”. OnCuba Magazine ([www.oncubamagazine.com](http://www.oncubamagazine.com)) is a printed magazine in English with abstracts in Spanish. Its 22 000 copies are bimonthly distributed in the United States and “also travels onboard of almost all the flights from the U.S. to Cuba”. Then Vice-President Díaz Canel in February 2017, however, threatened that the magazine would disappear. This did not happen, but the magazine’s Cuban-American Havana correspondents (who had their office in a building belonging to the State Council) have felt obliged to leave the country. It has been pointed out that this magazine may represent an important bridge to the US that may be particularly useful under President Trump.

<sup>402</sup> See list of relevant publications under the Appendix *Sources*.

document.<sup>403</sup> As described under the previous Indicator, however, this tolerance has since disappeared.

With the publishing of this document and the generally more open political reform demands, this group that had its core within the editorial board of *Espacio Laical*, became too outspoken for an increasingly servile and over-cautious Catholic hierarchy in Cuba. It ended with a breakaway from the Catholic magazine and the Catholic Church in general; and the foundation of a new think-tank and web journal called *Cuba Posible*, headed by the two ex-editors of *Espacio Laical*, Roberto Veiga and Lenier Gonzales. *Cuba Posible* has since 2014 become the centre of political reform thinking and dialogue in Cuba. Since this group lost its protection from the Catholic hierarchy, however, it has become much more vulnerable to the growing intellectual restrictions, being openly attacked by Party intransigents, and having to register as a non-governmental association in Spain rather than in Cuba. Since 2015 this has blocked it off from organising open dialogue events in Cuba. The website and the crucial reform debate continues however, and *Cuba Posible* has arguably been the most important reference point for critical political debate among foreign diplomats and pro-dialogue US Cuba watchers. During the thaw in Cuba-US relations and the generally more active western diplomacy (2014-2016), there was hardly any foreign head-of-state or prominent political personality visiting Havana who was not holding a meeting with *Cuba Posible*. The challenge to conquer an open domestic platform for this debate was never reached before the space once again started to close (ref. Indicator 6.2).

### **Indicator 6.3: Churches playing an increasing political role?**

The Catholic Church has long been supposed to be the best organised non-state organisation in Cuba: the only non-state and non-party structure with physical presence in practically every Cuban community. Perhaps surprisingly, however, the Catholic Church has basically resigned from its opportunity to take a lead as an alternative voice in the country. Despite three Pope visits in 20 years, and a potential strength

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<sup>403</sup> The document was reproduced, along with several discussion articles, in the Catholic journal *Espacio Laical* no. 3, 2013, a journal that in principle is distributed through all Catholic churches in Cuba. The document was also reproduced and commented by several prominent intellectuals on the website of the cultural magazine *Temas*, issued with support from the Ministry of Culture.

demonstrated when the Cardinal and ex-Archbishop of Havana, Jaime Ortega, negotiated the liberty of 75 political prisoners in 2010 (ref. Frank 2013), the Church has remained almost mute in the general political debate. And more recently it has actually limited the internal space for political debate (ref. the change of editorial line in the magazine *Espacio Laical*).<sup>404</sup> But this change of line may have contributed to open a space for independent associations or think tanks, as with the new group *Cuba Posible*, although there are still insurmountable barriers to obtain legal recognition for anything that is not firmly controlled by the state.

One of the ambitions of the Catholic Church (also raised by the Pope during his 2012 visit to Cuba) is to be allowed to establish non-state education institutions. The first-ever non-state Master program, in Business Administration, was established by *Centro Cultural Padre Félix Varela* in Havana, but it was discontinued due to state resistance after two courses finalised. Nevertheless, this may be an interesting beginning of a new trend. Around the country, the Catholic Church is running several business trainings for small entrepreneurs.

In April 2016, Juan de la Caridad García, former Bishop of Camagüey, was appointed as new Archbishop of Havana and the Prelate of the Catholic Church in Cuba, following the resignation of Cardenal Ortega for the reason of age. One of the first quite polemic statements by the new Catholic Prelate was that he did not want Cuba to move towards "capitalism or anything like it, but rather that socialism makes progress forward [...] toward a fair and just society with brotherhood" (S/E).<sup>405</sup> He vowed to continue the line followed by Cardinal Ortega, also accepted by Pope Francis during his official visit to Cuba, implying that there will be no open confrontation with the Government.

While the official Catholic leadership keeps a very low profile, apparently in agreement with the Vatican, there is a small group of Cuban priests who speak openly out against the government, demanding economic and political opening, warning that "time is

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<sup>404</sup> The author followed the events around the departure of the former editors of *Espacio Laical*, and their decision to set up *Cuba Posible*, at close range because of collaboration with this group. There is no doubt that these events reflected a decision by the Catholic hierarchy in Cuba, with support from and perhaps led by the former Vatican *Nuncio* (Ambassador) to Havana. This happened before Pope Francis took over, but little has in fact changed since.

<sup>405</sup> *14ymedio*, 27.06.16: [http://www.14ymedio.com/nacional/arzobispo-Habana-quiere-socialismo-progrese\\_0\\_2024797511.html](http://www.14ymedio.com/nacional/arzobispo-Habana-quiere-socialismo-progrese_0_2024797511.html)

up”.<sup>406</sup> Another Catholic group, *Convivencia* with basis in Pinar del Río, runs both a think tank and a magazine with critical alternative debates.

Non-Catholic churches have also, generally speaking, kept a very low political profile. The same is the case for the *santería* communities.

#### **Indicator 6.4: Increasing role for independent information actors?**

One of the most critical phenomena for increasing pluralism in Cuba is the role played by bloggers and other actors in new social media, and the independent journalists. Although Cuba is among the countries in the world with the highest Internet restrictions, the government and the security police find it very hard to stop their activities. It is difficult to judge how far they reach inside the Cuban society, but they probably have a significant audience among young people, mostly academics. The following characteristic from 2012 has become more and more relevant over the following years:

“Thanks to the new technologies for digital reproduction [in Cuba the memory sticks are clearly the most used tool in the absence of general internet access—comment added by the author], [civil society actors] have managed to articulate debate among certain public spheres. Via electronic mail and Internet, thousands of citizens, principally in the cities, have had access to political proposals and debates on the national reality, at the margin of the official circuits for the circulation of ideas. This mixture of bulletins, blogs, websites, journals, video reproduction platforms, simple e-mails among groups of friends, and so on, constitutes a real political laboratory where the future of Cuba is being cooked”<sup>407</sup> (S/E).

The work of bloggers that used to be seen as acceptable by government became more intolerable as part of the new ideological campaign initiated in 2016. One example of this was the blog called *Periodismo de Barrio*, led by Elaine Díaz, with the purpose of

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<sup>406</sup> Three Catholic priests in an open letter to President Castro on 24 January 2018, also urging the Pope to speak out: “Sacerdotes cubanos llevan al Papa su petición de democracia y elecciones libres”. *CadenaSer.com Internacional*, 6.02.18. One of these priests, José Conrado Rodríguez, has been a long-time well-known human rights critic of the Cuban government, particularly when he was the parish priest of Palma Soriano, close to Santiago, where he was accused of bringing young people into opposition activities (see e.g. Padraza 2007).

<sup>407</sup> Lenier González, roundtable discussion, in *Espacio Laical*, at [www.espaciolaical.org/contens/esp/sd\\_160.pdf](http://www.espaciolaical.org/contens/esp/sd_160.pdf)

reporting on communities affected by natural disasters. Winner of the prestigious Harvard University Nieman scholarship for investigative journalism, she was first officially mentioned as a constructive alternative to what pro-government sources termed 'cyber-terrorists'. But in connection with her coverage of hurricane Matthew's devastating impact in Baracoa and neighbouring communities in September 2016, she and her colleagues were detained and deported to the capital, with reference to the existing state of emergency. The message was clear: the official media does not want any alternative journalism in a situation of emergency.

Admittedly, the heavy Internet restrictions in Cuba represent an effective brake on the proliferation of new social media, compared to most other countries. The security services have evidently decided to do their utmost to avoid a repetition of events like the Arab Spring where the social media played a crucial role.<sup>408</sup>

Yoani Sanchez, Director of the web-based daily *14yMedio*, made the following statement in mid-2016, when asked whether independent journalism was possible in Cuba:

"It's possible, it's possible and '14yMedio' demonstrates that. We're a daily that not only focuses its sights on improving the quality of the journalism we do, but in addition we're financially autonomous. We don't receive a cent from the Cuban government nor from any government in the world. You can produce free, autonomous, independent journalism of quality from the island".<sup>409</sup>

The Party hierarchy is getting worried that the very power monopoly is now at stake, trying desperately to stop this from happening. It seems very unlikely, however, that these trends can be turned around without a much more repressive system.

The space of bloggers and independent media also offers a small window of opportunity to journalists in official media to sell articles for a pay per piece that may correspond to a full month's salary, thus both avoiding the extremely narrow limits of official

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<sup>408</sup> Another example, probably studied closely by Cuban intelligence, was how the access to internet was blocked in Iran during the protest movement around new-year 2017/2018:

<http://edition.cnn.com/2017/12/31/middleeast/iran-protests-sunday/index.html>

<sup>409</sup> "Yoani Sanchez Talks About Cuba's 'Changes'". *The Havana Times*, 14.06.16  
<http://www.havanatimes.org/?p=119362>

journalism and getting some highly necessary extra income. However, the new worries about ‘agents of change’ expressed at the 7<sup>th</sup> Party Congress (ref. Indicator 6.6) evidently led to a campaign against such practice. A protest letter from a group of young journalists in the official newspaper *La Vanguardia* (published in Santa Clara), affiliated with the Communist Youth League (UJC), leaked to one of these new media outlets, brought a new ideological battle to the surface:

“Recent events reveal [...] efforts by the Government to censure not only independent journalists, but also those who try to break the routines of the official press, controlled in each province by the so-called Ideological Department of the Provincial Bureau of the Cuban Communist Party. [...] We are experiencing that forces unrelated to the journalistic profession are investigating us on our workplaces and through the neighbourhood committees (CDRs), they follow us step by step and call us to account for comments or polemic articles that we may have published [...] We believe that the free and responsible exercise of opinion neither can nor should be detained”.

Even more interestingly, the letter goes on to refer this polemic to the highest echelons of the Party and to possible ideological differences there:

“Although Cuban First Vice President Miguel Diaz-Canel Bermudez, aware of the role of journalism in Cuba today, said recently that the media ‘no longer have to wait for guidance from above’, censorship is far from disappearing”<sup>410</sup> (S/E).

So, what is the message here? We are evidently seeing that the careful and gradual opening for a more pluralistic society and the actual loss of the information monopoly, along with the loss of the state’s economic monopoly, has produced a more critical attitude to the political system. This has occurred even among the youth of the Communist Party itself, a reflexion of the general disengagement of the country’s youth with the revolution’s historic grip on the population.

Careful but frank criticism has also been expressed by such Party-controlled organisations like UNEAC and UPEC (writers’ and journalist’s unions, respectively), denouncing the limited Internet access and declaring “war against secrecy”. First Vice

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<sup>410</sup> “Carta de protesta del Comité de Base de la UJC del diario ‘Vanguardia’”, published and commented in *Diario de Cuba*, 1.07.16.

President Díaz-Canel did engage in an apparently constructive dialogue with these intellectuals about their claims.<sup>411</sup>

Cuba continues to occupy one of the lowest ratings when it comes to press freedom in the world. The following assessment by *Reporters without borders* may be oversimplified, but still expressing what many independent information workers perceive:

“Arbitrary arrests and imprisonment, threats, smear campaigns, confiscation of equipment, and closure of websites are the most common forms of harassment. These practices are ubiquitous and are buttressed by an arsenal of restrictive laws. Unless forced to flee the island to protect themselves or to keep working, the few independent bloggers and journalists must cope with drastic restrictions on Internet access”.<sup>412</sup>

Taking stock of the situation in a conversation with a leading blogger in early 2018, it seems that the Government is rather powerless in its efforts to curb the new information agents, particularly the new social media. “A new parallel culture has established itself in ways that the Government cannot control”, he claims:

“The new graduates from the journalism academy show no worry about working with unofficial and heavily questioned media, although this might stop them from having a career as official journalists. Such careers are no more attractive – young people now find it much more attractive to make a living outside of the official Cuban system” (S/E).<sup>413</sup>

In this situation, the US State Department did not help independent information workers with its latest measure: to set up a task force to examine technological opportunities for expanding Internet access and independent media in Cuba, rejected by the official Cuban newspaper *Granma* as a measure “destined to subvert Cuba’s internal order”.<sup>414</sup>

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<sup>411</sup> See website of Union de Periodistas de Cuba (UPEC): [www.cubaperiodistas.cu](http://www.cubaperiodistas.cu)

<sup>412</sup> <https://rsf.org/en/cuba>, 2017 edition, ranking Cuba as no. 173 out of 180 countries on its “Press Freedom Index” (but with a score well ahead that of both Vietnam and China). The same organization also publishes a list of ‘internet enemies’, where Cuba appears as one of 12 countries (also Vietnam and China among them). It is noteworthy, though, that no journalist was killed in Cuba, different from other Latin American countries with a better position on this ranking.

<sup>413</sup> Skype interview 21.01.18 with Norges Rodríguez, temporarily residing in the US.

<sup>414</sup> “US State Department creates Cuba Internet Task Force”, *Reuters, Havana*, 24.01.18.

One of the few arenas where young people can express and exchange frustrations and protest publicly is through music. The subcultures of hip-hop, rap and particularly *Reggaeton*, are attracting huge interest among Cuban youth, and the texts are often extremely critical and directly confrontational, condemning and insulting about the Cuban system and its leaders, while often cheering capitalist and consumerism values. This subculture evidently represents a complicated challenge but is generally tolerated. The music being mostly produced and circulated unofficially (bicycle taxis being one of the sales outlets in Havana, for instance).

The big question is whether this culture may lead young people into protest, social mobilisation of some kind. Is it a safety valve for the regime, or a source of potential political mobilization? It is interesting to note that even the Communist Youth League (UJC) tries to attract people by organising *Reggaeton* events, in a tough balancing act between staying in touch with youth trends and inspiring anti-regime sentiments. The Cuban sociologist Nora Gámez in a PhD dissertation about this phenomenon, discusses whether this music is “a rehearsal of politics, [or] a form of politics itself”; “a painful reminder [...] of the increasing gap between emergent values rooted in everyday life experience and socialist ideology”:

“At the deepest level, though, *Reggaeton* constitutes a challenge for the dominant ideology [...] in which the underclass has managed to break into the cultural sphere without permission. [...] [R]eggaeton poses a challenge to the dominant ideology and its symbolic control over the construction of reality, over the construction of identities and the ‘right’, ‘correct’ values in an allegedly socialist society. [...] What *Reggaeton* reveals dramatically is what the state precisely wants to conceal, that in everyday life, socialist values have lost considerable space and that people have started to adjust their mentalities to the kind of post-socialist economy we have had for the past two decades” (Gámez Torres 2012) (S/E).<sup>415</sup>

### **Indicator 6.5: More respect for dissenters?**

The concept ‘dissenter’ (*disidente*) in the Cuban political vocabulary normally means a person or a group that rejects the entire legitimacy of the present regime. But there are

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<sup>415</sup> A shorter version in Spanish appeared in *Revista Temas*, No. 68 / 2011. Nora Gámez Torres has later settled in Miami and become a lead reporter on Cuban issues in *Miami Herald* and *El Nuevo Herald*.

of course groups that find themselves in different places between ‘the grey zone’ we referred to above, and the dissenter category.

One of the best studies of this spectre of political expressions is the Ph.D. dissertation done by Geoffray (2012), covering the 1989-2009 period. The very French title of her dissertation, *Contester à Cuba*, leaves considerable doubts about the phenomenon she is discussing: the French word *contester* may be translated as differently as *challenge*, *dispute*, *contest* or even *protest*. Her objective has been partly to understand “how contentious dynamics have emerged and endured through time without undergoing severe repression”, and partly to “grasp what the existence of this tolerated contention tells us about the way power is wielded in such a context.” This “hybrid repertoire” of practices, she argues:

“[A]llows them to negotiate space for action, according to the levels of government. Authorities grant them some space because that this allows for the regulation and containment of contention, through the use of a specific mode of coercion, which is based on uncertainty and arbitrariness.”<sup>416</sup>

The Cuban dissenter community that expresses an open confrontation to the Cuban regime and argues for its overthrow, has so far had minimal influence and relevance inside Cuba as opposed to the considerable attention it has received internationally. This is partly because they have very limited means to communicate within Cuba. But it is also very questionable whether significant segments of the Cuban population really want an all-out conflict that would logically follow from the positions taken by the dissenter community.

There are dozens of dissenter groups in Cuba. The best known among these—all considered by the Cuban Government as pawns of the US government—are the *Damas de Blanco*, Ladies in White, consisting of wives and mothers of previous political prisoners; the Cuban Human Rights and National Reconciliation Commission; and the

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<sup>416</sup> Quotes taken from the English résumé of her dissertation: <http://www.theses.fr/2010IEPP0027>

important *Varela* project<sup>417</sup>, headed by Oswaldo Payá until he was killed in a car accident in July 2012. After Paya's death there were accusations from his family that the Cuban government had, in one way or the other, maybe been involved in a plot against him. After his death, his daughter Rosa María Payá has continued the work in his name but taken a much more confrontational position than her father, e.g. condemning ex-President Obama's rapprochement policy and supported President Trump. She is now directing the organization *Cubadecide*, with a proposal (similar to that of her father) to have a binding referendum with the question of whether people want a change towards democracy.<sup>418</sup> She has achieved a quite impressive support from several Latin American ex-Presidents and the OAS Secretary General Luís Almagro, expressed for instance during the April 2018 Summit of the Americas.<sup>419</sup>

The Cuban dissenter community has many faces, but generally it argues for a total change of regime and its quickest possible dissolution. One of its more prominent representatives, Antonio Rodiles, who leads the organisation *Estado de Sats*, responds with an absolute "no" when asked whether he believes in reconciliation, adding: "What Castroism has to do is die. It would be like reconciling with such nefarious characters as Pol Pot or Videla". Like many others among the dissenters, he openly opposed the Obama normalization policy (and told Mr Obama so, in what was considered quite impolite terms, when he took part in the US president's meeting with the dissenters in Havana in March 2016), and likewise considers the Trump election to be good news for Cuba: "[B]ecause it will end two years of indolence towards what happens in our country. I found it excellent that he (Mr Trump) called Castro a 'brutal dictator' when he died and that he is integrating into his team Cuban-Americans committed to the cause" (S/E).<sup>420</sup>

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<sup>417</sup> The project managed to collect more than the minimum 10,000 signatures required to demand a referendum on a proposal for a constitutional reform that would have introduced a series of civic and political freedoms in Cuba, later rejected by the National Assembly.

<sup>418</sup> <https://cubadecide.org>

<sup>419</sup> *14ymedio* 11.04.18: <http://translatingcuba.com/paya-award-winners-former-presidents-in-support-of-democracy/>

<sup>420</sup> "Antonio Rodiles, opositor cubano: 'Donald Trump es buena noticia para Cuba'". *El País*, 24.12.16. As an example of the widening space even for an unconditional enemy of the regime like Rodiles, this interview was made in Miami, after his visit to Madrid, after which he returned safely to Havana (where he is the victim of constant harassment and detentions, but still carries on his political activism). Very interestingly, it was Rodiles' organisation *Estado de Sats* that managed to get hold of the infamous video of Miguel Díaz-Canel from February 2017. Many observers are asking themselves how this could happen, and whether this had been possible without some kind of links between his organisation and the Cuban intelligence.

Rodiles is openly arguing for the need to overthrow the present Cuban government. But he is still allowed to travel out of the country and return.

The crackdown on dissent has been fluctuating in Cuba. After the conviction of 75 dissenters to long prison sentences in 2003, it was seen as another sign of Raúl Castro's reform program when the Cardinal succeeded to negotiate their liberation in 2010. Since then, 'dissenter' movements have generally been tolerated, although frequently subjected to the infamous *actos de repudio* (demonstrations of repudiation) by pro-government thugs when they demonstrate publicly, and then being detained for some hours before being released. This pattern of short-term arbitrary detention has become more and more the norm, probably increasing after the rapprochement with the US started. This is expressed through constant intimidation and bullying. The Cuban Human Rights Commission claims that the number of arbitrary detentions has steadily increased, from 2,074 in 2010 to 9,351 in 2016, but then surprisingly enough dropped quite drastically again to 5,155 in 2017.<sup>421</sup> The reason may simply be that so many dissenters have left the country or been silenced.<sup>422</sup> In a contrary trend, there are signs that restrictions for dissenters and independent journalists to travel abroad have increased in 2017, with the Government increasingly applying some of the exception rules of the reformed Migration Law.

The same human rights commission claims that there are 140 political prisoners in the country, while Amnesty International in its 2016/2017 Report found only one 'prisoner of conscience'.<sup>423</sup>

It is difficult to forecast how much tolerance there would be if the quite harmless protest and dissent that exists now turns into a more threatening confrontation, which quite

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<sup>421</sup> <http://ccdhrn.org/informes-mensuales-de-represion-politica/>

<sup>422</sup> This is the explanation given by the two directors of *Cuba Posible*, interviewed in February 2018.

<sup>423</sup> In its 2015/2016 report on Cuba, AI summarised the human rights situation in the following way: "Despite increasingly open diplomatic relations, severe restrictions on freedoms of expression, association and movement continued. Thousands of cases of harassment of government critics and arbitrary arrests and detentions were reported." <https://www.amnesty.org/en/countries/americas/cuba/> Regarding prisoners in general, Cuba is number 7 on the list of prisoners per capita in the world (510 per 100,000 inhabitants), a list headed by the US (730). Russia has about the same index as Cuba, while China and Vietnam have much lower figures (see International Centre for Prison Studies, <http://www.prisonstudies.org/>).

likely could occur as more pluralist social structures and socio-economic differentiation emerge, and social media becomes more generally available. This will particularly be the case in the post-Castro era, with the probable reduction in support and legitimacy this would imply for the regime. If we use China as an example, where on average there are reportedly 2,600 strikes, riots and confrontations with the police every day (Göbel and Ong 2012), this would represent approximately 20 such confrontations daily in Cuba if we compare to the population size. That would be a really tough challenge to handle, and there would be an increasing dilemma between losing the political control and taking very tough security measures which might risk propelling the confrontation and international protest even more. It is probably far more difficult to control such contradictions in Cuba than in culturally more collective and closed societies like China and Vietnam.

Anti-system critics, of course, direct their attacks at the Party and the State, and the Castros themselves. This criticism is now a little more visible for those who have access to the Internet, through bloggers and even an independent internet-daily like *14ymedio*, and through an increasing number of independent journalist networks (ref. Note on Sources, Appendix 2). The problem, of course, is the limited Internet access and the fact that critical websites (like *14ymedio*) are blocked from ordinary Internet access in Cuba. But the existing network of non-official informants is now so widely spread around the country that there is hardly any protest, confrontation, or detention taking place without being reported and made available to the public.

The US Interest Section in Havana recognised this in a communiqué already in 2009, later made public by *Wikileaks*, saying that it saw very little evidence that the message from the principal dissident organisations had any resonance among the ordinary Cubans, and that the bloggers represent a far more serious challenge to the Government.<sup>424</sup>

Perhaps in an effort to challenge this situation, a 15 day stay with Solidarity leader Lech Walesa in Poland in mid-2013 may have convinced some dissident leaders, among them

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<sup>424</sup> "US-Cuba Chill Exaggerated, but Old Ways Threaten Progress", *Wikileaks*, US Interest Section cable, January 6 2010. [wikileaks.org/cable/2010/01/10HAVANA9.html](http://wikileaks.org/cable/2010/01/10HAVANA9.html)

the winner of the European Parliament's Sakharov prize Guillermo Fariñas, to change strategy, realising that political demands are not what mobilise people.

“Walesa told us that [...] we were focusing on political demands and that we should rather concentrate much more on social problems [...] the idea is to do things so that people perceive us as their defenders. [...] We will relegate the political demands because we need more popular support before we can promote them”, he said in a telephone interview with a Miami journalist.<sup>425</sup>

Attempts by the dissidents to team up with protests by self-employed workers have so far not been successful. The position of the dissident movement simply seems to be too weak to make it attractive for those who are expressing social protest—it may rather be seen as a counterproductive move to be associated with the dissidents.

A relatively new phenomenon perhaps worth watching is the so-called *Municipios de Oposición* (Municipalities in opposition), of which a few have made some public appearances particularly in Santiago de Cuba. The particularity of their work is that they claim to be collecting concrete complaints and demands from the population and present them directly to the local authorities, and then publish the result of their work through the Internet.<sup>426</sup>

Although open opposition or dissident movements are rather unknown among ordinary Cubans, they often receive much international attention, e.g. leading the European Parliament to award no less than three Cuban dissenters the prestigious Sakharov Prize: Oswaldo Payá in 2002, Ladies in White in 2005, and Guillermo Fariñas in 2010. Frankly, none of these groups represent any significant political force in the country, partly due to a very effective government policy to infiltrate, silence, ignore, and ban them from public protest.

The official international human rights community, represented by the UN human rights system, has held a relatively low profile when it comes to human rights violations in Cuba. Of course Cuba's main critics, led by the US, has used the UN Human Rights Council to criticise Cuba. But by mobilizing sympathetic countries from the Third World,

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<sup>425</sup> Juan Tamayo in *El Nuevo Herald*, 30.10.13.

<sup>426</sup> <http://www.municipiosdeoposicion.com>

and by that succeed to sit almost continuously on the UN Human Rights Council, Cuba has been able to counter-attack. The fact that the UN High Commissioner for Human Rights in December 2015 for the first time since long expressed a strong condemnation of arbitrary detentions and other human rights violations in Cuba, may mark an increasing mainstream international concern and new questioning of Cuba's moral status.

If Cuba would consider introducing an electronic surveillance and blacklisting system similar to the Chinese Social Credit System, it could mean a drastic increase in repression.<sup>427</sup> This measure shows the frightening potential of informatics technology in an authoritarian society.

### **Indicator 6.6: Emerging “agents of change”?**

A key question in a transformation process like the one in Cuba is to identify the *agents of change*. *Who are the agents of change in the Cuban society?* The very concept has become utterly sensitive, after some of Raúl Castro's opening speech remarks at the 7<sup>th</sup> Party Congress, apparently as a response to President Obama's appeal to the support for reform precisely from some of these social forces:

“We are not naïve, nor do we ignore the aspirations of powerful external forces that are committed to what they call the empowerment of non-state forms of management in order to generate agents of change to end the Revolution by other means” (Castro 2016) (S/E).

There is little doubt in our view that change in Cuba will continue to originate from within the *broader framework of the official leadership and tolerated critics—perhaps increasingly from disaffected self-employed*, and perhaps from an increasing exchange between the two. The space for intellectual and critical debate has ebbed and flowed over the latest years. The new economic actors are cautiously starting to get organised and mobilised in defence of their interests, and the government is getting increasingly confused about how to deal with this. Raúl Castro is probably right that this latter group will be crucial for the strength of the *agents of change*, particularly if more dialogue is

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<sup>427</sup> See <https://theconversation.com/chinas-social-credit-system-puts-its-people-under-pressure-to-be-model-citizens-89963>

established with academics (economists and others) and the pro-dialogue and reform-oriented part of civil society in the post-Castro era.

When it comes to the new generation of leaders gradually taking over after April 2018, it is obviously very important to discuss from where they come, who they are, and what they stand for. We can do this, as we have done previously in this chapter, by distinguishing between party and government insiders, military and other technocrats, academics and intellectuals working within the system, new entrepreneurs, church people, and dissenters. We will return to this discussion under Challenge 9.

## **Challenge 7: Differentiation of State vs. Party functions; division of state powers (legislative vs. executive)?**

### **Indicator 7.1: Communist Party showing any sign of opening up?**

As long as the Communist Party has a monopoly status with a total control over state affairs, the political arena is basically not in the position to change. In Raúl Castro's statement to the Party *Conference* in January 2012 (a follow-up to the Sixth Party Congress held half a year earlier),<sup>428</sup> he announced that there should be an increasing differentiation of state and party functions. This has, only to a very little extent, been followed up, apart from some experimentation in two pilot provinces (Artemisa and Mayabeque). Academic centres that used to fall under the Central Committee have been moved to various government institutions; and various political vetting procedures have also been taken out of party control. But more importantly, the party seems to be constantly losing its position as an arena for political debate and initiatives.

Of course, with Raúl Castro leaving the Presidency of the Republic to Díaz-Canel in April 2018, but staying on as Party leader, there will de facto be a separation of functions. Although Díaz-Canel assured the National Assembly on his first speech after being elected that Raúl Castro would still be considered "the leader of the revolutionary process" (see more under Indicator 9.2), while Raúl said that Díaz-Canel would take over as party leader in 2021. It remains to be seen to what extent Díaz-Canel will be able to eke out his own political space and thus establish a real distinction between Party and State leadership.

It is interesting to compare the situation in Cuba to that in Vietnam, where there have been frequent cases of political initiatives from lower party organs managing to overrule the will of the Party hierarchy, including at the 2016 Party Congress (ref. chapter 4.9.5). Such open internal dissent about elections to top political positions is so far unheard of in Cuba. Practically all decisions of the National Assembly are unanimous, in accordance

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<sup>428</sup> Party *Conference* was a new institution in Cuba (held neither before nor after), intended to discuss the political issues that were not properly discussed at the Party Congress. This only happened to a very limited degree, and it was generally considered as a good intention by Raúl Castro that it was never possible to realize.

with the official proposal, and we hardly ever hear about any disagreement in the Party Central Committee let alone Politburo, even when there were apparently tough contradictions as in the preparation to the 7<sup>th</sup> Congress. Raúl said in the *Asamblea Nacional* in June 2015 that the intention was to define ‘a new socialist model’ and ‘a new social pact’ to be approved by the 2016 Party Congress. After several sessions of the Central Committee, no agreement on these documents was reached before the Congress, and the Congress had to refer the proposals to further debate. There were apparently heavy contradictions, but the post-7<sup>th</sup> Congress debate never gave a real opportunity to the anti-authoritarian forces to express their view appropriately, perhaps out of fear for the emergence of clearer alternative factions within the party. That public debate was once more put off, until the documents of principle were finally approved in mid-2017, without any significant ideological or political renewal being noticed.<sup>429</sup>

In contrast to the Vietnamese Party Congress, which took place three months before the 7<sup>th</sup> Party Congress in Cuba, there was no open debate taking place within the Cuban Communist Party; we hardly ever heard about diverging positions among the party leaders. The level of external monolithic unity in Cuba has been quite unique compared to other socialist systems, present or former. Whether this will change after the Castro brothers leave power remains to be seen.

Probably the most open recent political discussion within Cuba’s Communist Party took place in the months leading up to the 6<sup>th</sup> Party Congress in 2011, i.a. with an open debate in a number of websites (including *Cubadebate*). According to Raúl Castro’s opening speech, a total of 8.9 million people had participated in discussion meetings about *the Guidelines*, and two thirds of the original proposals were amended. None of them were of great ideological or political importance (perhaps apart from the diverging opinions about the continuation of the rationing system. But Raúl did state, probably honestly: “there was in no way unanimity [about the Guidelines], and that was precisely what we wanted if we truly pretended to have a democratic and serious consultation with the people” (Castro 2011) (S/E).

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<sup>429</sup> The documents are summarised under Indicator 8.1.

When the Party was preparing the ideological documents for the 7<sup>th</sup> Party Congress five years later, the debate—differently from five years earlier—was kept behind closed doors.

**Indicator 7.2: Will there be any visible steps away from the Communist Party power monopoly?**

When Raúl Castro's reform process started, formalised at the 6<sup>th</sup> Party Congress in 2011, there was a general expectation that the next Congress in 2016 would take the qualitative steps forward to consolidate and deepen the reforms, renew the leadership of the Party, and define a new future for Cuba.

For these reasons, and in order to understand how the Cuban Communist Party works, we have made a rather detailed analysis of the latest Congress, the 7<sup>th</sup>, in April 2016.

The 7<sup>th</sup> Congress of the PCC took place against the backdrop of and only four weeks after US President Barack Obama's historic and spectacular visit to Cuba (ref. Indicator 5.2), in mid-April 2016. If most observers—this author included—had believed that the visit had served to strengthen the pro-reform forces of the Party, also in their rapprochement to the US, it would soon become clear that the immediate effect of the visit had rather been to mobilise strong counter-forces. It was conspicuous to see how quickly and radically the highly positive atmosphere in which President Obama was received by his Cuban counterpart, was changed to a cool and directly hostile attitude to President Obama, and the US in general, at the Party Congress (see Bye 2016).

The counter-forces were fast to present their strong objections through the State Television and other Party media the very moment Obama had finished his historic live speech through the same channel; in itself a tremendous concession to the historic enemy which may have triggered part of the counter-reaction. But the seriousness of these reactions was most significantly confirmed a few days later, through a very negative and sarcastic commentary by ex-President Fidel Castro, reprimanding Mr

Obama for his wish to look forwards to a normalised relationship rather than succumbing to the elder Castro's never-ending insistence on historic enmities.<sup>430</sup>

There is reason to believe that this *Reflexión* by the Revolution's historic leader gave the green light to the renewed campaign by party hardliners or *intransigents*<sup>431</sup> that came to full fruition at the Party Congress. It was hard to recognise Raúl Castro's smiling and friendly encounter with Obama, in the harsh words he presented in his long opening speech, the *Central Report* to the Party Congress (Castro 2016). Raul clearly echoed his elder brother's unmistakable pushback against Obama's soft-power charm offensive. He defended Cuba's single-party and monolithic political system, accusing Washington of seeking "to divide us into several parties in the name of sacrosanct bourgeois democracy", and continued:

"If they manage some day to fragment us, it would be the beginning of the end—don't you ever forget this—if they manage to fragment us it would be the beginning of the end in our homeland, of the Revolution, socialism and national independence [...]" (S/E).

Even more conspicuous were the hard words delivered to the Party Congress by Foreign Minister Rodríguez, the most directly involved in the Obama visit, which he now said had produced "an attack in depth on our understanding, our history, our culture and our symbols"<sup>432</sup> (S/E).

It was as if those who had organised President Obama's visit—and perhaps even the rapprochement more in general—now felt obliged to express strong self-criticism and confession of sins, and admit that the fears of the intransigents were fully justified: the previous recognition of Obama's historical departure from the *Plattist* doctrine was no more relevant. What was even more striking as we discuss elsewhere: several signals now indicated a reversal of both economic and political reform trends.

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<sup>430</sup> Fidel Castro, "El hermano Obama", published in *Granma* 27.03.16.

<sup>431</sup> A more precise concept, rather than 'hardliner' or 'conservative', may be the Spanish concept 'intransigente', which may be best translated to English as 'uncompromising'. Fidel was always proud of being seen as intransigent, and his most loyal followers saw this as one of his most valuable characteristics. This is probably a very important inspiration for those who continue to defend the historic aspects of revolutionary principles up against the reform process, be it in the form of market reforms or appeasement with the US. We will therefore mostly use this concept in the continuation, when referring to those who seem to be attempting to roll back the reform trends following the 7<sup>th</sup> Party Congress.

<sup>432</sup> Quoted by *14ymedio*, 19.04.16.

Castro's Central Report to the 7<sup>th</sup> Party Congress also announced a surprising return to an ideological offensive, referring explicitly to the youth, the intellectuals and to those who were working in the non-state sector, "those sectors that the enemy identify as the most vulnerable", going on to state that the Party needs to:

"[...] [S]afeguard the people's historical memory of the nation and refine the differentiated ideological work, with special emphasis towards youth and children, we must strengthen among us an anti-capitalist and anti-imperialist culture, fighting with arguments, conviction and firmness the pretensions to establish patterns of petty bourgeois ideology characterised by individualism, selfishness, the profit motive, banality and exacerbation of consumerism" (Castro 2016) (S/E).

The latter quote may signal that this about-turn in the reform process and in the warming of relations with the US was more ideologically than economically motivated. The prominent economist Carmelo Mesa-Lago (2016) presented the following hypothesis to explain what happened: "the Obama visit generated a support in the population and a change dynamic for which the Cuban government was not prepared". In a later interview he added: "The Government panicked. From then on there has been a paralysis [of the reforms]. The hardliner group, the most orthodox, came out strengthened".<sup>433</sup>

The fear of the Party hardliners, it seems, was that the disappearance of the enemy image of US imperialism, together with the opening of economic relations not completely controlled by the state; and the emergence of new social actors with the characteristics of a middle class that could endanger the monolithic political power. It must probably be understood as an attack on the dangers represented by the causal effects discussed in this dissertation: the political consequences of economic reform and rapprochement with the US.

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<sup>433</sup> Carmelo Mesa-Lago: "El Gobierno cubano entró en pánico tras la visita de Obama" Maite Rico, *El País*, Madrid, 1.07.17 (re-printed in *14ymedio*).

In the weeks and months following the Party Congress, we saw several examples of a *new ideological offensive*, carried out by a group of orthodox Party activists (see the section on Ideology under Indicator 8.2).

Before the 7<sup>th</sup> Party Congress came together, conventional wisdom among Cuba watchers was that the apparently increasing opposition to normalisation with the US in certain parts of the power apparatus might be seen as a late spasm from forces that were losing legitimacy. As the above quotes illustrate, these forces actually seemed to have strengthened their position in the top echelons of the Party, resisting a democratic opening and a strengthened market economy.

The contradiction during the spring weeks of 2016 between the euphoric reception of the charismatic President Obama with full family, the Rolling Stones free rock concert, the spectacular Chanel fashion show on Havana's main promenade street *Paseo del Prado* and all other signs of change on one side, and a secretive Party Congress, led by a group of over-aged men representing the past rather than the future and basically rejecting all calls for change, could not be more conspicuous.

The justification of democratic limitations in Cuba has always been the need to keep a strong defence against the historic enemy, US imperialism. So, new efforts would now have to be made to stop this enemy image from falling apart, so to say by defusing the friendly face of President Barack Obama. Cuba's leadership was probably as little prepared as the rest of the world, for a next US President to be elected half a year later: Donald J. Trump. But the ironic fact is that a US President with Mr Trump's characteristics and political discourse against Cuba is much easier to fit into the anti-imperialist picture than that of his predecessor.

**Indicator 7.3: How representative are members and leaders of the Communist Party?**

Based on two different studies<sup>434</sup> (Hernandez 2014; Lopez Levy 2015), we may emphasise some interesting aspects of the demographic and sociological composition of the PCP.

Until recently, membership of the Cuban Party was significantly higher than that of most countries with comparable regimes (China and Vietnam, as the most commonly used cases). Figures from 2012<sup>435</sup> show the following, with comparative numbers five years later):

**Table 9.1: Membership in the Cuban Communist Party (PCC + UJC)**

<b>Members of PCC:</b>	769,318 (670,000 in 2016)
<b>Members of UJC:</b>	405,830
<b>Total</b>	<b>1,175,148</b>

<b>PCC as % of population (11,4 mill):</b>	6,7% (5,9% in 2016)*
<b>PCC + UJC as %:</b>	10,3% (9,1% in 2016)*
<b>PCC + UJC as % of workforce:</b>	22,2% (Approximately 20% in 2016)*

\*The 2016 percentages do not take into consideration a possible reduction in UJC membership, since this information is unavailable.

**Sources:** Hernandez 2014; Castro 2016

<sup>434</sup> López-Levy said about his data basis that he is "using the data I collected as a coder for the Global Leadership project (Gerring, Onel, Morrison, & Keefer, 2014) and the data collected by Rafael Hernandez (Hernandez, 2/2014). My sample included the leaders of the Politburo, the Central Committee, the first secretary of the party in the provinces, the PCC Secretariat, the Councils of State, and the Council of Ministers, the members of the National Assembly and the presidents of the Provincial Assemblies."

<sup>435</sup> Figures taken from Hernández (2014), op.cit.

By the time of the 7<sup>th</sup> Party Congress five years later, Raúl Castro revealed that the number of PCP members had fallen by 100,000 (to 670,000), i.e. by 13% (Castro 2016). The general impression is that a significant number of people continue returning their membership cards in the Party as well as the youth organisation, and that young people generally do not care to join the Party ranks. What used to be a necessity in order to make a career in Cuba is becoming irrelevant—also because official careers are losing attraction.

For the sake of comparison, the percentage of combined mother party and youth wing CP membership relative to the population is 6.5% in China, and 4.7% in Vietnam (Hernandez *ibid.*).<sup>436</sup> To the extent these figures are reliable, the membership percentage was still substantially higher in Cuba than in its two Communist sister countries. Relative to the working population, 1 of each 5 working Cuban was a member of the Communist Party movement in 2016. Such impressive figures may express a situation of the past.

Another aspect to note is—as we have said before—that 40% of the party members are academics.

As shown in Table 9.2, the non-white population had exactly the same percentage of party affiliates as their share of the population at large (35%), while women were significantly under-represented (39% of affiliates). In terms of the representation of the two groups in decision-making bodies, non-whites were not far from their demographic share of the population in the Central Committee and in the National Assembly.

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<sup>436</sup> Figures taken from publicly available sources published on Wikipedia.

**Table 9.2: Percentage of coloured and women in leading Cuban bodies, 2016**

	<b>General Population</b>	<b>Members of the PCP</b>	<b>Central Committee of the PCP</b>	<b>Politburo</b>	<b>National Assembly</b>
<b>Black and mulatos</b>	35%	35%	31%	26% (2011) 29% (2016)	36% (2013) 41% (2018)
<b>Women</b>	49.9 %	39%	42% (2011) 44% (2016)	7 % (2011) 24% (2016)	45% (2013) 53% (2018)

**Source:** Hernández 2014, for membership of the PCP and the 2011 numbers; the 2016 numbers are based on official information when the new Central Committee was presented, *Granma*, 20.04.16. 2018 figures for the National Assembly: *cubadebate.cu*, 12.03.18

Women were actually over-represented compared to their share of party affiliation in both these bodies. In the top decision-making body, however, the Politburo, there has been a serious under-representation of both groups, although it was improved through elections at the 2016 Congress: the non-white share rose from 26 to 29%, whereas the female presence quadrupled, percentage-wise from 7 to 24%.<sup>437</sup>

The representation of women in leading political bodies in Cuba has gone through a gradual progression. Their representation in the Cuban Parliament (Asamblea Nacional del Poder Popular) is shown in Table 9.3.

<sup>437</sup> The 2016 numbers are based on official information when the new Central Committee was presented, *Granma*, 20.04.16.

**Table 9.3: Representation of women in Cuban Parliament:**

Year	Percentage of women
1976	21.8
1981	22.7
1986	33.9
1993	22.8
1998	27.6
2003	36.0
2007	42.4
2013	45
2018	53.2

**Source:** (1976-2007): Proveyer Cervantes et.al 2015:417, Table 42.1. 2013-2018: Same as Table 9.2

As of 2018, Cuba is the third country in the world with a majority of women in the national parliament – with Rwanda having a distant lead (61.3%) and Bolivia being at an equal level of Cuba.<sup>438</sup>

In the more selective parliamentary body *State Council*, practically speaking the half (15/31) are women, whereas in the more decision-making *Presidency* of this body the female representation falls to 37.8 %.

In the Party's decision-making bodies, women have also increased their presence but from a more moderate point of departure. The Central Committee elected in 2016 has 44% women. The top decision-making body of the Party, the Politburo, had a very limited female representation before 2016 (only 1 out of 14 = 7%). This was significantly improved to 4/17 = 23.5% in 2016. It seems to be a great concern to have

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<sup>438</sup> Official statistics of Inter-Parliamentary Union, downloaded 13.05.18: <http://archive.ipu.org/wmn-e/classif.htm>

formal equal female representation in the larger bodies, whereas the pyramid narrows as it gets higher. This coincides with the situation in the labour market. In the health sector, for instance, 70% of all workers and 56% of doctors are women, but they are clearly under-represented in management positions. Gender researchers in Cuba therefore still talk about a “glass ceiling” that prevents women from reaching decision-making positions (Proveyer Cervantes et.al 2015).

In terms of income, gender discrimination is prohibited by law. In reality, there is still a salary gap for one main reason: women take more family responsibility, particularly for children, and therefore are more frequently missing work.

The professional background of party cadres is another relevant factor. Primary and middle school teachers are prominent at provincial level and in the party-affiliated social organisations. At the higher level, in the Politburo and in the Council of Ministers, the dominant profession is engineers, some of them civilian and others military. And the military, of course, have a dominating position in the Politburo (see later in this section plus Indicator 7.5).

#### **Indicator 7.4: More differentiation between Party and State functions and leaders?**

Cuba’s *legislative* body, the 605-member strong *Asamblea Nacional de Poder Popular*—the National Assembly<sup>439</sup>—has only two brief ordinary sessions every year. In-between these sessions, the de facto legislative function is taken care of by the 31-member strong *Consejo del Estado*—the State Council.

The *executive* body is the *Consejo de Ministros*—the Council of Ministers.<sup>440</sup>

There is an overwhelming overlap between leading positions in party, legislative and executive bodies in Cuba, although it was significantly reduced from 2013 to 2018.

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<sup>439</sup> The number of delegates seems to have been reduced from 612 in 2013 to 605 in 2018.

<sup>440</sup> The composition of the new President Díaz-Canel’s Council of Ministers will only be announced in July 2018, after this Thesis was submitted. It remains to be seen whether he will significantly modify the heavy overlap between the legislative and executive branches of government that we show in the following.

**Table 9.4: Overlap between State Council and Party Leadership**

	<b>2013</b>	<b>2018</b>
Share of State Council <i>Presidency</i> drawn from Politburo	6/7 = 85%	4/7 = 57%
Share of State Council <i>general members</i> drawn from Politburo	12/15 = 80%	9/15 = 60%
Share of State Council drawn from Central Committee	23/31 = 74%	19/31 = 61%

- The Share of the State Council Presidency drawn from the Politburo of the Party was reduced from 85% to 57%.
- The share of the State Council members drawn from the Politburo was reduced from 80% to 60%.
- The share of State Council members drawn from the Central Committee of the Party was reduced from 74% to 61%. We register that only one of the 11 new members of the State Council elected in 2018 was a member of the Central Committee.
- 8 of the 15 Politburo members are also members of *executive body Council of Ministers*, which 7-member Presidency has only two members from outside the Politburo. Only one member of Council of Ministers Presidency is NOT member of the Central Committee (Economy Minister Ricardo Cabrisas).

Furthermore, there is a general overlap of membership between the legislative and executive bodies, that is to say that these crucial government functions have no real distinctions in their composition:

- 5 of the 8 members of Council of Ministers Presidency are also members of the State Council.

- 4 of the 7 members of State Council Presidency are also members of the Council of Ministers Presidency.

Five top cadres personified the perfect coincidence between the party and the two government bodies until 2018:

*Raúl Castro* personally combined the top positions of all three bodies: First Secretary of the Party, President of the Council of Ministers and the Council of State.

*Machado Ventura* was Second Secretary of the Party and leader of its Secretariat, and member of the Presidency of both Councils.

*Díaz-Canel* was member of the Politburo, and First Vice President of both Councils (and de facto deputy Head of State).

*Ramiro Valdés* was member of the Politburo, and member of the Presidency of both Councils.

*Marino Murillo* was member of the Politburo, member of the Presidency of the Council of Ministers, and ordinary member of the Council of State. Until mid-2016 he was Minister of Economy and Planning; after that he was relieved of that position in order to concentrate on the task of coordinating the Commission to implement the economic reforms.

Of these, only *Díaz-Canel* and *Valdés* were elected to the new State Council in 2018, while *Morales Ojeda* was added.

The bottom-line here is that there is *no consideration for checks and balances in Cuba's system of government*: there has been a complete coincidence of responsibilities between the top of the Party, the Legislative, and the Executive bodies of Government. *Raúl Castro* signalled that party and government functions must be more distinguished. It remains to be seen whether the reduction in overlap between Party and State Council noted in 2018 will be a permanent feature, or only a temporary consequence of the

generational change. In his farewell speech to the National Assembly in April 2018, Raúl Castro drew up a plan for Díaz-Canel to combine the Party and State leader functions from 2021 (see Indicator 9/2).

Cuba was until 2018 basically governed by a group of “12 Apostles” of which there was an inner core of the five listed above. These are the eleven men and one woman who were re-elected to the Politburo in 2016: five top military, ten white, three in their eighties and four in their mid- or late-seventies.<sup>441</sup>

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<sup>441</sup> We did not include the five newcomers elected to the Politburo at the 7<sup>th</sup> Party Congress, since they were at the time still quite inexperienced in the Cuban power game and most of them had no clear proper power base (perhaps with the exception of the CTC (Trade Union) SG Nacimiento). This inner circle of power brokers probably also includes the economy minister and Vice President of the Council of Ministers, Ricardo Cabrisas, Raúl’s son Alejandro, coordinator of the Commission for National Defense and Security, perhaps some members of the Central Committee Secretariat and a few of the military corporation managers like GAESA CEO Rodríguez Lopez-Callejas.

**Table 9.5: “The Twelve Apostles” of Cuba**

(Until 2018)

	<b>Born</b>	<b>Party pos.</b>	<b>Legislative (State Council)</b>	<b>Executive (Council of Ministers)*</b>	<b>Military</b>
<i>Raúl Castro</i>	1931	1st Secr.	President	President	Commander-in-Chief
<i>Machado Ventura</i>	1930	2nd Secr.	Vice-Pres.	Vice-Pres.	Sierra Maestra Veteran
<i>Díaz-Canel</i>	1960	Politburo	1st Vice-Pres.	1st Vice-Pres.	Sub-off, Mission to Nicaragua
<i>Lazo Hernandez (black)</i>	1944	Politburo	Pres. Nat. As.		
<i>R. Valdés Menendez</i>	1933	Politburo	Vice-Pres.	Vice-Pres.	Rev. Commander
<i>Valdés Mesa (black)</i>	1950	Politburo	Vice-Pres.		
<i>Cintra Frías</i>	1941	Politburo	Member	Min. Armed Forces	General
<i>Rodríguez</i>	1958	Politburo		Min. Foreign Affairs	Officer, Angola
<i>Murillo</i>	1961	Politburo		Vice-Pres. (“Economic reform czar”)	Graduate of Nat. Defence College
<i>Mercedes Lopez-Acea (coloured, woman)</i>	1964	Politburo (Party Secretary Havana)	Vice-Pres.		
<i>López Miera</i>	1943	Politburo	Member	1st Vice-Min. Armed Forces	General
<i>Espinosa Martín</i>	1939	Politburo		Vice-Min. Armed Forces	General

\*As it was composed until July 2018

Of these twelve, only six remained in their legislative positions after April 2018, while one new (Minister of Public Health Morales Ojeda) was added.

In the hypothetical case that a disagreement should emerge between the Parliament (including State Council) and the Party, there is no doubt that the Party would have the final say. An illustration of this came when the National Assembly in its 1 June 2017 session was invited to ‘support’, but not to ‘approve’, the strategy documents that originally had been presented to the 7<sup>th</sup> Party Congress. First Vice President Díaz-Canel made it clear that “everything that is approved here [in the National Assembly] are recommendations to be valued by the higher instances of the Party”<sup>442</sup> (S/E). The official launch of the final versions of these documents, on behalf of the Party, came in the following month (July 2017).

#### **Indicator 7.5: Any change in the role of the Military?**

“In Cuba, the supreme power lies in the armed forces and not in the State, the Government or even in the Communist Party”.<sup>443</sup>

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<sup>442</sup> Reinaldo Escobar: “El Parlamento se coloca su nueva camisa de fuerza”. *14ymedio*, Havana, 1.06.17.

<sup>443</sup> Roberto Álvarez Quinonez, ex-analyst of Granma and Cuban Television, now analyst with Telemundo, quoted in *El Nuevo Herald* (Miami) 31.01.16 “Cuba: Jerarquía y Sucesión”.

#### The Cuban military hierarchy

- Raúl Castro Ruz, *Comandante en Jefe (Four-star)*, Head of State and Government, First Secretary of PCC
- Ramiro Valdés, *Comandante histórico de la Revolución*, Vice-President of State Council and Council of ministers, Member of Politburo PCC
- Leopoldo Cintra Frías: *General de cuerpo de ejército (Three-star)*, Minister of Armed Forces, Member of Politburo PCC
- Álvaro López Miera: *General de cuerpo de ejército (Three-star)*, First Vice Minister of Armed Forces and Joint Chief of Staff, Member of Politburo PCC
- Joaquín Quintas Solá: *General de cuerpo de Ejército (Three-star)*, Vice-Minister of Armed Forces, Member of Central Committee PCC
- Ramón Espinosa Martín: *General de división (Two-star)*, Vice Minister of Armed Forces, Member of Politburo PCC
- Julio César Gandarilla: *Vicealmirante (Two-star)*, Minister of the Interior, Member of Central Committee PCC
- Onelio Aguilera Bermúdez, *General de División (Two-star)*, Head of Oriental Army, Member of Central Committee PCC
- Raúl Rodríguez Lobaina, *General de División*, Head of Central Army, Member of Central Committee PCC
- Lucio Morales Abad, *General de División (Two-star)*, Head of Occidental Army
- Leonardo Ramón Andollo Valdés, *General de División*, Deputy Joint Chief of Staff, Deputy Head of Gaesa and military representative in economic Reform Commission, member of Central Committee PCC
- José Amado Ricardo Guerra, *General de Brigada*, Secretary of the Council of Ministers (until 2018)
- Humberto Francis Pardo, *General de Brigada*, Head of Dirección de Seguridad Personal, Ministry of the Interior (and responsible for the elite anti-disturbance troops)

The role of the military institutions and higher military officers in the party and government structures in present-day Cuba must be sought in a combination of the military origins of the Cuban revolution, and the new role ascribed to the military-controlled corporations during the Special Period of the 1990s (ref. Indicator 2.3). The key to understand this is how Raúl Castro brought in his most trusted military colleagues for *crisis management* of the state corporations during the Special Period, He repeated this through a full Cabinet renewal once in full charge of the country after Fidel's illness, after firing the 'young Talibans' that Fidel had promoted—all in March 2008. It is important to remember that Fidel left it to Raúl to take full control of the Armed Forces ever since he became defence minister from the very beginning of the revolutionary regime, in 1959.

However, there is a difference between these two cases: while many of the corporate managers were relatively younger and also constantly reproduced themselves by incorporating younger people, very few younger officers have been promoted to leading political positions. *It may therefore appear that the increasing military dominance in the economic life is not matched on the political arena—where military influence actually seems to be diminishing.*

Looking at the military influence in Party and Government institutions, there are some quite significant facts: Three generals (Raúl Castro plus the Minister and Vice Minister of Defence) were members of all three top power bodies until 2018 (Politburo, Council of Ministers Presidency, State Council Presidency), and so was the *Comandante de la Revolución*, Ramiro Valdés.

The Politburo, the leading decision-making body of the Party, is still (after the 2016 Party Congress) an arena controlled by the “*Históricos*” and the old military officers. Two are *Comandante de la Revolución*, another three are full generals, and at least two others (Machado Ventura and Murillo) have a military background. The three top members of the country’s military hierarchy, the Minister and two Vice Ministers of Defence, one of them also the Joint Chief of Staff (López Miera),<sup>444</sup> all remain at the apex of the Communist Party; whereas the new Minister of the Interior, Julio Cesar Gandarilla (replacing Colomé Ibarra and his substitute, Fernandez Gondín, who died in January 2017) is only member of the Central Committee (not the Poliburo).<sup>445</sup>

While the military dominance might seem to be overwhelming, percentage-wise it is actually falling. Even more noteworthy, the remaining generals at the top are more than 70 years old and not eligible for re-election to Party positions in 2021. Interestingly, no

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<sup>444</sup> Born in 1943, Lopez Mieira is the youngest and allegedly the most capable of the “historic” generals. He was under Fidel’s personal protection since, at the age of 14, he went up to the Sierra Cristal to fight against Batista’s army, always under Fidel’s direct command. López Miera is the First Deputy Minister of the MINFAR, head of the General Staff, and in practice said to be more in day-to-day charge of the Ministry than the minister, General Leopoldo Cintra Frías (“Polo”).

<sup>445</sup> General Gondín was the deputy head of the first reconnaissance mission sent by Fidel Castro to Angola in July 1975 (headed by Raúl Díaz Argüelles), preparing what became the largest Cuban military operation abroad. He died in January 2017 and was replaced as Minister of the Interior by Gandarilla, previously Head of the department of counter-intelligence for 16 years, a man reported to be very close to Raúl Castro.

younger officers have been added to the Politburo on Raúl's watch, not even to replace those going out (Rosales del Toro in 2011, Colomé Ibarra in 2016), or to balance the five younger civilians that were brought into the Politburo in 2016. The military dominance in the Politburo dropped from 50% (57% if we include ex-officers) to 40% from 2011 to 2016, and without new promotions it will almost disappear in 2021.

In the Central Committee elected in 2016, we have identified seven remaining military officers along with the five generals/*Comandantes* on the Politburo, for a total of less than 10% (without including others that might have a mixed civilian-military background). Among them are the Minister of the Interior (Gandarilla), the one Vice Minister of Defence (Joaquín Quinta Solas) who is not on the Politburo, and two of the three regional army commanders: Onelio Aguilera Bermúdez, Chief of the Eastern Army; Raúl Rodríguez Lobaina, Chief of the Central Army. Lucio Morales Abad, Chief of the Western Army, was not re-elected to the Central Committee. All three of these army generals, now in their fifties, were promoted to their key military positions between 2007 and 2008, substituting the present minister and vice ministers of Defence. They all had a history of service in Angola and/or Ethiopia (López Levy 2015). So, the Central Committee contains a powerful group of military officers who may continue beyond the generational change, so to say the runners-up to those sitting on the Politburo. But they represent a relatively small share of this second-hierarchical body of the Party.

In the government bodies, the military presence has also subsided significantly since Raúl Castro filled the ministerial positions with his military confidants in 2009. As shown in Table 9.4, there was a quite dramatic reduction of men in uniform in the new State Council elected in 2018, and both here and in the full National Assembly they now represent quite a small group. Where they still hold a strong position is in the Presidency of the Council of Ministers (at least prior to the appointment of a new Council of Ministers in July 2018), where practically all eight members apart from Díaz-Canel are higher officers or have a military background. The only line ministries still headed by military officers are Defence, the Interior, Informatics and Communication (Mesa Ramos), Transport (Yzquierda Rodríguez—the latter for some reason disappeared from the Politburo in 2016), and Tourism (Marrero Cruz).

Apart from the Presidency of the Council of Ministers, still waiting for the new President’s appointments, the military therefore seem to have a significantly less prominent role in state bodies than they used to have, and less than in party bodies. This could be an interesting development.

**Table 9.6: Military presence in top Party and State bodies**

(Including persons with prominent military background no longer in active military service; in National Assembly only active military officers)

	<b>2011-2016</b>	<b>2016-2021</b>
<b>Politburo</b>	8/14 = 57%	6/17 = 35%
<b>Central Committee</b>		15/142 = 11%
	<b>2013-2018</b>	<b>2018-2023</b>
<b>State Council</b>	7/31 = 23%	3/31 = 10%
<b>Council of Ministers*</b>	13/33 = 40%	
<b>Line ministers</b>	6/22 = 27%	
<b>National Assembly</b>		22/605 = 3,5%

\*Until July 2018 consisting of the Presidency (8 including Secretary), 22 line ministers, plus four national institutions with ministerial rank: Banco Central de Cuba, Instituto Cubano de Radio y Televisión, Instituto Nacional de Deportes, Educación Física y Recreación, Instituto Nacional de Recursos Hidráulicos).

**Source:** Official Cuban sources

All this seems to be in accordance with previous statements from President Castro, that the dominant role of the military appointed to top government responsibilities right after he took over as President, was not meant to be permanent.<sup>446</sup>

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<sup>446</sup> Frank (2013:204) tells of an interesting episode from a meeting between Raúl Castro and Cardinal Ortega when they met in April 2010 to discuss the release of political prisoners: "The Cardinal asked Raúl why he had appointed so many military men to his government. Raúl said simply that the country was in crisis and he had turned to men he knew and trusted, but that this would change over time".

This does not necessarily mean that the military are losing the political hegemony in Cuba. Where civilians become dominant among line ministers, they may in many cases be acting under supervision by military and security heavyweights, sitting on the Presidency of the Council of Ministers. Three of the Council's Vice Presidents (until July 2018), have no line minister responsibility but rather a superior political responsibility vis-à-vis line ministries: Ricardo Cabrisas, taking over from Murillo as Minister of Economy in mid-2016, is a previous intelligence officer (from DGI), and intimate Fidelista loyalist.<sup>447</sup> He has played a key role in international economic and investment affairs, and is also seen to be a supervisor of the Ministry of Foreign Trade and Investment. General Ulises Rosales del Toro, member of the Politburo until 2011, is a previous Joint Chief of Staff who is now overseeing the ministries of agriculture, sugar and food industry.<sup>448</sup> And Ramiro Valdés, the old-timer *Comandante*, has a similar role in the energy (and possibly mining) sector.

When discussing the relative power position between the Military and the Party, it has been emphasised that—according to the Cuban Constitution—the Military are accountable to the Party in their quality as Party Members (*Militantes del PCC*), but not the other way around. According to Article 5 of the Cuban Constitution, the Communist Party is superior to all other powers of the country, including the National Assembly (which has the prerogative to elect all leading members of the country's executive and judicial powers). As long as there has been an almost total overlap between the party, military, and government structures, this was more of an academic question. After 2018, however, with a non-military Head of State (*Presidente del Consejo de Estado*) who is also by implication Commander in Chief, that question may become crucial. To put it bluntly: will President Miguel Díaz-Canel be able to exercise his superior powers vis-à-vis the

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<sup>447</sup>Cabrisas Ruiz (born in 1938, man of colour, from a poor Havana family), was never part of the Sierra Maestra guerrilla, did participate in the clandestine urban activities of the July 26th Movement. After 1959 he joined Cuba's General Intelligence Directorate (DGI), becoming a distinguished operative and chief of DGI's station in Canada for several years until he was appointed Deputy Minister of Foreign Trade in 1970. Later, he worked directly with Fidel Castro (as special envoy) in matters concerning Cuba's participation in international and regional organisations, and also under Raúl he maintains an important role in Cuba's foreign policy. (Source: Cuba Transition Project, University of Florida, <http://ctp.iccas.miami.edu/Organizational/Biographies/Ricardo%20Cabrisas%20Ruiz.pdf>, downloaded 7.07.16).

<sup>448</sup>Rosales del Toro (born in 1942), veteran from Sierra Maestra, was member of the Politburo until 2011. He was part of the first international military mission (Algeria, 1963), also in Venezuela (1967), and in Angola (where he headed the Southern Troops). During 17 years (1981-1997) he was head of the General Staff, before he was appointed to two ministerial positions (first sugar, then agriculture). (Source: Cuba Transition Project, op.cit.).

Armed Forces? That may be *the* crucial question about Cuba's political future. As long as his Mentor Raúl Castro, the undisputed authority in the armed forces, stays in the position as Party Leader (until 2021), that is Díaz-Canel's best guarantee that the generals will be loyal. What happens after 2021 is another ball game. It has been noted that Díaz-Canel worked closely with four key generals in his previous positions as provincial party secretary: two of the defence vice ministers (Espinosa Martín and Quintas Solá), and with the younger and possible future top commanders Aguilera Bermúdez and Rodríguez Lobaina.

Cuba's *National Defence Council (Consejo de Defensa Nacional)* is mandated by the Constitution to exercise full emergency power when a state of war or emergency has been declared. This Council has until now never been in function. During such exceptional situations, however, it will be the maximum organ of state and political power, including military preparation and armed struggle; interior and security order; foreign policy; economic and social activities; the judicial system; and civil defence. The Defence Council will consist of the President and Vice President of the State Council plus five members designated by the State Council (i.e. the Legislature), following proposal by its President.<sup>449</sup>

This constitutionally based body has until now never been in function. Instead, another body without any formal legal mandate and quite mysterious role was established and seemed to play a prominent role behind the scenes: the *National Defence and Security Commission (Comisión de Defensa y Seguridad Nacional)*, which according to some observers "functions like a parallel government",<sup>450</sup> headed by Raúl's son, Interior

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<sup>449</sup> Ref. homepage of Cuba's Ministry of Defence (MINFAR): <http://www.cubadefensa.cu/?q=constitucion#> (downloaded 24.01.18).

<sup>450</sup> Juan Juan Almeida (son of the late guerrilla commander Juan Almeida Bosque, the de facto number three in Cuba's political hierarchy after the Castro brothers for many years), now living in the US and acting as a leading critic of the Cuban government, apparently well informed about certain secret aspects of the Cuban government and military, writing for *Martí Noticias*, downloaded 1.08.16. Almeida claims that this Commission is structured much in the same way as Fidel Castro's old "*Grupo de Apoyo*", with extra-official superior powers above all formal institutions. He also has a theory about superior powers to be exercised from Raúl Castro's residence (*La Rinconada*), where he gathers his family for Sunday lunch and takes all major party and state decisions together with his closest family members.

Ministry Coronel Alejandro Castro Espín, who is supposedly also the Coordinator of the Intelligence and Counterintelligence Services.<sup>451</sup>

“This ‘parastatal’ group with unlimited powers and without any legal provision, works as a parallel government with i.a. the following functions: planning, directing and inspecting the services of the ministries and the bodies of State Security; participating in the regulation and control of all entities ascribed to and linked with the central bodies of State administration; exercise and supervise, under his responsibility, the functions entrusted by the President of the Republic” (Almeida, as quoted in previous footnote, op. cit.).

According to sources in Havana, so far not officially confirmed, this Commission ceased to exist shortly before the election of a new President in April 2018.<sup>452</sup> There has been a lot of speculation about the role of Alejandro Castro, with many exile commentators claiming that he has been selected by his father to succeed him as the future superior leader of the country.

Alejandro Castro was also part of the top-secret group that prepared the process to start normalisation between Cuba and the US. The US negotiators actually talk very positively about his role in that process, in spite of his heavy anti-imperialist rhetoric.<sup>453</sup> He has also been very actively engaged in security collaboration with Russia. Still with the military degree of Coronel, it was widely believed that he would be promoted to a full General and included in the Central Committee (if not Politburo) at the 7<sup>th</sup> Party Congress. Neither happened, and he is also absent from the new National Assembly coming together in 2018, among whose members the new President was elected. After the alleged dissolution of the *Comisión de Defensa*, his power position is even more in the blue. We may take this as a sign that the Castro brothers did not want the establishment of eternal family nepotism in Cuba.<sup>454</sup>

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<sup>451</sup> In Spanish: *Jefe de Coordinación e Información de los Servicios de Inteligencia y Contrainteligencia de las FAR y del Ministerio del Interior*.

<sup>452</sup> Juan Juan Almeida, *MartíNoticias*, 5.03.18: <https://www.martinoticias.com/a/gobierno-cubano-reestructura-poderosa-comision-defensa-seguridad/163542.html>

<sup>453</sup> His quite dogmatic anti-imperialism and lack of esteem for liberal democracy, was clearly expressed in the quite rare interview he gave in January 2015, shortly after the re-establishment of relations with the US that he himself had been actively negotiating: <http://projectcensored.org/interview-with-alejandro-castro-espın/>. Castro, being presented as Doctor of Political Science, was interviewed in Athens where he presented the second edition of his book “Empire of Terror” that was originally published in Cuba in 2009.

<sup>454</sup> Almeida; and Martha Beatriz Roque Cabello, “De secretos y generales”, *Cubanet*, 29.02.16. See also Indicator 9.1.

*Managers of military and other state enterprises:*<sup>455</sup>

The undisputed head of GAESA, its Executive President, is a very discrete personality, General Luis Alberto Rodríguez López-Callejas. He is moreover Chief of the crucial Fifth Department of the Armed Forces, in charge of its business interests. Until 2013, he was also Raúl Castro's son-in-law, and is still seen by some observers as the Castro family's link to the country's economic elite.<sup>456</sup> At the 7<sup>th</sup> Party Congress in April 2016, Rodríguez Lopez-Callejas was also elected as a member of the Party's Central Committee. Rodríguez is by many seen as the Castro family's personal representative in the military-economic web of institutions.<sup>457</sup> He is obviously a person to watch closely when it comes to future leadership positions, economically as well as politically.

A second top military to watch from the military-controlled corporations is General Leonardo Andollo Valdés, who in 2016 led GAESA's intervention of the Habaguanex, the institution previously controlled by Havana's official Historian to oversee investments in Old Havana. Andollo Valdés is Deputy Head of the Joint Chiefs of Staff, and military representative in the *Comisión de Implementación* of the reforms, second only to Marino Murillo. Andollo Valdés, one of the relatively younger top military officers, is also a member of the Central Committee of the PCC, and a rising military, political, and economic leader to keep tabs on.

Generally speaking, leaders of GAESA and other military corporations are clearly candidates to play dominant economic as well as political roles in post-Castro Cuba.

There is a great question mark about the real political role the military will have when Raúl Castro leaves the stage along with his fellow historical brothers-in-arms, first as Head of State in 2018 and then as Head of the Party in 2021 (if he is still alive and in full capacity). He has personalized a complete control of the military institution since 1959. There is no obvious candidate to take over this role. There are clear signs that he has reduced the direct *political* role of the military over the later years on his watch, while

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<sup>455</sup> For a discussion of the military corporations' role in the Cuban economy, see Indicator 2.3.

<sup>456</sup> Against some odds, Rodríguez Lopez-Callejas survived politically the divorce from Raúl's daughter Deborah, and seems to maintain strong family links by being the father of Raúl's apparent favourite grandson and head of his personal security, Raúl Guillermo Rodríguez Castro, alias "El Cangrejo" ("The Crab").

<sup>457</sup> Same sources as quoted in previous note.

its *economic* role is increasing. So, the question is whether the institution is prepared to continue its dominant role post-Raúl, or what new role it will take under what leadership.

### **Indicator 7.6: Bureaucracy as barrier to reforms?**

“[...] [T]hat huge monster that has confiscated society” (“[...] [E]se aparataje descomunal que ha decomisado la sociedad”).

(Alfredo Guevara (1925-2013), founder and President of the Cuban film institute (ICAIC), close friend of Fidel Castro and the one who probably taught him the first lessons of Marxism).

The fifth of Linz and Stepan's transition arenas is a *state bureaucracy* that is “usable by the new democratic government”, with an effective capacity to command (monopoly of legitimate use of force), regulate (prepare laws) and extract (compulsory taxation).

Whereas in many countries in transition the problem may be the lack of a competent state, the situation in Cuba is quite the contrary: an omnipresent state monopolising most functions in society. Raúl Castro himself has been complaining about the bureaucracy as a barrier against reform throughout his time as head of state. “I warn that all bureaucratic resistance to strict compliance [with the reforms] will be useless”, he told the National Assembly on 1 August 2011, shortly after the 6<sup>th</sup> Party Congress had approved the reform programme.<sup>458</sup> At hindsight, it may seem that this bureaucratic resistance has not been so useless, after all. It is perhaps indicative, that in his 12,500 words long *Central Report* to the 7<sup>th</sup> Party Congress in 2016, the word ‘bureaucracy’ is completely missing.

It is obvious that the Cuban bureaucracy has been much more of a hindrance than a facilitator of any reform pointing towards the reduction of the role of the state in the economy. To the extent that political reforms are seriously put on the agenda,

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<sup>458</sup> “Raul Castro showing impatience at slow reform pace”, *Reuters, Havana*, 23.08.11.

opposition from the state bureaucracy has been even stronger, not even overcome when there has been a concerted effort from the top hierarchy to change it. One difference between Fidel and Raúl in this regard is that Fidel could get the bureaucracy squarely behind almost any decision, how haphazard it might be. Raúl's on the other hand, while insisting on a much more institutionalised form of government, is paradoxically having a harder time to get the bureaucracy in line, probably because he does not possess the unique charismatic powers of his elder brother. When Raúl Castro has accused the bureaucracy of boycotting or slowing down many of the reform processes, we can almost interpret this as a widespread practice of 'civil disobedience' within the state bureaucracy. It may seem that Raúl has given up his efforts to paralyze this resistance.

Bert Hoffmann (2016:1731) has discussed the process when Fidel Castro was forced to leave the centre stage of Cuban politics: "[...] what followed was not the replacement of the charismatic leader with a new one to take his place, but rather the dismantling of the deeply entrenched personalist character of Cuba's political order. Charismatic socialism was replaced with bureaucratic socialism". He speaks about a process of re-institutionalisation, and a farewell to personalist politics.

Hal Klepak (2012:93-98) writes about Raúl Castro's 'military way' of going about business as a state leader, "the quiet but effective way that he was so well-known for in the FAR [Armed Forces], on keeping the Revolution going [...] to ensure revolutionary survival". "Without micro-management, no constant calls to provide progress reports, but strict judgement of the quality of the product, Raúl had confidence in the institutions where Fidel wanted a personal hand on all processes".

The problem may have been that the military institution that Raúl was heading for more than 45 years was a much more homogenous and well-functioning institution than any other part of the Cuban state bureaucracy. The latter was simply not manageable in the same way.

Cuba's strong state may be an envy of many third world countries with hardly functioning states. But the Cuban state apparatus is getting increasingly ineffective and irrelevant to regulate. Raúl Castro's insistence in 2012 on a clearer distinction between

the roles of the party and the state may be taken more seriously on the bureaucratic than on the political level, but the bureaucracy has not shown impressive capability to implement such change. The lack of transparency and the bureaucracy's unwillingness to support reforms put a question mark on whether this condition may easily be fulfilled.

Under Challenge 1 and 2, we have shown how this resistance to economic reform has manifested itself in practice. What is the basis for this resistance? Is the resistance to reforms simply foot-dragging based on fear for change? Is it a consequence of the myriad of partly contradictory laws and regulations where the best protection for a bureaucrat afraid of committing errors is to put up a lot of red tape? Or is it more ideologically inspired, perhaps paying allegiance to the most prominent enemy of the market economy, Fidel Castro himself, as long as he was still around? The latter thesis is maintained by Samuel Farber (2006), himself a strong critic of market reforms, referring to this resistance as 'neo-Fidelismo':

"While neo-Fidelismo is going to be an important political current resisting the neoliberal trend in Cuban politics during a post-Communist transition, it will do so in the only way it knows how: in a bureaucratic, authoritarian and paternalist manner unable to tap the democratic roots of the popular resistance to capitalist neo-liberalism".

One problem here is the lack of incentives. With the miserable salaries offered for state employees, dedication to tasks in government agencies is minimal. Much of the working hours are spent on solving private necessities. The only incentive may be in access to bribes. Corruption is thriving in the provision of services to the population, and efficiency is very low.

But perhaps the most important cause of this bureaucratic 'civil disobedience' has been the fact that state and party bureaucrats have been so prominent among the early losers of the reforms (ref. Indicator 4.1).

One of the disincentives to reform in the bureaucracy stems from the negative attitude—in many cases jealousy—that often exists vis-à-vis those who are setting up business outside the state. Here we find problems related to Linz and Stepan's fifth

transition arena: *the private sector and bureaucracy*. As claimed by Kornai (1992:450): “[A]lthough one of the bureaucracy’s mental compartments is aware that it needs the private sector, another compartment of the same mind nurses a smoldering distaste and hatred for private ownership and individual activity”.

One of the consequences of this arbitrariness, as observed by Kornai during the transformation of the USSR and other ex-socialist countries, is the growing black and grey markets, where “masses of people perform semi legal, informal economic activity tolerated by the authorities” (p. 452). The resistance against letting small-scale businesses grow into serious companies through a myriad of legal or political measures is continuously manifesting itself in such processes. There is a general arbitrariness without access to redress. Kornai is again hitting the Cuban reality, when he speaks about a vicious circle:

“[P]rivate sector under reform socialism [...] often show [...] the worst, not the best side of capitalism. That heightens the antipathy toward them, which is a stimulus and argument for the bureaucracy to be even more hostile toward them [...] resulting in a bitter coexistence” (p. 455).

Carlos Saladrigas, one of the diaspora entrepreneurs who has shown most interest in contributing to support island colleagues, has stated very clearly that the character of the Cuban state has to change, from an “obstructionist state” to a “facilitator state”, in order to attract investments from the diaspora.<sup>459</sup>

There is of course a big paradox here: pro-reform forces within the system—like Raúl Castro himself—tend to blame all problems on the abstract concept ‘bureaucracy’, while everybody knows that the bureaucracy is basically the executive branch of the state under the command of the country’s President.

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<sup>459</sup> Saladrigas quoted from Cuba Posible Seminar, New York, May 2016 (according to author’s notes).

## Challenge 8: Moves towards a less authoritarian and more pluralist political system

### Indicator 8.1: New ideological trends?

The 2016 Party Congress was summarising how much of the *Guidelines* approved five years earlier that had been implemented—as intended—during the five-year interval. As recognised by Raúl in his Central Report to the Congress (Castro 2016), only 21%—one fifth—of the 313 *Guidelines* had been totally implemented, while 77% were to be found in different phases of implementation.

We have noted throughout the discussion of the previous challenges how the reform process has been zigzagging during the period we are studying here, probably reaching a climax around 2015. During 2016-2017, it is difficult to characterize what happened as anything but *a counter-reform*.

Three ideological documents, accompanied by a note defining basic concepts, were presented to the 7<sup>th</sup> Party Congress in April 2016, after several months of internal discussions and several failed attempts to reach a Central Committee pre-Congress agreement on it. The documents were finally adopted by the Central Committee more than one year later:<sup>460</sup>

- *'Conceptualización del modelo económico y social cubano de desarrollo socialista'*;<sup>461</sup>
- *'Lineamientos de la política económica y social del Partido y la Revolución para el período 2016-2021'*;<sup>462</sup>
- *Aceptación de algunos términos utilizados en la conceptualización del modelo económico y social cubano de desarrollo socialista y en las bases del Plan Nacional de Desarrollo económico y social hasta el 2030.*<sup>463</sup>

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<sup>460</sup> <http://www.cubadebate.cu/especiales/2017/07/13/lea-los-textos-definitivos-de-la-conceptualizacion-del-modelo-cubano-y-la-actualizacion-de-los-lineamientos/#.WgBOrraDrwc> (downloaded 6.11.17).

<sup>461</sup> Conceptualización del modelo económico y social cubano de desarrollo socialista – pdf 510 kb.

<sup>462</sup> Lineamientos de la Política Económica y Social del Partido y la Revolución para el periodo 2016-2021 – PDF 321 kb

The first of these, the *conceptualización*, is an attempt to present the ‘model for Cuban socialist economic and social development’ that had been missing from the 2011 ‘updating’. The supposed model was to be based on the following eight basic ‘socialist principles [...] that sustain the Model’ (paragraphs 58-73 of the document):

The following is a brief summary of the main elements of this document (S/E):

1. *A series of basic humanistic social values—oddly mixed with ‘anti-imperialism’:*

“The human being is the main objective and protagonist subject; his dignity, full equality and freedom, carrier of national culture and identity, and values such as love for the Homeland and Humanity, heroism, patriotism, anti-imperialism, solidarity and internationalism. Other essential values of our ideology are: loyalty, honesty, modesty, industriousness, responsibility, altruism, humanism, disinterest, respect for others and the environment.”

In a previous version, these qualities were presented as the opposite of bad values like “selfishness, individualism and predatory consumerism.” The reference to these ‘anti-socialist’ values were interestingly taken out of the final version.

2. *The Communist Party as the vanguard:*

“The *leading role of the Communist Party* of Cuba, the unique and organised vanguard of the nation, (representing the thinking of José) Martí, Marx, Lenin and Fidel, superior leading force of society and the state, expression of the unity of all Cubans under the leadership of the Revolution, of the humble, by the humble and for the humble, on the basis of its prestige, moral authority, exemplarity and links with the people.”

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<sup>463</sup> Aceptación de algunos términos utilizados en la Conceptualización del modelo económico y social cubano de desarrollo socialista y en las bases del plan nacional de desarrollo económico y social hasta el 2030 – [PDF 176 kb](#)

3. *The inclusion of the concept of 'democracy' was apparently the subject of great discussion—but it ended up as one of the basic principles of the Cuban model, with the qualification 'socialist democracy', based on an interesting mixture of direct and representative democracy:*

“Socialist democracy based on the active participation of its citizens, in the exercise of sovereign power of the people, from which originates all the power, expressed directly or indirectly through representative bodies, such as the assemblies of People's Power and other organs of the State and Government that derive from them....”<sup>464</sup>

4. *The socialist state as the basis for preservation of all national values, and as guarantor of the Cuban version of human rights and rule of law:*

“The socialist state is the guarantor of equality and freedom, independence, sovereignty, popular participation and control, development of the country, preservation of national identity, heritage of the nation, its historical memory, culture and other conquests. It guarantees, in turn, the exercise and protection of economic, social, cultural and civic-political, individual and collective rights and duties, in accordance with the Constitution of the Republic and the laws.”

5. *“Socialist property of all the people of the basic means of production, as the main property form of the socio-economic system, basis for the real power of workers.”* This implies common ownership by all Cuban citizens, and legitimises their rights to participate in major decisions on the use of wealth and benefit from *universal and free social services*.
6. *Socialist planning*, a fundamental component of the management system of economic and social development.

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<sup>464</sup> This is in reality very similar to what already is in the Constitution, where the word 'democracy' is mentioned only once, also with the adjective 'socialist' (Art. 68: “State agencies are set up to carry out their activity based on the principles of socialist democracy”).

7. *National defence of the Cuban system:*

“National defence and security are essential objectives to which the Party, the State and the Government give maximum attention, with the conception of the War of the People as the strategic foundation of the defence of the country. As long as imperialism exists, the revolutionary guard will never be neglected. History teaches too eloquently that those who forget this principle do not survive error.”

8. *Equal opportunities without any form of discrimination:*

“The moral and legal recognition of equality of rights and duties of citizenship and the guarantees to make them effective with equity, inclusion, social justice, political participation, overcoming social gaps, respect for diversity and confrontation with all form of discrimination by skin color, gender, gender identity, sexual orientation, disability, territorial and national origin, religious beliefs, age and any other distinction that is harmful to human dignity.”

Specifying right to work, health, education, citizen security, information, communication, culture, decent housing, etc.

If we shall summarise what this model is about, we may say that *Cuban socialism* is defined as deeply humanistic opposed to individualistic consumerism; with equal opportunities and without any form of discrimination; guaranteeing a Cuban version of human rights and rule of law; providing universal and free social services; all guided by a vanguard communist party; ruling through a mixture of direct and representative ‘socialist democracy’; state ownership of the basic means of production; and based on central socialist planning.

We may conclude that these principles represent neither any ideological renewal, nor a real development model, for future Cuban development. They basically confirm what the Cuban Revolution has been about since it found its Marxist-Leninist identity.

There are deep contradictions between glorious collective goals on one side, and means on the other side that are little more than wishful thinking in the context of the deep

crisis of the 'really existing Cuban socialism' (in its economic or political manifestation). As we are arguing in this dissertation, the Cuban version of human rights and rule of law is not up to basic international standards; the universal and free social services that once represented the most fundamental conquest of the Cuban revolution are under serious threat with opportunities growing increasingly unequal. The position of 'Vanguard Communist Party' in the Cuban society at large is probably weaker than ever since it was created and gradually losing its hegemony. The 'socialist democracy' is hardly perceived as very democratic by most ordinary Cubans. State ownership is in most cases threatened by deep inefficiency and massive theft, which may threaten its capacity to survive and provide employment even in some of the most strategic sectors of the economy. Central planning is more symbolic than real. The real challenge is to find a sustainable economic system that is capable of producing the surplus needed for 'Cuban socialism' to survive. The continued rejection of non-state capital accumulation and a functioning market economy will most probably at some point have to be left behind, along with the hesitation to integrate with global market structures, if a full collapse of the Cuban system is to be avoided and paradoxically if the humanistic and socialist values of this model shall survive.

The pretended model of 'Cuban socialist development' remains to be defined in practical terms, and is very hard to see how it may become sustainable in its present form.

### **Indicator 8.2: A political evolution towards more liberal regime characteristics?**

Raúl Castro has insisted during his reform era that his 'updating' project has been solely about the economy, not about politics. Several observers have been questioning this. Hoffmann (2016) claims that Cuban politics have undergone a major change under Raúl Castro's leadership, in spite of the rhetoric of continuity. He finds four main areas of change during these years:

1. The depersonalisation and re-institutionalisation of the political structures;
2. The de-facto surrender of the information monopoly particularly through new access to digital media;

3. The liberalisation of travel and migration, with its transformative impact on state–citizen relations;
4. The turn to a moderate foreign policy, as highlighted by the rapprochement with the United States, with its implications for the legitimising underpinnings of Cuban socialism.

Hoffmann has assigned the trademark *Cuba's bureaucratic state-socialism* to the Raúl Castro era: “[I]s inevitably in reform mode, as it needs to respond to domestic social demands and economic imperatives as well as to changing external conditions which are all exerting pressure to evolve further” (p. 1740).

Monreal (2015) claims that the on-going transformations have obvious political aspects without questioning basic power relations (i.e. the absolute hegemony of the Communist Party). He believes there has been a triple state reform under way: modification of the state’s institutional capacities (rules and regulations), technical capacities (macroeconomic policies) and administrative capacities (management of state infrastructure). He therefore questions whether ‘the main thrust’ of the reforms is economic and not political:

“[...] [I]t is necessary to emphasize that ‘the updating of the economic model’, is an episode markedly subordinated to the political question. It’s the political ‘thing’ (‘thing’ here understood in its ontological sense relative to the essence) that is determining and therefore subordinating to it the design and the dynamic of the economic updating, and not the other way round”(p. 5) (S/E).

One may question whether all these changes have been the result of conscious political decisions or simply a question of a necessary adaptation to new realities and technologies (e.g. the digital revolution). For whatever reason, there is no doubt that they have taken place.

We shall now try to understand whether pro-pluralist changes have been taking place, starting with a discussion in the light of *Linz and Stepan's (1996) four regime type criteria*, developed in their classical approach to the analysis of political transitions (ref. Chapter 4).

*Increasing economic and political pluralism:*

We have noted that the economic reforms being implemented under Raúl Castro's leadership are leading to an *increasing though still quite limited space for the non-state economy*, mostly on the basis of the growing number of self-employed (TCPs), the peculiar process of privatization in agriculture, and the new cooperative sector both inside and (still to a much lesser extent) outside of agriculture. The leasing of state property is another expression of this space. But we have also noted that some small- and even medium-size businesses have developed.

A closely related issue is whether, and to what degree, this has led to *the institutionalisation of the non-state economy*. In Linz and Stepan's words, *the market requires an infrastructure of institutions* that do not exist in a command economy. There has been heavy resistance against the conversion of small businesses normally established by TCPs into SMEs, let alone medium or large-scale private companies. This is expressed by the fact that private companies so far cannot be legally registered, implying i.a. that they do not have access to company credit or foreign investment. The 7<sup>th</sup> Party Congress opened for such registration in principle, but the implementation of this is expected to take time. The zigzagging policy regarding wholesale markets, concluded by the mid-2017 decision to stop giving new licenses for non-state commercialisation of food products, is a logical part of this resistance. This leaves the independent entrepreneurs with the choice between dependence on inefficient and economically disadvantageous state institutions or dealing with the black market and thus operating illegally. Most seem to prefer the latter solution, in spite of risking repressive measures.

The question is whether we can observe the emergence of an *institutional infrastructure* that can facilitate the growth of a legal and efficient market economy—which may be

depriving the state economy of much space. *Formally speaking*, this is not allowed to occur. But *informally*, we have described several examples (taxi drivers, owners of private restaurants and hostels) of how private entrepreneurs de facto have been meeting government attempts to limit their space with effective responses in pretty well organized and co-ordinated ways.

McCormick (1998:129) summarised the situation in China and Vietnam as early as 1998 as follows:

“(T)he reforms have significantly weakened the state’s control over society. Groups such as farmers, workers, entrepreneurs, foreign investors, and even intellectuals have more autonomy and a greater chance of being heard than ever before in the history of these regimes”.

As we have seen, in both these countries there has also been an *increased frequency of strikes and public protests*. One may speak about an important segment of *permitted semi-opposition*, although the space for this may once again be shrinking in China. As long as there is economic growth and improving levels of prosperity and social mobility, this does not need to represent a serious threat. The big question is what will happen if and when the economic growth comes to an end.

We have so far not seen a similar increase in social protest actions in Cuba. Since the Cuban economy is performing so badly, will there be less flexibility for opposition and protest there, and will such opposition be more threatening to the system than in China and Vietnam? A really critical situation will emerge if and when these elements appear together; e.g. if dissatisfaction with the economy leads to protest which in turn leads to increase in repression, or if the bureaucratic arbitrariness in the handling of non-state economic actors release similar chain reactions.

We have discussed how the regime-independent civil society has expanded over these years, and how the government has in effect lost its information monopoly through the rapid expansion of social media, the emergence of unofficial media and independent journalism. While these trends are unstoppable without the introduction of highly repressive measures, there are several signs of increasing nervousness coinciding with

and probably caused by the rapprochement with the US, particularly after President Obama's Cuba visit in March 2016. After a significant increase in the space for civil society (see e.g. Hoffmann 2016), this space started to shrink again in 2016, particularly affecting the moderate voices arguing for national dialogue rather than open confrontation (see Cameron 2016). Although the Government appears quite powerless in its efforts to curb the 'virtual civil society', i.e. alternative information and discussion engaging increasing numbers particularly of younger people, this counter-reform may seriously complicate any form of negotiated transformation.

### *Ideology:*

In a society moving towards post-totalitarianism, there will be a "growing empirical disjunction between official ideological claims and reality", where performance criteria take preference over ideology as the source of legitimacy. In a context of growing economic crisis, Linz and Stepan claim, regime collapse has often occurred when midlevel functionaries of the coercive apparatus start having growing doubts about repression of protest.

There can be no doubt that one of the defining differences between Fidel's and Raúl's regimes has been the *marked change in political preference from ideology to performance*, from repeated ideological battles to a much more institutionalized and pragmatic policy-orientation. In the words of Kornai (1992), we have been observing a loosening of the original dogma of the Revolution, with the concept of 'communism' hardly being used and 'socialism' still being used as an ideological reference but hardly being defined in terms of its practical application (ref. the "conceptualization of the Cuban economic and social model for socialist development"). As already discussed, the process of normalisation with the US also threatened to render the anti-imperialist rhetoric meaningless, until President Trump with his confrontational rhetoric rendered a new boost to those Cuban leaders that want to maintain the image of the imperialist enemy.

Paradoxically, it seems to have been the failures of the very half-hearted pro-market policies in Cuba—together with the threat of people's growing attraction to the historic

enemy—that obliged Raúl at the 7<sup>th</sup> Party Congress to return to more emphasis on ideology. This has been followed up by a group of orthodox Marxist-Leninists constantly attacking ‘liberal’ academics and civil society leaders who were arguing for alternative thinking without considering themselves as dissenters. Under the label of *centristas*, they were accused for not taking a clear position in the overarching struggle against imperialism. Nordic social democratic experiences—seen as relevant by many Cuban intellectuals—were particularly negatively portrayed.

The most remarkable with this new offensive was its apparent informality and ‘outsourcing’: the Ideological Department of the Party, for many years led by the infamous ‘Alfonsito’ Borges, seemed to have disappeared at the 7<sup>th</sup> Party Congress (and Borges was no more member of the Central Committee). Instead, anti-reform activists without any formal positions in the Party now managed to take the ideological hegemony through ‘Opinion’ pieces for instance in the web publication *Cubadebate.cu*.<sup>465</sup> One of the most prominent of these voices, which is never challenged by more moderate Party voices, has been Iroel Sánchez.<sup>466</sup> It is commonly assumed that these ‘activists’ are working on behalf of the most conservative party faction—assumably led by Second Secretary and de-facto party affairs coordinator Machado Ventura; thus side-lining Raúl Castro and his reform efforts and undermining his attempt to re-institutionalise party and state affairs. What is particularly worrisome for reform-oriented observers is the crucial role apparently played by Díaz-Canel in the run-up to his presidential position, by taking a personal lead role in the new ideological campaign.<sup>467</sup>

The probability is that this effort will be as half-hearted as the market reforms: It is difficult to see how the Communist Party in its present form, without Fidel’s charisma and with the increasingly deep mistrust from the population, stands any chance of succeeding with another ideological offensive taking root among the population. Fidel

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<sup>465</sup> *Cubadebate* presents itself as “the voice of *Periodistas Cubanos contra el Terrorismo*, an organisation created [...] with the purpose of denouncing actions organised and financed by the US government against our country”. Appearing in Spanish and seven other languages, it claims to count with no other resources than the “non-remunerated time and work of its collaborators”. No official link to the Party or Government appears on its pages.

<sup>466</sup> *Iroel Sánchez* presents himself as “Cuban engineer and journalist. Works for the Office for the informatization of the Cuban society. Was previously President of the *Instituto Cubano del Libro*.”

<sup>467</sup> According to well-informed sources, until he took over as President, he was leading a weekly Monday morning meeting to plan the ideological campaigns for each week.

Castro's death and the national mourning and nostalgia process succeeding it may have given the remaining ideologues a temporary opportunity to revert to old ideological slogans. But this will hardly have any long-term impact on the population majority's hearts and minds, compared to their daily struggle to make ends meet. To compare once again with China, it is very difficult to see Raúl—or any of his successors—being capable of following the recent example of China's Xi's return to more ideologically driven government. As shown in Ståle Wig's study of self-employed street vendors in Havana (Wig forthcoming), the "growing empirical disjunction between official ideological claims and reality" (again quoting Kornai 1992) could not be more striking than what we observe in today's Cuba.

Kornai asks "what are the constant and the variable elements in official ideology about the relationship between public and private ownership", and claims that the answer to this question provides one of the most critical criteria for the possibility of *political reform*. In Cuba, ideological acceptance of private ownership has rather been reduced during the reform era.

Kornai holds up a couple of other possibilities for the economic reforms to take hold such as joint public-private ownership and the leasing out of state property. The latter has taken place to a significant degree in Cuba (usufruct of land tenure; attempt to lease out unprofitable state-owned petty businesses). The public-private partnership is a model that has been floated as an idea but so far not been promoted in practice.<sup>468</sup>

One of the big challenges ahead will be how the official ideology may be re-crafted to cope with the changing division of work and correlation of forces between the state and the non-state sectors of the economy, and how the bureaucracy can be prepared to handle this change in a rational way. To return to one of Linz and Stepan's democratic arenas: how can the state bureaucracy be made 'usable' for a different reality, with more

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<sup>468</sup> The idea of public-private partnership was proposed by an ex-Minister of Economy, now researcher and 'advisor' at the *Centro de Investigaciones de la Economía Mundial* (CIEM), José Luís Rodríguez. He has also been proposing the creation of financial mechanisms for what he calls "social participation" in family remittances "entering the country as capital", i.e. a kind of tripartite joint ventures that would also imply a de facto legal recognition of foreign investment in private companies. José Luis Rodríguez: "Cuba y la compleja transformación de la empresa estatal", published on the website of *Cuba Contemporánea* 07.08.2014.

market economy and more political pluralism?

*Mobilisation:*

Closely linked to this relative reduction of ideology is the evolution in mobilisation capacity, compared to the historic role of regime-created popular organisations, with a progressive loss of interest in these where “boredom, withdrawal and ultimately privatisation of the population’s values” takes prominence (in the words of Linz and Stepan). One may be overwhelmed by the continued massive turnout for May Day parades, or even the ability to continue mobilising students to the annual March of the Torches for José Martí (on January 27 every year). Obviously, the nation-wide mourning mobilisation after Fidel Castro had passed away was also an impressive example of the same. This may however have turned out to be a last opportunity for such regime-loyal mobilisation, unless the new US President Trump will afford to provoke new nationalist sentiments in the Cuban population.

But more relevant is the observation of how much people outside of the constantly shrinking party loyalists are really caring about the work of neighbourhood committees (CDRs), party-affiliated unions and other organisations closely linked to the Party. Citizen participation on local level, be it in what in Cuba is termed ‘*socialist civil society*’ or in electoral processes is written off by critics as *pseudoparticipation* (Chaguaceda and Geoffray 2015), although the official narrative conveyed to foreign visitors is that participation, and by implication what is referred to as ‘*participatory democracy*’, is real.

We must make one qualification when we talk about the erosion of mobilisation capacity: when confronted with a real crisis of natural disasters—and that seems to happen with increasing frequency in Cuba due to climatic change—the Cuban society commands a unique mobilisation capacity. This is of course a reflection of the mobilisation tradition of the Cuban Revolution, still maintaining sufficient strength to be activated when exposed to natural disasters, combined with the strength of the military institution (including civil defence).<sup>469</sup> One may easily imagine that a similar

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<sup>469</sup> The loss of eleven lives during the 2012 hurricane Sandy  
([http://abcnews.go.com/ABC\\_Univision/News/hurricane-sandy-leaves-destruction-](http://abcnews.go.com/ABC_Univision/News/hurricane-sandy-leaves-destruction-)

mobilisation capacity is available in the quite unlikely eventuality of a military confrontation, although it may be difficult to foresee how domestic ideological and political divisions might impact on the unitary military mobilisation capacity in any given situation.

*Leadership:*

We have pointed out that the loss of charismatic leadership has been one of the most striking differences between the Fidel and Raúl periods, and it will probably be even more so in the post-Raúl era. Fidel Castro's charisma was of course unique, and his younger brother has not even made any effort to live up to that. It is striking to see how the younger leaders, those who have been supposed to take over, have been refraining completely from showing their political cards publicly, and from building their own public leadership positions through public appearance and speech, interviews etc. The new President Miguel Diaz-Canel has probably arrived at that position precisely because he has been so discrete. He is a very unenthusiastic public speaker who will have a hard time being seen as the leader of the Cuban nation.

There could of course be no similar transfer of authority from Raúl to Díaz-Canel, as the one Fidel could partly transfer to his brother and life-long deputy. "However successfully the regime has managed the post-Fidel succession, the experience in no way establishes a role model for future leadership changes," says Hoffmann (2006:237), adding a quote from Valdés (2004:251): "There is 'no equivalent Raúl' for Raúl."

We shall elaborate more on the leadership transition under Challenge 9, and as we shall see it was designed to establish a new model.

*Future constitutional change:*

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[wake/story?id=17588956](http://edition.cnn.com/2017/09/11/americas/irma-cuba/index.html) ), and ten lives during the 2017 Hurricane Irma (<http://edition.cnn.com/2017/09/11/americas/irma-cuba/index.html>), were noted with great concern in a country that normally prides itself with an extraordinary mobilization capacity avoiding the loss of human lives during natural disasters.

For those who had hoped that Raúl Castro after all would end the Leninist political structure in Cuba—or prepare such a transition before he left power—must have been frustrated to listen to what he said about this in his last speech as President. The constitutional modification that he could not implement on his own watch would come, he said, but there would be “no change of our strategic objective” in relation to the role of the Party and that there was “no intention to change the irrevocable character of socialism nor the leading role [...] of the Party”. The proposed new Constitution would need approval through a referendum, he announced.<sup>470</sup>

### **Indicator 8.3: Less authoritarian culture inside the Communist Party?**

Some of those at the top, and Raúl Castro in particular, may welcome criticism and debate, while others are effectively blocking it. Most of the intellectual critics—and here we are entirely talking about people working within the system—identify the Second Secretary of the Party, José Ramón Machado Ventura, as the personalised guardian of this old line and the main bottleneck for more openness and reform. Most of them claim, however, that the person behind Machado Ventura was until his very death Fidel Castro himself, probably most often without taking expressively part in internal discussions: it was more a question about what he historically has stood for and what the party bosses assume that his position would be.

Many of these insider observers have until recently perceived a very interesting situation between Machado Ventura as number two in the Party and Díaz-Canel as number two and since long expected to be number one in the Government structure: the traditionalist anti-change old-timer ‘Fidelista’ versus the younger and change-oriented ‘Raulista’. When push comes to shove on critical political issues, it has been claimed that the party boss was still calling the shots at the cost of the appointed heir—who after all has only been an ordinary member of the Party’s Politburo. There have been concrete cases where Díaz-Canel has intervened in favour of more liberal academics when he was the Minister of Superior Education (before being promoted to First Vice Chairman of the Councils of State and Ministers), where traditionalist heads of academic institutions—

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<sup>470</sup> Raúl Castro’s farewell speech as President, 19.04.18:  
<https://www.youtube.com/watch?v=LruOv7JeeAQ&feature=youtu.be>

assumingly under the protection of Machado Ventura—subsequently have returned to previous anti-liberal positions since Díaz-Canel no longer had the operational responsibility for this sector.

On this background, many observers were surprised and scared—others not so much—when a video recording was leaked of an internal Díaz-Canel briefing with party cadres in February 2017. His speech was unmistakably hard-line and anti-liberal. He made a distinction between two groups of ‘enemy projects’: one that is pursuing “confrontational counter-revolution”, and another one in favour of “the conformation and consolidation of a new civil society”. It is particularly his inclusion of the second group as “enemy project” that provoked reactions:

“These are people who use a well-structured language and speech. They do not confront the Cuban Revolution directly. They use a social democratic speech. They are not identified as counter-revolutionary. They have solutions for everything (the Cuban economy, politics, elections). People don’t see them as projects against the Revolution” (S/E).

In this group, he explicitly referred to the think-tank *Cuba Posible*, the magazine *On Cuba* which he said would be closed<sup>471</sup>, and to websites, unofficial press media, illegal Wi-Fi networks. He also accused several foreign embassies in Cuba of “wide subversive activity”, including Norway, Spain, Germany and the (Catholic) Church, and he went far in claiming that the US was trying to convert the non-state entrepreneurs to “a sector in opposition to the Revolution”.<sup>472</sup>

In this way, a future leader who had been supposed to represent a more pluralistic and inclusive political project for Cuba, one year before he took over the Presidency, came out in this very confrontational way in an internal Party pep talk. The common interpretation of this was that Díaz-Canel, without any firm basis of his own inside the Party apart from an outgoing President clearly on the defensive, had no other choice than demonstrating to the hegemonic hardliners that he is a trustworthy *continuista*:

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<sup>471</sup> See Indicator 6.2.

<sup>472</sup> The remarks were made during an internal conference with party cadres in February 2017, and leaked to the public in August that year (interestingly by the prominent confrontational dissenter Antonio Rodiles): ‘Díaz-Canel muestra su perfil más talibán’, *Diario de Cuba*, La Habana, 21.08.17 [http://www.diariodecuba.com/cuba/1503333729\\_33423.html](http://www.diariodecuba.com/cuba/1503333729_33423.html) (accessed 29.09.17).

such tough internal speeches would serve to legitimise him internally. By leaking the speech, however, something that nobody outside of the internal power circles could have done, he was at the same time miserably *de-legitimised*—among those who still might have had illusions that he would introduce a new political era for Cuba.

Assumptions about internal strifes and ideological differences, as well as any name-dropping about top leadership candidates, have been very difficult for outsiders to assess, in a system that is extremely opaque. Hardly anybody in Cuba has been able to identify any factions within the Party apart from a group of clearly orthodox or ascribe any ideological labels to persons in leading positions or those aspiring for top leadership in the Party. It is anybody's guess in which direction Díaz-Canel or other younger leaders will take the country, in spite of the very heavy-handed language in recent internal speeches. Considering the terribly difficult decisions these post-Castro leaders will have to take in the very near future, it is quite conspicuous how little we know about their thinking. They must indeed have some hard moments with themselves when going through the different scenarios they may imagine for the country, without being able to discuss it openly—or perhaps not even with their closest colleagues.

It is interesting to note how much more open and debate-oriented political culture we may find in a country like Vietnam (ref. Chapter 4.9.4), where there was an open leadership struggle before the latest Party Congress, including demands for the abandonment of the Leninist structure of the Party. Similar signs have so far not been visible within the Cuban Communist Party.

#### **Indicator 8.4: The role of pro-regime mass organisation mobilisation.**

Unconditional defendants of the Cuban political system claim that it contains a multitude of mechanisms for direct involvements in decision-making that often are missing in liberal democratic regimes. August (2013) represents a good example of such argumentation, particularly in Part III of his book.

Most academic analysts claim that these forms of participation are mostly formal, more or less compulsory, without offering any real influence on important

political decisions. Issues that are open for popular influence are mostly limited to neighbourhood affairs, public hygiene, recreation and sport etc. As claimed by some observers, (Chaguaceda and Geoffray, 2015:60-61), these structures “in practice are inoperative, dysfunctional and obsolete”:

“[...] the participation of Cubans in mass organizations that form the nucleus of what is officially called the socialist civil society – particularly the Committees for the Defense of the Revolution (CDR), the Cuban Workers’ Union (CTC) and the Cuban Women’s Federation (FMC) – is less and less massive and above all losing in quality and commitment. Participation in their activities is purely formal, limited and symbolic, although (popular) discontent is not reflected in popular actions for change, due to the lack of an alternative and legalized civil society and the survival mentality in which the Cuban society finds itself and the loss of the very concept of a citizen as an active and autonomous being” (S/E).

The officially denominated ‘mass organisations’, working under the guidance of the Communist Party, include the one and only trade union confederation (CTC), the Women’s Federation (FMC), the neighbourhood committees (CDR), the peasant organisation (ANAP), the student organisation (FEU), and others. The most illustrative example is that—of all—the CTC was left with the responsibility to announce, in September 2010—the massive sacking of as much as 1 million state employees. The function of these organisations is generally to support the government, to run campaigns for increased productivity, and to claim very limited and specific reforms in favour of their members and target group. It may be, though, that they exert certain influence behind closed doors. When the massive dismissal of public employees that the CTC had announced in the first place was clearly reduced and delayed, it may very well be that counter-pressure from the CTC did play a role.

*So, summing up, how relevant is the Cuban Communist Party now as ‘the Vanguard of the Cuban people’?* In spite of its official monopoly power position, the inevitable perception is that the Party is rapidly losing its social and cultural hegemony among young generations of Cubans. Such loss could easily also spill over to the realm of political hegemony.

In spite of its official power monopoly, political observers are beginning to ask questions about its 'real power quota', thus implying that the power monopoly no longer exists. Chaguaceda and Geoffray (2015:76-77), in an article written the year before the 7<sup>th</sup> Party Congress, claim:

“[I]t is notable that the PCC is not an organization that any longer possesses much life and internal dynamics. The PCC maintains important functions of political and ideological control over the population (including the containment of the intra-systemic dissidence, through sanctions and ideological prophylaxis), but it does not lead the society and it has lost symbolic and real space. [...] although the PCC is still considered as the superior body of the State and the society, as established by the Constitution, the changes (brought about by the reform process) are eroding its function and influence, as more and more of the real decisions are taken by the Council of Ministers and the State Council, while the party apparatus remains in the hands of conservative figures like Machado Ventura. For all those reasons, the function of the PCC and the political-ideological formation is losing terrain in front of the need to search for efficiency and pragmatism oriented towards the material results” (S/E).

It was probably in realization of this reality that the 7<sup>th</sup> Party Congress, also by bringing on the visibly fragile historic leader Fidel Castro half a year before he passed away, made what may have been a last attempt to re-take a political initiative, even by trying to sideline key aspects of the reform process including the ideological disarmament with the US. While this may cause some uncomfortable situations for the more reform-oriented factions of the party, it will clearly lead to a more polarised political situation even within the party leadership, and possibly a more open power competition.

### **Indicator 8.5: Any sign of a more open/pluralistic election process?**

Since February 2015, there have been announcements about both Constitutional Reform and a new electoral law, that would “respond to conditions that are changing over time” since the previous Constitution was approved through a Referendum in 1976, according to Raúl Castro.<sup>473</sup> This, together with the declarations about maximum age limits and a ten-year limit on the holding of leadership positions (confirmed by the 2016 Party Congress; see Challenge 9), created certain expectations that elections in 2017/2018

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<sup>473</sup> *EFE*, Havana, 24.02.15, based on reports in official media from X Plenary of PCC Central Committee.

concluding with the end of the Castro presidential era, might be of a somewhat more competitive character. Some were hoping for an evolution towards a differentiation between legislative and executive powers, and some kind of direct legislative and presidential elections in 2018 in a context where independent candidates might get the opportunity to present themselves to the voters without prior vetting by party structures. This might have led to the National Assembly becoming more than an assembly line for unanimous decisions. Since economic and social power is no longer monolithic in Cuba, a more representative composition of the legislature is long overdue.

The preparation of these reforms completely lacked transparency. One of Cuba's most prominent constitution experts said that he was aware of the existence of a constitution reform commission, without knowing how it was composed or what its mandate was.<sup>474</sup>

The President of the Commission for Constitutional and Legal Affairs of the National Assembly soon made it clear that the new electoral law under preparation was intended to reduce the number of deputies (probably adjusted to the limited number of seats in the renovated National Congress), and to establish a professional and permanent body. He ruled out that direct election of President would be considered.<sup>475</sup>

Later, it became clear that neither the Constitution nor the electoral law would be reformed before the 2018 change of guards.<sup>476</sup>

The electoral process in Cuba starts with nomination meetings (*asambleas de nominación*), assumingly numbering more than 40,000, in each neighbourhood (*barrio*), under the scrutiny of the defence committees (*CDRs*). No election campaign is permitted, apart from the presentation of the candidates' CV. In this first instance of direct voting, by a show of hands (i.e. no secret voting), candidates for the members of the municipal

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<sup>474</sup> Julio Antonio Fernández Estrada, Professor at the *Centro de Estudios de Administración Pública*, University of Havana: "Reforma constitucional en Cuba: por qué, cómo y con quién", en *Sinpermiso.info*, 13.02.16: <http://www.sinpermiso.info/textos/reforma-constitucional-en-cuba-por-que-como-y-con-quien-0>

<sup>475</sup> José Luis Toledo, presidente de la Comisión de Asuntos Constitucionales y Jurídicos de la Asamblea Nacional, al portal oficialista *Razones de Cuba*, 24.07.17. <http://razonesdecuba.cubadebate.cu/articulos/elecciones-preguntas-y-respuestas-parte-iii/>

<sup>476</sup> Confirmed by Raúl Castro in the July 2017 session of the National Assembly.

councils are nominated when they get more than 50% of the votes—if necessary in two rounds. Election for municipal councils—by casting of ballots—took place on 26 November. Those elected members of the municipal councils in turn then elect members of the provincial councils.

Several independent initiatives were presented for the 2017/2018 elections. *Somos+*, headed by Eliécer Ávila, presented a total of 170 candidates around the country, while *#Otro 18*, led by Manuel Cuesta Morua, claimed to have presented 106 candidates. An electoral training programme, *Red de Facilitadores Electorales (REDFE)* was also active. The independent candidates were attacked by the harder anti-regime dissidents for “playing the game of the regime”. Themselves, they said that they were not looking for confrontation but for a constructive and democratic competition. Some even referred to the example from Mexico, where a new electoral law in 1977 marked what was called an elite-level transition from the quarter century-long authoritarian quasi-monopoly rule of the Institutional Revolutionary Party to a multi-party system (see Klesner 1997).

These initiatives were met with direct aggression by the PCC, CDR and other pro-regime forces. First Vice-President Díaz-Canel, the new President at the end of the process, warned that any candidate other than those presented by official organisations were “counter-revolutionary people”. “If these dissidents are elected,” he said, “they will come to the Municipal Assemblies and they may come to the Provincial Assemblies. If they enter the Parliament, it would be a way of legitimising the counter-revolution within our civil society”. This will not be allowed, he added: “We are now taking all the steps to discredit this, so that people perceive the risk they represent”.<sup>477</sup>

There were numerous reports about independent candidates being systematically harassed by the police or other pro-regime representatives, and most often even hindered from participating in the nomination meetings.<sup>478</sup>

The outcome was that not one of these independent candidates was even nominated in the first instance, let alone elected to even the lowest level of the assemblies.<sup>479</sup> But

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<sup>477</sup> Quoted by Reinaldo Escobar: “Miguel Díaz-Canel incurre en un delito electoral. *14ymedio*, 28.08.17.

<sup>478</sup> ‘ELECCIONES’ 2018: Candidatos por el Cambio: ‘Hay que reconocer a la otra parte para entrar en el juego democrático’. Juan Manuel Núñez Díaz, *14ymedio*, 14.08.17.

there was also another outcome: the municipal elections—the only direct popular vote on the way towards elections of Parliament and President—had a historically high percentage of what we with some reservations may call a ‘protest vote’: a total of 21% either abstained (16%) or cast a blank or void vote.<sup>480</sup> Until ten years ago, less than 5% of the electorate made use of this opportunity to express disagreement or apathy vis-à-vis the Cuban political system.

On 11 March, the Cuban voters were invited to cast their vote in confirmation of the 605 pre-selected candidates for the National Assembly, put together by the National Candidature Commission. The Commission is made up of members of party-controlled mass organisations. Around half of the deputies, elected for five years, are drawn from the elected members of the municipal assemblies, while the other half come from these organisations.

There were some interesting results in this last round: the turnout was historically low (85.7%, vs. 90.8% in 2013 and 97% in 2008). Almost 20% of those who cast their votes did not vote for all candidates. The percentage of invalid votes was on this occasion quite low (5.6%).<sup>481</sup> So, although no opposition candidates were allowed to run for the elections, the voters did express unusual unconformity compared to previous elections, with a historically high abstention and various other forms of protest.

### **Indicator 8.6: Improved rule of law performance?**

The fourth arena in Linz and Stepan’s transition theory is *rule of law* to ensure legal guarantees for citizens’ freedoms and independent associational life: all significant actors, especially the democratic government and the state, must respect and uphold the rule of law, embodied in a spirit of constitutionalism—a clear hierarchy of laws,

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<sup>479</sup> “Ningún candidato independiente logra nominación a municipales en Cuba”, *EFE*, reproduced by *ASCENews*, 3.11.17.

<sup>480</sup> Reinaldo Escobar: “Un 21% de los cubanos se queda al margen del proceso electoral”, *14ymedio*, 28.11.17.

<sup>481</sup> *EFE*, La Habana, 13.03.18 (reproduced in *14ymedio*): [http://www.14ymedio.com/nacional/Gobierno-destaca-masiva-participacion-electoral\\_0\\_2399160062.html](http://www.14ymedio.com/nacional/Gobierno-destaca-masiva-participacion-electoral_0_2399160062.html). The turnout percentage was updated on 19 March.

interpreted by an independent judicial system and supported by a strong legal culture in civil society.

The R-o-L concept is operationalized in many different ways. One of the most commonly used R-o-L indexes, the World Justice Project (WJP) Rule of Law Index,<sup>482</sup> includes eight performance factors. Since Cuba is not included on the WJP Index, we cannot give any score. The following assessment is entirely qualitative, based on proper observations:

*1. Constraints on Government powers:*

Factor 1 measures the effectiveness of the institutional checks on government power by the legislature, the judiciary, and independent auditing and review agencies, as well as the effectiveness of non-governmental oversight by the media and civil society, which serve an important role in monitoring government actions and holding officials accountable. This factor also measures the extent to which transitions of power occur in accordance with the law and whether government officials are held accountable for official misconduct.

Cuba is not at all well off on this dimension, and little progress has been seen during the reform period being studied here. There is not even a formal division of powers between the executive and legislative branches of government, with a heavy overlap of members between the Council of State (acting as legislature between the rare sessions of the National Assembly) and the Council of Ministers (to be re-appointed in July 2018), and the President of the Republic heading both of them. The judiciary also lacks real independence from the other two state powers.<sup>483</sup> All real decision-making power in Cuba's Marxist-Leninist system emanates from the Communist Party—whose Political Bureau and Central Committee members also as we have shown heavily overlap with the executive and legislative branches of government. There is therefore no real

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<sup>482</sup> <http://worldjusticeproject.org/rule-of-law-index> (2015).

<sup>483</sup> This problem was highlighted by the UN Committee against Forced Disappearance, which said in a consideration of principle about Cuba (where forced disappearance does not occur), that the hierarchical subordination of the Judiciary to National Assembly and the State Council may affect its independence. This was concluded in spite of the assurances by the authorities that this hierarchical subordination does not imply intervention in the judicial functions or in the settlement of any case in particular (*EFE*, Geneva, 17.03.17).

institutional check on government power, with a certain exception for the *Contraloría General de la República*, the Government Accountability Office, seeming to have grown substantially in power and critical independence under Raúl Castro, to hold government officials accountable for official misconduct and knock down on corruption. It is a paradox, however, that the *Contralora* is also member of the legislative bodies National Assembly and the Council of State (but not of the Council of Ministers, nor of any leading body of the Party). Her real independence is therefore relative, and probably subject to green light from the President. The official media and party-loyal 'civil society' play a very limited role in monitoring government actions and holding officials accountable. The growing space of independent media and civil society, on the other hand, is a factor to be increasingly counted with regarding this dimension.

*Trends:* Raúl Castro announced at the 2011 Party Congress that the Communist Party should distance itself more from state responsibilities, something that may improve Cuba's score on Factor 1 if followed up. The same would be the case if more distinction between executive and legislative branches of government had been implemented, as well as more open election procedures. Neither happened before the end of Raúl Castro's presidency. However, the effective end of the information monopoly and the increased space for civil society will gradually have positive impacts on this R-o-L dimension.

## 2. *Absence of corruption*

Factor 2 measures the absence of corruption in government. The factor considers three forms of corruption: bribery, improper influence by public or private interests, and misappropriation of public funds or other resources. These three forms of corruption are examined with respect to government officers in the executive branch, the judiciary, the military, police, and the legislature.

Cuba does not fare too badly on the Transparency International corruption perception index (CPI), ranking 62 among 180 countries, with a score of 47 out of 100 (practically stable over the last six years). Only the three usual best performers in Latin America on similar indexes, Uruguay (23<sup>rd</sup> position with a score of 70), Chile (26<sup>st</sup>) and Costa Rica

(38<sup>th</sup>) are perceived as better off than Cuba in this region, well ahead of regional heavy-weighters like Argentina (85<sup>th</sup>), Brazil and Colombia (96<sup>th</sup>), Mexico (135<sup>th</sup>), all with scores well below 40/100 and all apart from Argentina falling on the ranking.<sup>484</sup> This relatively positive situation for Cuba is probably not least the result of the anti-corruption campaign headed by the *Contralora General* mentioned under the R-o-L Factor 1, and the heavy penalties imposed on a number of high-level public officials. But if top-level official corruption is not bad in Cuba when we speak about “improper influence by public interests”, “misappropriation of public funds” on the other hand is more the rule than the exception, with public officials steeped in petty-scale bribery. These practices, however, are probably not commonly perceived by those reporting on this TI index.<sup>485</sup>

*Trends:* There is reason to believe that more market economy and more interest from foreign investors may lead to more corruption. The first signs of ‘crony capitalism’ have been registered, something so often associated with ‘patrimonial states’ if that pattern were to be reinforced. It seems that particularly some sons of the old revolutionary leaders are playing this role as door openers for would-be foreign investors.

### 3. Open government

Factor 3 measures whether basic laws and information on legal rights are publicized, and assesses the quality of information published by the government. It also measures

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<sup>484</sup> [https://www.transparency.org/news/feature/corruption\\_perceptions\\_index\\_2017](https://www.transparency.org/news/feature/corruption_perceptions_index_2017)

<sup>485</sup> The CPI draws on a number of different surveys and assessments from different international institutions, among them the [Bertelsmann Foundation](#), the [Economist Intelligence Unit](#), [Freedom House](#), [Global Insight](#), the [World Economic Forum](#), the [World Bank](#) and the [World Justice Project](#). Countries must be assessed by at least three sources to appear in the CPI. The surveys/assessments are either business people opinion surveys or performance assessments from a group of analysts. In the case of Cuba, the ordinary grassroots corruption may not be fully perceived by these institutions – with very limited presence in the country – or by foreign business people. Another TI index, called the Global Corruption Barometer (GCB), would probably have revealed more of the problematic Cuban practices, like ‘misappropriation of public funds’ and petty-scale bribery. GCB is presented as “the world’s largest survey asking citizens about their direct personal experience of corruption in their daily lives”. Cuba is however not included in this index, where Latin America as a region comes out very negatively, headed by Mexico and the Dominican Republic: ([https://www.transparency.org/news/feature/corruption\\_on\\_the\\_rise\\_in\\_latin\\_america\\_and\\_the\\_caribbean](https://www.transparency.org/news/feature/corruption_on_the_rise_in_latin_america_and_the_caribbean)). Whereas in the Latin American region the police is perceived as the most corrupt institution, followed by elected representatives, local government, presidents and judges, in Cuba it would probably be government officials who would take this questionable prize.

whether requests for information held by a government agency are properly granted. Finally, it evaluates the effectiveness of civic participation mechanisms and whether people can bring specific complaints to the government.

Cuba is obviously a bad performer when it comes to “open government”. Characterised with one word, Cuban public administration is *opaque*, i.e. the contrary of *transparent*. Based on a proper experience accompanying an FDI initiative, in response to a very concrete government invitation, it is obvious that Cuba has a long way to go to live up to basic international expectations when it comes to business transparency. Basic laws and legal rights may be publicized as a matter of routine, but rights are often so contradictory and the ‘grey area’ between legality and illegality so wide, that citizens would often be in deep doubts about the borderlines, thus being exposed to the whims and bribe offers of public officials. Civic participation and complaints mechanisms are weak or non-existent, in a very vertical and centralized government structure.

*Trends:* to date, there are few observable changes, but more pluralism and more presence of foreign investors will necessarily imply pressures for increased transparency.

#### 4. *Fundamental rights*

Factor 4 measures the protection of fundamental human rights, including effective enforcement of laws that ensure equal protection, the right to life and security of the person, due process of law and the rights of the accused, freedom of opinion and expression, freedom of belief and religion, the right to privacy, freedom of assembly and association, and fundamental labour rights, including the right to collective bargaining, the prohibition of forced and child labour, and the elimination of discrimination.

The human rights situation in Cuba is very divided, between high scores on economic, social and cultural rights and comparatively low scores on civic and political rights. A similar distinction may be made between collective and individual rights. Effective enforcement of laws is often complicated by their contradictory character (ref. Factor 3), and individual civil rights are limited by an authoritarian state. Freedom of religion is

now generally guaranteed (this was not the case in earlier phases of the revolutionary regime). It is a paradox that a state putting the working class centre-stage is violating so many fundamental labour rights—including the right to collective bargaining. This will obviously become a more pressing issue with the increase of the non-state economy and foreign investments.

*Trends:* Economic reforms may have led to lower enjoyment of socio-economic rights, while there may be some improvements in civic-political rights due to generally increased pluralism.

### 5. *Order and Security*

Factor 5 measures various threats to order and security including conventional crime, political violence, and violence as a means to redress personal grievances.

This is a very strong factor for Cuba. Security is exceptionally good, conventional crime is low, and street violence is almost absent. Political violence exists in the sense that opposition groups are subject to intimidation by pro-government mobs (*turbas*) and arbitrary detention when they try to make public appearance. Violence as a measure to redress personal grievances seems to be very rare, particularly compared to other countries with similar cultural characteristics. It is a paradox; therefore, that Cuba has such a high prison population.<sup>486</sup>

*Trend:* Difficult to see a clear trend during the reform period, although there may be a change in sanctions against political opposition from long prison sentences to relatively short-term arbitrary detention.

### 6. *Regulatory enforcement*

Factor 6 measures the extent to which regulations are effectively implemented and enforced without improper influence by public officials or private interests. It also

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<sup>486</sup> 7th highest in the world with 510 per 100.000 inhabitants (US is second with 666):  
[http://www.prisonstudies.org/highest-to-lowest/prison\\_population\\_rate?field\\_region\\_taxonomy\\_tid=All](http://www.prisonstudies.org/highest-to-lowest/prison_population_rate?field_region_taxonomy_tid=All)

includes whether administrative proceedings are conducted in a timely manner without unreasonable delays and whether due process is respected in administrative proceedings. This factor also addresses whether the government respects the property rights of people and corporations.

Regulatory enforcement is often associated with a strong state, and in that sense Cuba has a high capability on this dimension. The state apparatus, however, is *more effective than efficient*—efficiency probably being very low and unreasonable delays therefore rampant. It is probably a clear indicator of this when the regime’s own assessment is that only 21% of the approved Guidelines (*Lineamientos*) approved by the 6<sup>th</sup> Party Congress had been fully implemented by the next Congress. This is not a consequence of improper influence (although Raúl Castro has at times complained about a slowly moving bureaucracy), and due process in administrative proceedings seems to be generally respected. But laws are often contradictory and characterised by arbitrary interpretations and implementation. Much of the economic activity is obliged to operate illegally or in the grey zone, so as to make it very vulnerable to state sanctions.

*Trends:* Respect for property rights may be on the rise in response to a certain state retreat from the economy, most clearly seen in the liberalization of the real estate market. One of the most visible changes from the elder to the younger President Castro is that there is much more adherence to institutional procedures. Fidel Castro obviously had a stronger position to get decisions implemented than his younger brother, but such decisions were often very loosely—if at all—founded on formal procedures. This is also a sign that due process has been strengthened.

## 7. *Civil justice*

Factor 7 measures whether civil justice systems are accessible and affordable, free of discrimination, corruption, and improper influence by public officials. It examines whether court proceedings are conducted without unreasonable delays, and if decisions are enforced effectively. It also measures the accessibility, impartiality, and effectiveness of alternative dispute resolution mechanisms.

Civil justice seems to be formally quite independent in Cuba, with discrimination, corruption and improper influence by public officials being rare. The exception, of course, is for cases with political aspects involved, where political control is predominant. They are normally handled by the special court for state security (*Sala de la Seguridad de Estado*). Court proceedings may be painstakingly slow and bureaucratic, but decisions will normally be enforced. Alternative dispute resolution mechanisms are not formalized.

*Trends:* No particular trends have been observed.

### *8. Criminal justice*

Factor 8 measures whether the criminal investigation, adjudication, and correctional systems are effective, and whether the criminal justice system is impartial, free of corruption, free of improper influence, and protective of due process and the rights of the accused.

The Cuban criminal justice system is probably better off than that of most comparable countries, when it comes to impartiality, corruption and improper influence. Due process and the rights of the accused seem to be generally respected, with clear exception for politically inclined cases where such rights are definitely not taken care of. Correctional systems are probably also in better shape than in most other countries of the Latin American region, and systematic torture is not being applied. But as mentioned, it is a paradox that Cuba is so high up in terms of prison population, and it must be noted on the negative side that the ICRC has been denied access to Cuba prisons.

*Trends:* No particular trends have been noted.

On total R-o-L scores, only six Latin American countries fall in the upper half of the list, whereas 14 end up in the upper half on EIU's democracy index<sup>487</sup>. Apart from the three best countries in all such rankings (Uruguay, Costa Rica and Chile), being ranked in the low or middle 20s among 102 countries, a country like Brazil is ranked no. 46, and 13 out of 19 of the included Latin American countries are found in the lower half. There may be some cultural or regional biases in such rankings, when we note that 23 out of the first 38 countries are to be found in the EU, the EES and North America (the US actually only slightly before Uruguay). But these findings confirm a general impression that Latin America, having undergone an impressive transition to democracy over the latter 30-odd years, is still struggling with serious R-o-L problem. Cuba is not necessarily much worse off than many other Latin American countries with better score on formal democracy indexes.

However, the rule-of-law deficiencies are expected to come under heavy pressure from foreign companies eventually being lured to invest. The recognition that Foreign Direct Investments are critically required in order to restore the economy may oblige the government to make the judiciary more independent. Criminal cases against foreign businesspeople, based on what their companies perceive as arbitrary application of rules, are one of the factors that threaten foreign investors. The CEO of a Canadian company with two decades doing business in Cuba was in 2013 sentenced to 15 years of prison (of which he served three), along with two Canadian colleagues and nine government officials, allegedly for bribing Cuban officials with relatively minor incentives. The most prominent among the latter, a vice minister of sugar, ended up with 20 years behind bars. The Canadian company, Tokmakjian, strongly claims that the process was rigged and completely lacked transparency, and it is warning other potential foreign investors against the lack of rule-of-law in the country.<sup>488</sup> In a situation where FDIs are so critically required, such pressure may become a positive change factor in the years to come. Also in this case, increasing voice for constitutional change may be an accompanying internal factor.

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<sup>487</sup> These two indexes are not directly comparable, though, because the number of countries on the democracy index is much larger than on the R-o-L index (167 vs. 101), where many of the LDCs and conflict-ridden countries are included in the former but not in the latter.

<sup>488</sup> <https://www.reuters.com/article/us-cuba-corruption-canada/cuba-frees-canadian-businessman-tokmakjian-after-three-years-in-jail-idUSKBN0LP0QA20150222>

### *Democracy Index:*

It is worth noting that Latin America as a region is considered less well off in terms of R-o-L compared to democracy, when the latter is measured by the EIU democracy index.<sup>489</sup> Cuba is here the only country in the western hemisphere apart from Haiti and Venezuela placed in the lowest category, 'authoritarian regimes', positioned as no. 131 out of the 167 listed countries, after Angola but before countries of relevant comparison like Angola, Russia, Vietnam and China. With an overall score of 3.31/10 (down from 3.52 on the 2015 Index), Cuba scores relatively well on variables such as 'functioning of government' (4.29—well after China and well before Vietnam) and 'political culture' (4.38), while the score on 'electoral process and pluralism' is very low and falling (1.33). Score on 'political participation' is above Cuba's total score (3.89), while the score on 'civil liberties' is well below and also falling (2.65).

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<sup>489</sup> The EIU 2017 democracy index (where Norway along with the other Nordic countries occupy the top positions): [http://pages.eiu.com/rs/753-RIQ-438/images/Democracy\\_Index\\_2017.pdf?mkt\\_tok=eyJpIjoiWW1ZNU16STVaRGt6TnpCayIsInQiOiJYNFpEMGJ0dFp6d3U4MUplXC9JMXhKQlZPVmdYMU5IR3Y3NUNGT1NkS0ptbE9Na3RnaUlHT21QRUtCMzQ3RW1EUWhmRE5mMnA2WWpWZjZ6TXczUmQyZjRMYnY5NjVNXc9RRFVvMW1TbXRNRFArMzFHS01ra2NSOEtYNW9WWHA1dEx5In0%3D](http://pages.eiu.com/rs/753-RIQ-438/images/Democracy_Index_2017.pdf?mkt_tok=eyJpIjoiWW1ZNU16STVaRGt6TnpCayIsInQiOiJYNFpEMGJ0dFp6d3U4MUplXC9JMXhKQlZPVmdYMU5IR3Y3NUNGT1NkS0ptbE9Na3RnaUlHT21QRUtCMzQ3RW1EUWhmRE5mMnA2WWpWZjZ6TXczUmQyZjRMYnY5NjVNXc9RRFVvMW1TbXRNRFArMzFHS01ra2NSOEtYNW9WWHA1dEx5In0%3D)

## Challenge 9: Generational renewal with new source of legitimacy

Under this indicator, we will look at the process of transferring responsibilities to a new generation of leaders, in the Party and in the superior State bodies. We will focus on the recruitment process and composition of the leading Communist Party bodies (Politburo and Central Committee) after the April 2016 7<sup>th</sup> Party Congress (supposedly sitting through the five-year period until the 8<sup>th</sup> Congress in April 2021), and the State bodies after the April 2018 presidential transfer.

As Raúl Castro emphatically stated in 2011, by 2018 both the Castro brothers and probably all other ‘founding fathers’ of the Cuban revolution would be out of all formal Government positions. At the 6<sup>th</sup> Party Congress where he made this commitment, Raúl also complained that the Party had failed to prepare a new generation of leaders with the capacity to take over—a paradox in light of the fact that he himself had sacked a large group of young leaders only a few years earlier. In his words:

"Although we did not stop making several attempts to promote young people to main positions, life proved that selections were not always successful. Today we face the consequences of not having a reserve of duly prepared substitutes, with sufficient experience and maturity to assume the new and complex tasks of leadership in the Party, the State and Government, an issue that we must solve gradually over the five-year period (until 2016, author's remark), without precipitation or improvisation, but start as soon as the Congress concludes" (Castro, 2011) (S/E).

Five years later, at the 7<sup>th</sup> Party Congress, he had to recognise that his intention of retiring the entire historical leadership had failed. When he finally left the responsibility of Head of State and Government in April 2018, he explained that the new President was the only “who had survived” among the younger leaders being prepared to take over after the Castros. “We failed to materialize their preparation [...] we committed the error of accelerating the process” (...) but with Díaz-Canel “we hit the nail on the head”, he said.<sup>490</sup>

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<sup>490</sup> Raúl Castro speech to National Assembly 19.04.18: <https://www.youtube.com/watch?v=LruOv7JeeAQ>

The Cuban political system under the Castro brothers had evidently failed for long to put in place an orderly transition process. Finally, at the 2016 Party Congress, Raúl Castro announced the introduction of a maximum of two five-year periods, and strict age limits, for holding any of the “fundamental political and state responsibilities”. Recognising that his intention of retiring the entire historic leadership had failed, he now proposed:

“We therefore propose to establish 60 years as the maximum age for entering the Central Committee, and 70 years for holding leadership positions in the Party [...] so as to guarantee, from the base, the systematic rejuvenation of party responsibilities” (Castro 2016) (S/E).

Such limits had since long existed in China and Vietnam.

This proposal came against the backdrop of speculations prior to the 2016 Congress about renewal in the party leadership, including whether or not Raúl Castro himself would take another five-year period as First Secretary of the Party (he had long ago announced that he would step down as President in 2018). Not least was it expected that a new Second Secretary would be elected to replace the 86 years old leading intransigent José Ramón Machado Ventura, so as to in effect select the future party leader. In fact, if the new age restrictions had been applied at the 7<sup>th</sup> Congress, no less than two thirds of the incumbent Politburo members (9 out of 14)—including Raúl himself—would have been retired.<sup>491</sup>

According to western media reports, Raúl’s proposal was not exactly met with enthusiasm by the Party Congress:

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<sup>491</sup> The following Politburo members prior to the 7th Party Congress were above 70 years of age in April 2016: First Secretary Raúl Castro (85), Second Secretary José Ramón Machado Ventura (86; leader of the Central Committee Secretariat and in practice full-time party leader), Leopoldo Cintra Frías (75; Minister of Defense), Abelardo Colomé Ibarra (77; Minister of Interior), Ramón Espinosa Martín (77; Vice Minister of Defense), Esteban Lazo Hernandez (72; President of the National Assembly), Álvaro López Miera (73; First Vice Minister of Defense), Ramiro Valdés (83; Vice President of the Councils of State and Ministers and the only remaining *Comandante de la Revolución* remaining in leadership position in addition to Raúl Castro), Adel Yzquierdo Rodríguez (71, Minister of Transport). The “younger” Politburo members were: Miguel Díaz-Canel (56, First Vice President of the Councils of State and Ministers and de-facto Deputy Head of State), Lázara Mercedes López (52, Party Secretary for Havana), Marino Murillo (55, economic czar), Bruno Eduardo Rodríguez (58, foreign minister), and Salvador Valdés Mesa (66, former President of the national trade union, CTC).

"His comments during a two hour speech at the inauguration of the Communist Party's twice-per-decade congress were met with silence, perhaps because some members were disappointed with the idea. 'So serious! What silence is caused by this subject. Don't think that just because you can't be in the leadership of the country you can't do anything,' Castro said, suggesting that the elderly continue as party activists and spend more time with their grandchildren."<sup>492</sup>

However, it was soon clarified, this new rule was only to be applied at the 8<sup>th</sup> Party Congress in 2021, and only partly at the election of new State leaders in 2018.

### **Indicator 9.1: Will the 7<sup>th</sup> Party Congress (2016) lead to a deeper Party leadership renewal?**

#### *Politburo*

With two exceptions (Minister of the Interior Colomé Ibarra (known as *Furry*, who retired for health reasons)<sup>493</sup> and Minister of Transport Yzquierdo Rodríguez (whose departure was not explained), all incumbent Politburo members were re-elected, including 85 years old Machado Ventura as Second Secretary. So, no top leadership renewal took place at the 7<sup>th</sup> Party Congress. But in a sign of setting the renewal in motion, five new and relatively younger cadres were elected to the new Politburo, now counting a total of 17 members.<sup>494</sup> In spite of this transfusion of new blood, half of the members were still well above the retirement age of 70 years when elected. Four of the 17 were from now women (up from one), while five were non-white, black or mulattos.

#### *Central Committee*

When moving one step down the party hierarchy, to the Central Committee, a quite significant renewal process did take place in 2016. As far as we have been able to

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<sup>492</sup> Reuters, Havana, 17.04.16: <http://www.reuters.com/article/us-cuba-congress-age-idUSKCN0XE04V>

<sup>493</sup> Colomé Ibarra was one of the only three ministers who had continued from the Fidel to the Raúl Council of Ministers; he was seen as a key Raúl loyalist in the 1989 Ochoa affair.

<sup>494</sup> The new members were: Ulises Espinosa Martín (the recently elected SG of CTC), Roberto Morales Ojeda (Minister of Public Health), Miriam Nicado García (Rector of the Informatics University), Teresa Amarelle Boué (SG of the Women's Federation FMC), Marta Ayala Ávila (Vice-Director General of the country's biotechnological complex; *Centro de Ingeniería Genética y Biotecnología*).

establish, 77 of the 142 members (well over the half), were newly elected at the 7<sup>th</sup> Congress. All 55 new members of the Central Committee were under 60 years of age. The average age of the new Central Committee at the moment of being elected was as low as 54 years, and as much as 44% (62) are women. It is also interesting to look a little closer at the composition of this new Central Committee, from which the new generation of leaders at the next Party Congress will have to be selected. As far as it has been possible to establish by studying the official presentation of the 142 members of the new Central Committee, we may identify the following composition:

**Table 9.7: Composition of PCC Central Committee 2016-2021:**

<b>Party officials:</b>	<b>39 (27%)</b>
<b>Government officials:</b>	26 (18%)
<b>Military background:</b>	15 (11%)
<b>Representatives of mass organisations:</b>	12 (8%)
<b>State corporation leaders:</b>	10 (7%)

**Source:** Calculated on the basis of the list presented in *Granma*, 20.04.16

It is worthwhile noting that there is no *cuentapropista* or other representative of the non-state economic sector on the Central Committee, apart from a few members of farmer cooperatives. Also, there are no active (full-time) academics, no cultural personalities (apart from a ballet dancer and the prominent Havana *Historiador*, Eusebio Leal), and no representative of the autonomous (not party-affiliated) civil society. So the Central Committee is still exclusively drawn from strict party loyalists.

Among the party officials on the Central Committee, it is particularly significant that almost all provincial first secretaries (14 out of 16), those who are running party affairs

in the provinces, are now members along with 6 municipal secretaries.<sup>495</sup> This means that the presence of the decentralized levels of the party structure has been significantly strengthened at the apex of the Party. These cadres are supposedly those who are most closely exposed to the population, more directly receiving complaints and more able to interpret social trends around the country. But through visits to several provinces and conversations with dozens of ordinary Cubans during 2016 and 2017, the impression is that the Provincial Party Secretariats and their huge staff are less and less visible in their communities, only rarely interacting with the population outside of ceremonial activities. So, even with younger cadres from the provinces increasingly filling the spaces to be left by the outgoing generation, they would not bring with them a culture of mingling with critical thinkers. This could of course potentially be changed when the new generation is fully in charge. Also, the prestige of the provincial secretaries probably varies quite a lot from case to case.

Among the government officials sitting on the Central Committee, there were five contemporary ministers, two vice ministers, more than fifteen heads of main government agencies, and four diplomats (among them the chief negotiator with the US, Josefina Vidal, later appointed as ambassador to Canada).

Among state corporation leaders with high military ranks, the two top GAESA managers and Generals Rodríguez López-Calleja and Andollo Valdés were both elected to the Central Committee.

Also significantly, nobody apart from Rodríguez Lopez-Calleja from the Castro family was elected to the Central Committee. As already noted, it was almost remarkable to note that Raúl's son, the 'Intelligence Czar' Alejandro Castro Espín (see Indicator 7.5), among most observers at the time assumed to aspire for a leading political role—and perhaps even as the future top leader—was not elected. Neither was Raúl's daughter Mariela Castro, director of CENICEX, and also rumoured to aspire for top positions.<sup>496</sup>

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<sup>495</sup> How important the position as Provincial First Secretary is as a stepping stone for a party cadre career, is confirmed by the fact that 6 of the 17 members of the 2016 Politburo have had this position, including the designated heir as Head of State, Díaz-Canel.

<sup>496</sup> There is – not surprisingly – a lot of speculation about the future political role of these two leading members of the Castro family. Alejandro Castro was also not elected for the new National Assembly in 2018, whereas his sister Mariela was. Parts of the opposition keep holding the opinion that Alejandro

A final observation from the 2016 Party elections is that the former powerful head of the Party's Ideological Department, Alfonso 'Alfonsito' Borges, disappeared both from the Central Committee and from the Secretariat of the Central Committee. Indeed, there is no mention of the Ideological Department in the newly elected Secretariat<sup>497</sup>. This led to several questions of interpretation—but the ideological battle seems to be waged with the same or strengthened intensity (see Indicator 7.2).

### *The recruitment process to CP leadership positions*

The cadre recruitment and promotion process in the Cuban Communist Party and by implication to top positions in Government was for a long period, under Fidel Castro, characterised by personal and—it could appear—very subjective and whimsy decisions by the charismatic Commander in chief. It is difficult to see any other reason why so many youth and student political leaders ended up in Fidel's inner circle, and from there went on to occupy some of the most prominent government positions without following the institutional ladders.

One of the clearest expressions of the transition from Fidel's charismatic to Raúl's rational-institutional style of leadership can be seen precisely in this recruitment process. The first and quite dramatic event marking this transition was when President Raúl Castro in March 2009 made a sudden decision to fire some of the country's most prominent young leaders: Vice President and expected presidential candidate Carlos Lage, foreign minister Felipe Pérez Roque and other young leaders who had surrounded the then retired Commander-in-chief, along with another ten ministers. The circumstances around this major cabinet sweep and the sacking of the young leaders was dramatic: it was communicated through a series of video presentations exclusively

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Castro will be the next Cuban strongman, independently of his formal position in Government. See for instance "Must Alejandro Castro Be President?", by Roberto Álvarez Quiñones, 23.01.18, published in *AsceNews* No. 788.

<sup>497</sup> The Secretariat of the Central Committee, in charge of the day-to-day management of the Party, consists of the Heads of five sectoral departments, including the Department of Organization and Political Cadres, the vetting body for recruitment and ascendency to the Party's leadership positions. The Secretariat is led by Second Secretary Machado Ventura. The Ideological Department, previously seen to be perhaps the most powerful, is now absent on the new Secretariat structure.

shown to the CP members around the country, and by insiders described as more dramatic than the soap operas by which most Cubans are entertained.<sup>498</sup>

The most remarkable detail in this criminal novel-like thriller, with details provided by security police surveillance, was the moment when Mr Lage, the aspiring candidate for the new number two position in the Government—First Vice President of the Council of State and runner-up to President Castro—witnessed the Politburo decision of bypassing him and instead promoting the revolutionary veteran José Ramón Machado Ventura, at the time 77 years old, to the position. The main reason for this failure to promote the 20 years younger Mr Lage may well have been some highly un-elegant remarks by his close friends caught by security police microphones that this ‘dinosaur’—as they had called Mr Machado Ventura—should have been made away with when one of them had him under surgical treatment.

For Cuban insiders, it was no co-incidence that precisely Mr Machado Ventura was chosen for the second-in-rank position when the younger candidate was considered unfit for it. And the ‘dinosaur’ went on to survive two more party congresses as the man closest to Raúl in the Party. He had himself had the key vetting position for all significant promotions since the first Party Congress back in 1975, by way of heading the Party Secretariat’s Department of Organisation and Cadres during all these years.<sup>499</sup>

Machado Ventura, medical doctor by training, was one of the Sierra Maestra veterans who had fought alongside Fidel, Raúl and Che Guevara during the guerrilla struggle, holding the prestigious title of *Comandante del Ejercito Rebelde*. He was a founding member of the Cuban Communist Party and a member of the Politburo since its establishment (he is now the only person along with Raúl Castro to have served uninterruptedly on the Politburo). He had been minister of Health and First Party Secretary in Havana, but most of all he had been a 100% Fidel loyalist<sup>500</sup> and the person

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<sup>498</sup> The events – which never were made publicly known outside the party circles – were documented in detail by the most veteran foreign correspondent in Havana, Marc Frank (2013:144-153).

<sup>499</sup> The description of the decisive cadre recruitment role played by the Department of Organization and Cadres and its Head during more than 35 years, is based on Lopez-Levy 2015. Lopez-Levy has had intimate knowledge of this structure based on his own experience.

<sup>500</sup> Max Lesnick, who grew up together with Machado Ventura (he calls him his ‘cousin’ without having formal family relations) and joined student and anti-Batista politics together with him, claims that more

who more than anybody ruled over who would rise and fall in the party and state hierarchy.

The Department led by Machado Ventura between 1975 and 2011 has had the role of approving or submitting to the consideration of the Politburo and provincial party structures the appointment of all leaders on any level—from municipal to national. It also has a decisive role in the selection of leaders of state companies and party-affiliated mass organisations, as well as high-level ministry positions, only excepting the ministries of Defence and the Interior. *Military promotions* have been reserved for the personal decision of the Castro brothers. Appointments to key positions in higher education (universities etc.) and party-affiliated research centres, party cadre education, media organisations as well as diplomatic appointments are also controlled by this body. The work is based on systematic collection of information, as explained with the words of Lopez-Levy (2015):

”By the time someone is a manager of a major state company or a member of the provincial committee of the Communist Party, the organization department has a thick file about their life, friends, family, personal biographies with moments of self-criticism about their past mistakes or their explanations about why they did oppose to certain party policies [...] At the end of the process, only Fidel and Raul Castro can bypass the organization department’s filters.”

In other words: Machado Ventura has since 1975 been the chief gate keeper you needed to pass by if you wanted to rise in the Cuban system, with the only exception of some young cadres handpicked by Fidel who all disappeared under Raúl; and top military appointments.

The outcome of the extensive leadership reshuffle one year into Raúl Castro’s presidency marked a clear victory for the military structure that he himself had been in charge of and thus trusted more than any other Cuban institution. Ten active and retired generals were nominated to top government positions, and other officials were put in key civilian economic positions. Gradually, these relatively old military leaders were

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than subscribing to any ideological conviction, Machado Ventura is an uncompromising ‘fidelista’ loyal (interview with Max Lesnick in Miami, 31 July 2014).

substituted by provincial party leaders, in what Lopez-Levy describes as “the absolute victory of the coalition of the Armed Forces High Command and provincial party czars in the factional dynamics that surrounded Fidel’s succession by Raul”. This alliance, he claims, “indicated the strength and bolstered the influence of the Department (of Organization and Cadres) as the decisive maker of Cuba’s political balance”.

At the 2011 6<sup>th</sup> Party Congress, when Machado Ventura was also formally promoted to the deputy position in the Party structure (Second Secretary), Abelardo Alvarez Gil was made the new Head of the powerful Department of Organisation and Cadres, but still under Machado Ventura’s leadership as Head of the entire Party Secretariat.

### **Indicator 9.2 How thorough renewal of state leaders (2013 and 2018)?**

Raúl had for many years made it clear that he would not run for another term as Head of State and Government after the 2017/2018 elections. It was expected that 2018 would be the year to end the Castro era, and that his entire generation of revolutionary comrades would accompany him out of the State leadership.

In 2013, two years after the 6<sup>th</sup> Congress where Raúl had complained about the lack of suitable younger cadres, a chief successor was found, when the National Assembly elected then 53 years-old Miguel Diaz-Canel to succeed Machado Ventura as the First Vice President, second only to Raúl, of the Councils of State and Ministers and the intended heir to the Head of State position in 2018. Again, this selection would not have been possible without the acceptance of Machado Ventura himself, although it seems to have been Raúl’s personal decision. At the same time, 55% of the Council of State—filling parliamentary functions in-between the two brief annual sessions of the Popular (National) Assembly—was changed.

Very few of the younger members elected to the Council of State in 2013 were known outside of the inner circles, and even less was known about their thinking. The top power structure in Cuba remained to appear as monolithic as ever, maintaining a hermetic veil of secrecy about their internal discussions. The main reason why these cadres were selected and survived in these positions is probably exactly that they have

not expressed any opinions deviating from the official line—and this also goes for Díaz-Canel.

So finally, in 2018, the leadership renewal process was supposed to culminate.

The composition of the new National Assembly coming out of the 2017/18 election process (ref. Indicator 8.5) which would confirm the new State leaders, was as follows:

- 90% are born after the Revolution (average age 49 years);
- 56% are new;
- More than 40% are non-white;
- More than 53% are women.<sup>501</sup>

However, only 5% of the deputies were non-members of Communist Party or its youth chapter.<sup>502</sup>

Finally, the National Assembly deputies on 19 April 2018 as expected elected Miguel Díaz-Canel as President of the Republic (Councils of State and Ministers) and the 30 additional members of *Consejo del Estado*, in a secret vote but also on the basis of a proposal from the Candidate commission (ref. Indicator 8.5).

The question raised by many was whether this really was the end of the Castro era?

The new State Council that was elected represents a significant rejuvenation, with 13 of the 31 being newcomers and three quarters below 60 and born after the Revolution. Compared to the composition prior to 2013, there has been very thorough generational renewal. Most of the historical leaders are now absent from this legislative body. Of particular importance is the departure—along with Raúl—of Machado Ventura, seen as the leading orthodox hardliner, and all the military hierarchy with one exception: the 77

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<sup>501</sup> According to Granma, reproduced in: <https://america.cgtn.com/2018/03/09/explaining-how-cubas-election-system-works>

<sup>502</sup> Reinaldo Escobar: "Todo el poder a la militancia", *14ymedio*, 12.03.18: [http://www.14ymedio.com/opinion/poder-militancia\\_0\\_2398560126.html](http://www.14ymedio.com/opinion/poder-militancia_0_2398560126.html)

years old minister of defence Cintra Frías. They have kept two really old-timers, the two *Comandantes de la Revolución* Ramiro Valdés (86), guerrilla veteran from the very beginning in 1952, and Guillermo García Frías (90), the first peasant to join the Sierra Maestra guerrilla. Ramiro Valdés, re-elected as one of the six Vice Presidents, who always stayed very close to Fidel, may perhaps be considered the leading remaining orthodox of the State Council. The Controller General and anti-corruption czar Gladys Bejerano (71), a close Raúl confidant, has also been promoted to Vice President.

The new First Vice President and Díaz-Canel's deputy, Salvador Valdés Mesa, is too old (72) to be considered a future candidate for top positions. He is black, a previous trade union boss and member of the Politburo. The other Vice Presidents of the State Council are younger and must be considered the main rising stars: the minister of health Roberto Tomás Morales Ojeda (50), the President of the National Hydraulic Institute Inés María Chapman (52), and the President of the provincial Parliament in Santiago Beatriz Jhonson (48). They were all promoted from ordinary State Council members to vice presidents. Another future leader to watch is probably Ulises Guilarte de Nacimiento, Secretary General of the Trade Union Federation (CTC), also member of the Politburo.

Two rather surprising departures were those of the economic czar Marino Murillo and of the Party Secretary in Havana Lázara Mercedes López Acea, both among the youngest members of the Party's Politburo and as such tipped to aspire for top positions. But half of the 17 Politburo members are still members of the State Council, so the Party dominance is still very clear although both the two top leaders of the Party have now left.

Another interesting observation is the reduced military presence (ref. Indicator 7.5). The new State Council has only one man left from the military hierarchy: General and Defence Minister Leopoldo Cintra Frías.<sup>503</sup> None of the younger officers have been promoted to take the seats left empty by old generals.

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<sup>503</sup> When we say that only one member of the top military hierarchy (Cintra Frías) remains, we are referring to officers in active military duty. Valdés and García Frías, both *Comandantes de la Revolución*, are no more in active military service.

The National Assembly that convened in April 2018 also had the mandate to elect the new Cabinet of Ministers (*Consejo de Ministros*), but Díaz-Canel asked to have this postponed for another three months (until July). This must be interpreted as giving himself the opportunity to put together his own cabinet team, in an effort to take future policy-making more into his own hands. Until he was elected, he had not taken any proper policy initiatives.

The transfer from Raúl Castro to Miguel Díaz-Canel took place with full assurances from both the outgoing and the incoming president about *continuity*—not so strange given the circumstances of the Cuban system. Here was a new president who had not been able to make any campaign, nor to speak about his vision for the country, not even reveal any ambition until he suddenly stood there as the country’s new Head of State and Government. There was no period between elections and inauguration. Although it was generally expected that he would be elected, he formally speaking was launched as a candidate and had to assume full responsibility in a matter of 24 hours.

Díaz-Canel stated in his first speech as President that Castro would remain as the “leader of the revolutionary process”, that he would still be “leading the decisions of greater importance for the present and the future of the nation”, and that there was no intention about “transition” or “restauration of capitalism”.<sup>504</sup> (S/E)

On his side, Raúl Castro drew up the future transfer process in detail, until he himself turns 100 in 2031. He said that Díaz-Canel should only stay as Head of State for two periods (ten years), that he would also take over as Party Leader in 2021 and that he would stay in that position for another three years after the election of his successor as President (presumably in 2028). “The same thing that we are doing with him, he has to do with his substitute ... to make a safe transition feasible”. In the next Constitution, Castro advanced, the positions as President of the State and Minister Councils plus party leader may again be united, so that that person may exercise “all the power and

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<sup>504</sup> Díaz-Canel’s first speech as President of Cuba:  
<http://www.cubadebate.cu/noticias/2018/04/19/miguel-diaz-canel-la-revolucion-no-termina-con-sus-guerrilleros/#.WtnGvmbJJsM>

influence, even if there is, it may be, a prime minister who attends the government"<sup>505</sup> (S/E).

There is obviously no worry about the eternal validity of the peculiar Cuban political system, and there is no plan to introduce any separation of powers.

*Who are the newcomers and how different are they?*

Although there seems to be a resistance from the *históricos* to give up the leadership until the very last moment, a complete change of guards unavoidably is under way in the Cuban regime, which will have to be completed pretty soon.

Who were the newcomers filling the leading party and government bodies in 2016 and 2018?

They belong to a generation between late-forties and late-fifties. They grew up during the 'golden era' of the Cuban revolution; many were studying in the socialist countries when the socialist regimes unravelled—so they lived through perestroika there. But they are also exposed to pressure from the next generation who grew up during the *Período Especial*, who may be expected to pressure the first post-Castro generation to renew the system—very differently from the way Raúl Castro designed the continuity at the moment to retreat to lead the Party for his last three years.

One way to try to understand what political changes that might take place in the wake of unavoidable economic reforms is—as we have seen in other transition processes—to watch different key actor groups and their changing behaviour.

The first group to watch would obviously be *the new generation of state and party leaders*. Are there identifiable tendencies, factions, ideological and political differences, or even more: is there a power struggle going on between such factions, preparing for the post-Castro era? The answer is simply that practically no such signs are visible

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<sup>505</sup> Raúl Castro's farewell speech as President, 19.04.18:  
<https://www.youtube.com/watch?v=LruOv7JeeAQ&feature=youtu.be>

neither to external observers nor even to party members and high-level officials outside of the absolute power elite (Politburo and Central Committee). Cuban top leaders are extremely tight-lipped and they maintain the appearance of absolute and monolithic unity, even in a situation where almost every aspect of Cuban society must necessarily be under critical consideration.

While—as we have seen—there is a certain intellectual debate about socialist alternatives, people with leading positions in the party and state institutions hardly express any opinions or preferences. One can only speculate about the reason, assuming that there *must* be different opinions about all the fundamental decisions ahead for this country: with all the younger leaders kicked out of political positions over the years and particularly since Raúl Castro took over, nobody with survival instincts is willing to stick out his or her neck and risk being the next victim of party purges. That is how a person like Díaz-Canel survived. That leaves us with the question of whether he and his team really have any strategic vision about the way ahead for this country. It is, for instance, very difficult to find out which younger party cadres at various levels, starting with the provincial first secretaries (almost all of them also members of the Central Committee and thus probably among the candidates for future top leadership roles), are drivers for or against economic and/or political reforms.

One aspect to watch carefully is the future role of the military institution and the younger officers. It may be relevant to refer to China and the way President Xi has managed to concentrate all military and civilian power in his hands. In the present leadership crisis in Cuba, it is rather unthinkable that a new generation of post-Castro leaders would be able to concentrate any similar power position.

### **Indicator 9.3: Reform continuity or counter-reform?**

Signs of a counter-reform, or at least that ‘pause’ had taken preference over ‘hurry’ (*prisa*) in Raúl’s terminology, actually started to appear already in 2015. In a May 2015 meeting of the Council of Ministers, President Raúl Castro signalled a halt in the authorisation of new non-agricultural cooperatives, in reality reversing a previous policy of prioritising cooperatives as “a higher social form of economic organisation”.

The number of registered self-employed, continuously increasing since 2010, suddenly started to decrease from mid-2015 (but later returned to growth).

In January 2016, following rapidly increasing food prices and accusations against speculators, the de-regulation of the agricultural sector suffered a serious blow, with a return to strengthening rather than gradually closing down the inefficient state monopoly purchase institution for agricultural products, *centros de acopio*, the closure of the so far only existing wholesale market for agricultural products (*El Trigal* right outside of Havana), introduction of maximum prices, and the withdrawal of licenses for ambulant street vendors.<sup>506</sup>

Given the negative results of the flip-flopping agrarian reform efforts, it may not have come as a big surprise when, as a response to constant price increases in the non-state markets, 2016 became a year of serious reform reversals. Second Secretary (and Deputy Leader) of the Communist Party, José Ramón Machado Ventura, led a formidable campaign against “unscrupulous middlemen and speculators”,<sup>507</sup> responding to calls from some deputies in the National Assembly in late 2015. President Castro echoed the warnings, saying “a solution must be found to bring prices in line with public wages”. Economy Minister Marino Murillo was apparently made a scapegoat of this harsh criticism. He practically disappeared from the public eye for one and a half year, during which he was also “relieved of his functions” as Minister of the Economy, while he maintained the post as reform coordinator—for reforms now in pause mode.

In January 2016, efforts started to restore price controls on 23 basic products, introducing distribution restrictions, and distributing and selling more food at fixed prices. Privately owned trucks were ordered to unload at state markets instead of retail outlets, and most street vendors apparently lost their license or were scared off the street. The state also started opening new outlets to sell basic food at fixed prices, reversing a previous trend to get out of the retail food business.<sup>508</sup>

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<sup>506</sup> *Thomsonreuters* (2016): “In a reversal, Cuba tries price controls to tame food inflation”. Cable from Havana, 21.01.16.

<sup>507</sup> *Ibid.*

<sup>508</sup> These observations were made during two visits to Havana and other parts of the country during first half 2016, visiting markets and talking to a large number of vendors and clients, plus discussions with Cuban agricultural experts and PhD student Ståle Wig, studying street commerce in Havana.

Machado Ventura made it clear that the aim was to return to the system of channelling the bulk of all food products through state channels as a measure against speculation (this share had fallen from 80% to 50%, now he intended to raise the share to 85% again). These measures were confirmed by the PCC Congress in April of the same year, voting to eliminate licenses for private wholesale food distribution. Raúl Castro paid homage to Machado Ventura for reacting so decidedly to attack the problem of rising prices.

The main effect of these restrictions may have been the consolidation of two parallel market segments, particularly in Havana: the relatively better off plus private restaurants would find markets where price control was not respected—in spite of frequent presence of inspectors—and good quality products were available, whereas lower-income groups could find some basic products at other markets where supply was limited and quality was lower.<sup>509</sup>

The 7<sup>th</sup> Party Congress in April 2016, one month after the historic President Obama visit to Havana, had been expected to accelerate the reform trends. In fact, however, the above noted reverse trends were clearly confirmed by the 7<sup>th</sup> Congress, with harsh attacks on ‘speculators’ in the new market economy. Raúl Castro himself, who had argued systematically for these market reforms, now echoed criticism from a conservative like Machado Ventura, in ways that most observers had not expected to hear from President Castro at this point of the reform process he himself had set in motion: “We cannot remain with folded arms in front of the citizens’ irritation by the scruple-less manipulation of the prices on the part of intermediaries who only are thinking of how they can earn more and more.” (Castro 2016) (S/E).

A first wave of attacks on successful private businesses, of which the *paladares* are most prominent, started in the fall of 2016. In an apparent parallel to new attacks on US imperialism, new waves of measures against self-employed took place.

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<sup>509</sup> According to a report in *14ymedio*, 25.11.16. Conversations in Havana in January 2017 confirms this dual-market hypothesis: for ordinary consumers, both supply and prices seem to have been pretty stable during 2016-2017, continuing into 2018. For more demanding clients, including *paladares*, there were claims of a price increase of as much as 20%, with supply of high-quality products being much less reliable than before.

Two of the provinces, Camagüey and Las Tunas, were particularly hard hit by the 2016 attacks on private businesses. Several successful restaurants were closed, many of them almost emptied for their belongings, and some owners detained for weeks. The accusations included the possession of products without being able to produce receipts, workers without contracts, delays with payment of taxes. Even owners with connections to government or quasi-government officials (in one case the owner was the son of a Ministry of the Interior coronel, in another case the wife was the president of the neighbourhood committee), were not spared for such harsh reactions.<sup>1</sup>

The municipal government in Havana called 134 owners of private restaurants (*paladares*) to a meeting (129 attended), informing that no new licenses for the time being would be issued, warning them against various illegal aspects of their business practice: having more than the legally established maximum of 50 chairs, buying food products directly from private producers and markets rather than from the state, using un-registered workforce and entertainers/musicians, illegal purchase of buildings, dubious sources of capital, staying open after 3 a.m. and disturbing neighbours, contracting entertainment outside of official channels, even in some cases promoting prostitution.<sup>1</sup> In the midst of praises for the private sector's contribution to the economy and tourism, a warning of strengthened inspections of their facilities was given. The reaction from several owners and managers interviewed by the author in Havana those days, was a combination of a shrug ("this is an expected reaction, but they know it will not work"), to a strong rejection saying that it is simply impossible to offer the quality and price level of these restaurants if the direct access to private food producers is closed. "Of course they are technically right, we all bend the rules, but we have little choice," said one of the owners present at the meeting when I interviewed him afterwards. He added that they have a constant challenge to produce receipts for all input goods.

After some weeks, the issuing of new licenses was resumed, and 'business as usual' again ruled in the private restaurant sector at least in Havana, in another case of the zigzagging public policy towards the private sector.

At the same time, there were several massive raids and inspections directed against petty traders. For instance, in the busy trading street *Monte* in Havana, a large police force closed off the entire trading blocs while a large group of inspectors went through

the businesses on 11 October 2016, leading almost to panicky reactions. Many TCPs were heavily fined and several also lost their licenses. The only consequence of such government actions, however, seems to be that the business is moved further underground, where the combination of illegalities and corruption of official inspectors takes another turn of growth.<sup>510</sup>

The next sector to be singled out for serious scrutiny was the taxi sector, particularly in Havana (ref discussion under Indicator 4.6 *interest representation*).

But the most serious backlash for the promotion of private entrepreneurship, came with a government announcement on 1 August 2017, making it clear that no new licences would be given to the most lucrative sectors of the non-state economy: restaurants and cafeterias as well as room rental for foreigners. For these sectors, the cancellation would be temporary "until the perfecting process for self-employed work has been concluded". *For all sale of agricultural products, however, be it wholesale or retail, including ambulant street sellers (carretilleros), the cancellation of new licences was declared as definitive.*<sup>511</sup> After this date, even old existing licences held by this group were gradually withdrawn.<sup>512</sup>

Other activities to be frozen in the same manner included house and electronic equipment repairs, programming of applications for mobile phones and digital sites, music classes and student tutoring. The measure did not affect those who already had a licence. Significant tax increases were also announced. An official of the Ministry of Labour and Social Security claimed that these measures did not represent any step back for the non-state sector—and the same was later repeated by Reform Coordinator Murillo—they were only calling it a necessary measure against the use of inputs and materials of 'illicit origin', tax evasions and 'insufficient control'.<sup>513</sup> Once again, however, the government knocks down on exactly those illicit practices that the self-employed

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<sup>510</sup> Interview with PhD student Staale Wik, Havana, 22.10.16.

<sup>511</sup> *La Gaceta Oficial Extraordinaria No.31*, 1.08.17, Resolución del Ministerio de Trabajo y Seguridad Social (MTSS).

<sup>512</sup> "Régimen cubano anula más de medio centenar de licencias de carretillero". *DDC*, 23.01.18

<sup>513</sup> Resolución del Ministerio del Trabajo y Seguridad Social, *La Gaceta Oficial Extraordinaria No.31*, 1.08.17, and declarations by Marta Elena Feitó Cabrera, viceministra primera de Trabajo y Seguridad Social, to *Granma* also on 1.08.17, as well as declarations by Marino Murillo at the December 2017 session of the National Assembly.

find themselves obliged to make use of in the absence of an orderly regulated market economy. This is the Catch-22 reality of the Cuban salvage capitalism. In the following days and weeks, there was a virtual outcry of disbelief, protest and desperation from Cuban self-employed and entrepreneurs, declaring that they had lost confidence in Raúl's previously declared intention of creating a strategic space for the private sector. Claims of a real 'counter-reform'—the abolishment of the entire Raúl Castro-initiated reform process, were frequently heard.<sup>514</sup>

Up against this counter-reform, the grand old man among Cuban-American economists, Carmelo Mesa-Lago, claims that the growing Cuban non-state sector if allowed to flourish, could represent nothing less than the rescue of the crisis-ridden Cuban economy (Mesa-Lago (ed), 2016):

“If the non-state sector were given more freedom, rather than being submitted to all these restrictions, taxes, inspections and fines, there would be an enormous growth of the Cuban economy and welfare”.<sup>515</sup>

The measures against non-state economic actors were accompanied by several expressions of political backlash, as documented in other sections of this Chapter. Several important legal initiatives that had been announced were never implemented, starting with the constitutional reform, reform of the electoral law, a legal framework for private companies, new laws for associations and the media.

Together, this constitutes what we have claimed was a *counter-reform* from 2016 onwards.

We have to ask, then, what have been the political motives behind this counter-reform, a matter we have touched upon in different contexts throughout this dissertation.

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<sup>514</sup> See *AsceNews* 767-770, August 2017.

<sup>515</sup> Quote from the presentation of the new book in October 2016. *EFE*, Madrid, 14.10.16 (reprinted in *ASCENews* No. 732) (S/E).

Summarising this discussion, we will state that the following elements have been decisive:

1. There was a partly understandable worry that the growing market economy was creating socio-economic differences at odds with the egalitarian principles of the Cuban Revolution, for instance that food prices reached levels beyond the purchasing power of most state employees. The counter-argument to this was that it was the character of the emerging market relations, in the form of what we have called salvage capitalism, that more than anything led to these distorted socio-economic relations;
2. It became clear for those who managed and defended state property that they were increasingly outcompeted by private economic actors;
3. The perception of being on the losing side of the reforms was strong among party, state and mass organization leaders and bureaucrats. There may also have been a significant element of envy here;
4. The overarching worry, however, has probably been that the introduction of market economic measures, and by that the strengthening of private entrepreneurs and a new middle class, might undermine the political power monopoly of the Communist Party. There is a particular concern to ban any independent interest organization of new economic actors, which could represent a challenge to the entire Leninist principle of full unity of the entire people under the unquestionable direction of the Communist Party. When coupled to political reforms, this worry became unbearable for the Party intransigents. There has obviously been no confidence in the capacity to copy the Sino-Vietnamese model of market reforms with maintenance of total political control—rather, the example of what undermined the USSR has probably been studied in detail;
5. There may have been a particular worry about the emergence of a too autonomous individual peasantry: a *kulak class* as it was known during the

Russian Revolution, seen as a potential counter-revolutionary archenemy whose growth had to be avoided.

However, these counter-reform efforts are probably not capable of turning the clock back. As pointed out by Eugenio Yáñez, the change of game towards market economic conditions has already occurred by converting ordinary Cubans to real estate owners, producing increasing contradictions also in the political sphere. Whether this will have inevitable implications for a *change of the political game*—as in the USSR—or whether a market economy after all can co-exist with an authoritarian political system as in China and Vietnam, are among the thrilling questions of the future. We will probably know more about this as the events during the post-Castro era unfolds. In Yáñez' words: "I think that Raúl Castro knows that he is creating conditions—not for him to make (the deeper changes)—but for those coming after him, whoever it may be, to have the necessary conditions to straighten out a series of problems"<sup>516</sup> (S/E).

The first dilemma encountered by Díaz-Canel and the post-Castro leadership will be whether to carry on and accelerate the reforms originally initiated by Raúl Castro, or to continue the counter-reform process.

#### **Indicator 9.4: New source of legitimacy emerging?**

When searching for new sources of authority, let us use Max Weber's (2005) three categories as our theoretical guide.

In many ways, Cuba under Castro—particularly Fidel—has been a prototype combination of two of Weber's aspects of authority: *patrimonialism* (power being wielded on the basis of personal relations, discretionary exercise of power by the ruler—while Weber's criterion "no differentiation between the private and the public sphere" has not been so clearly present), and *charismatic authority*. There is no doubt that Raúl has strengthened the third Weberian category of authority, *legal-rational authority* while he has definitely weakened the two others, so that Raúl's regime has

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<sup>516</sup> <https://vimeo.com/37390077>

been a completely hybrid mixture of all three forms of authority. The post-Castro era may take this mix in two different directions: while charismatic authority will definitely be further reduced or completely disappear (unless a new strong leader—unknown today—emerges), *power exercise may either move towards more patrimonialism* (blurring of the separation between private and public spheres, more corruption, nepotism and rent-seeking), *or towards legal-rational authority*. The former is very much related to a scenario of authoritarian market economy; the latter will clearly strengthen more liberal democratic forms of government.

All these elements were directly associated with Fidel's undisputed leadership, and they point directly to a succession dilemma: Until he was forced to leave the stage for health reasons, hardly anybody could imagine the continuation of the Cuban revolution without Fidel Castro.

The details of the Fidel-Raúl transfer are quite interesting, as described in the Introduction to this Study. Raúl was officially elected as President by the National Assembly only in February 2008, five days after Fidel had stated that he had no intention to stand again for President. He was re-elected for another five-year term in 2013, then also announcing that this would be his final term and that he would not seek re-election in 2018. The same session elected Miguel Diaz-Canel as the Deputy Head of State *and* Government.

Raúl's formal election as First Secretary of the Communist Party only took place at the Sixth Party Congress in April 2011. He was re-elected for a second and last term in 2016, where he confirmed his firm intention to step down at the 8<sup>th</sup> Congress in 2021.

This procedure illustrates another unique character of the Cuban revolution: the fact that Fidel's younger brother Raúl, second in command since the guerrilla era, could pass on to the number one position so undisputedly, and in so doing even maintaining a good part of Fidel's authority.

“The towering figure of Fidel led observers to overlook the importance of the role played by Raúl Castro: as the eternal and unquestionably loyal number two, he was a crucial part of

Cuban exceptionalism; he immunized Fidel's rule against the typical instabilities stemming from power struggles around the second-in-command position" (Hoffmann 2009:236).

It is obvious that Raúl's leadership style is quite different from that of Fidel: where Fidel was running the country in a highly personalist manner, Raúl has to a high degree institutionalised state and party affairs. Some observers, however, have pointed out that there are obvious limitations to this even under Raúl: "the Cuban revolutionary regime was never completely institutionalised. The Castro regime can best be described as a communist bureaucracy ran by a purely Latin American caudillo-type of leadership" (Grenier, 2016:157).

This being said, already under Fidel a considerable degree of what Weber calls 'routinization of charisma' took place, in the sense that state matters were formally institutionalised, notably during the 1970s when there was an official 'process of institutionalisation'. Later on, however, during the 1990s, a certain de-institutionalisation took place, in the sense that the five-year terms of the Communist Party Congress ceased to be respected after 1997 (the next Congress only took place 14 years later, in 2011, with Raúl as the acting First Secretary since Fidel had stepped down), and that parallel structures of young non-elected cadres whose authority built directly on Fidel's selection emerged. All these so-called 'talibans' were later removed by Raúl. It is probably correct to qualify the Cuban model as a dualism of charismatic and bureaucratic-rational authority. But if the emphasis under Fidel was on the charismatic part, it definitely shifted to the bureaucratic-rational part under Raúl. And Raúl himself publicly announced this change of leadership style, in an interview with *Granma* shortly after he provisionally took over the leadership role:

"As a point of fact, I am not used to making frequent appearances in public, except at times when it is required... Moreover, I have always been discreet, that is my way, and in passing I will clarify that I am thinking of continuing in that way. But that has not been the fundamental reason why I don't appear very often in the mass media; simply, it has not been necessary".<sup>517</sup>

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<sup>517</sup> Interview with Raúl Castro in *Granma*, 18 August 2006; English version cited from the Cuban Foreign Ministry homepage and quoted in Hoffmann (2009).

Raúl has subsequently stuck to this clearly anti-charismatic testament. But still, being a Castro with the revolutionary credentials he has, he and the generation of leaders still occupying most senior positions “remain critically dependent on recourse to the charismatic leader for legitimacy”, as Hoffmann (2006:241) very accurately underlines, continuing: “As the charismatic leader becomes the legitimator, the successor government needs to continually validate its actions through recourse to his legacy”.

What this tells us, is that Raúl Castro’s leadership to a large degree has been basing its legitimacy on Fidel Castro’s charismatic authority. The real legitimacy challenge was thus in a way been postponed until 2018. Now Díaz-Canel is attempting the same—referring to the legacy of Fidel and Raúl. It may be difficult to see that as a workable strategy vis-à-vis his own generation and even more the younger Cubans in 2018.

Another discussion is what political implications may be drawn from the passing away of Fidel Castro, in November 2016. With little more than one year left before he was supposed to leave office as head of state, would that make any difference in Raúl’s policy-making? Conventional wisdom had been that Raúl had been ruling in the shadow of Fidel. The following forecast was made by the Madrid-based Cuban political scientist Carlos Manuel Rodríguez Arechavaleta, only five months prior to Fidel’s death, with reference to a previous statement by Professor Jorge I. Domínguez in 2009 that Cuba’s future would depend on whether Fidel was alive or not: “The real Cuban transition will only start with the physical death of Fidel Castro. The physical death of the historic leader is what will detonate a change without masks”<sup>518</sup> (S/E).

In fact, it seems that Fidel’s *political* death in this sense has been postponed—at least until Raúl steps down as President and possibly until he also leaves his top position in the Party in 2021.

Another big question is what will happen to the monolithic power structure in the post-

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<sup>518</sup> Arechavaleta, Cuban political scientist of the Universidad Iberoamericana, Madrid, in a debate “Escenarios posibles del futuro cubano”, organized by Flacso at Casa de América, Madrid, June 2016: “Cambios, Castro, Reformas: ¿“No Castro no problem”, otra vez? Transición en Cuba no comenzará hasta muerte de Fidel Castro, según expertos en Madrid”). *EFE*, Madrid, 30.06.16 (reprinted in *Cubaencuentro.com*).

Castro era, and particularly with a non-military person like Miguel Díaz-Canel<sup>519</sup>—the question is simply whether he will obtain the authority of the armed forces. Then, for the first time, the First Secretary of the Party will not be the formal commander-in-chief of the Armed Forces, as the socialist Constitution stipulates that it falls upon the President of the Council of State to "assume the Supreme Command of all armed institutions and determine their general organisation".<sup>520</sup> On the other hand, the Constitution also establishes that the Party is "the leading force" of the Cuban society. Raúl, in addition to staying on as party leader for another three years, is also the unquestionable highest authority of the armed forces. As long as Díaz-Canel maintains his close association with and protection of Raúl, he will probably also be able to keep the loyalty of the military. The question is whether this will still be the case after 2021.

This choice may to a large extent be decided by the correlation of forces in the new generation of leaders, between civilians (members of the top state and party organs and provincial leaders) and military (the latter also divided between military and State Security officers on one hand and leaders of military corporations on the other), a correlation that also will be played out internally in the Communist Party.

Further to the outcome of internal power struggles, the legitimacy challenge of the new generation of leaders taking over in 2018 may seem to be formidable, particularly if there is no fast improvement of Cuba's deep economic crisis.

We introduced the concept of *pragmatic acceptance* to explain the resilience of Sino-Vietnamese socialism. The situation in Cuba is very far away from conditions favouring pragmatic acceptance of the regime. The failure to implement reforms with a profound combination of growth and a distributive effect, leaves a meager inheritance to the post-Raúl leadership in Cuba searching for a new source of legitimacy.

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<sup>519</sup> Díaz-Canel used to have a military degree as lieutenant colonel since he was trained as an electrical engineer in a military training regime and later served as a 'political commissary' in the Cuban military mission to Nicaragua, but he later retired from the Army and is in no way part of the military hierarchy.

<sup>520</sup> See discussion by Roberto Alvarez Quinones: "Who Will Succeed Raul Castro?" *Diario de Cuba*, 14.01.16.

This dilemma has been constantly emphasized by Cuba watchers:

“A Cuban government without neither Fidel nor Raúl Castro, lacking the historical legitimacy, needs to construct a proper political legitimacy through its economic management, and also its capacity for inclusion and tolerance of the real plurality in the country. It is very probable that – according to this scenario – the demands for political reform will increase and that the new government will be obliged to negotiate its authority through the full adoption of an authoritarian regime, or in the best of cases, a transition to democracy” (Valdés 2004:253).

The question, then, is whether Raúl Castro’s reforms have contributed to re-establish a new legitimacy among younger generations, based on socio-economic merits and political expectations for inclusion. The answer to that, as argued throughout this dissertation, is quite clearly negative. So, according to this logic, a quite dramatic choice may emerge for the Díaz-Canel presidency: drastic socio-economic improvements—requiring much deeper reforms, more democratic participation—or more repression.

Again, a comparison to China seems to be of relevance. We described in Chapter 4 the ‘routinized contentious bargaining’ mechanisms, providing a decisive contribution to the regime’s resilience, combined with the Deng Xiaoping philosophy that the party’s survival would depend on a legitimacy based on performance rather than ideology, resulting in a phenomenon called *contentious authoritarianism*. This, by the way, has been less prominent in Vietnam than in China. With very little merits to show the younger generation and thus lacking the conditions for *pragmatic acceptance*, and without establishing dialogue mechanisms with (potential) protesters comparable to the Chinese *contentious bargaining*, it is difficult to catch sight of the prospects for a new legitimacy capable of avoiding confrontation and repression.

It has been claimed that Miguel Díaz-Canel would be more likely to search for legitimacy by referring to ideology than to economic improvement. Against the backdrop of Fidel’s uniquely charismatic authority and the vacuum left by Raúl in this regard, Cárdenas (2018) believes that Díaz-Canel has a good opportunity to re-conquer legitimacy beyond economic merits and what we have called pragmatic acceptance: “the most fertile ground in Cuba to obtain legitimacy is political communication and ideology [...] Ideology, the construction of symbols and public policy in general, are debts in the

country's leadership" (S/E). It is difficult to see how this would be possible, without taking very seriously on the economic problems people have to go through, also thinking of Díaz-Canel's very limited charismatic personality.

In case the new generation of leaders fail to establish a new source of legitimacy, the question of whether younger Cubans continue to choose *exit* rather than *voice* as a reaction to the loss of belief in a Cuban future will continue to haunt the Cuban nation.

#### **Indicator 9.4: *Voice or Exit?***

Building on what was said about the dichotomy concepts of *voice vs. exit* launched by Hirschman (1970) in Chapter 4, it is conspicuous to register that Cubans systematically have chosen *exit rather than voice* when they have an issue with the regime. Very few Cubans are discrete when voicing their opinions in private. In public, however, their agitated voice is normally silenced.

The migration relationship between Cuba and the US, having gone through so many stages since the 1959 revolution, reached another phase since the 17-D. The first wave of post-revolution Cuban exit was represented by those who fled during the first years after 1959. It started with the close collaborators of the Batista regime and gradually comprising people who felt betrayed by Castro's initial commitments to a democratic regime when he started turning towards socialism, Marxism-Leninism, and the partnership with the Soviet Union. Most of those migrants undoubtedly came from the upper and middle classes of white Cubans who felt threatened by radical political transformations. The revolutionary regime was probably only glad to get rid of this generation of 'counter-revolutionaries', amounting to perhaps as much as a million (10% of the population) up to the end of the 1970s. The price to be paid was that by 'exporting' the enemies of the revolution, the real Cuban opposition started establishing itself in exile, principally in Miami, Florida and the US, with the additional effect of gaining a decisive say on US Cuba policies.

The other side of the coin was that this animosity from the alliance of the US government and the Cuban exiles in the US gave the Cuban government the opportunity

to systematically appeal to nationalism and anti-imperialism, referring to the Miami Cubans and even the internal opposition receiving support from the US as sell-outs and 'enemies of the Fatherland' (*vendepatrias*). This relationship has justified most of the democratic restrictions in Cuba.

When the desire to emigrate took hold among wider parts of the Cuban population, actually threatening the entire demographic balance on the island, the government found it necessary to introduce strict emigration restrictions, the so-called White Card. By applying these restrictions, another strong emigration desire accumulated over the years, possibly at some point threatening political stability. This led the Cuban government to open the safety valve on repeated occasions, particularly at two historical moments:

In 1980, an estimated 125,000 disaffected Cubans were allowed to leave after a significant number had sought refuge in the Peruvian Embassy. They assembled and were picked up from the Mariel harbour, right west of Havana, by small boats coming across from Florida. This was called the Mariel boatlift, and those who arrived in the US were often referred to as *marielitos*.

During the hard times of the 1990s represented by 'the Special Period' in Cuba, a constant wave of young Cubans (the *balseros*—peaking with 37,000 in 1994) set out on precarious embarkations, often no more than inner tubes of car tyres. Those who were lucky to make the crossing—while a large number drowned at sea—could take advantage of the so-called *wet feet*, *dry feet* immigration policy introduced by the US through the revision of the Cuban Adjustment Act (originally from 1966), essentially allowing anybody who fled Cuba and managed to set foot on US soil to claim resident status a year later, and eventually US citizenship. Following an agreement negotiated between Cuba and the Clinton administration, a Cuban caught at sea between the two nations (with 'wet feet') would summarily be sent home or to a third country. Those who made it to the US shores, on the other hand (with 'dry feet'), were allowed to stay. There was also a third term, 'dusty feet', used to refer to those who reached the US by crossing the border from Mexico.

This constant outflow of Cubans to the US clearly qualified for what Hirschman (1993) referred to as 'exit subverting voice', thus representing a safety valve for the revolutionary regime. Different from previous migration waves elsewhere in Latin America where there may have been a communality of interest between emigration and immigration countries, this phenomenon between Cuba and the US was never part of what he in his first book on the subject referred to as exit representing "a conspiracy in restraint of voice". On the contrary, the shifting US governments would no doubt have preferred that these disaffected Cubans had stayed in Cuba to organise protest and eventually overthrow the Castro government. Instead, the US, by accepting these migrants, may tacitly have helped silence or at least reduce protest in Cuba, while accommodating a strong political voice in the decisive swing state Florida that in effect managed to dictate US Cuba policies up to 2014. This is an exile group that, in accordance with Hirschman's terms, has maintained strong loyalties to the *Cuban nation*, with equally strong hatred of the *Cuban state and its government*.

If we compare to Hirschman's reflections on what happened in the final years before German re-unification, where there was an interaction with *exit triggering voice*, this may to a certain extent (but much less than in GDR) also have been the case for a long time in Cuba. But with the passing away of the first generation of post-revolutionary migrants, their children and grandchildren along with the later generations of migrants developed a very different attitude, resulting in a significant weakening of this 'exit-triggering-voice' mechanism. The majority of Cubans in Florida, maintaining their loyalty or at least curiosity to the nation and their Cuban families, are now much more indifferent to the state and the regime. The political implication of this is that they supported ex-President Obama's policy to normalise relations with Cuba.<sup>521</sup>

Only one massive street confrontation has taken place in Havana since the revolution: the so-called *Maleconazo* in August 1994. This was at the worst socio-economic moment of the *Período Especial*, provoking the above-mentioned *balseo crisis*. The massive departure mostly happened without resistance from the Government, seeing it again as an *exit* alternative to *voice*. What was not accepted was the hijacking of several boats

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<sup>521</sup> As quoted earlier, almost 70% of Cuban-Americans in Miami Dade supported this new normalisation policy (ref. [2016 Cuba poll](#)).

setting course for the US in previous weeks. The most spectacular act was the hijacking in July of a ferryboat and its sinking by the Coast Guard, with 62 passengers on board. On 5 August, rumours were spreading in Havana that several vessels were on their way to pick up those who wanted to leave. Suddenly, hundreds of young people gathered on the *Malecón* beach avenue in Havana, starting a spontaneous protest, attacking police and destroying shop windows with stones and sticks, and crying anti-Fidel slogans. After several hours, the police succeeded to control the situation, detaining about 100 persons, but without causing any deaths. At that moment, Fidel Castro himself arrived at the site and managed to calm down the situation. His declaration to a Cuban TV journalist asking whether this was the beginning of “another Mariel”, in effect confirmed that the Cuban government would do nothing to stop the protesters from leaving the country: “We are not opposed to anything; those who want to leave—let them leave. Either they [i.e. the US government] establish control, or we will stop protecting the US coast line”<sup>522</sup> (S/E).

After the Maleconazo, massive public protests, civilian movements in the streets etc., have not been on the agenda in Cuba. If young people were to start open protest, probability is that it would rather be over demands for better access to material improvements—or perhaps to the Internet—than for democracy. The new opportunity to leave the country taking advantage of the reformed migration law has only strengthened this prognosis.

Also, according to university professors, political apathy and a complete lack of ideological knowledge and debate seem to dominate among Cuban university students today.<sup>523</sup> It is therefore questionable how easy it would be to mobilise popular upheavals among young people in Cuba, in spite of the objective conditions that might exist due to the widespread complaints generally expressed by young Cubans about their life prospects.

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<sup>522</sup> See Nora Gámez Torres: “El Maleconazo: a 20 años de la crisis de los balseiros en Cuba”, *El Nuevo Herald*, 5.08.14, for a well documented article on what had happened 20 years earlier: <http://www.elnuevoherald.com/noticias/mundo/america-latina/cuba-es/article2038059.html>

<sup>523</sup> This observation is based on many conversations with university professors and other intellectuals, generally belonging to a politicised generation of intellectuals, often highly frustrated with the general apathy and lack of basic intellectual curiosity among the present generation of students.

There is a quite general observation among people who grew up with the Revolution, that the youth of today is becoming more apathetic. The following statement by a critical journalist is probably quite representative:

“There is a backlash against ideological saturation, a submissiveness which conditioned almost every act of your life to obedience, to political subordination, whether picking a university career, a job or an appliance, anything. Everything was a slogan, everything a roadblock. This has subsided somewhat, but previously, it was impossible to take a step without hearing ‘Motherland or death, we will triumph’ and go, go. [...] The investigations they undertook to see if you belonged to the Committee for the Defence of the Revolution [...] the youth of today have not experienced that bombardment of ‘the enemy that harasses us’. I did not bring up my kids that way, on the contrary, I tried to detoxify them. So this generation, the children of the parents of disenchantment, grew up devoid of that and are at a more pragmatic level, even at a marketing one, whose greatest dream is to leave the country”.<sup>524</sup>

The 2013 emigration reform was exactly the new *exit* opportunity thousands of another generation of young Cubans had been waiting for. During the three following years, a total of 121,000 Cubans emigrated to the US (24,000 in 2014; 43,000 in 2015; 54,000 in 2016), compared to a total of 46,000 during the previous four years and only around 15,000 in 2017 (but only 2,000 after the door to the US again was closed in January).<sup>525</sup> And this *exit* was apparently only the tip of the iceberg. A University of Chicago survey carried out in 2016 found that more than 50% said they would like to leave from Cuba if given the chance. Of those, nearly 7 in 10 said they would want to go to the United States.<sup>526</sup>

When the new exodus got underway in 2014, in a direct response to the normalisation process with the US, one might have expected that the space for ‘voice’ would increase in

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<sup>524</sup> 14ymedio journalist Miriam Celaya in conversation with NYT Editor Ernesto Londoño (14ymedio 6.12.15).

<sup>525</sup> Figures up to and including 2016 given by the US Centre for Immigration Studies, quoted by various news media 16.10.17. The 2017 estimate: <http://www.mcclatchydc.com/news/politics-government/article190040244.html>

<sup>526</sup> A survey funded and conducted by NORC at the University of Chicago, featuring a national random route-sample of adults 18 years and older in Cuba, based on in-person interviews of 840 adults with a main field period between October 3 and November 26, 2016. <http://www.norc.org/Research/Projects/Pages/survey-of-cuban-public-opinion.aspx>

Cuba. But Cubans once again chose the same reaction as always: expressing themselves with their feet rather than with their voice.

Against the backdrop of increasing social dissatisfaction and also the—after all—increasing space for criticism, it is still a mystery to many Cuban watchers why there is no more *public protest*. Why is it that Cuban youth are so passive while young people are marching and protesting in so many other parts of the world, including in Latin America? There should be no lack of reason for protest in a country where an entire youth generation seems to have lost belief in future opportunities. Yet, street protests in Cuba are rare, sporadic and never massive. The most common explanation for this passivity is the existence of a very effective security apparatus with capacity to survey and control most suspicious behaviour, and fear of everything from being jailed to being punished in other and more subtle ways, thus being deprived of whatever few and limited opportunities people might have. Through above-mentioned *actos de repudio*, the rapid response brigades and civilian police put up counter-demonstrations before the protesters are being detained. These acts are not reported in the official media, but there will always be a blogger or independent journalist to pick up and spread the news.

In cases where *cuentapropistas* and similar are being maltreated, open discussions in public places may occur; it is also not reported in the public media, but definitely in the alternative media. As we have seen there have been some attempts by political dissenters to capitalise on social protest by disaffected TCPs, apparently without much success.

But repression in Cuba is light compared to many other societies where public protest is common. So the fear element cannot explain it all. Perhaps this fact may offer another part of the explanation: where repression is harsher, where people are killed, disappeared or tortured, repression in itself may propel more protest in a spiral-like fashion. So perhaps repression in Cuba is kept at a level where this spiral effect is avoided. According to one of the closest observers of the Cuban Armed Forces (FAR), preparation for the use of military forces against the population was not even considered during the hardships of the Special Period (1990s): "FAR did not even begin riot control or other minor internal security training" (Klepak 2012:80). In connection

with the *Maleconazo* uprising, he says: "Raúl [...] had been arguing throughout the crisis that reaction to popular displeasure involving the armed forces were simply not thinkable options" (ibid:81-82).

Another explanatory element may be the fact that most Cubans are obliged to commit illegalities in order to go about their daily life. This puts them in an extremely vulnerable position vis-à-vis the police and other authorities of public order. As long as they don't make any fuss about their problems, and even more if they manifest some degree of symbolic support to the Revolution, they will normally have no problem with the myriad of petty illegalities they may commit. As soon as they are seen as 'conflictive', raising their voice in any critical way, committed illegalities will soon be remembered and may be used against them. Better, thus, to keep silent and avoid problems.

When the Arab Spring was at its apex back in 2012, and many asked themselves whether something similar could happen in Cuba, Marc Frank, the veteran foreign correspondent in Havana, made an interesting list of reasons why he saw that as highly improbable:<sup>527</sup>

1. There is no significant Internet or satellite TV penetration;
2. The demographics are completely different;
3. It is relatively easy for young people to emigrate;
4. There is relatively good free health and education for all;
5. The police do not systematically brutalise and bloody the population;
6. The leaders are not stealing the oil wealth and fooling around at European casinos;
7. You are allowed to have sex and party;

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<sup>527</sup> Mark Frank (2011): "Notes on the Current Situation in Cuba", *ASCE 2011*.

8. Women are relatively liberated;
9. There is no developed business class;
10. The United States does not have diplomatic and economic relations with Cuba.

Some of these elements have meanwhile changed: access to Internet and other alternative sources of information have increased substantially; the relation with the US has been in normalization mood; it has become even easier for young people to emigrate; and a small 'business class' is at least somewhat more visible. But on balance, many of these reasons are still in effect. Several of these points point in the direction of *exit* rather than *voice*, particularly if we take the 'exit' option both in a literal and more indirect meaning. Point 7 about a youth culture full of music, partying, access to joy and sex is probably the most significant 'internal exit' opportunity which makes young people forget about daily problems that under other circumstances might have led to more protest.

Another indirect form of 'internal exit' is the way new economic actors, particularly *cuentapropistas*, behave. As shown in the study of shoe producers that we have referred to (Indicator 4.4), potential entrepreneurs in Cuba tend to stay small, unorganised, operate under the radar, rather than grow and organise to defend their interests (move towards what we have called 'economic society'). Their argument is that as long as they are small and shut up, the State will leave them alone. In the contrary case, they will be up against all kinds of problems.

One might argue that even those elected to public office, the Assemblies of Popular Power (*Asambleas de Poder Popular*) on national, provincial and municipal level are also practicing some kind of 'exit' from active policy-making. By being part of unanimous approvals of any proposal coming from above, they do not exercise 'voice' in any meaningful way (ref. 2017/2018 elections, Indicator 8.4).

But of course the most important form of exit in Cuba has always since the revolution been in its most explicit form: leaving the country. The decisive group to watch here is urban young people of all colours. They seem to enjoy increasing degrees of cultural freedom, but also to lose faith in the prospect for serious change and attractive life opportunities. The urban youth culture definitely deserves to be studied more systematically to find out about their expected future mode of political behaviour.

With the waning out of political legitimacy we may be approaching a new situation, comparable to the one discussed by Hirschman in the GDR, where 'exit triggered voice', and the escalating dynamic of out-migration led those who preferred to stay to take to the streets to demand change. This scenario may be of particular relevance now that the exit option again gets closed: one of ex-President Obama's last executive decisions was to abolish the 'wet feet, dry feet' element of the Cuban Adjustment Act, thus depriving the Cubans of their automatic and free entrance to the US if they succeeded to cross the border. So, from 2017 most young Cubans suddenly again *had no other opportunity than to stay*. This, together with reductions in access to attractive self-employment opportunities, and no visible signs of political reforms, *may* have an impact on how young Cubans will behave during the post-Castro era. Maybe there will now finally be no alternative to *voice*. In what form, and how the new generation of leaders will handle it, is literally speaking the 10,000-dollar question about Cuba's future.

## Chapter 10: Status of transformations

(testing the nine hypotheses)

"The death of Fidel Castro now exposes Cuba to this dilemma between an orderly transition without revenge or a collapse that would generate violence, prevent economic reconstruction and cause the migration of millions of Cubans."

**(Joaquín Villalobos, ExGuerrilla leader from El Salvador)**<sup>528</sup>

We will now try to summarise the status of transformations that have taken place in Cuba during the Raúl Castro reform era (February 2008-February 2018), by revisiting the challenges and hypotheses we drew up in Chapter 4.

***Challenge 1: Significant retreat of the state in the agricultural sector, i.a. as a measure to meet the massive need for increased food production.***

*H<sub>1.0</sub>: No real independence for individual peasants and farmers; continued state control of food distribution.*

*H<sub>1.1</sub>: Peasants and farmers gaining increasing autonomy (transition to family farming), with good access to implements and markets.*

The point of departure was a heavily underperforming agricultural sector, fettered by two generations of overwhelming state and bureaucratic plans, controls and instructions. Cuba, a country with all climatic conditions to be self-reliant in food production, finds itself in the situation of importing the larger parts of its consumption

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<sup>528</sup> "Una nueva revolución en Cuba", *El País*, 29.11.16 (S/E).

(70-80%), resulting in a bloodletting of its very scarce coffers (up to 2 billion USD per year). This represents 30% of the country's total import value; more than the total annual export of goods. Yet, there is a chronic lack of access to food products in the country, and prices are often beyond ordinary people's purchasing power. Changing this situation was one of the principal goals of the reforms.

There has been a basic agreement among experts—and one may assume among most farmers although no reliable opinion poll exists—about the need to leave much more land tenure to the producers, and give them much more effective control over production, transport, sale, access to implements, credits and services. In short, the idea has been to introduce more systematic market mechanisms and let the farmers and peasants be masters on their own land, of course within a framework of reasonable state regulations. The first of these conditions was also quite quickly implemented: the private share of agricultural land tenure rose fast from under 20% to around 50% before it started falling again to around 40% in 2016). This was done through promotion of more independent cooperatives (CCS) and usufruct licenses on formally state-owned land. Combined with the drastic reduction in sugar production (which had occurred in the 1990s), Cuba for the first time in its history started to look like a family-farming country. Many of the producers had good earnings and accumulated considerable capital, but they had hardly any investment opportunities. The import of tractors for private use, for instance, was banned. The next necessary steps in that process never materialised: an early decision in principle to close the inefficient state-buying system (*acopios*) and replace it with a chain of wholesale markets both for sales as well as implements never came past a pilot phase, before even the pilots were closed. The notoriously inefficient state units once again returned to prominence (down from 80% to 50% of formal marketing, and then in 2016 back to 80% again—although these official figures probably hide the large informal trade). Intentions to cut drastically down on the agricultural bureaucracies particularly on local level were met with so much resistance from those involved that they were at least temporarily shelved. Stated principles of turning the cooperatives into self-ruling units in accordance with international cooperative principles, and to promote second-degree cooperatives that also could have played a constructive role in agro-industry development and provision of implements and services, never became more than good intentions. As we come back

to, and very significantly from a political perspective, farmers were never given the access to organise as a horizontal interest group, independently of state and party control. From 2016, as a response to increasing food prices in the cities, state structures regained almost pre-reform controls. Food supplies stayed far below domestic demand—many reports suggested that products often failed to reach the market—and currency-requiring imports remained as a heavy burden on the country's foreign exchange.

Critics have claimed throughout these years that the agricultural reforms have failed because they have been implemented in a piecemeal and contradictory fashion, that central planners have continued to assign scarce inputs and dictate what to plant, and that the counter-reform introduced in 2016 and 2017 would be futile, also leading to even more black marketing.

The two quoted agricultural economists concluded several years ago that sustainable growth and development in the economy at large is “unlikely without take-off in the agricultural sector”, and that such take-off is not yet taking place in spite of several years of cautious reforms (García and Nova 2014). This conclusion may be even more re-enforced today.

*We may now conclude that the transformation process initiated in the agriculture sector early in the Raúl Castro era, as in the rest of the economy, has been set in reverse mode during 2016-2017.*

*Indicator 1.1: Movement from state to non-state land tenure?* There was a quite dramatic such movement early in the reform process. Close to half the land and 55-60% of the farming population were organised in various non-state forms of tenure around 2015. Towards the end of the Raúl Castro era, a significant reverse movement was noted, mostly because 40% of those who initially leased land from the State (*usufructuarios*) returned or lost their license.

*Indicator 1.2: General autonomy and sovereignty for peasants/farmers?* This was never implemented in the ways strongly recommended by leading agricultural economists.

*Indicator 1.3: From state-regulated to market-based commercialisation?* A strategic decision in this direction was taken early in the process—and even braver measures were proposed in the draft version but taken out of the 2011 *Guidelines* before final approval: it seems that Raúl Castro originally had intended to go quite far towards market-based food sales. However private wholesales only reached a pilot phase before they were closed; the promotion of second-degree cooperatives as approved in *Guidelines* were never permitted to materialise; percentage of non-state commercialisation was first significantly increased before it was reduced to previous levels again (from 2016); other non-state infrastructure was never formally established. The outcome of all this was that black/informal channels continued to dominate.

*Indicator 1.4: De-bureaucratisation of agriculture?* Initiatives in this direction were not implemented.

*Indicator 1.5: Strengthening of family farming:* This has happened to a considerable degree, but farmers have not been given the independence that would be required to really boost production.

*Indicator 1.6: Sufficient food supply to urban areas, at affordable prices?* No, this did not occur.

*Indicator 1.7: Reduced import dependency?* No, this was not achieved.

*The general outcome of challenge 1 is that there has been a very significant transfer of agricultural land tenure—not property—from state to private hands, but without the state offering real autonomy for individual peasants/farmers or co-operatives. This has been most visible in the chain of food distribution and the provision of implements: the vital green light to non-state wholesale markets has never been given; even the pilot projects have mostly been closed. As experiences from other similar processes strongly indicate, the hoped-for massive increase in food production and reduced dependence on imports could not materialise under these conditions. The state seems to prefer paying substantially higher prices for imported food than what they pay their own peasants. The old socialist*

*orthodoxy to avoid creating a 'kulak' class of peasants seems to remain as a basic premise. Food shortages, speculation and black markets continue to dominate. When this has harmed the poorest, it becomes a justification to reverse rather than speed up structural and market-oriented reforms.*

***So, part of the alternative hypothesis was confirmed: family farming has been strengthened. But still, the zero hypothesis has by and large been confirmed: No real independence for peasants and farmers; continued state control of food distribution; no increase in supply of food products.***

***Conclusion: Challenge 1 was not met.***

***Challenge 2: Loosening of state control and dominance of the economy—growth of non-state economy—aiming at sustained economic growth and employment generation.***

*H<sub>2.0</sub>: status quo: a continuation of state property hegemony, combined with an increasing non-state workforce left to micro-size survival options and "savage capitalism".*

*H<sub>2.1</sub>: Opening a significant space for MSMEs (micro, small and medium enterprises) and other non-state entrepreneurs (including cooperatives), in a more regularised market economy.*

There was an early recognition in the reform process that a drastic downsizing of the state sector in the economy was required. The harsh message was that as much as 1.8 million state employees (one third of the country's total workforce) was basically unproductive or redundant and should be transferred to non-state employment. This was supposed to happen through a massive promotion of self-employment (*trabajadores por cuenta propia*), leasing of state land to individual or cooperative farmers, and the promotion of cooperatives both in agriculture and—what was new in Cuba—in non-agricultural and basically urban sectors.

It soon became clear that such a massive dismissal of state employees was completely unsustainable without generating alternative employment and would have led to a full

dissolution of the country's social fabric. Yet, having reached between one fourth and one third of this declared objective after six-seven years is no small achievement, and it is a telling illustration of the significant transformation process that after all was taking place during the first years of Raúl Castro's reforms in Cuba. But it also tells about a reform process falling increasingly behind its initial ambitions.

As indicated by this massive plan for the downsizing of the public sector, most state companies are in a very bad shape, in many cases surviving on considerable subsidies. Reforms are being attempted with the purpose of leaving more responsibility to company management, with the risk of bankruptcy if no surplus may be produced. But such de-centralisation has often been met with new bureaucratic structures to maintain central control: the centralist thinking seems to be part of the very DNA of the Cuban bureaucracy.

There is, however, one interesting exception to state corporation inefficiency in Cuba: the military-managed conglomerate—mainly under the umbrella of one corporate structure GAESA—which controls the most dynamic sectors of the Cuban economy. By some estimates, GAESA controls around 20% of Cuba's GDP. Since GAESA was singled out as the main target of President Trump's restrictions on US economic relations with Cuba, it will be interesting to see how Cuba will react to this and how it may affect the military conglomerates' dominant position in the Cuban economy. While it has been generally believed that GAESA has been the, relatively speaking, most professional—and perhaps least corrupt—part of the Cuban state sector, some considerations about its questionable behaviour after taking over Habaguanex (the state businesses in Colonial Havana) serve to question part of that assumption.

GAESA is really the state within the state in Cuba's economy, and supposed to play a lead role negotiating foreign direct investment (FDI). A few important economic sectors do not fall directly under military control, like petroleum and energy in general, nickel (the only critical mineral operation, dominated by a Canadian investor), sugar with derivatives (having lost its dominant position in Cuba two decades ago), and biotechnology. But most of these sectors are controlled by ministries where the military hierarchy is well positioned in the political loop.

What has been missing as a precondition for a more complete implementation of this transfer from public to non-public employment, is the political will to open a strategic space for a thriving formal private sector of the Cuban economy; to let national entrepreneurs develop reasonably profitable businesses, accumulate capital and reinvest in what could have become robust private enterprises—growing from micro and small into medium-size companies. In two consecutive Party congresses (2011 and 2016), private capital accumulation—a *sine qua non* for private investment, has been explicitly ruled out with some nuances introduced in 2017 (different from e.g. Vietnam where the Communist Party accepted this as a necessity for market reform success).

The majority of those who have left public employment to become self-employed have little in common with a middle class. They have more similarities with a lumpen proletariat in other Latin American countries, struggling to eke out a marginal living with illicit business practices, balancing risks versus opportunities in a constant cat-and-mouse struggle with public inspectors and the police. There seems to be a conventional thinking among political hardliners and bureaucrats that the self-employed don't deserve to earn more than the meagre incomes you get as a public employee. But nobody can live on such an income in Cuba, covering only a minor part of the basic necessities. As a result, public employees and self-employed end up in survival strategies characterized by a *strangle-hold of symbiotic inter-dependence*, exchanging illicitly obtained goods, services and bribes, exposing everybody to fall victim of anti-corruption campaigns, and breaking down the ethical standards that the Cuban Revolution once considered its pride. It is hard to understand how political leaders with supposedly high moral objectives for their country prefer this sad outcome of the revolutionary process. The campaigns of knocking down on such illegal business practices that the system in reality have made inevitable, are hard to interpret as anything but another pretext to harm non-state competition. It becomes increasingly clear that the proud social achievements of the Revolution—health, education and social security as well as dignity for its citizens—can no more survive without a formally functioning market economy. That will be required to generate the employment that the socialist state can no more afford without the massive subsidies once received from the Soviet Union and later to some extent from Venezuela.

Yet, a significant private sector has emerged in Cuba, according to some estimates now representing close to 20 % of GDP (almost similar to the military corporations). A smaller part of the non-state sector *is* thriving, against all odds and the continuous suspicion of political leaders and bureaucrats. Particularly in the tourism sector, a virtual private chain of restaurants and Bed & Breakfast establishments plus a myriad of other services are putting up stiff competition to what is also the most dynamic part of the state economy, controlled by the military-managed corporations. As much as one fourth of this vital currency-earning sector for the country is today in private hands, now representing an unavoidable and often preferred part of services to foreign tourists and mostly accepted as such by the tourism authorities. Small private entrepreneurs also have a substantial—if not dominant—share in transport and in such productive sectors as shoe and furniture production. But here again the informal structures are predominant.

The decision-in-principle to legalize private companies, finally taken by the 2016 Party Congress, is not expected to materialise anytime soon. This decision was contradicted by another decision at the same Congress: to continue resistance against capital accumulation and concentration of wealth. There seems to have been a heated debate about this during the yearlong period between the April 2016 Congress and the mid-2017 approval of the three documents of principle discussed at the Congress. Arguments about the need for private sector development were met by arguments about the danger of growing social differentiation and the Revolution's socialist principles. A compromise was reached in the end, but the ideological resistance against the expansion of private companies is still overwhelming in the Party hierarchy.

Rather than supporting emerging successful entrepreneurs, the trend after the 2016 Party Congress has been a constant questioning of their success as an expression of an undesired capitalist mentality. The predominant illicit transaction practices have made it relatively easy for state inspectors to document business irregularities. Several of the most successful private restaurants (*paladares*) and other businesses have therefore been closed. Those who have earned good profits are not allowed to—or do not dare

to—re-invest so that their business could grow and the private sector thus represent a significant alternative source of employment.

There has been a stated policy of transferring the responsibility in large parts of the uncompetitive service sector from state to non-state units, by incentivising the establishment of co-operatives and leasing arrangements. This has mostly been done by putting pressure on former employees to accept outsourcing solutions that still function under heavy state and party control. The new units may be formally speaking non-state, but they mostly continue the bureaucratized and inefficient former practices, incapable of growing into successful businesses that could expand and attract more workforce.

At the outset of the economic reform process, there was a clear priority to promote a more vital cooperative sector, first in agriculture but later also in the non-agricultural and urban sector. The explicit philosophy was that cooperatives represented “a higher form of social organisation” than private companies and would thus be more in accordance with socialist principles than ordinary capitalist enterprises. In practice, however, the cooperative sector has suffered from the same bureaucratic and political resistance against the abolition of central government control. Good intentions to implement common international cooperative principles of member democracy, autonomy and the least possible central government and party control have never taken root in practice. When it comes to urban cooperatives, they have to go through an extremely cumbersome authorisation process from local to central level, in the end requiring central government cabinet approval in each case, never mind the size of the proposed cooperative. As a result, only a minimum number of urban cooperatives have yet reached operative status, so that this intermediate economic sector is still of marginal employment relevance outside of agriculture.

Labour relations in non-state businesses tend to be much more arbitrary than in state companies, for the simple reason that they are more informal and because independent unions are not permitted. Employees are often better paid—and they may receive part of their earnings in convertible currencies (particularly in the tourist industry). But private companies often do not respect official regulations on working conditions, including guarantees against arbitrary dismissal. People often prefer working in a

private restaurant rather than a state-owned due to vast short-term advantages, risking their long-term labour security (which may not be much worth in the first place given the bad shape of the Cuban economy).

*Indicator 2.1: Explicit political will to de-monopolize the state economy?* Apparently, the ‘updating’ of the economic model (code word for ‘reform’) implied a strategic decision to allow a non-state sector to operate side by side with the state economy, with a quite dramatic transfer of workforce. Gradually, the strategic character of the decision was undermined.

*Indicator 2.2: Increasing de-regulation of state companies?* Formal de-regulation was soon followed by new bureaucratic measures.

*Indicator 2.3: Continued dominance of military corporations?* The military corporations continued to strengthen their position, directly controlling the 20% most dynamic part of the Cuban economy and indirectly influencing even other strategic sectors.

*Indicator 2.4: Transfer of workforce from the public sector to self-employment: A significant transfer has taken place, but never of the magnitude originally intended. Considerable redundancy in public employment persists.*

*Indicator 2.5: Private workforce gaining more independence from the state?* Yes and no. There is more formal independence, but state control and harassment may have increased. In reality, there is an illicit symbiotic interdependency between state and non-state employment.

*Indicator 2.6: Growing weight of the non-state sector in the Cuban economy?* Yes, the non-state sector has undoubtedly grown in importance and potential power in strategic sectors such as tourism and transport. Some estimates conclude that almost one fifth of total revenue creation in Cuba—outside of agriculture—comes from the private sector (almost as much as the military corporations), two and a half times the size of what is officially registered. This means that 60% of the private economy is informal and largely illicit, thus escaping the state regulatory capacities.

*Indicator 2.7: Growth of an autonomous cooperative sector?* The real cooperative sector (excluding State-controlled farms called ‘cooperatives’—CPAs and UBPCs) has grown significantly in agriculture. But the urban cooperatives, thought to become a major economic sector, have been the victims of heavy and almost inexplicable foot-dragging. Early expressions of intention to provide cooperatives with more autonomy in accordance with international principles have not been implemented.

*Indicator 2.8: Incentives/dis-incentives for other potential non-state growth initiatives?* Other growth initiatives and potential, as those emerging during the Obama era rapprochement, were met with dis-incentives rather than incentives, seen in a conspiracy context of old-style anti-imperialism. In this way, a historical opportunity to deal a heavy blow to the US embargo and help build a much stronger private sector with a growth potential for the entire economy, was lost.

### *Conclusions*

*The state has not let go of its property hegemony; the military-controlled corporations are dominant with some other state sectors also under firm bureaucratic-military dominance. However, the labour market has undergone a significant change with perhaps one third now being employed in the non-state sector. Even more important is the high degree of overlap between the state and the non-state sectors, where a majority of the Cuban workforce lives in a symbiotic interdependence based on illicit exchange of goods and services –with parasitic characteristics vis-à-vis the State. While we have seen the emergence of a few quite successful private entrepreneurs with up to as much as 50 employees, they are the target of constant hostility by state controllers. Most of those working privately as self-employed are therefore left to micro-size survival and ‘savage capitalism’, just as predicted in the zero hypothesis. The alternative hypothesis of opening a significant and legal space for MSMEs and independent co-operatives has so far not materialised. The end result of this is that non-state employment generation has been much less than anticipated. The entrepreneurial sector has so far not been assigned a strategic role in the Cuban economy. Sustainable employment generation as an alternative*

*to redundant state sector jobs has only taken place in a much more moderate way than intended at the outset of the reform process. But in some of the strategic sectors like tourism and transport, the private sector does occupy a quite powerful position that the State cannot ignore.*

***The general outcome on challenge 2 is predominantly, but not exclusively, in favour of the zero hypothesis of Status quo: a continuation of state property hegemony, combined with a private entrepreneur class largely left to micro-size survival options and “savage capitalism”. But a significant segment of successful entrepreneurs have also emerged, with a potential power position in some strategic sectors.***

***Challenge 2 was partly met in the early phase of the reform era, but later partly rolled back.***

***Challenge 3: Massive need for productive investment to spur economic growth and employment generation.***

*H<sub>3.0.1</sub>: status quo: ban on private capital accumulation, and disincentives for non-state investments*

*H<sub>3.0.2</sub>: Reform FDI regime and promote investments predominantly through state corporations; spurring significant state sector growth and employment creation*

*H<sub>3.1</sub>: Allow/promote diaspora investments and domestic entrepreneur accumulation and investment; spurring non-state growth and employment creation*

*Foreign direct investments (FDIs) have always been a complicated issue in socialist and anti-imperialist Cuba. In the 1990s, a small number of FDIs with rather moderate amounts were permitted, but a full overhaul of the FDI regime did not take place until 2013-14 as a crucial part of Raúl’s reform agenda. The legal framework, including for Cuba’s first Special Development Zone (Mariel) with generous tax exemption rules, is pretty much up to international standard. When most other sources of international financial support dried up, the Government started speaking about FDI as a high*

priority, suggesting that annual FDI amounts of 2.5 billion USD would be a necessary minimum requirement for the economy to start growing sustainably. In reality, only one third or one fourth of this amount seems to have been mobilised, for obvious reasons: Cuba is not a member of any of the international financial institutions (IFIs) that would normally act as creditor and guarantor for major FDIs. The scarce fiscal liquidity raises doubts about Cuba's capacity to honour its payment obligations. And the bureaucracy is still so opaque and slow in its dealings with foreign investors that confidence is difficult to build.

A peculiar situation in favour of the Cuban private sector exists when it comes to capital flows: Due to a quite massive inflow of *family remittances* from the 2 million plus Cuban diaspora, particularly in the US, the paradox is that non-state businesses probably attract at least a similar amount—or most probably closer to double—of what foreign investment represents for state companies. Without this source, we would not have seen the relative success of such enterprises, since the state is doing its best to hold back private capital accumulation and investment, and also blocking private businesses from FDIs due to their lack of legal company status. Cuba could have had the opportunity to repeat the success stories of the early market transitions in China and Vietnam, largely based on diaspora investments. But private businesses in those two countries enjoyed a much more explicit political support as major instruments of growth and employment generation. In Cuba, successful entrepreneurs are systematically banned from expanding their business, in spite of the potential they represent either by means of diaspora investments or their own accumulated profits.

President Trump's revised Cuba policy allows the remittance investments to continue as long as it does not go to Government-connected persons. Partnerships with state corporations—particularly military-controlled—will be even more restricted than before. If there had been a real willingness to give priority to productive investments, however, the Cuban Government could have taken much more advantage of the US policy initiated by Obama, to allow US business and trade relations with non-state companies. But the Government has evidently given more priority to keep state control of the economy than to promote investments, job creation and economic development by allowing a robust private sector to emerge. Apparently, it also prefers a completely

dysfunctional illegality to continue and spread in the non-state sector—thus allowing constant clampdowns—rather than promoting a well regulated, rational and robust mixed economy.

The official reasoning behind this has been linked to resistance against growing socio-economic differentiation, as we shall see under the next challenge also to be understood as a confrontation between two partly antagonistic groups within the power structure. While this may be a real motive, an even stronger motivation behind the reform foot-dragging must probably be sought in fears caused by the political implications.

The three main sources of foreign currency for the Cuban state economy, export of professional services, remittances and tourism, provide a positive trade balance of goods and services, but cannot cope with the huge budget deficit. Consequently, Cuba has very little investment capacity, resulting in a capital formation ratio perhaps only half of what is needed for sustainable growth and the rebuilding of the economy. Some signs of a potential partnership between US capital and the dominant military-managed Cuban enterprises could be seen during the Obama-era détente, in spite of the US embargo/blockade still being in force. President Trump has introduced a very explicit ban on economic US links with such enterprises, further undermining the investment and growth expectations. As long as the non-state sector is so systematically victimised, there are as yet no signs of the Cuban economy recovering through investment, growth and employment creation.

The plans for massive transfer of state employees to the non-state sector, required not least due to the unavoidable but still postponed monetary unification, *could* have given the opportunity to set in motion a process of what Schumpeter (2017) called *creative destruction*: a necessary replacement of the old with the new, in terms of sectors, technology etc. But that would have required the proliferation of massive investments and growth on the basis of Cuba's competitive advantages, particularly its human capital. Nothing of this happened, quite to the contrary: professionals were excluded from self-employed work, and private sector growth was not promoted. Schumpeterian entrepreneurs have largely lost out to illicit and savage capitalism. The mechanism described by Schumpeter and elaborated by e.g. Acemoglu and Robinson (2012) as a

way of preventing nations from failing, was not released. The most critical creative destruction urgently required in Cuba is the elimination of the dual monetary structure. This has been delayed throughout the years studied here and is left hanging as a Sword of Damocles over the heads of the post-Castro leaders.

*Indicator 3.1: FDIs playing an increasing role in Cuba's economic development.* In spite of a new FDI regime, foreign investments have fallen far short of expressed requirements, mobilizing only one third or one fourth of what was claimed to be necessary for sustainable recovery of the economy.

*Indicator 3.2: Increase in other sources of foreign currency.* Other sources of foreign currency have been found and grown substantially (export of medical services, tourism), but they are far from sufficient to compensate the fiscal deficit and spur the required economic growth.

*Indicator 3.3: Family remittances and other sources of investment promoting private sector development:* Family remittances have been increasing quite dramatically, and possibly provided the non-state sector with as much as twice the amount of investment capital compared to FDIs going to the state sector.

*Indicator 3.4: Increasing partnership between foreign investors and national enterprises?* Partnership between foreign investors and national enterprises is emerging in some sectors, mostly in the military-controlled tourism sector. During the Obama administration, even US investors started searching for such partnership. This has ended with the Trump administration.

*Indicator 3.5: Capital formation ratio improving?* The capital formation ratio has not improved: it is still at half the level of what is needed for economic rehabilitation.

*Indicator 3.6: Creative destruction taking place?* The closing of unprofitable state businesses has started, but not to the extent that we can talk about creative destruction. Family remittances have been increasing quite dramatically, and possibly provided the

non-state sector with as much as twice the amount of investment capital compared to FDIs going to the state sector.

*Indicator 3.6: Macro-economic outcome of the reform era:* Reforms are assessed by most experts on the Cuban economy to move in the right direction, but still falling far short of what is required for economic rehabilitation. GDP per capita in Cuba is still a catastrophic one third lower than in the mid-1980s, and so is industrial production. Growth has remained at a fraction of what is needed for economic recovery and has actually turned to recession towards the end of the Raúl Castro era. Budget balance and trade balance in goods are increasingly negative, the latter compensated for through services. Along with the very limited investment ratios, the macro-economic outlook is very gloomy as Cuba is entering the post-Castro era.

#### *Conclusion*

*The FDI regime has been thoroughly reformed without leading to significant investments due to political and structural impediments; diaspora investments to private businesses may be on twice the level of official FDIs. But private sector investments are still disincentivized by a ban on private capital accumulation and expansion and on the legal establishment of private companies. Obama-era US initiatives to allow international links with private businesses were strongly rejected. Given all structural impediments on foreign investment and growing restrictions on successful private businesses, the massive investments required for economic rehabilitation have not materialized, and employment generation is lagging far behind the needs, leaving a heavy burden to the next generation of leaders.*

***A mixture of zero and alternative hypotheses have been confirmed in this case, but the combination of missing investments in public sector and impediments to private sector growth even if investment capital has been available, has resulted in completely insufficient growth.***

***The accumulated outcome of the economic challenges (1-3) is that no real economic rehabilitation has occurred, and that the dysfunctional economic structure and consequent economic crisis continues.***

***Challenge 3 has not been met.***

***Challenge 4: Political implications of socio-economic changes***

*H<sub>4.0.1</sub>: Consistently resisting more autonomy for non-state economic actors that could follow logically from a changing economic arena; thus resisting political transformations.*

*H<sub>4.0.2</sub>: Economic reforms leading to new sources of acceptance for political status quo?*

*H<sub>4.1</sub>: Accepting more autonomy for non-state economic actors with potential for political transformations*

It is when we are moving from the economic to the political arena that we find the likely reason for the reluctance to permit the development of a strong private sector: Going through the indicators defined for challenge 4, there is little doubt that the first zero hypothesis (*H<sub>4.0.1</sub>*) is more consistently confirmed for than for most of the economic challenges. The second zero hypothesis (*H<sub>4.0.2</sub>*), which would imply a China/Vietnam style outcome (Route 1—economics only), is also largely dismissed. So is the alternative hypothesis: autonomy for non-state actors is strongly resisted, and attempts are made to narrow rather than expand their sphere of operation, when their contribution to solve the economic crisis is more critically needed than ever. Horizontal and independent interest organization is resisted, however logical it may seem to be on the basis of changing economic structures. Even the growth of co-operatives—for a while roared on as an ideal alternative to privatisation of the economy—was halted when they threatened to become a too independent economic force with a potential to promote political transformations. Extra-official and virtual expressions of more horizontal interest organization *are* carefully emerging, however, in some cases obliging the state to negotiate and accept that the economic power monopoly is cracking up. In some of the strategic sectors like tourism and urban transport, the private sector does now occupy a quite powerful position that the State cannot ignore.

The significant socio-economic changes that have occurred, in spite of the limited and increasingly restrictive responses to challenges 1-3, have led to growing inequalities and a re-composition of the socio-economic patterns in Cuba, with early winners of the reforms contrasting with early losers. The former consists of a mixture of military corporation managers and a virtual middle class reaping the benefits of successful non-state businesses, particularly in tourist-related sectors. The larger part of their economic activity is ruled by informal practices.

The early losers of reform, solidly represented among party and state rank-and-file bureaucrats, have probably impelled and supported the halt and reversal of reforms.

A key question here is whether the carefully emerging private sector of the economy is constituting itself as an *economic society* in the meaning framed by Linz & Stepan: norms, institutions and regulations that mediate between state and market. Only marginal elements of this can be observed so far. The same is the case with a *state bureaucracy* serving the needs of the non-state sector of the economy. If this were to happen, it could according to Linz and Stepan in the next instance be capable of producing the 'independence and liveliness' of *civil society*, in the next instance spilling over to a *political society* in liberal-state terms. This chain of events is clearly not wanted by the present Cuban leadership.

Yet, as we have shown particularly in the discussion of Challenges 6 and 8, Raúl Castro has moved Cuba from a totalitarian to an authoritarian regime. It is a crucial claim of this dissertation that the political elite in this situation started worrying about a logical unfolding of events as prescribed in liberal transition theory and as documented in the case of the USSR and other Eastern European ex-communist regimes, provoking a reversal of market reforms in an intent to halt a further erosion of the political power monopoly. There is evidently no confidence that the Sino-Vietnamese path of promoting market reforms without giving up political power (ref. *H<sub>4.0.2</sub>*) will work in the case of Cuba. It seems likely that the Soviet experience has been carefully studied, so that everything will be done to avoid something similar from happening in Cuba.

There may be various reasons for the resistance to allow what we have called *Schumpeterian capitalism* in Cuba and rather prefer the proliferation of illegal, speculative and savage business practices at odds with the most basic ethical principles of the Cuban Revolution. Such government-induced practices are now used as a pretext to clamp down on businesses, producing a self-fulfilling prophecy of a largely illicit non-state sector. It may be about an ideological rejection of capitalism, fear of competition against state enterprises, and even concern about dissolution of the social stability. Social conditions are deteriorating, and social differences are exploding between an emerging middle class of successful self-employed on one side, and those depending solely on meagre public salaries or benefits on the other.

But at the end of the day, judging from the never-ending harassment of the increasing share of the working population forced to survive at least partly outside of the public sector, only one real explanation seems to have validity: fear for the loss of the political power. The assumption is that by trying to keep a mixed economy at bay, there will be no political contamination from a market economy that may promote economic actors challenging the control of the Party and the State (what we have called Route 2: economic leading to political transformations). Even economic reforms initially heralded by Raúl Castro have been seriously slowed down or even reversed when the loss of economic and consequently political control appeared on the horizon.

The situation of symbiotic-parasitic interdependence between the state and non-state sectors described under Challenge 2, exposes workers in both sectors to a high degree of vulnerability, and to the whims of all kinds of controls by police, labour inspectors and law enforce institutions, who themselves almost as a rule make use of illicit methods (bribery) for their own survival strategies.

*Indicator 4.1: Winners and losers of the reforms with conflicting political interests:* There has been a clear differentiation between winners and losers of the reforms, with the latter group apparently using their position within the Party to challenge and reverse the entire reform process.

*Indicator 4.2: An emerging middle class with distinct interests?* Socio-economically, a small but relatively privileged group has emerged with several middle class characteristics and an interest in a continuation and deepening of the reforms but so far without political muscle to impose their will. One question for the post-Castro era is whether the most obvious early winners, the managers of military-controlled corporations, will join forces with this group for the further promotion of market reforms, possibly even with political implications.

*Indicator 4.3: Evolution of social conditions and previous egalitarian structures:* Social conditions have deteriorated for significant segments of the population and social differences have reached quite alarming proportions that challenge the egalitarian traditions of the Cuban revolution; probably contributing to the political resistance against reforms. Where China and Vietnam through their market reforms have offered the larger part of the population fast upward mobility and social improvement, thus providing a *pragmatic acceptance* for social inequalities and political status quo, this is far from happening in Cuba.

*Indicator 4.4: Private sector gaining potential power position?* Yes, the private sector has gained a potentially significant power position in strategic sectors like tourism and transport but has so far failed to develop political influence defending their interest economically and even less politically. Their reactions vary between silent protest and careful negotiation, and a real confrontation has so far not occurred. An interesting difference is emerging between a traditional state sector afraid of being outcompeted, and a more dynamic sector (principally in tourism) where the need for complementary private services is recognized. This difference may become politically important.

*Indicator 4.5: Ideological acceptance/resistance to private property and capital accumulation:* This resistance has been maintained and even increased during the reform period, making it difficult for an entrepreneurial group to consolidate itself as a strategic development force.

*Indicator 4.6: More autonomous interest organization permitted?* No, such organisation has not been permitted in any sector of the economy, but this has not stopped more

informal organisational alternatives with a certain political impact to emerge. As the state's dependence on the private sector of the economy increases, it will also become increasingly difficult to stop horizontal interest organisation beyond the control of the Party.

### *Conclusion*

***The first zero hypothesis has been clearly confirmed for Challenge 4: Quite far-reaching economic reforms have changed the socio-economic and even the socio-political structure of the Cuban society. The private sector has gained a potential power position in some strategic sectors like tourism and transport. This has been met by consistent and increasing efforts to turn back logically following political transformations, as exemplified under the discussion of other challenges. The claim of this dissertation is that this reaction is motivated principally by the regime's worry about a chain reaction: loss of economic monopoly leading to loss of political power monopoly.***

***Challenge 4—perhaps the principal challenge of the reform process—was actively refuted: political implications of socio-economic changes were consistently blocked; autonomy for non-state economic actors has been consistently resisted, also ruling out the likelihood of achieving pragmatic acceptance of political status quo.***

***Challenge 5: A changing international context: Reaching an end to the US embargo/blockade; and/or compensating the embargo by the help of other international alliances.***

*H<sub>5.0</sub>: The relationship of hostility to the US continues, thus also maintaining the internal justification against political liberalisation.*

*H<sub>5.1</sub>: Seeking gradual accommodation with the US during the second presidential term of Barack Obama and introducing major economic and political reforms as part of that process.*

On the international arena, there have indeed been quite dramatic forces of change at play during the period under study. First of all, presidents Obama and Castro surprised their two countries and the world with an unexpected breakthrough in political relations, the re-establishment of diplomatic relations, and mutual declarations about rapprochement on all fronts. Although President Obama was unable to get Congressional approval for his ambition of lifting the embargo/blockade, he took almost all possible steps within his realm of authority to befriend Cuba and undo historical hostility. Cuba failed, however, to fully recognize the historical potential of this and take advantage of the economic opportunities offered by Obama, very explicitly allowing US collaboration with the emerging Cuban private sector in spite of the still existing embargo. This was part of what he termed the *“empowerment through engagement”* policy.

Instead, the hardliners won the upper hand by spreading suspicion that Obama’s stated objective of contributing to a more open Cuban society would undermine the entire Revolution. They perceived a counter-revolutionary conspiracy behind Mr Obama’s charming face and reacted with full rejection of this part of the US invitation. This made it easier for the new US President Donald J. Trump to return to the era of ideological confrontation, thereby justifying the anti-imperialist position of the Cuban hardliners once again. In Latin America, which had turned strongly favourable to Cuba during the first decade of the new century, a new rightist wave stripped Cuba of many of the political and economic opportunities once again. Venezuela’s increasing crisis gave the lesson that Cuba once more had to brace itself for the loss of an economic benefactor and guarantor, while the Latin American runner-up for this role, Brazil, ended up almost equally incapable of providing Cuba with external support. China and Russia offered limited compensation, while Europe, in spite of normalised political ties, could not provide Cuba with economic rehabilitation as long as economic and political reforms in Cuba were so limited.

One of the indicators to watch here was how Cuba would adapt to changing international realities, and how this would affect its economic and political transformations. What we may conclude is that the old hardliners still dictating Cuba’s policy-making refusal to adapt pragmatically to a changing world situation, fail to take

advantage of significant opportunities to revitalise its economy out of fear for losing the absolute political power monopoly that anyway may be impossible to maintain for their successors. For instance, the ideologically based refusal to re-establish any relationship with the international financial institutions (IFIs) will continue to make it impossible for Cuba to realize the stated objective of attracting significant foreign direct investment, the officially declared avenue towards economic rehabilitation. In this way, Cuba is excluding itself from the opportunities so pragmatically and successfully grasped by its fellow socialist countries Vietnam and China.<sup>529</sup>

*Indicator 5.1: Trends in US Cuba policy: Towards the end of the embargo?* A dramatic breakthrough for US-Cuban normalisation took place during the Obama administration, although President Obama could not move Congress to lift the embargo. With the election of President Trump, the bilateral relation bounced back to full confrontation.

*Indicator 5.2: Relaxation of US hostility leading to reduced 'bunker mentality' and a less authoritarian Cuban polity?* The rapprochement between US and Cuba initially led to more internal openness. But this process was paradoxically reversed after President Obama's visit (March 2016) and was further eroded when President Trump took over.

*Indicator 5.3: Increasing diplomatic recognition— isolation of US embargo policy?* Cuba experienced increasing diplomatic recognition in Latin America and globally, and de facto an isolation of the US, until President Obama started the rapprochement. President Trump's renewed enmity may once again serve to isolate the US' Cuba policy (particularly in Latin America—but even in relation to the EU). But the increasing number of right-leaning governments in the region has re-opened the harsh criticism of Cuba's democratic deficit, so to say opening the gates of the cold war of the Americas once again.

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<sup>529</sup> The US may block the entrance of Cuba to the IFIs. However, membership in the probably most important credit institution, the Inter-American Development Bank (IDB) is closely linked to membership in the Organization of American States (OAS). Cuba's suspension from the OAS (since 1962) was lifted by a majority vote in 2009 against the protest of the US, at a time when the clear majority of OAS members were clearly sympathetic to Cuba. Cuba made it clear, however that the country has no intention of returning to this regional body. An option proposed by several economists (ref. Vidal and Scott Brown 2015) is that Cuba starts the approach to IFIs by seeking technical advice, notably from the IMF for the unification of the Cuban currencies.

*Indicator 5.4: Cuba benefiting from new international alliances?* Venezuela's growing crisis is gradually reducing quite drastically its comprehensive solidarity with Cuba. Brazil as the Latin American runner-up in Cuba relations was seriously damaged by the crisis in that country and the Left's loss of power. No other country is prepared to step into another benefactor role, although China and Russia is providing Cuba with some breathing space, i.a. as part of its geopolitical rivalry with the US.

*Indicator 5.5: Adaptation to new international realities affecting economic and political transformations?* Initial reactions to the new US' policy hinted at more pragmatic pro-transformation policies. Later on, a return to traditional anti-imperialist rhetoric ruled out such adaptation, e.g. by maintaining the rejection of international financial institutions that might have facilitated much better access to FDIs and made the monetary unification less painful.

#### *Conclusion*

***Relative to Challenge 5, the alternative hypothesis was halfway and unexpectedly confirmed (gradual accommodation with the US), even (at least for a while) prompting a historical shift in Cuba's international role from an anti-imperialist vanguard to a diplomatic facilitator. However, the successful Cuban diplomacy led to a domestic legitimation of the historic enemy and a potential de-legitimation of the regime itself. This became the barrier against the second element of the alternative hypothesis (introducing major economic and political reforms as part of the normalization process), helping build a prosperous Cuban future in peaceful and less confrontational relations to the old imperialist enemy, strongly supported by the rest of the world. After the Obama-Trump change, it may be long before the political realities of the US will offer a second opportunity of this kind to Cuba.***

***Challenge 5 was to a large extent met by the US-Cuban rapprochement, but the opportunity to liberalize economic-political structures in the context of peaceful relations to the historical enemy was missed.***

***Challenge 6: Emergence of a more pluralistic civil, academic and media society***

*H<sub>6.0</sub>: Status quo, with heavy restrictions on all independent academic expressions, civil organization and public debate in general.*

*H<sub>6.1</sub>: A gradual opening for a constructive public debate, with organizational expressions and innovative academic positions emerging and being tolerated, also being reflected by non-official media outlets.*

There was a significant change toward the meeting of Challenge 6 during the first years being studied here, until approximately 2015-2016. For several years, a clear strengthening of civil society took place. The information monopoly was effectively broken, with a myriad of alternative information agents and sources popping up, even a relatively high-quality Internet daily (although it was blocked from domestic access). Academics and intellectuals eked out a much more autonomous space for critical debate of alternative development options, and they also had channels to convey such thoughts to system insiders. The problem was the lack of feedback and active dialogue with the political power. The Catholic Church, led by the Havana Cardinal, developed some interesting debate initiatives while also playing a role in the liberation of political prisoners, but this proactive role gradually lost momentum.

The Cuban historian Rafael Rojas described this development, quite accurately at the time, as “civil pluralism and political authoritarianism in Cuba”.

Since the 2016 Obama visit, civil society has suffered a parallel backlash to that of other reform efforts: frequency and number of detentions of dissenters have increased (but interestingly decreased again in 2017), a number of independent journalists, bloggers and independent-minded academics have been marginalized and/or stigmatized, dismissed from state institutions and/or persecuted in other ways, even non-confrontational actors promoting dialogue and innovative thinking without questioning the historic legacy of the Revolution have seen their legitimate space significantly reduced. However, the number of cyber-based information outlets has increased so rapidly that the Government is incapable of preventing a constant loss of the information hegemony.

The word 'change agent' was referred to with contempt in Raúl Castro's speech at the 7<sup>th</sup> Party Congress. It is today very difficult to see who these 'change agents' should be, and whether they would ultimately emerge from within or outside of the Party system.

A game-changer could have occurred if the civil society had managed to converge with independent associations of private entrepreneurs, unionized private-sector employees, farmers and peasants, cooperatives or other non-state economic actors. But none of these interest groups have been allowed to establish themselves beyond the vertical and centralist control of Party and State, although the State can no longer completely ignore their strategic positions. The emerging middle class may harbour both economic interest and perhaps gradually even political ideas of its own. One question has been whether this could release hitherto dormant forces when seeing their market economy and middle class ambitions seriously frustrated. Coinciding with political deception and the USA closing their borders, thus drastically reducing the 'exit' option, may this lead to more 'voice' in Cuba?

The fear of the Party hardliners, it seems, was that the disappearance of the enemy image of US imperialism, together with the opening of economic relations not completely controlled by the state and of the emergence of new social actors with the characteristics of a middle class would endanger the monolithic political power. It must probably be understood as an attack on the dangers represented by the causal effects discussed in this dissertation: the political consequences of economic reform.

*Indicator 6.1: Evolution towards a more pluralist civil society?* Important openings took place during the first years; later meeting strong resistance.

*Indicator 6.2: Academics and intellectuals permitted a more autonomous role?* This indicator also saw considerable initial openings, later to be partly rolled back.

*Indicator 6.3: Churches playing an increasing political role?* The churches have not played any significant political role after the Cardinal helped liberate political prisoners in 2010. Only minor Catholic groups maintain an open critical attitude.

*Indicator 6.4: Increasing role for independent information actors?* Yes, there has been a very significant change in this regard, amounting to the loss of the Government's information monopoly. Also here there are later reversals, but the Government has been incapable of retaking the information hegemony among the young urban and educated population, now relying predominantly on cyber-based sources

*Indicator 6.5: More respect for dissenters?* Yes and no. Dissenters have gained more space of movement—including travelling in and out of country—but harassment may also have increased in later years, mostly through short-term arbitrary detention.

*Indicator 6.6: Emerging 'agents of change'?* No real such group has emerged.

#### *Conclusion*

***The alternative hypothesis was for several years confirmed: there was a gradual opening for public debate with more tolerance for independent academic and civil society expressions, forging a constructive space to emerge between officially controlled structures and irreconcilable regime opponents. The official information monopoly was effectively broken by independent journalism, media outlets and bloggers. But then, when the party hardliners started worrying about the loss of control, they reacted with a return to restrictions, increased stigmatisation of opposition (particularly the pro-dialogue groups), and an attempt to return to the zero-hypothesis situation. The increasing rejection of any alternatives to status quo demonstrated that the academic efforts to open a constructive debate with power insiders seem to have fallen on dough ears.***

***Challenge 6 was met to a significant extent, before the regime hardliners succeeded to start rolling back the pluralist opening.***

***Challenge 7: Differentiation of State vs. Party functions; division of state powers (legislative vs. executive).***

*H<sub>7,0</sub>*: Continuation of overlap between party and state functions; executive and legislative roles.

*H<sub>7,1</sub>*: Distinction between party and state functions; the Legislature operating more independently of the Executive.

A differentiation of state and party functions was announced as a clear ambition at the 2012 Party Conference. Division of state powers has not been expressed as an explicit ambition, but it would be a logical step towards an improved governance and rule of law standard. The reality is that very little of this has happened. The degree of power concentration in Cuba is quite unique by most international comparisons. The dominant power group that we have termed 'the twelve apostles' have concentrated top positions both in state and party bodies; in legislative as well as executive government branches and in the Armed Forces. The 7<sup>th</sup> Party Congress (2016) confirmed this monolithic governing structure, without relieving the octogenarian generation that has governed the country since the 1959 Revolution of its responsibilities and making the way for a new generation of Party leaders. In terms of party leadership, this transfer was once again postponed, to the 2021 Party Congress.

The new Central Committee of the Party elected at the 2016 Congress draws its most numerous group of members from state and Party functionaries, without including anybody with an alternative voice and an independent social base (intellectuals/academics, artists, non-state economic actors, civil society representatives from outside the party-controlled mass organisations).

The *foco* strategy so strongly associated with the Cuban guerrilla struggle and Revolution, with power spreading from the guerrilla through the re-organised armed forces and the Leninist political party to all organs of the state and society, is still the core political logic in the country. The armed forces, probably the best organised Cuban institution, while still being in firm control of the top Party body (the Politburo) and dominant among 'the twelve apostles', has not placed a significant number of younger officers in the Central Committee. There are also fewer military in top government positions (ref. new Council of Ministers to appear in July 2018), after an initial strengthening during the first years of the Raúl Castro era. An interesting factor to

observe is the differentiation between officers in active military and security/intelligence service, and those occupying business manager positions ('military in uniform vs. military in *guayavera*'). This differentiation may contain crucial differences in interest and thereby also political contradictions in the years to come.

There is still only one legal political party in the country, and we can so far not see any signs of open pluralism within that party although important internal ideological differences seem to exist. Whereas a country like Vietnam has quite open leadership conflicts even for the election to top position (ref. 2016 Party Congress), no such signs are visible in Cuba. Rather, there seems to be heavy pressure on the new generation of leaders to express total commitment to hard-line party positions (ref. Díaz-Canel's internal 2017 statements one year before he became President).

What we do see is that the party, with a top leadership still completely dominated by the now octogenarian generation that made revolution almost sixty years ago, stands further and further away from the reality of young people. Deep concerns about the loss of 'revolutionary spirit' among young people are expressed, but it is difficult to see how these leaders may maintain cultural and social hegemony in present-day Cuban society. The number of party members is decreasing; young people do no more feel obliged to join the Party's youth organisation as a prerequisite for future career. Although the monopoly power instrument is still formally intact, it hardly offers an arena for political participation in policy-making, dealing with Cuba's future challenges.

The April 2018 transition of presidential responsibility to a post-Castro generation may for a while lead to a differentiation of state and party leadership, with Raúl Castro and his old comrades remaining in charge of the Party while most of them leave State leadership positions. A dual power situation may therefore emerge for the first time since the revolution was institutionalised in the 1960s. The intention expressed by Castro, however, is that the combined command of all structures be resumed at the 2021 Party Congress. The prospect of real autonomy for the new President and his team of Government leaders is therefore quite doubtful.

The bureaucracy has not ceased to be an anti-reform force, in spite of Raúl's demands for that to happen. No independent voices are heard from the legislative or judicial branches of government. The new National Assembly that came together in 2018 has found no place for independent candidates and is expected to support the Party line in the same unanimous fashion as before.

*Indicator 7.1: Communist Party showing any sign of opening up?* Cuba's Communist Party has not changed any characteristic – it remains a typical Leninist Party as the epicentre of power.

*Indicator 7.2: Will there be any visible steps away from the Communist Party power monopoly?*

The 7<sup>th</sup> Party Congress took no step away from the monolithic and opaque power structure.

*Indicator 7.3: How representative are members and leaders of the Communist Party?* The top party leadership remained practically unchanged, with some additional younger members of the Politburo. However, there was a quite comprehensive renewal of the Central Committee. No known reform-oriented intellectuals or persons from private sector or Party-independent organisations were included.

*Indicator 7.4: More differentiation between Party and State functions and leaders?* There has been an almost complete overlap between Party Politburo, top Government executives and top Legislature leadership, plus the military command. Cuba has been governed by a group of a dozen persons with multiple roles, what we have called 'the 12 Apostles', the majority of whom are men in their 70s and above with a record from the original revolutionary movement (26 of July). In April 2018, a differentiation between State and Party leadership was established by the election of a new Head of State and Government, but this differentiation was intended to be a transitory arrangement only.

*Indicator 7.5: Any change in the role of the Military?* The military command structure is also basically unchanged, but it takes care of two very different functions: the armed forces plus security and intelligence services (through the Ministry of the Interior), and

management of the country's most prominent business corporations. Difference between these two functions may potentially lead to contrasting political interests. We have noted that military men are less directly involved in government functions than before, and that few younger officers are recruited to top Party positions that soon will be vacated by the Old Guard.

*Indicator 7.6: Bureaucracy remaining as barrier to reforms?* The bureaucracy was identified by Raúl Castro at the outset of his era as reform spoilers. This has continued to be the case, and Castro seems to have lost the force to change it.

### *Conclusion*

***The zero hypothesis has been overwhelmingly confirmed:*** an overlap of party and state functions and executive and legislative roles has continued. A differentiation of Party and State leadership was introduced with the election of a new President in April 2018, with Raúl Castro and the Old Guard remaining in charge of the Party until 2021, but this arrangement was meant to be temporary only.

***Challenge 7 has not been met.***

***Challenge 8: Moves towards a less authoritarian and more pluralist political system***

*H<sub>8.0</sub>: Status quo, with no significant political reforms*

*H<sub>8.1</sub>: Significant ideological renewal and political reforms being introduced.*

Three ideological and vision documents were presented to the 7<sup>th</sup> Party Congress and approved more than a year later. By and large, they confirm all old dogmas and ideological positions. No new ideological trends, reflecting the after all quite fundamental modifications underway in the Cuban society, are visible in these documents. They offer no response to the serious survival challenges for the Cuban economic, political and social system.

In the discussion of this challenge, we have assessed the Raúl Castro reform era's score on Linz and Stepan's regime type criteria.

In terms of *pluralism*, the political-institutional authoritarianism remained untouched while civilian pluralism—as we have seen—advanced considerably during the first years of the Raúl era. Attempts to roll even the latter back during the latest years collide with the significant change in socio-economic structures, which in the first place led to more civil-society pluralism. Raul's initial emphasis on *pragmatism* at the expense of *ideology*, was later questioned by anti-reform activists often without any formal positions, embarking on a new ideological battle and attacks on those who dared to question old ideological positions. It is highly questionable, however, whether this will impress the majority of the population who have got a taste of a more liberal cultural and economic reality.

*Mobilisation* has also lost importance and strength during the reform period. It is very hard to believe that the mobilisation potential will be rehabilitated, unless US President Trump acts in such provocative ways that he really stirs the old anti-imperialist sentiments in Cuba.

*Leadership* is in crisis in Cuba as Raúl and the revolutionary generation is preparing their retreat, particularly when seen against the backdrop of the charismatic tradition represented by Fidel Castro. The new President needs to build his legitimacy almost from scratch, based on socio-economic merits and the incorporation of values relevant to the youth. It will be decisive how much space he is offered by Raúl Castro to shape his own course for the future.

Although there has been a quite significant change of socio-economic structures, decision-making is basically as centralised and opaque as before. The existence of internal factions is still mostly an issue of pure speculation. The fact that external groups of intellectuals, journalists and members of the civil society have become increasingly active in a new kind of public discussion about alternative policies, has not had any visible effect on the leading party and government structures. The pro-regime mass

organisations show no sign of taking a more independent role, in response to a more pluralistic social composition.

When Raúl Castro announced that a Constitutional Reform was in the making and that it would be subject to a referendum, and the Party later announced that a new electoral law was under preparation, clear expectations were created that the country might be moving towards a slightly more open election process for National Assembly and President to take seat in April 2018. This also led different independent groups to start campaigns for the presentation of candidates. However, the 2017/2018 electoral process turned out to follow the same old procedure. Through a variety of manipulative or directly repressive techniques, all independent candidates—without exception being stigmatized as ‘counter-revolutionaries’—were outmanoeuvred. The election of new 2018 leaders therefore contained no more pluralistic elements.

Cuba has *serious rule of law (r-o-l) problems* and very little has changed during the reform era. There has been *no differentiation of state powers*: the executive and legislative powers are completely intertwined, while the judiciary is hierarchically subordinated to the Legislature. Loss of media monopoly and strengthened civil society, interestingly, implies a certain “citizen monitoring”. *Corruption* in Cuba is a many-faceted issue. There is probably limited ‘improper influence’ by economic power groups, and limited high-level corruption. But bribery of lower-level officials is almost the rule. *Open government* is another r-o-l indicator. Cuba continues to have an extremely opaque government culture. Neither have we seen many improvements of *fundamental rights*, in spite of an early intention to ratify two basic international HR treaties. *Order and security* gets an exceptionally good score in Cuba. Regarding *regulatory enforcement*, the phenomenon ‘improper influence’ is not apparent, while implementation of government decisions is often very ineffective. *Property rights* are not fully guaranteed by the socialist system, with the exception of those linked to foreign investors. *Civil and criminal justice* is fairly well guaranteed, as long as there are no political motives involved in the case. Political dissenters have no guarantee in this respect.

On balance, Cuba has serious r-o-l problems, but is not necessarily much worse off than other Latin American countries with formal democracies.

*Indicator 8.1: New ideological trends?* An assessment of the ideological content of the documents presented to the 7<sup>th</sup> Party Congress and later adopted by the Central Committee in mid 2017, leaves no sign of any ideological renewal compared to the Marxist-Leninist identification of the Cuban Revolution in the early 1960s. On the contrary, these documents leave the impression of a lack of dynamism and capacity to meet the challenges of the post-Castro era.

*Indicator 8.2: More liberal regime characteristics?* During the first years of the reform era, there were clear signs of more liberal regime characteristics appearing. Attempts to roll this back may only lead to more distance between the Party and Government on one hand and a population increasingly making ends meet outside of state structures on the other. This is particularly the case for the youth.

*Indicator 8.3: Less authoritarian culture inside the Communist Party?* No such move has been observed, in spite of early appeals in this direction from Raúl Castro.

*Indicator 8.4: The role of pro-regime mass organisation mobilisation.* The pro-regime mass organisations, while losing much of their mobilisation potential without capacity to attract younger people, have shown no sign of facilitating a space for dialogue with the rest of civil society. On the contrary, they have rather strengthened their functions of intelligence, social control and confrontation.

*Indicator 8.5: Any sign of a more open/pluralistic election process?* No such signs have been seen during the 2017/2018 elections of the first post-Castro government leaders—contrary to some early expectations. All non-party controlled candidates were successfully eliminated from the election process.

*Indicator 8.6: Improved rule of law performance?* Cuba has serious rule of law problems, and very little has changed during the reform era. The only improvement has been through more ‘citizen monitoring’ caused by the loss of information monopoly and a more active civil society.

## *Conclusion*

***In general for Challenge 8, we see a perpetuation of status quo and the zero hypothesis, after some early signs of a more pluralist political structure appearing on the horizon. It is as if the old guard of the regime has retreated to their autistic bubble for fear of letting loose the threatening pluralistic forces released by reforms in the early phase of the post-Fidel era.***

***Challenge 8 has in no way been met.***

***Challenge 9: Generational renewal with a new source of legitimacy.***

*H<sub>9,0</sub>: The revolutionary generation, those who have been in power since 1959 and other old-timers, will cling on to their positions until the bitter end (until they pass away or become physically and/or mentally unfit), while also avoiding the necessary economic and political renewal to provide the next generation of leaders with a new source of legitimacy built on performance.*

*H<sub>9,1</sub>: Raúl Castro will initiate a gradual transfer of power to younger leaders, and also introduce economic and political reforms upon which they may build a new popular legitimacy through merits and pragmatic acceptance.*

Underneath the top echelon of old guerrilla heroes, Raúl Castro has moved some key leadership pieces. The few younger leaders that his brother had promoted as candidates to take over when the old men could no more exercise political leadership were almost all thrown out by Raúl for various motives. Raúl had to recognize at the 2011 Party Congress that the Party had failed critically with the preparation of human resources for the upcoming unavoidable generational renewal of the country's leadership. Since then, a crucial step was taken with the 2013 appointment of Miguel Díaz-Canel, born one year after the Revolution, as the country's First Vice President, and from then prepared to take over as Head of State in April 2018. The 7<sup>th</sup> Party Congress was a great disappointment for those who were waiting for a more thorough renewal of the

leadership. The old guard was kept almost entirely in place; 85-year old Raúl Castro did not retire as First Secretary; instead of promoting Díaz-Canel or another young cadre to the runner-up position as Second Secretary of the Party, 86-year old hardliner Machado Ventura—apparently still very physically able—was also confirmed to continue into his 90s.

The 2016 Party Congress did renew the second level of its leadership, the 142 members strong Central Committee, where average age is falling and the gender as well as race composition is not very different from the population at large. But none of these relatively young leaders, Díaz-Canel included, are publicly expressing any new ideas. The old-timer conservatives like Machado Ventura maintain ideological and political hegemony in the Party, accompanied by a group of younger hard-core ‘freelance’ communists without formal positions, in an attempt to reinvigorate old orthodox positions. Given the critical socio-economic situation and a freeze on reforms that might have injected new confidence in the system among younger Cubans, the new leaders will have no perform-based legitimacy on which to base their positions.

With Díaz-Canel elected as the first post-Castro President, but through a process and with a future regime evolution completely designed by the old guard, it remains to be seen whether he and the younger people he brings with him will represent a real renewal, or at least a revival of the reform process that was aborted in 2016.

As Brown noted in the case of the USSR, Gorbachev needed reform-minded people one step down in the party hierarchy in order to win the ideological battle that followed. He also went on to observe, however, that *only change at the apex of the political hierarchy* would allow a serious reform process to take place. In Cuba so far, the old guard, inspired by Fidel Castro, has kept its solid grip of the top party hierarchy, eliminating critical thinking from gaining ground. It is a common hypothesis that even Raúl Castro was unable to challenge this hegemony, perhaps because he could not find sufficient support for his reform agenda neither at the top nor one step down in the hierarchy. The loyalty to Fidel’s orthodox thinking—even after his death—has simply been too overwhelming at all levels of the Party for that to happen.

With Raúl remaining as Party leader and de facto ultimate authority of the Armed Forces until 2021, he might offer the next generation the necessary space for a revival of the reforms he himself was unable to implement, in spite of realizing their necessity.

Since the 1959 Revolution, Cubans have systematically chosen *exit rather than voice* when they have an issue with the regime. Cubans are not very discrete when voicing their opinions in private. In public, however, their agitated voice is normally silenced. During these years, between 10 and 15% of the Cuban population has emigrated, in different waves. When most emigration restrictions were lifted and the gates to the US burst wide open in 2013, another wave dominated by young and well-educated Cubans once again opted for the exit solution, with a total of more than 120,000 again emigrating to the US. With the US again slamming the door in early 2017, and President Trump clamping down on Latino immigrants in general, this situation has changed. Adding to this the economic and political reform backlash further removing young talented Cubans' hope for the future, questions are again raised whether the *voice* option—that is demands for a say and more open protest and mobilisation for change—will become more attractive. That will be another interesting issue to watch during the critical juncture, with the new generation of leaders struggling to find new sources of legitimacy.

*Indicator 9.1: Will the 7<sup>th</sup> Party Congress (2016) lead to a deeper Party leadership renewal?* The 7<sup>th</sup> Party Congress led to no generational renewal of top Party positions. The old revolutionary generation will stay on in charge of the Party until the next Congress in 2021. The second level Party leadership, the Central Committee, was significantly rejuvenated.

*Indicator 9.2: How thorough renewal of State leaders (2013 and 2018)?* The renewal of Government positions taking place in 2018 was more thorough, with a new Head of State and Government and rejuvenation of the State Council although some of the revolution generation stayed on, perhaps as guardians of the fidelista legacy. The question is how much authority the new President and his team can exercise vis-à-vis the old-timers' continued control of the Party (until 2021).

*Indicator 9.3: Reform continuity or counter-reform?* In spite of Raúl's early assurance that there was no way to stop his reform agenda, an affective counter-reform—economically as well as politically—gained ground from early 2016.

*Indicator 9.4: New source of legitimacy and pragmatic acceptance?* Reforms have been reversed during the later years, in the middle of a worsening economic crisis. Therefore, no new source of performance-based legitimacy is in sight for those taking over Government responsibility in 2018. While China and Vietnam have enjoyed *pragmatic acceptance* of their regime due to historic economic growth and social mobility, no such prospects exist in Cuba—a country where a previous welfare state is increasingly undermined by an economy in deep crisis and imbalance.

*Indicator 9.5: Voice or exit?* When emigration restrictions were lifted during the Raúl Castro reform era (2013), another huge wave of emigrants—mostly young and well-educated Cubans—again chose the *exit* option rather than voicing protest or demands for change. Since early 2017, it is the US side that has closed the exit option. With future life prospects increasingly fading in Cuba, new hardships awaiting and authority and legitimacy of the post-Castro leaders in serious jeopardy, the lack of the traditional exit solution *could* spur more *voice*, meaning more protest and alternative mobilisation from young Cubans, potentially provoking more repression from the Government side.

### *Conclusion*

***The zero hypothesis for Challenge 9 is overwhelmingly confirmed: the old conservative hardliners have strengthened their firm control.*** Expected rejuvenation of party leadership—announced in 2011—was once more postponed at the 2016 Party Congress, and so was a long overdue political-ideological renewal. Rather than allowing the next generation to develop new policies, the clock has been turned back once more. Raúl's appointment of a relatively young successor in 2013, who expressed no new vision for Cuba's future and gained no prestige as a future leader before he took over as Head of State in April 2018, may perhaps put together a team of younger leaders with a mandate to implement Raúl's aborted reforms, if Raúl offers him the necessary backstopping while he is still in charge of the Party (until 2021). The loss of the classical safety valve—exit—

*may in this situation of expected hardship and bleak prospects for the future oblige Díaz-Canel to build new alliances and pursue different policies, in response to more voice from new social actors and generations.*

***Challenge 9 has not been met.***

### ***Overall status of transformations***

We may conclude that the zero hypotheses have been mostly confirmed regarding challenges 1-3: important economic reforms have been introduced, but they have stopped short of empowering new economic actors that might challenge the socio-political structures, thereby rejecting the logic of challenge 4 (political implications of socio-economic changes). A probably unique opportunity in the international arena of throwing overboard the old imperialist stranglehold (challenge 5) was wasted for the same reason: fear of giving up the old domestic order. When the imperialist enemy image started disintegrating with the new US–Cuban rapprochement and ex-President Obama’s charm offensive directly vis-à-vis the Cuban people, it probably was gradually perceived as a threat that could deal a fatal blow to the existing power structure and thereby the justification of Cuba’s limits to civic-political liberties. Then President Trump came along, again making it easier to rehabilitate this justification. The same has happened to challenge 6 (a strengthened and more autonomous civil society and academic community): reforms towards the alternative hypothesis were allowed to a certain point, when the loss of absolute power started to become a real concern. Other political reforms, like the unpacking of the tight-knit, homogenous and massive power institutions (challenge 7) have been rejected. No real political paradigm shift has been permitted, and the early signs towards a less authoritarian system gradually disappeared (challenge 8), coinciding and contrasting with rather deep socio-political diversifications and the emergence of significant but well hidden internal ideological contradictions. The unavoidable generational renewal—long put on hold—was finally initiated with the election of President Díaz-Canel in April 2018. While from the outset preaching continuity, it is unclear how much change his new government team—with very questionable legitimacy—will be able to carry out with the Old Guard still in charge

of the Party (until 2021). As we shall see in Chapter 11, by pushing aside inconsistencies of partial reform, counter-hegemonic threats may be appearing on the horizon. How these will be handled is the decisive question for Cuba's political future (ref. Chapter 11 and the Scenarios discussed in Chapter 12).

*Let us finally return to the key question of this study: whether and to what extent a widening of economic pluralism has been taking place in such a way that it may lead to increasing political pluralism and de-concentration of power; or alternatively, whether changes in the political and power structure may accelerate or slow down the speed of economic reforms.*

By going through nine challenges with each their zero and alternative hypotheses, studied with the help of a total of 56 indicators, we are ready to draw a conclusion:

We will claim that the *potential* for causal relationship between economic reform and political transformation has been confirmed during these years. The restructuring of the Cuban social fabric, as a consequence of changing economic realities, has presented the political power with serious challenges to allow decisive political restructuring as well. It is very likely that the resistance against this, and the fear for losing political power and seeing a repetition of what happened in the USSR and the previous socialist camp of Europe, is what has convinced the old-guard hardliners of the Cuban Communist Party to reverse economic reforms for fear of undermining the political status quo. We may only speculate whether this has even happened against the will of Raúl Castro, but perhaps with the support of Fidel as long as he was alive, thus providing his ideological comrades with a political advantage against Raúl's best reform intentions even after Fidel's death.

What we may conclude is that neither economic nor political reform has gone deep enough to really allow us to respond with certainty to the overall question of the dissertation. We have obviously seen a significant growth of a private economic sector challenging state economic power monopoly, with probable effect for the growth of a more autonomous civil society and also significant information pluralism, and perhaps making the political power monopoly less relevant even when it formally persists. But

these later phenomena are also consequences of de facto political reforms, like the emigration reform, the rapprochement with the USA (as long as it lasted), and the growing access to Internet. The latter has hardly been avoidable anyway, due to technological development. One economic reform, the legalization of a real estate market, converting a large number of Cubans to landlords and proprietors, has also had a deep impact on their perceived interests and ideological consciousness: they have started thinking as private economic actors and individual citizens, rather than as part of a unified people and a socialist state.

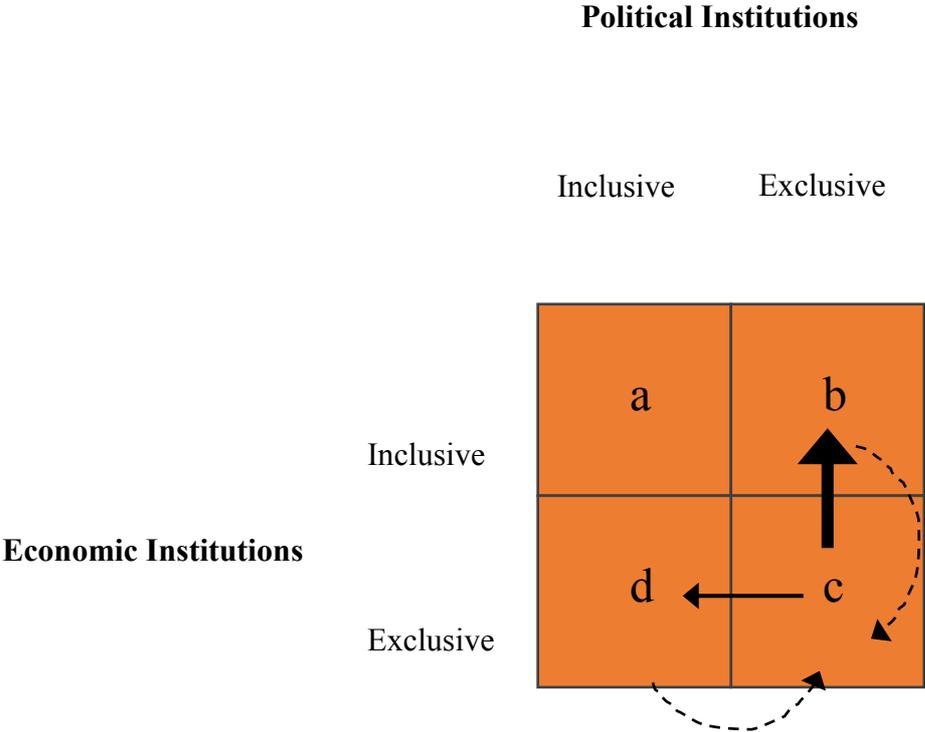
What we are left with is a strong politically motivated effort to reject the logical causal relationship between economic and political transformations in the short term. The possible long-term effect may be that the entire economic basis and political legitimacy of transferring the Cuban Revolution with its ideas of social justice and national sovereignty to a post-revolutionary generation may be completely undermined.

One may only wonder whether the failure to follow through on this may lead to a redefinition of the correlation of political forces, in such a way that the opposite causal logic drawn up in the key question kicks in: starting with political transformations that ultimately bring with them economic transformations; where the crisis of legitimacy or even hegemony may lead to dissolution of the power monopoly and thereby open the gates to capitalism.

Let us illustrate this by going back to Figure 2.1, the Economics–Politics correlation roadmap presented in Chapter 2. We have seen that from Cuba's point of departure in Cell c of our Matrix (the exclusive character of both economic and political institutions), there have been clear movements particularly towards Cell b (more economic inclusiveness) but also to a certain extent towards Cell d (more political inclusiveness). This has however led to serious concerns among conservative leaders that such movements might have impacts triggering further slides towards Cell a, which de facto would mean the full introduction of a market economy and a loss of the one-party system. As a response to this, measures have been taken through counter-reform to bring the situation back towards Cell c on the political as well as the economic

dimension, which however seems to be an unsustainable state of affairs both from an economic and a political perspective. We have illustrated this in Figure 10.1:

**Figure 10.1: Politics – Economics Correlation Roadmap:  
2018 outcome of the Raúl Castro reform efforts**



## **Chapter 11: Some principal dilemmas during the critical juncture (2018-2021)**

The purpose of this chapter is to draw upon the theoretical and empirical considerations in previous chapters, looking ahead towards the unavoidable and complicated choices Cuba is confronted with, that need to find a solution as an almost complete generational change of leadership will occur during the 2018-2021 period (from the election of the first post-Castro President in April 2018, to the next Communist Party Congress three years later supposedly with the departure of all Castro-generation leaders). What are the principal challenges, and how can and will they be solved?

The discussion of these dilemmas will serve as a preamble to the outlining and assessment of the possible scenarios for Cuba's future, to start taking shape during this supposed *critical juncture* in the country's history.

### **11.1 What is a critical juncture?**

We will refer to the post-Castro era in Cuba (starting on 19 April 2018) as a *critical juncture*, with a gradual but full generational change of leadership and deep uncertainty about the country's way ahead. Another concept, being *on the verge*, has been applied so many times to Cuba at various moments during its recent history that we want to make a qualitative distinction: in October 1962 the missile crisis put the entire world on the brink of nuclear war; the collapse of most of the Soviet bloc around 1990 led many to think that the days of Castro's Revolution were counted (ref. Oppenheimer's infamous 1992 book title "Castro's Final Hour"); when Fidel suddenly stepped down in 2006 many observers believed that the Revolution's survival was impossible without Fidel, before he was immediately replaced by his brother Raúl. This time around, we are speaking

about what is very soon a biologically inevitable inter-generational transfer of power.

Huntington (1968:14) claims that the inter-generational transfer of power is a critical test of the reproductive capacity of a political order:

“So long as an organization still has its first set of leaders, so long as a procedure is still performed by those who first performed it, its adaptability is still in doubt [...] The founders of organizations – whether parties, governments, or business corporations – are often young. Hence the gap between chronological age and generational age is apt to be greater in the early history of an organization than later in its career. This gap produces tensions between the first leaders of the organization and the next generation immediately behind them, which can look forward to a lifetime in the shadow of the first generation. In the middle of the 1960s the Chinese Communist Party was 45 years old, but in large part it was still led by its first generation of leaders [...] The shift from Lenin to Stalin was an intra-generation succession; the shift from Stalin to Khrushchev was an inter-generation succession.”

Huntington’s 1968 considerations about young founders who hang on and referred the next generation to “a lifetime in the shadow” could not be illustrated by a better case than the Cuban. Comparisons to later inter-generational changes in China (when Deng Xiaoping took over after Mao’s death in 1976 by outmaneuvering Mao’s chosen successor Hua Guofeng) and the USSR (when Gorbachev took over from Chernenko in 1985), are even far more illustrative than Huntington could know in 1968. As we have discussed in Chapter 4, they are major reference cases for what may happen in Cuba post-Castro.

The first question to ask as Cuba is entering this critical juncture is therefore how deep changes the new generation of leaders is capable and willing to undertake. MacGregor Burns (2003) distinguishes between *transactional* and *transformational* leadership. A *transactional leader* is not looking to change the future; he rather tries to keep things the same by attempting to raise the efficiency of established routines and procedures. Such leaders are more concerned with following existing rules than with changing the structure of the institution they are set to lead (being a company or a country). *Transformational leadership*, on the other hand, is creating a vision of something new, working with subordinates to identify the needed change, and guiding the change through inspiration and motivation.

It may be difficult to see how Miguel Díaz-Canel, or anybody else in the new leadership generation, can mobilise the personal authority to exert transformative leadership. Different from Deng and Gorbachev, he will have to start his leadership career with many of the founding fathers—not least the younger Castro—still maintaining decisive power positions. The formal transfer of the presidency was designed down to the smallest detail by the outgoing leader, and Díaz-Canel appeared in front of the National Assembly like a grateful and dutiful heir to the family company, promising to carry it on like the father had instructed him to. He had hardly any other choice at that moment. Standing at a critical juncture like the one Cuba is experiencing at the entry of the post-Castro era, however, transformational change is definitely what is required. As we have concluded, business as usual is no option. What the second-generation Cuban leaders will do when dictated by new realities, nobody can tell now.

Let us start by briefly explaining the origin of the concept ‘critical juncture’ and how we understand it in the case of post-Castro Cuba.

The first use of this concept in comparative politics and historical analysis dates back to the classical work of Lipset and Rokkan (1967:37–38), tracing the origins of Western European party systems to three ‘crucial junctures’ in the history, setting the stage for a qualitatively different institutional development, and further giving rise to what they term ‘path-dependent processes’. What this implies is that decisions taken, and choices made, during the critical juncture, may have a lasting and limiting impact on future options. Of course, the previous critical juncture in Cuba was the 1959 Revolution.

A later definition of the concept is as follows:

“The concept of ‘critical juncture’ is an essential building bloc of historical institutionalism. Many causal arguments in the historical institutionalist literature postulate a dual model of institutional development characterized by relatively long periods of path-dependent institutional stability and reproduction that are punctuated occasionally by brief phases of institutional flux—referred to as critical junctures—during which more dramatic change is possible. The causal logic behind such arguments emphasizes the lasting alternative options and lead to the establishment of institutions that generate self-reinforcing path-dependent processes.” (Capoccia and Keleman 2007:341).

A critical juncture also opens up for another concept: *agency*. By this is meant the individual capacity of a leader to act with determination in such situations and take strategic decisions more independently of a given social structure, beyond what follows automatically during periods of institutional stability and historical continuity. The literature on critical juncture often focuses on *political agency and choice* as determinants for selecting among the options available at the time of the critical juncture. In his comparative study of the political development of Central America, Mahoney (2002) defines more explicitly critical junctures as “choice point[s] when a particular option is adopted among two or more alternatives” given by previous historical conditions:

“[I]n many cases, critical junctures are moments of relative structural indeterminism when willful actors shape outcomes in a more voluntaristic fashion than normal circumstances permit... these choices demonstrate the power of agency by revealing how long-term development patterns can hinge on distant actor decisions of the past” (Mahoney 2002:8).

Raúl Castro’s leadership during the reform process may have elements of *agency* (capacity to do things differently from Fidel), and we have been testing a number of hypotheses in order to determine whether a process of *transformative changes* has been introduced during his leadership. What we want to discuss in this chapter is whether there were transformation processes initiated during the Raúl era (2008-2018) that may be accelerated or turned in other directions in the post-Castro era. Therefore, we will end the dissertation with a discussion of different scenarios for Cuba’s future development, taking the expected upcoming *critical juncture* as a point of departure. It goes without saying that *transformative changes*, set in motion at moments of *relative structural indeterminism* through the exercise of strong *political agency*, requires *transformational leadership*. There is serious reason to question whether the new generation of Cuban leaders—individually or as a collective—possess such capacity. Will the seriousness of the economic and legitimacy crises oblige such leadership to be exercised? That will basically be determined by the way the many dilemmas expected to emerge during the critical juncture will be addressed by the younger leaders, starting with the new President. One advantage Díaz-Canel may have in this respect is that he may go back to reform initiatives actually taken by Raúl Castro, but later aborted during his era.

## 11.2 Some paradigmatic choices ahead

The concept of 'democracy' with the qualifying adjective 'socialist democracy' was brought in as one of eight basic principles in the programme of principles that came out of the 7<sup>th</sup> Party Congress, what was labelled *Cuban socialist economic and social development*. The concept is defined as a mixture of direct and representative democracy, very much in accordance with Article 3 of the Cuban Constitution:

“Socialist democracy on the basis of the sovereign power of the people, from which originates all the power of the socialist state, exercised directly or through assemblies of People's Power and other State bodies that derive from it, in the manner and according to the standards set by the Constitution and laws“ (S/E).

When discussing factors that may be decisive for the future democratic development of Cuba, it is important to consider whether any change is observable on a number of basic variables that characterise the present political culture and practice, setting the country on the path to any reasonable understanding of a functioning democracy. But the more basic question is whether such changes are at all possible within the Leninist democratic-centralism logic of the Cuban system, defined by Lenin himself as "freedom of discussion, unity of action" (Lenin 1906). The Leninist system of power, undoubtedly, offers very little in terms of decentralisation, horizontal interest representation, transparency, accountability and pluralism—key elements of the paradigmatic choices that the new generation of Cuban leaders will be confronted with.

Calls from more reform-oriented party insiders for more participation and more decentralisation are not new in Cuba. They have also to a large extent been seen as legitimate 'within the revolution'. For instance, a paper co-written by previous colleagues, now *Temas*-editor Rafael Hernandez and Haroldo Dilla (the latter now in exile and very critical of the regime) (Hernandez and Dilla 1992), qualifies the Cuban political system as 'participatory', but not as much as they would have liked it to be, also calling for more decentralisation and efficiency.<sup>530</sup>

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<sup>530</sup> "As in all contemporary societies, political participation in Cuba has its limitations" say the authors. Namely: "weaknesses in the subsystem of information, bureaucratism, the persistence of a certain marginalization of some social groups, excessive administrative centralization, underutilization of

*Continued centralisation vs. decentralisation of state and society:*<sup>531</sup>

Cuba has an extremely *centralistic decision-making structure*. All critical decisions are taken on national level, by a small political elite without any systematic consultation mechanism with decentralised bodies (territorially speaking), let alone with independent or countervailing institutions. There has been no distance between executive and legislative branches of government, either subordinated to the supreme power of the Communist Party in a complete overlap of senior positions among a dozen predominantly old men, mostly drawn from the guerrilla-inspired military-leninist structure. There is no procedure whereby this political elite is in reality made accountable for its decisions by open popular consultation. *There is evidently a huge challenge to decentralise this political structure*. The way outgoing President Raúl Castro laid out the future leadership structure until he himself turns 100 years leaves little hope for any change in this respect. Given Díaz-Canel's background from the provincial level of the Party, and the apparently strong position of present provincial leaders (ref. Indicator 7.2), however, there may be heavy pressures for more decentralisation in the time ahead.

*Continued vertical vs. more horizontal forms of interest representation:*

Closely linked to the described centralism, *the political system is also vertical*, with decisions taken on the top and being more or less automatically communicated downwards. Military-inspired expressions from the Fidel era like '*bajar orientaciones*' ('send down instructions') and '*Comandante en Jefe-ordene*', are indicative of an extremely top-down political culture without real participatory practices. With the emergence of a much more heterogeneous and more diversified socio-economic structure in the country, one would expect that *these more contradictory interests be represented by horizontal and member-controlled interest representation*. As discussed elsewhere, constant tensions are emerging around these contradictions, posing another

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participatory mechanisms as a consequence of the traumatic rejection of old styles of 'politicking,' and so on." (Hernández and Dilla 1992:38) (S/E). The CEA was closed in 1966, in a controversial government decision.

<sup>531</sup> Several of these 'paradigmatic choices' are closely related to the rule-of-law elements discussed under Indicator 8.6 – there may therefore be some repetition of arguments.

challenge to the Cuban political system. Also in this regard, transfer of responsibility to a non-military leader like Díaz-Canel may harbor a different management culture.

*Continued government and bureaucratic opacity vs. more transparency and downward accountability:*

Management of government business in Cuba—and even more decision-making practice in the Communist Party—must be considered as extremely opaque, completely at odds with the principles of transparency.<sup>532</sup> Cuban citizens are not treated as rights-holders according to international principles of human rights, with an unquestionable access to relevant information about decisions of relevance for their own life and the society to which they belong. Most Cuban citizens are so familiar with this lack of transparency that they don't even bother to request the kind of insight in government affairs that is taken for granted in a liberal democracy. This situation comes to a real test when foreign investors are invited in, and they are alienated by such bureaucratic practice, threatening to undermine the declared objective of attracting a massive increase in FDIs as an officially recognised necessity for the country's development. Díaz-Canel used to speak to journalists about the need to abandon what he called the exaggerated "secretiveness" (*secretismo*) in Cuban media. It will be interesting to see whether he intends to follow that up in practice as Head of Government.

The concept of *rendición de cuentas*, the Spanish synonym for accountability, has a long tradition in the Cuban revolution. In principle, those who are elected to an office are supposed to provide information and feedback about their exercise of the mandate to the electors. The principle is to a certain extent being practiced at the lowest level, for instance in neighbourhood constituencies (ref. principle of call-back of elected representatives). At that level, there may also be a real exchange of views, with any neighbour being allowed to question the local representative and present complaints against him or her. At the top end of the vertical structure of power, this principle is

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<sup>532</sup> Head of the Economic Reform Commission, Murillo, made a very frank admission right after the 2016 PCC Congress: "it is impossible to lead a country without transparency" (remarks at *Taller Internacional sobre auditoría, control y supervisión*, organized in Havana in May 2016, quoted by Elías Amor Bravo: "¿De qué transparencia están hablando?", *Cubaeconomía*, 3.06.16).

being practiced by the First Secretary of the Party, or the President of the Republic, presenting a Report (*Informe Central*) to the Party Congress delegates or by offering a formal opening speech to the National Assembly at the end of each year. At that level, however, there is no real debate or questioning of how power has been exercised; and the principle of *rendición de cuentas* is more typically turned upside down by mid-level officials being demanded to report upwards about their exercise of a mandate. And of course the lack of multi-party elections and a legitimate political opposition working inside the system means that there is no critical questioning of the exercise of power. Accountability in Cuba has therefore in practice been more understood as a responsibility of those at lower levels of economic and political institutions to *report upwards* to the supreme levels of power.

Gorbachev's principle of *glasnost*, the emerging principle of democratic accountability and transparency towards the end of the USSR, is often understood—also in Cuba—as what in the end undermined the Socialist Fatherland. According to Fukuyama (2011:480), “*it is the balance between a strong state and a strong society that makes democracy work [...]*”. Based on this understanding, there is serious reason to question whether the Cuban concept of ‘socialist democracy’ has any real meaning in the way the Cuban political system works today or may be expected to work without more fundamental changes in the relationship between state and society.

The situation in terms of lacking downward accountability in Cuba is of course not very different from the one we may observe in countries like China and Vietnam. But at least in China the regime seems to have found a mechanism to handle social protest, through the phenomenon we have referred to as ‘*contentious authoritarianism*’, meaning procedures for routine bargaining between the government and protesters. Vietnam has so far failed to develop any similar dispute resolution mechanism, implying that land disputes present a serious challenge to governmental and community legitimacy in Vietnam. The same is clearly the case in Cuba.

China and Vietnam have developed what seem to be quite robust political structures without developing real downward accountability or rule-of-law, building on millennium-long state traditions where none of these principles existed. This may be

much more difficult in a society like Cuba, with its European-inspired culture and state tradition.

*Continued authoritarianism vs. more economic and political pluralism with active political participation:*

The problems of centralisation, verticalism and opacity has long been recognised by Cuban intellectuals, and even at times reflected in the official media. The daily *Juventud Rebelde* in an article from 2011 identified excessive centralisation, verticalism, state regulation and prohibitions that reduced initiative by state companies and local authorities, as the main ‘plagues’ in front of the reform process.<sup>533</sup> These characteristics may be said to represent the source of the *continued authoritarianism* that defines the Cuban political system, even in its present post-totalitarian phase. This continues to work against reforms in favour of a significant strengthening of the non-state sector and not least more political pluralism. Bottom-up political participation, independent of party and state dictate, a sine qua non for real democracy, is being effectively blocked by this omnipresent authoritarianism.

*Continued market illegality vs. legal and well-regulated business practices:*

There seems to be a more and more direct link between—on one side—state efforts to limit the market economy such as banning certain commercial practices, withdrawing or freezing self-employment licenses, introducing maximum prices, or in general presenting any kind of difficulties for private businesses, and—on the other side—continued market illegality. When licenses were withdrawn from *carretilleros* (ambulant street vendors of basic food) in first-half 2016, they by and large continued their business without state permission, but now being pushed underground, thereby joining the larger part of street commerce already being exercised in informal or illegal ways. The effect is therefore a further undermining of the possibility to establish better-regulated business practices, and the de-stimulation of what we have called Schumpeterian or development-oriented capitalism. One is left with the impression that the strengthening of *positive* aspects of capitalism or market economy is not really

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<sup>533</sup> *Juventud Rebelde*, 11.09.11.

wanted. The situation resembles what Kornai 1992:450; 455) observed in the USSR: “(A)lthough one of the bureaucracy’s mental compartments is aware that it needs the private sector, another compartment of the same mind nurses a smoldering distaste and hatred for private ownership and individual activity.”

Kornai goes on to speak about a vicious circle:

“[P]rivate sector under reform socialism [...] often shows [...] the worst, not the best side of capitalism. That heightens the antipathy toward them [i.e. private owners and entrepreneurs; author’s remark], which which is a stimulus and argument for the bureaucracy to be even more hostile toward them [...] resulting in a bitter coexistence.”

*Maintaining the gap between large-scale state and joint ventures vis-à-vis small-scale survival businesses, rather than stimulating the latter to grow into more robust companies:*

The latter point also has the consequence of hampering the emergence of more robust medium enterprises that might even have had the potential of growing into larger non-state enterprises. The principle of not allowing capital accumulation (stated at the 6<sup>th</sup> Party Congress in 2011 and re-enforced at the 7<sup>th</sup> Congress in 2016 by outlawing ‘wealth’ in general) has the same effect. As mentioned earlier, the final version of the ‘Economic and Social Development Plan’ approved in mid-2017 represented a certain flexibilisation of this position, as did the approval in principal of the opportunity to establish private companies (ref. Indicator 4.5). But no legalisation of this is expected in the immediate future,<sup>534</sup> thus obliging the informal companies that de facto exist to continue their largely illicit practices.

*Elite enrichment and increased inequality vs. entrepreneurial-driven growth within a regulatory framework geared towards equitable distribution and social security:*

Normally, more market economy would be expected to lead to more inequality. We are already seeing this happening in Cuba, with the careful reforms that have been

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<sup>534</sup> “It will not be passed anytime soon”, according to Omar Everlery Pérez (*The Economist*, 30.09.17: “Clueless on Cuba’s economy”).

implemented. Considerable social differentiation has emerged in a formerly very egalitarian society, although we cannot really so far speak about elite enrichment in any way comparable for instance to other Latin American societies, or to the Russia that was built on the ruins of the former communist USSR. A deepening of economic reforms would be expected to lead to more private enrichment and further increase in social differences. However, as we have showed under Indicator 9.4, this may be avoided if organised within a strong regulatory framework like the one practiced in Scandinavian countries, or in Latin American countries like Costa Rica and Uruguay. We have there argued that important aspects of such a model might be viable in Cuba, allowing for a relatively equitable distribution of resources and making it possible to save the social security built by the revolution but now increasingly under threat from a dysfunctional economy (ref. Chapter 12, Scenarios). We have also argued that one way to obtain this might be within an alternative vision of *politicising democracy*, perhaps built on recent experiences from some Latin American countries, although it may be difficult to see how such experiences may be applied to a post-totalitarian regime.

On the other hand, what we may envisage as the consequence of an alternative along the line of the neo-patrimonial scenario, be it of a 'socialist' or 'oligarchic' variant, is precisely a drastic elite enrichment and dramatically increasing social differences.<sup>535</sup>

#### *Non-curable democratic birth defects?*

In the theory chapter, we discussed various factors working against the introduction of democracy in Cuba, under the concept (borrowed from Fukuyama) of 'democratic birth defects'.

We stated that the authoritarian and illiberal character of Cuban political institutions go back to the colonial and post-colonial slavery-plantation economy. Sugar, of course, was a hindrance for the introduction of a strong family farm structure, and much of the non-sugar agriculture was also oriented towards export. The sugar plantations originally depended on slavery. Even after slavery had been legally abandoned, the season-based work in the sector continued to suffer from a continuation of the slavery culture. The

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<sup>535</sup> Ref. Bechle (2010), discussing the use of the concept *neo-patrimonial* in a Latin American context.

economic elites dominating Cuban society also had de facto control of the political system, carrying over the colonial tradition into the semi-independent Platt Amendment era, with a relatively weak but very centralised and authoritarian state, without real tax-raising capacity (this latter aspect being quite different from East Asian countries like China and Vietnam). The Platt Amendment in itself was of course also a straightjacket on internal democratic development, dependent on US hegemony. It should be kept in mind, though, that the 1940 Constitution represented a quite significant opening for formal liberal-democratic institutions and processes, unfortunately aborted by excessive corruption and power abuse.

With the end of Cuba's sugar economy in the post-Soviet period, and in the absence of other extractive sectors of great significance to the economy (apart from nickel, at least as long as no commercial offshore oil production is established), Cuba is much less export-dependent than it used to be, and less so than other Latin American countries. In 2016, only about 30% of the revenue was reported to depend on the export of basic products<sup>536</sup>. This may actually imply some significant structural democratic advantages compared to most other Latin American countries. In this situation, the opportunity is really there to stimulate small and medium-size entrepreneurship and cooperative production structures working for the domestic market, so as to create more internal economic linkages with potential for more egalitarian and participatory political processes. This opportunity, it seems, is not taken by the present political leadership—probably out of fear exactly for the broader political competition and thereby more democratic structures it could have led to. Rather, there seems to be more interest in strengthening state monopolies working with foreign investors in the dynamic parts of the economy, primarily in tourism and perhaps later in a new effort to industrialise agriculture and once again turn it towards export (e.g. rehabilitation of the sugar industry for production of bio-energy). Real democratisation—economic as well as political—it seems, is seen more as a threat to monopoly party control than as an opportunity for the people to become masters of their own destiny—something that at least in theory could be seen as a crucial socialist objective.

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<sup>536</sup> A figure cited by leading Cuban economist Juan Triana, posted 11.07.2016: <http://oncubamagazine.com/columns/the-situation-and-development-in-cuba/>

The traditional liberal transition paradigms, represented by Linz and Stepan, Fukuyama and several others, do not represent a very likely outlook for Cuba, least of all in today's neo-authoritarian world of liberal retreat.

It is important to remember, however, that far from everything is negative when comparing the prospects for liberal democracy in Cuba to other countries. Thomas Carothers (2007), a leading scholar on democratic transitions, emphasizes strengthened state capacity as a key element for successful post-authoritarian transition. Among the most prominent factors he points out as hampering democratic success, few are really present in Cuba (such as highly concentrated extractive resources, identity-based divisions—ethnic, religious, tribal—or belonging to a non-democratic region of neighbouring countries).

Fukuyama (2013:15) said the following about democratic shortcomings in Latin America:

“Democracy has become deeply entrenched in most of Latin America over the past generation; what is lacking now in countries like Brazil, Colombia and Mexico is the capacity to deliver basic public goods like education, infrastructure, and citizen security.”

According to most of these criteria, Cuba is actually in a comparatively good position when it comes to the potential for democratic development.

### **11.3: The supposed incoherence of partial reform**

The demise of the USSR and its Eastern European client regimes, seen up against the survival of the Chinese and the Vietnamese regimes, are inevitable reference cases for Cuba. Many factors have been brought in to explain these different outcomes of Communist experiences. Nationalism is one frequently cited cause: in the case of China its millennium-long cultural, economic and even political global supremacy that was only broken by the West during a trifle of 100-odd years, something that it became a common goal for the entire nation to rebuild; in the case of Vietnam, the revenge of the national humiliation through western-led imperialistic wars. The nationalist and anti-

imperialist sentiments of the Cuban revolution is quite similar, and probably played a decisive role in the way Fidel Castro's charismatic leadership succeeded in bringing the Cuban regime through the hardships of the 1990s.

The USSR collapse scenario has of course been perceived as an existential threat by the Cuban leadership. To transfer the Soviet experience to Cuba, though, is meaningless; the very fact that Cuba survived the fall of Russian and Eastern European Communism in the 1990s says enough about that. But some factors must be more carefully watched now, e.g. as summarised by the British historian Archie Brown (2009:586-602): economic failure, increased access to diversified information, the easing of travel restrictions, the increasingly critical attitude of intellectuals and academics within the party, the coming to power of a new party leader (or a new generation of leaders). Regarding the latter aspect, Brown emphasises how impossible it was to forecast the evolution of Mr Gorbachev's thinking when he was elected to the top position: "*No one who thought as Gorbachev did in 1988, not to speak of 1990-91, could have become general secretary in 1985 unless he had been an actor of Oscar-winning talents who kept all his real opinions to himself*" (ibid:596).

Whereas Mr Gorbachev's reform attempt in the USSR implied both *perestroika*, restructuring of the economy, and *glasnost*, political transparency, there has so far been no explicit message about *glasnost* in Cuba. There is one parallel in the sense that Raúl Castro also launched a serious campaign against corruption. But the main problem with this campaign, leading Cuban intellectuals argue, is precisely that it is not accompanied by policies to promote transparency and public accountability; that the system continues to be "opaque to knowledge and citizen control of (investment) contracts, the tender processes and the awarding of contracts for investment projects" (Alonso and Vidal 2013).<sup>537</sup> As we have noted, there have been clear signs of increasing public debate in Cuba. There has evidently been a tough battle in the Party about some basic political issues like accumulation of wealth and the role of private entrepreneurs. None of the leaders, including the younger generation, have been showing their cards in this debate. It remains to be seen whether President Díaz-Canel and his younger colleagues will dare

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<sup>537</sup> The quote is taken from the introductory chapter of the book, reproduced by *Espacio Laical*, Havana, July 2013.

to be more open-minded about their forward-looking thinking during the critical juncture. Their best hope is probably that Raúl will permit a gradual opening while he is still in charge of the Party (until 2021), without which the challenge of managing internal debate and factions may be too much for the younger Government leaders.

One issue discussed at length in this dissertation is what comes first: economic or political transformation (ref. the various road maps laid out based on Figure 2.1). While the character of the Cuban reform process up to 2016 had more emphasis on economic reforms that could be expected to spill over to the political realm of society, the question is whether the Communist Party's effort to turn the clock back may undermine its own ideological realism and power position, thus releasing political transformations with effect on the economy—just as Kornai observed in the USSR and Eastern Europe.

Our hypothesis here is that the Cuban reform process has been mostly about *survival without development*, dictated by the fear of giving the private sector a strategic economic role as a platform for challenging the monolithic political power structure. But the question is whether the regime—and its social conquests—may survive post-Castro without a more comprehensive market economy. As we have seen with Kornai's and Brown's analysis of the latest years of the USSR: reform processes in a Communist system tend to release political forces, provoked by the incoherence and contradictions of partial reform, that in the end become too overwhelming for the Party's monopoly power, thus undermining the entire system. So, on the question of deeper and more rapid reforms, you are damned if you do and you are damned if you don't.

In China and Vietnam, on the other hand, there has been *extremely successful economic development and social improvements as result of far-reaching market reforms* that may explain why the political regimes have survived (ref. the concept pragmatic acceptance).

What happened in China from Mao to Deng is a very interesting case for comparison. Deng and the Communist Party under his dominance recognised that their legitimacy rested on continuing strong performance, and they were “not tapped by ideology or past practice in making dramatic and rapid course corrections” (Fukuyama, 2014:378). So, if Fidel Castro in this sense was Cuba's Mao Zedong, Raúl Castro may from the outset of

the reforms have been seen as Cuba's version of Deng Xiaoping—as long as he was able to pursue the reform process. Will Díaz-Canel revive the reforms that were aborted before Raúl could fully implement them?

In Vietnam, Doi Moi became a resounding macro-economic success, by creating a private sector capable of massively absorbing those laid off in the shrinking state sector. Just as Deng Xiaoping had established the credo “let some people get rich first”<sup>538</sup>, the Vietnamese CP in 2006 decided to remove the clause that party members “could not exploit”, i.e. that they were allowed to run private business and hire workers and practice *capital accumulation*. This was rightly seen as a prerequisite for private investments, and the 2006 decision represented the crossing of a vital ideological line. But it was probably little more than bringing the party in line with a well-established practice. These turn-arounds in China and Vietnam stand in stark contrast to what Cuba has done so far.

The Vietnamese Communist Party, according to de Vylder and Fforde (1996) acted in response to the increasing commercial role of military enterprises, and for fear of massive urban unemployment as non-viable state enterprises had to close, spurring a potential for social tension and disorder.

Both these factors may be said to be present in Cuba, the former represented by the increasing strength of the military corporations looking for strategic alliances and joint ventures with foreign capital – an ambition now seriously complicated by the new US policy under President Trump.<sup>539</sup> The growing gulf in productivity between these and the majority of unproductive state enterprises is quite remarkable.

As we have shown, there is not yet any sign that the successful market economies are leading to political liberalisation in China or in Vietnam. This signal is obviously well noticed by the Cuban leaders, but there is still deep mistrust about the possibility of avoiding regime breakdown if the same degree of market reforms were to be introduced

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<sup>538</sup> "Nanxun" (Southern Tour) of 1992. Quoted in *The Economist* (31 May 2001). Deng is commonly quoted as saying «To get rich is glorious», but there is no proof that he actually said this.

<sup>539</sup> According to well-informed sources, there seems to be a debate in Cuba (early 2018) about the transfer of the leading military corporation GAESA to civilian political control. It is not known which form a possible re-organization would take.

in Cuba. The main argument has been Cuba's geographical position in the close neighbourhood of the US. Another concern may be that historic and cultural conditions in Cuba would not represent the same vaccine against demands for the end to one-party rule as the collective and state-based traditions of its East Asian socialist friends.

Saxonberg (2013) observes an evolution for Cuba in his discussion of Communist and post-Communist regimes types: *totalitarian* in the 1960s (along with the entire communist world); *early post-totalitarian* with patrimonial tendencies in the 1970s;<sup>540</sup> a certain relaxation of post-totalitarianism in the 1980s with a limited opening for reform debate within the bounds of official ideology; and *freezing post-totalitarian* (still with patrimonial tendencies) in the 1990s, partly as a reaction to Gorbachev's reforms and the fall of the USSR: reform debates were stopped, peasant markets and self-employment were first reluctantly allowed as survival mechanisms in face of a desperate economic situation (*período especial*), but rapidly strangled when they started to challenge the old order.<sup>541</sup> Saxonberg fails to conclude clearly whether or not the changes orchestrated by Raúl Castro—with a comeback for similar reforms yet this time intended to have a more strategic character—takes Cuba to his next category, the *maturing post-totalitarian* stage, a stage he claims to be typical for USSR under Gorbachev and even for China and Vietnam in the cultural and economic spheres starting in the 1990s. This latter regime type could, according to Saxonberg, lead to three possible outcomes: a negotiated change (as for instance in Hungary or Poland), retention of power (as in China), or a semi-revolution “when freezing begins again” (as in the USSR). The latter may to a certain extent be said to have occurred after 2016 (what we have called ‘counter-reform’), but there are no signs of this leading to any ‘semi-revolution’ like USSR under Gorbachev. The question is how meaningful Saxonberg's discussion here is.

Probably a decisive element here, as seen very clearly in the case of Vietnam's version of maturing post-totalitarianism, is the establishment of new business enterprises with a blurred line between public and private property and management, even amending the

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<sup>540</sup> Saxonberg uses the concept ‘patrimonial’ rather than Linz and Stepan's less culturally appropriate concept ‘sultanist’.

<sup>541</sup> Raúl Castro is recently reported to have expressed, in a frank conversation with a prominent European politician, that it was a serious error not to have consolidated and strengthened these reforms in the 1990s rather than giving them up, until they were re-launched 15-20 years later.

constitution so that private enterprises obtain the same legal rights as state-run enterprises (ref. the ‘socialist neo-patrimonialist’ or ‘authoritarian market economy’ scenario in Chapter 12). Foreign direct investment was playing a prominent role in the industrial development permitted by the Vietnamese market resurrection, leading to rapid economic growth with positive impact and social improvements, “encouraging the population to pragmatically accept continued one-party rule as a way to guarantee economic stability” (Saxonberg:96). As we have pointed out, this situation is still absent in Cuba. To the extent it manifests itself in the years to come, it would be a strong driving force towards *maturing post-totalitarianism* in the economic (and perhaps cultural) sphere. The big question of this dissertation is whether this would allow power to be retained by the monopoly party in an authoritarian market economy like China or Vietnam or provoke a negotiated change as in Eastern Europe and the USSR.

Another significant difference compared to Cuba—typical for maturing post-totalitarian societies like Vietnam and China—is that the reforms began from below, “with local agricultural collectives experimenting with ways to improve production through greater freedoms for peasants to cultivate their own products” (Saxonberg:98); experiments that were later approved by the Party leadership leading to industrial renovation and economic growth. While Cuba is also moving, although slowly, towards more peasant autonomy, there is really no trend that this is led from below. The agricultural bureaucracy may often have been more authoritarian and anti-reform on local levels. Marc Frank (2013:262) claims—based on in-depth journalistic studies of the Cuban countryside during two decades—that Raúl Castro’s reforms “were being sabotaged by local power structures built up around the state’s agricultural monopoly”, out of fear for losing positions, power and privileges (ref. Challenge 1). Saxonberg (175-76) observes, “the reforms in Cuba have not been followed by the type of decentralisation seen in China”. He concludes, “Cuban peasants do not have the same incentives to revolt at the local level (in the hope of gaining support from the central government against local officials)”. On this point, he is surely right.

A similar trend might present itself in Cuba in the years to come, once again raising the question whether monolithic political power may be retained as in the cases of China

and Vietnam. The big challenge for these two countries, which is presently much more acute for Cuba, is summarised as follows by Saxonberg (2013:103):

“What will happen if the country eventually faces a sharp economic downturn, and the population sees little reason to pragmatically accept a Marxist-Leninist regime that no longer believes in Marxism, and which only keeps the part of Leninism that relates to a one-party dictatorship?”

Saxonberg puts the ultimate choice referred to above in stark terms: will the most likely option then be to shoot dissenters or to initiate negotiations with the opposition over institutional change?

Keeping in mind the concept of pragmatic acceptance, we may conclude that the future source of authority or legitimacy will be decisive for the choice between freezing and maturing post-totalitarianism in Cuba. Neo-patrimonial aspects will arguably delay the maturing process. A worsening or lack of improvement of socio-economic conditions may be a factor gradually moving the regime in a maturing direction, with a self-fulfilling prophecy that more market will be necessary to save the economy.

With socio-economic crisis, little pragmatic acceptance and little expectation for political reform, there is of course a danger that the regime type may bounce back to freezing post-totalitarianism, where the regime may meet a beginning popular revolt with repression, which either may permit the regime to maintain power, negotiate a transition, or be obliged to step down.

One factor to bear in mind here is that the first careful steps towards liberalisation that have been taken during the Raúl Castro era, may *increase expectations* and pressure on post-Castro leaders to liberalize further. They may thus end up in a situation not unlike the one Gorbachev had to cope with, trying to combine *perestroika* with *glasnost*, rather than the *perestroika without glasnost* formula that in a way defined Raúl's reform agenda: economic reforms without institutional and political reforms.

Here are some further questions that may apply in the situation we are foreseeing in Cuba in the years to come:

- Will the role of the military as the arguably strongest institution in the country tilt Cuba towards a more institutional military-corporate patrimonialism?
- If not, will a worsening or lack of improvement of the economy be a factor moving the regime in a maturing direction, with a self-fulfilling prophecy that more market will be necessary to save the economy?
- The role of intellectuals and professionals will be crucial in such a situation: if they dare to engage in a more open debate about non-Leninist alternatives, bringing up the paradigmatic dilemmas discussed above, and even manage to broaden the social space for such discussions by bringing in the new economic actors (peasants, self-employed, small entrepreneurs): *may this move the situation towards maturity and open up for regime-exceeding options?*

A remark from a high-level public media leader in mid-2016 when new economic austerity measures were announced, clearly not meant for publication, shows the degree of nervousness about this prospect. Warning against a repetition of the street protests of the 1994 *Maleconazo* (ref. Indicator 6.6), the only real public revolt ever occurring against the Castro regime in the midst of the Special Period, she went on to say:

"Gentlemen, this country cannot stand another 93, another 94, if you do not want to see street protests and there is no Fidel to appear on the Malecón or at least until now there has been no figure in this country that shows people their face in order to calm their tempers"<sup>542</sup> (S/E).

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<sup>542</sup> *Diario de Cuba*, 1.07.16, "La subdirectora de 'Granma' alerta de que en Cuba se dan las condiciones para un estallido social en las calles" (S/E). The young journalist in a provincial party newspaper (*Vanguardia*, Santa Clara) who published this speech on his personal blog was harshly criticized and fired from his job.

Both dilemmas outlined by Kornai (ideological anti-reform resistance in the nomenclature, and the incoherence of partial reform) are very visible in Cuba today, and the former was clearly strengthened at the 7<sup>th</sup> Party Congress. Raúl himself has repeatedly complained about the bureaucratic resistance to his reform proposals, leading him to formulate the reform recipe “*sin prisa pero sin pausa*”; “without hurry but without pause”—what we have called the wisdom of the turtle. After the 7<sup>th</sup> Congress, one is almost tempted to propose that the recipe was changed to “without hurry and *with* pause”. How and when this ideological resistance, clearly embraced by the party intransigents and at least initially by the first post-Castro president, will be overcome, becomes a crucial question during the critical juncture. One may argue that Díaz-Canel’s best opportunity to build a new legitimacy lies precisely in the building of an alliance with intellectuals, youth and the new economic actors—which may even enjoy the support of the corporate section of the military.

Kornai also talks about a loss of self-confidence by those in power, including the bureaucracy. Perhaps that is also what we are now observing in Cuba caused by a constant loss of social hegemony and socio-economic status. This is possibly what is compensated for by ‘bureaucratic arbitrariness’ (*caprichos*), particularly vis-à-vis the self-employed.

*The rise of the private sector* is, according to Kornai (op.cit) the most important tendency in the economic sphere during the process of reform. But it is an ambivalent process, he argues, accompanied by a countertendency to obstruct and restrict. Many of these trends may be clearly seen in the case of Cuba, for instance in Raúl Castro’s references to bureaucratic resistance to reform, or in the harassment we have seen taking place against self-employed.

Just as Linz and Stepan speaks about an institutionalized economic society, Kornai points out that *the market requires an infrastructure of institutions* that is hard to set up in reform socialism, frequently being biased by public and bureaucratic instruments, referring to wholesalers, commodity exchanges, warehousing, estate agents, investment firms and a broad decentralised financial sector. All this is a key problem in Cuba, and very particularly the lack of wholesale institutions both for inputs and sales.

Kornai emphasises the contradiction between “*the private sector and the official ideology*”, or private property vs. Marxism. The Cuban Communist Party has consistently shown a contempt for what is called unearned income and getting rich without working, particularly under Fidel and probably less so under Raúl (although the 7<sup>th</sup> Party Congress re-enforced this resistance). There is an interesting similarity here to the way Gorbachev explained his *perestroika*—a concept which soon after came to be so despised by Fidel Castro—in 1988 before losing faith in Soviet-style socialism:

“Thus perestrojka in economic relations is called for in order to unearth the opportunities inherent in our system, in the various forms of socialist ownership. But private ownership, as is well known, is the basis of exploitation of man by man, and our revolution was accomplished precisely in order to liquidate it, in order to hand over everything to ownership of the people. Trying to restore private ownership means to move backward, and is a deeply mistaken decision” (Kornai 1992:445).<sup>543</sup>

So, after all, the use of the term *la actualización del socialismo*, ‘updating of socialism’ in Cuba, *perestroika without glasnost*, may not be so different from what Gorbachev had in mind when he launched his economic reforms in the USSR, before they ran out of control.

There is, however, still a rejection of Chinese and Vietnamese brands of capitalism. Cuba is indeed a very good illustration of what Kornai (p. 447) says about “reform socialism (being) incapable of putting forward a consistent system of ideas of the subjects of private property”.

#### **11.4: Power, hegemony and legitimacy during the critical juncture**

We have under Challenge 8 discussed whether the monopoly power of the Communist Party in reality may be loosening up through constantly losing symbolic and practical relevance in the ‘really existing Cuban society’. The loosening up of the Communist Party’s power monopoly is one of Kornai’s main criteria for a more wide-reaching social transformation. We have shown some examples of how the social status of party

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<sup>543</sup> Kornai is here quoting from Gorbachev’s speech to the Presidium of the Supreme Soviet of the Soviet Union, reproduced in *Pravda*, 26.11.88.

membership—and also the number of members—is clearly being reduced. One of the claims (e.g. by Chaguaceda and Geoffray, 2015) is that real power is being transferred to Government bodies like the legislative State Council and the executive Council of Ministers. As we have shown under Challenge 7, however, the overlap between the top structures of these bodies and the Politburo of the Communist Party has been almost complete. More than a cessation of power quota, what is taking place according to this line of thinking is therefore a concentration of power in the hands of the dozen top party *and* government cadres (we have referred to them as ‘the twelve apostles’) with a limited number of additional individuals, that constitute the real power in Cuba. What may be taking place as we enter the critical juncture, however, is a certain reduction in this overlap (ref. Table 9.4, waiting to see the situation after the appointment of the new Council of Ministers in July 2018).

Other observers will of course put more emphasis on the power of the armed forces. Again, a qualification is needed. The top military hierarchy is part of the above-mentioned top dozen cadres. But we have also shown that the military presence in top party and state bodies is being reduced, and that we have so far not seen that the old generation of generals in such positions is being substituted by younger top officers. It is very interesting vis-à-vis the imminent change of guards that so few younger military officers are visible,<sup>544</sup> while the provincial leaders of the Party represent perhaps the most numerous source of recruitment for the post-Castro Party leadership.

Furthermore, there is another part of the military institution that may exert more influence than even most of the old generals hanging on in the Party’s Politburo and the Council of Ministers: the managers of military-controlled corporations. Along with them, a group of line ministers and their associates in the top bureaucratic apparatus of ministries and other state institutions, may be exercising more real power in their day-to-day management of complicated technical issues—particularly when they concern an international market economic reality where the old guard possesses very limited capabilities.<sup>545</sup>

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<sup>544</sup> One exception here may of course be Coronel Alejandro Castro Espín (Raúl’s son).

<sup>545</sup> This represents a clear change from the way Fidel Castro was conducting his leadership role, expecting any minister or high-level state official to stand ready at any moment to take his personal orders, follow up and implement his more or less whimsical initiatives. Under Raúl Castro’s much more institutionalized

If we shall draw on some of the historic parallels to the dissolution of the USSR, it has been emphasised (ref. Brown, op.cit) that highly educated and urban full-time officials had a disproportionately large presence in the party, with a very strong reformist influence. The vast majority of leading specialists in the social sciences (academic lawyers, economists, sociologists, political analysts) were party members, from whom the most influential ideas for change (economic and political) emanated. It should be pointed out that the regime transformation in the USSR was a typical case of transition brought about from above, like in Hungary, as opposed to pressure from below as the case was in Poland, partly in East Germany.

Cuba, with its extremely centralistic and vertical power and government structures, will with all probability follow the Soviet pattern in this sense. It will therefore be of interest to watch some of the same sociological characteristics of the emerging power holders. The election of a new Central Committee at the 7<sup>th</sup> Party Congress leaves no signs of integrating active academics from outside the power circles of the Party and in that way give them an extended role in decision-making bodies. Even if two of the new Politburo members (both women) were drawn from academic institutions, their background is more administrative—selected through the Party vetting system described under Challenge 7—meaning that they were probably not put in this position in order to channel critical academic thinking into the leading decision-making body. A similar lack of openness to academic institutions seems to be common at provincial level, with all provinces having universities that potentially could be actively used for exchange of creative ideas and proposals of a political and economic system that really has an urgent need for renovation.

The new President Miguel Díaz-Canel, born after the Revolution, civilian, will at least for the first three years only be presiding over the State while Raúl and the *históricos* until 2021 stay at the helm of the 'leading force' of the country: the Communist Party. In this situation, one could imagine the emergence of some kind of 'dual power'. From the outset, however, Díaz-Canel was presented by his mentor Raúl Castro as a pure transitional figure, guaranteeing *continuity and no transformation* of the Cuban polity.

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system of government, ministries and state bodies are after all left with certain independence within their respective technical areas of competence.

He will soon be reminded, however, that *business as usual is no more an option for Cuba*. Long-delayed economic decisions, starting with the currency unification, will oblige his new government team to revive Raúl's unfinished reform agenda. If Raúl Castro was unable to implement many of his announced measures himself, he may now offer his successor the necessary political backing—with de facto control of the Party and the Armed Forces – that he himself was lacking as the country's top Executive. That will probably be Díaz-Canel's only solid power base—for lack of proper legitimacy—during the critical juncture. Return to the economic reform mode may also set in motion the political transformations that were held back during the ten *raulista* years studied here. Political forces with hegemonic implications may thus be released and oblige the new President to build non-traditional alliances beyond the Communist Party, bringing in new advisors that may become decisive once Raúl and his generation is definitely out of the game.

Brown (2009:594) said about Gorbachev that he needed reform-minded people one step down in the party hierarchy in order to win the ideological battle that followed. He added, however, that “only change at the apex of the political hierarchy could determine whether fresh and critical thinking would remain a mere intellectual diversion or whether it would influence the real world of politics”. Brown claims that Gorbachev was already much more of a reformer when he became party leader than the Politburo realized, but that his intention was to reform the existing system and not make transformative change, until the system started to fall apart.<sup>546</sup>

The very reference to Gorbachev would be a political hara-kiri in Cuba today—he is considered the ultimate traitor that caused the USSR to collapse. But it is interesting to note that many from the generation now entering the power structures in Cuba, in their early to mid-50s, were studying in the USSR (and other East European countries) around 1990, observing at close hand both perestroika, glasnost and the entire transformations taking place. Whether that would make them more or less sympathetic to reforms, and what kind of reform, is anybody's guess.

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<sup>546</sup> Like Díaz-Canel, Gorbachev was the first leader of his country born after the Revolution, about the same age (mid-fifties) when he took over from over-aged veterans, delivering the same continuity discourse from the outset.

What may be expected is that the increasing diversification of political positions, and the quite heated debates that apparently have taken place—and only with great difficulties could be concluded—before and after the 7<sup>th</sup> Party Congress, may eventually open up for clearer political factions in the Party, possibly also permitting the debates to extend into broader academic circles.

This takes us right to the decisive question of how the post-Castro generation of leaders will solve the *legitimacy challenge* they are so clearly exposed to.

### **11.5: Emergence of counter-hegemony and the option of negotiated solutions.**

According to Brown (op.cit.), when the free flow of information became a political reality in the USSR in the form of *glasnost*, it became a decisive factor, along with the economic failure, in undoing Communism.

Cuba has never had *glasnost*, but the information monopoly has been definitively broken, mostly due to technological facts on the ground. Young people, even party loyalists, have no problem to seek alternative information and views, about the outside world as well their own country, including about the root causes of the economic failure. This will necessarily have consequences for the way the new generation of leaders needs to communicate with the population, and take public opinion into account, if they want to build a new capital of legitimacy.

In this regard, we need to recapitulate the fact that *the traditional social contract between the Cuban state and polity, and its citizens, is falling apart* as a consequence of the new economic realities we discussed in Chapter 5. A constantly growing share of the population, close to one third, is employed outside of the state sector, while the majority formally remains as public employees. But the two groups are increasingly intertwined in an illicit symbiotic interdependency: the non-state employees depend on goods or favours obtained from public employees through embezzlement or graft, and public employees can only survive by illegally selling public goods and services to the private sector—or dedicating significant part of their time to parallel non-state activities. Either

group is therefore, in different ways, becoming less and less dependent on a previously omnipresent and omnipotent state and party apparatus for their survival and life projection, at least as far as a formal and legal relationship is concerned. Particularly the young segments of the population are seeking *exit*—literally or virtually—from Father State and from the Communist Party nomenclature in their projection of a meaningful future. The same happens with the new middle class. This may result in a paradigmatic change of social contract with potentially transformative consequences for the Cuban power structure and society.

*A crucial question is therefore what impact this fundamentally changing social architecture has on people's loyalty to the state, and on the state's power over ordinary citizens, in short the social contract between the state and its citizens.*

Although this changing social contract will lead to political power being increasingly questioned by the population, there is so far no sign of counter-hegemonic forces developing—as discussed in the theory chapter—within or outside of party and state structures. Still, we need to be on the outlook for whether the looming ‘crisis of legitimacy’ in Cuba will have any resemblance with a ‘crisis of hegemony’, or of ‘authority’, in Gramscian terms. If and when the Cuban nomenclature, playing a similar role to that of the bourgeoisie in a capitalist society, were to be obliged to allow the forms of hegemony to change (typically in the way the Nordic model was conceived in the 1930s, ref. Törnquist and Harris 2016:41-50), the Cuban power elite might have to look for a similar adaptation of its hegemonic bloc in order to meet the emerging legitimacy crisis, at some point after April 2018.

One possible adaptation alternative could be to permit a larger legal space for entrepreneurial activities and the non-state economy (permitting SMEs to register as legal entities, permit the establishment of wholesale markets, significantly expand the space and autonomy of the cooperative sector). All these measures would be in accordance with decisions already taken in principle on Raúl Castro's watch, but never implemented due to the resistance carrying the day after the counter-reform set in from 2016. Such measures could even become systemic necessities in a situation where economic growth continues to be marginal or even negative, while FDI stays at their

present low levels, with a Trump administration in the US stopping any further economic normalisation or even backtracking on whatever was achieved under the Obama administration. The new restrictions on remittances to military, party and state employees (ref. Challenge 3.2) could potentially contribute to a further modification of the *correlation of economic forces* between the state and non-state sectors in Cuba, and further aggravate differences and solidify contradictions between winners and losers of the reforms.

If Díaz-Canel and his new regime return to more systematic pro-market economic reform – probably with the support of Raúl Castro who was the original architect of these measures – it could lay the foundation for gradual and perhaps negotiated changes also in the *correlation of political forces*, which is precisely what the Party hardliners have been worried about. If it is not permitted, social tensions may increase, with a possible need to apply more repression to control the situation.

Whether such change in the correlation of economic forces occurs or not, a deep organic crisis is looming, perhaps tempting new social forces to start building a counter-hegemonic historical bloc, leading to what Gramsci called ‘creating the new’ which in Cuba would be some kind of post-communism.

One obvious source of challenge to the existing hegemony of the Cuban political system would come from a strengthened alliance of civil society and autonomously organised non-state economic actors. If breakdown of legitimacy is followed by the organisation of counter-hegemony, collective projects for an alternative future may start emerging. So, according to Przeworski and building on the Gramscian concept of hegemony, regime transformation will only enter the agenda when civil society, including non-state economic actors, manage to organise a ‘counter-hegemonic bloc’ in a situation of failing regime legitimacy.

This has obviously not yet happened, nor are there clear signs that it will occur. But serious problems of legitimacy during the critical juncture—notably strengthened by a deep economic crisis—may bring about a new situation in this sense. The detonating force may be the unavoidable scrapping of dual currency, which may only be mitigated

through comprehensive market reforms and yet lead to dramatic social consequences (ref. Indicator 3.6).

The traditional arguments (ref. e.g. Barrington Moore (1966) or Rueschemeyer et. al. (1992) that the emergence of strong middle classes will produce a vital pro-democratic force has so far seemed to have little relevance in Cuba. However, it is no more unthinkable that the emergent middle-class in Cuba may develop political interests of its own. There may be something brewing in that respect, and this may actually become a game-changing prospect *if* the above-discussed change of economic and political correlations occurs as part of the critical juncture.

Like in Vietnam (de Vylder and Fforde, *op.cit.*) the reform drive in Cuba has so far not been expected to come from independent interests made up by social classes, but rather from an intra-elite conflict within the state apparatus. One question in Cuba is whether increasing political pluralism, perhaps also fissures within the ruling power apparatus, may be emerging even without formal reforms, and whether this will be provoking a political crisis at some point during the critical juncture.

One particular aspect to watch is what happens to the system of repression if and when the justification of limited civil-political liberties becomes seriously threatened by the disappearance of an external enemy (now most probably expected to happen only post-Trump; i.e. very unlikely before 2021). If we once again go back to the USSR situation, we saw how the end of the Cold War tensions led to a weakening of the military-security apparatus and thereby of the anti-reform influence of conservative Communists. The warming of relations with the USA during the Obama presidency had no similar effect in Cuba: perhaps the Soviet lesson had been learnt.

The election of Donald J. Trump as President of the United States, with his intention to reverse what was achieved in terms of normalisation, might provide another shot in the arm of the Cuban anti-reform forces and—on the other side—represent a disincentive for those who still have believed in the possibility of change. President Trump may end up handing another opportunity and legitimacy to those who are trying to stop reforms in Cuba, by once again embodying the imperialist ghost among ordinary Cubans.

So, how could a negotiation scenario emerge in Cuba?

### *Negotiation scenarios*

In the theory chapter, we presented some considerations about negotiation scenarios as part of post-totalitarian or pro-democracy transformation (Linz and Stepan, Przeworski, Whitehead).

No negotiation scenario is for the moment on the table in Cuba. For that to happen, the combination of a regime survival crisis—and perhaps the prospects of serious repression—and the emergence of a counter-hegemonic alternative would be required. One can only speculate whether and under what circumstances that would happen, particularly given the possibility of another Ice Age in relations with the US.

At this point, we also need to return to the discussion of *what comes first: economic or political change*. In Cuba, there is still reason to believe that changes and therefore also negotiations in the economic arena will come first. That is where the principal regime crisis is to be found, and where the majority of the population is expecting reforms. So, a negotiation scenario in Cuba will probably first occur over economic issues; with more accelerated economic reforms, spilling over into the emergence of a more horizontally organised and more influential non-state sector, what we have called *an economic society*. This prospect is probably the main reason why there is so much resistance against any idea or proposal to constitute horizontal interest organisations. At that point, economic and political issues will be blurred.

One may imagine, however, that resistance against economic reforms, and consequently an aggravating economic and social crisis, may continue to undermine the political legitimacy to such an extent that political protest becomes a major issue, perhaps accompanied by increasing repression. If that were to occur, we would be speaking about a quite different negotiation agenda.

Some observers have expressed worries that a weakening of the Communist Party might lead to a more disorganized and chaotic transition: "The most predictable scenario to avoid chaos would be an authoritarian bureaucratic government, formed, in the immediate term, by Raúl Castro's trusted military personnel"<sup>547</sup> (S/E).

Summing up this chapter, we have shown that the historically rooted authoritarianism has been squarely confirmed and even strengthened when the power brokers felt threatened by the inconsistencies of partial reform. All dilemmas discussed remain unresolved: the socio-economic crisis is worse than ever and will—with disappearing charismatic authority—continue to undermine the legitimacy of the present power structure. Whether this will lead to hegemonic rivalry prompting negotiated solutions or settlement of conflicts by the use of more direct repression is the big question for Cuba's future.

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<sup>547</sup> Carlos Manuel Rodríguez Arechavaleta, Cuban political scientist of the Universidad Iberoamericana, Madrid, in a debate "Escenarios posibles del futuro cubano", organized by Flacso at Casa de América, Madrid, June 2016 ("Cambios, Castro, Reformas: ¿"No Castro no problem", otra vez? Transición en Cuba no comenzará hasta muerte de Fidel Castro, según expertos en Madrid"). *EFE*, Madrid, 30.06.16 (reprinted in *Cubaencuentro.com*).

## Chapter 12: Assessment of scenarios

“I have said that Cuba does not need to copy neither the Chinese nor the Vietnamese model, which does not mean that we cannot learn from all: also the Costa Rican, the Chilean, the Norwegian, the Swedish, the Canadian, the Brazilian.”

**(Juan Triana, Cuban economist)**<sup>548</sup>.

With Cuba entering its *critical juncture*, a full generational change of guards will gradually take place—partly for biological reasons, partly because of new retirement rules:

- Election of President in April 2018, without any previously announced constitutional and election law reforms that might have allowed more pluralism.
- Large part of the Cabinet and State Council will have to be changed and rejuvenated at the same time, after serving two terms (10 years).
- $\frac{3}{4}$  of Politburo members will have to step down at 2021 Party Congress.
- The generation change is not immediately expected to lead to significant economic and/or political change. The old hardliners have been tightening the power even harder during the last two years before the change of presidents, by imposing their no-transformation views on the new leaders.
- No real solution to Cuba’s deep economic crisis is in sight.
- Cuba is heading for a deep crisis of legitimacy; perhaps even a crisis of power hegemony.

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<sup>548</sup> Juan Triana: “Cuba no tiene que copiar ningún modelo”: Interview with *On Cuba*, 1.06.15.

As we are entering the post-Castro era, we find it relevant to discuss different scenarios for Cuba's future development, again taking the expected *critical juncture* as a point of departure. The literature on critical juncture often focuses on *political agency and choice* as determinants for selecting among the options available at the time of the critical juncture.

In the following, we shall first review some thoughts about future scenarios presented by other authors, before we conclude with our own. When discussing scenarios for Cuba's future development, the *critical juncture* is the point of departure, and the tensions between social structure and individual, more voluntaristic *agency* among the future leaders will be at stake.

## **12.1. Alternative economic scenarios**

### **12.1.1 Ritter's scenarios**

The Canadian economist and Cuba expert Archibald Ritter has outlined four alternative options for "Cuba's mixed economy", mostly playing with the percentage of the workforce employed in different categories of the economy (Ritter, 2016).

The *first* option he proposes is "*institutional status quo*" compared to the situation in 2016. Ritter's estimate of the workforce composition is reproduced in Chapter 5.

He calls his *second* category a "*mixed economy with intensified 'cooperativization'*". It would imply permitting cooperatives in all areas, including professional activities; opening up the current approval processes; encouraging grass-roots bottom-up ventures; providing import & export rights; and improving credit and wholesaling systems for coops. His speculation is that a cooperative sector in Cuba could employ as much as 35% of the workforce (1.7 million workers), vs. 4.6% at present. Under this scenario, public sector production would be all-but eliminated (reduced from 33 to 3%), public sector administration would fall from 40 to 30% of the workforce, while private sector (indigenous plus foreign-owned) would rise from 21 to 31%.

The *third* of Ritter's scenarios is called "Wide Open Foreign Investment Approach", involving a rapid sell-off of what he calls state oligopolistic enterprises to financially strong foreign buyers (including the US when the embargo is over). "This is a strong possibility if existing state oligopolies (e.g., CIMEX and Gaviota) were to be privatised in big chunks. The policy requirements for this approach to occur would be rapid privatisation plus indiscriminate direct foreign investment and takeovers by large foreign firms." Under this option, foreign-owned and joint venture employment would rise to 28%, mostly at the cost of public sector production that would fall from 33 to 5%, private indigenous sector would grow from 21 to 32%, whereas the cooperative sector would stay constant.

Ritter leaves out a variant of this option, which may be perhaps the most likely one to occur in a post-Castro and post-embargo situation: a fusion of foreign and domestic oligopolies (the latter represented by military-controlled corporations). It would seem that both large-scale foreign investors and the Cuban corporations might see that as a viable solution of common interest.

The *fourth* option is what he calls "Pro-indigenous private sector in a mixed economy".

"This would require an 'enabling environment' for micro, small and medium enterprise with a reasonable and fair tax regimen; an end to the discrimination against domestic Cuban enterprise; the establishment of unified and realistic monetary and exchange rate systems; property law and company law; a liberalization of micro-, small and medium enterprise would also be necessary to release the creativity, energy and intelligence of Cuban citizens. This would involve open and automatic licensing for professional enterprises; an opening up for all areas for enterprise – not only the "201"; permission for firms to expand to 50 + employees in all areas; creation of wholesale markets for inputs; open access to foreign exchange and imported inputs; full legalization of 'intermediaries'; and permission for advertising."

Under this option, indigenous private sector employment would be dominant, reaching 44%, also in this case at the cost of public-owned production drastically falling from 33 to 3%, vs. a significant but far from dominant 12% for FDI and joint ventures, and 7% for cooperatives (a slight increase).

Then, Ritter also presents his *personal preference*, “*Indigenous’ private sector plus cooperative approach*”, with a large “indigenous” private sector (30% of employment), a significant cooperative sector (20%), a large public sector providing public goods (35%), a small sector of government-owned enterprises (5%), and a significant private foreign and joint venture sector (10%).

If one could think of a hybrid mixture with more inspiration from the Scandinavian (particularly Norwegian) experiences, one could still maintain a sizeable public enterprise section partly in joint venture with foreign direct investors, with indigenous private and cooperative sectors more or less on par.

#### 12.1.2. Feinberg’s three scenarios

Feinberg (2016) outlines three options. *The first scenario* he calls *Inertia and exit*, with the basic characteristics being “authoritarian resilience”, with continued one-party monopoly and bureaucratic control and the post-Castro generation of leaders being too timid and divided to make substantial reform. He predicts that this will lead to continued economic stagnation and public disenchantment, and consequently little enthusiasm among the younger Cubans.

Feinberg’s *second scenario* is called *Botched transition and decay*; may involve more economic reform than in the first scenario but without consolidating a new coherent system. Corruption and organised crime may flourish. Internal divisions of the PCC may create political instability. Outmigration will accelerate in a pattern replicating Puerto Rico or Central America. Repression may become more widespread.

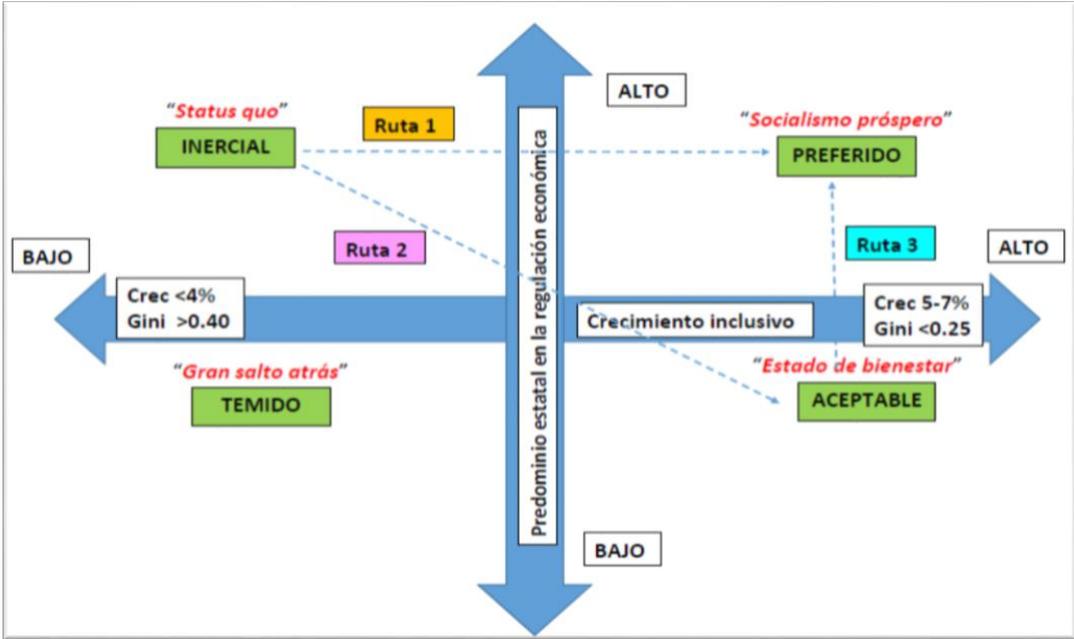
*The Soft landing—sunny 2030*, needless to say, is Feinberg’s optimistic scenario. Although he never makes any association with the Scandinavian countries, most characteristics of this scenario bear this trademark (what he calls ‘market socialism’): a mixed private-public economy with an important cooperative sector and solid integration into the global market, high growth and progressive taxation that sustains universal and high-quality public social services, a prominent investment role for the

Cuban diaspora, strong institutions with robust regulatory powers. He is very open-minded about the political system characteristics—apart from greater pluralism and a more open civil society, perhaps a bit naively claiming that everything from Vietnam to Costa Rica may be compatible with the soft-landing scenario.

12.1.3. Monreal’s scenarios

Cuban economist and social scientist Pedro Monreal, working with UNESCO and affiliated with the *Cuba Posible* think-tank, has presented his scenarios through the following figure:

Figure 12.1: The Monreal scenarios



**Source:** Figure presented by Cuban economist Pedro Monreal (UNESCO), at University of Alicante, Spain, "Seminario Nuevos escenarios sobre Cuba: Sociedad y Derecho", 16-17 November 2016.

Monreal's idea is based on two variables: 1. (X axis) level of economic growth and whether it is inclusive (promoting equality) or exclusive; and 2. (Y axis) degree of state prominence in the regulation of the economy.

Regarding growth (X axis), he is repeating the conventional wisdom among Cuban economists (and indeed the President himself) that given the deep crisis of the Cuban economy, a GDP growth of 5-7% will be the minimum to put Cuba on a course to a sustainable economy. But only growth is not sufficient, according to Monreal. Social maldistribution for instance measured by the Gini index is not officially reported in Cuba, but estimates (referred to under Indicator 4.3) indicate dramatically increasing inequalities.<sup>549</sup> So growth, in order to be meaningful according to Monreal, must generate meaningful jobs with liveable wages, and also be used to safeguard the basic social services of the Cuban revolution.

Regarding the role of the state (Y axis), Monreal speaks only about the regulatory aspect, not about state property. Both are probably important in order to maintain a power balance. A drastic state retreat from the economy would evidently imply the risk of exclusive rather than inclusive growth.

The present situation (status quo) of very low growth (or recession as independent economists have claimed for 2016 and 2017) with increasing social differences, he calls 'inertia'. To continue in this corner of his figure is the least sustainable of all scenarios.

What he calls *Route 1*, achieving inclusive growth with the present level of state regulation bringing the country towards 'prosperous socialism', may be preferable to the government. But neither Monreal nor any serious economic proposals I have come across says anything about how it may be achieved.

*Route 2* brings the country towards high inclusive growth through a partial state retreat (and thus an increasing market economy), supposedly arriving at a 'welfare state'. This would probably correspond to the second of Ritter's options, or even his 'preferred'

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<sup>549</sup> Refer both estimates of Gini index variations, and also the dramatically increased socio-economic differentiation quoted by Mesa Lago, under Indicator 4.3.

hybrid solution “indigenous’ private sector plus cooperative approach” (although Monreal does not speak so much about the role of cooperatives).

Monreal’s *Route 3* is not really clear to me: it implies the maintenance of high inclusive growth, but re-introducing a strong state after first having experienced state retreat. It is difficult to envision how this would come about, but then he brings the country back to the ‘preferred prosperous socialism’.

## **12.2. Alternative political scenarios**

### **12.2.1. Saxonberg on Transitions from Communism**

Saxonberg (op.cit.) has spelt out three transition options for a country finding itself in what he calls ‘maturing post-totalitarianism’, where Cuba of today fits clearly in as a typical case. Making a somewhat pragmatic interpretation of Saxonberg, we may foresee the following scenarios as the outcome of the critical juncture in the case of Cuba:

- Maturing post-totalitarianism with expectation for political reform and willingness to open a dialogue beyond the Communist Party for its gradual retreat from power monopoly (including more pluralistic elections and increasing respect for civic-political rights): This is not yet on the agenda in Cuba.
- Maturing post-totalitarianism without expectation for political reform and retreat to freezing post-totalitarianism without pragmatic acceptance, where a revolt-and-repression spiral may appear as a reality. Developments since 2016 have obvious similarities to what he calls a ‘freezing’ stage. If this were to continue through the critical juncture, with no solution to the deep legitimacy crisis, we cannot rule out that a more violent situation may emerge.
- Maturing post-totalitarianism with the introduction of successful market reforms, normalisation of the situation with the US, beginning socio-economic improvements but no expectation for political reform. This might amount to a variant of what we have called socialist neo-patrimonialism, alternatively authoritarian market economy.

### 12.2.2. Transformation to liberal democracy

Under this heading, we have discussed the more traditional transition theories, represented by Linz and Stepan, Fukuyama and several others. We have so far concluded that this is not a very likely outlook for Cuba, least of all in today's neo-authoritarian world of liberal retreat.

It should be kept in mind, however, that far from everything is negative when comparing the prospects for liberal democracy in Cuba to other countries. Thomas Carothers (2007), a leading scholar on democratic transitions, emphasizes strengthened state capacity as a key element for successful post-authoritarian transition. Among the most important factors he points out as hampering democratic success, few are really present in Cuba (such as highly concentrated extractive resources, identity-based divisions—ethnic, religious, tribal—or belonging to a non-democratic region of neighbouring countries).

Fukuyama (2013:15) says the following about democratic shortcomings in Latin America: "Democracy has become deeply entrenched in most of Latin America over the past generation; what is lacking now in countries like Brazil, Colombia, and Mexico is the capacity to deliver basic public goods like education, infrastructure, and citizen security." According to most of these criteria, Cuba is in a comparatively good position.

### 12.2.3. A Mexican "PRI-like" scenario?

Some authors have been hinting that the Mexican 'Institutionalized Revolution' and its hegemonic party PRI, which held power uninterruptedly in the country for 71 years from 1929 to 2000 and came back in power from 2012, could also be a desirable model for Cuban continuity. In fact, the scenario proposed by Miami University Professor José Azel<sup>550</sup> basically follows the logic of one the scenarios proposed later in this chapter, what we shall call 'oligarchic neo-patrimonialism':

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<sup>550</sup> José Azel: "El 'Partido Revolucionario Institucional' cubano", Published in *AsceNewsclippings* No. 683, 19.11.2015.

“Nobel Prize Laureate Mario Vargas Llosa catalogued the Mexican government under PRI as ‘the perfect dictatorship’. A Cuban version might be on its way. In a previous work (“Cuba después de los Castro: el Escenario Probable”),<sup>551</sup> I anticipated my analysis of how the Cuban communism would evolve, leaving its death wake to militaries as change agents. I described a fraudulent economic scenario where the generals would transform themselves to the new ‘industrial captains’, orchestrating corrupt privatizations of state companies, very similar to the privatization arrangements in Russia in the nineties. That scenario requires the generals to introduce the illusion of political change in order to give the new regime a facade of legitimacy for the benefit of the international investor community. This is how a Cuban system of hegemonic party begins.

In a regime based on a hegemonic party, authority does not rely on revolutionary history or personal charisma - as has been the case in Cuba - but on the institutionalization of a political party designed to maintain power in perpetuity. The Cuban version will be under the control of the military. A hegemonic party system will differ from the current Cuban Leninist model in which a condiment of opposing political parties would be tolerated. The opposition, of course, would have no chance of attaining power, but would establish the false image of a totalitarian state in transition to democracy” (S/E).

### **12.3. Scenarios for an authoritarian market economy**

#### **12.3.0. Overview and common denominators**

What follows is the author’s presentation of most likely scenarios for a Cuba moving into the critical juncture: first a cluster of three different transformation options to an authoritarian market economy (‘oligarchic’ and ‘socialist’ neo-patrimonialism), followed by a possible but for the time being not very likely alternative: a mixed economy with more participatory polity.

If we also try to fit these scenarios into our Economics-Politics correlation roadmap, it would be as follows:

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<sup>551</sup> *Wall Street Journal*, 15.06.2015:  
<http://lat.wsj.com/articles/SB12607879463517393677504581048400539083370>

Scenario 1.1: ‘Socialist’ neo-patrimonialism (or ‘authoritarian market economy’): This is the Sino-Vietnamese way, or *Route 1*.

Scenario 1.2: ‘Oligarchic’ neo-patrimonialism: examples here are Russia and Angola, where we have seen the combination of *Routes 2 and 4* with serious regression along both routes back towards economic and political exclusion. Particularly in Angola, the A&R concept of “extractive” structures is clearly of relevance, although the new president after August 2017 elections has taken some quite unexpected steps away from this.

Scenario 2: Transnational neo-authoritarianism (Cuba as mini-Florida, taken over by the Cuban-American oligarchy and perhaps Trump the businessman): This *might be the fast-track Route 5*, perhaps with an end goal close to what A&R describes as inclusiveness but with serious flaws in what the advocates of a Nordic model (=“the way to Denmark”) would see as a desirable goal.

Scenario 3: Transformative democratic policies: towards a mixed economy with more participatory polity: This is the *combination of 2 and 4, our ‘way to Denmark’*

The most likely outcome of the Cuban transformation process seems to be a development towards what we may call an authoritarian market economy. It is very hard to see how the ‘market’ element of this outcome may be avoided—although there are still strong hard-line forces against it.

We may distinguish between three variants of this scenario:

Scenario 1.1: “Socialist” neo-patrimonialism (or authoritarian market economy);

Scenario 1.2: “Oligarchic” neo-patrimonialism;

Scenario 2: Transnational neo-authoritarianism.

(Please see the end of the chapter where all scenario tables are listed).

There are so many similarities between these three scenarios that we first discuss them together before we come back to the more distinctive qualities.

A main characteristic of the Vietnamese and Chinese models is the blurring of lines between public and private enterprises, as state institutions often form new commercial companies based on public/private partnership, allowing private entrepreneurs to develop as long as they work in close association with state and party (Saxonberg 2013). Very different from China and Vietnam, the Cuban regime has so far continued to block the growth of a more robust private sector in the economy, apparently for fear of losing political control. Without the existence of relatively strong private entrepreneurs, it is difficult to see how a brand of neo-patrimonialism similar to China and Vietnam may emerge.

Another alternative authoritarian scenario, Russia or Angola-style elite appropriation of state property in the hands of a super-rich group of rent-seeking oligarchs, is also difficult to imagine in the absence of a real source of natural resource-based accumulation. For the foreseeable future, oil and gas will not give the predominantly military corporate elite the opportunity for such gigantic private appropriation in Cuba. The tourist industry, which along with the monopoly telephone company is the main source of income for the Cuban military corporations (perhaps in the future the special development zone and harbour infrastructure at Mariel will also be a source), will hardly serve as a basis for the conspicuous accumulation of wealth seen in Russia or Angola. One opportunity for this potential class of state capitalists may perhaps be linked to future mega investments by the richest Cuban-Americans, for instance in agribusiness or in a massive reconstruction of the Cuban infrastructure.

Historian Rafael Rojas has clearly visualized the possibility of neo-patrimonialism taking hold in Cuba, also seeing this in the perspective of re-establishment of Cuban-US relations:

“The re-establishment of relations with the U.S. will strengthen those elements of state capitalism that are being created in Cuba, and it will consolidate a new economic class which, as we know, is very much overlapping with the military sectors. I have no doubt about this: that the military-business caste (*casta*) will strengthen itself with the re-establishment of relations. But this may also be an element that incentivizes the emergence of small and

medium private enterprise with national capital that is not totally subordinated to the military business caste"<sup>552</sup> (S/E).

What Rojas talks about here comes pretty close to what we have been labelling socialist neo-patrimonialism, although perhaps not of the same financial dimension as we have seen in some other authoritarian states with vast access to natural resources. In our view, however, one of the decisive struggles in Cuba—and also in the Cuban-American diaspora—in the years to come will be between quasi-monopoly or oligopoly state capitalism and the emerging medium-level non-state enterprises: The serious doubt about the will of the former sector to let the latter grow into a strong and significant part of the economy evidently has implications for the political future of the country.

Several years earlier, Cuban political scientist Arturo Lopez-Levy aired similar thoughts:

“One well kept secret is that liberalization is desired by Cuba’s elites. In the last twenty years, the dual economy has served the interests of the post-revolutionary elites in allowing them to acquire advantageous positions from which to promote their interests and privileges through eventual marketization. Without formally rejecting their old ideology, many revolutionaries of older generations, and particularly their children, the princes and princesses of the system, have engaged in conspicuous consumption. A new stratum of entrepreneurs, often with links to the government and party elite, is accumulating wealth in the hope that Fidel Castro’s death will also mark the end of anti-rich sentiments within Cuban society. The idea of expanding rights such as the right to own private property and the right to travel is part of a self-serving agenda of the emerging elites. To them, the business of revolution is business” (Lopez Levy 2011:383).

Another question is whether Cuban state capitalists will have the muscle to become anything but junior partners in their partnership with mega-investors from the US, not least from the richest parts of the Cuban diaspora. The probability is that they will have to take a backseat role when, the richest in Cuban-American families get seriously involved in Cuban business. Rather than socialist neo-patrimonialism or a post-socialist oligarchy model, Cuba may become some kind of mixed state-capitalism subordinated to

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<sup>552</sup> Rafael Rojas (2015), "El régimen busca para 2018 un relevo generacional sin democratización", interview in *14ymedio*, 11.09.15. Of course, alliances between US investors and the military corporations are supposedly ruled out by President Trump’s Cuba policy. It is not certain how long this policy will last, however.

diaspora oligopoly dominance, where the space for domestic private entrepreneurs may be much more limited than for instance in Vietnam.

The manifestation of any such economic scenarios, however, will be confronted by a serious political challenge. How to compensate for the loss of absolute power instruments in a situation where the historic legitimacy of the *Sierra Maestra* generation disappears? In China and Vietnam, the authoritarian market economy has coincided with a long period of unprecedented economic growth and social mobility for the majority of the population, particularly those moving to the cities and thus becoming potentially active political citizens. As pointed out elsewhere, this option for pragmatic acceptance does not exist now in Cuba.

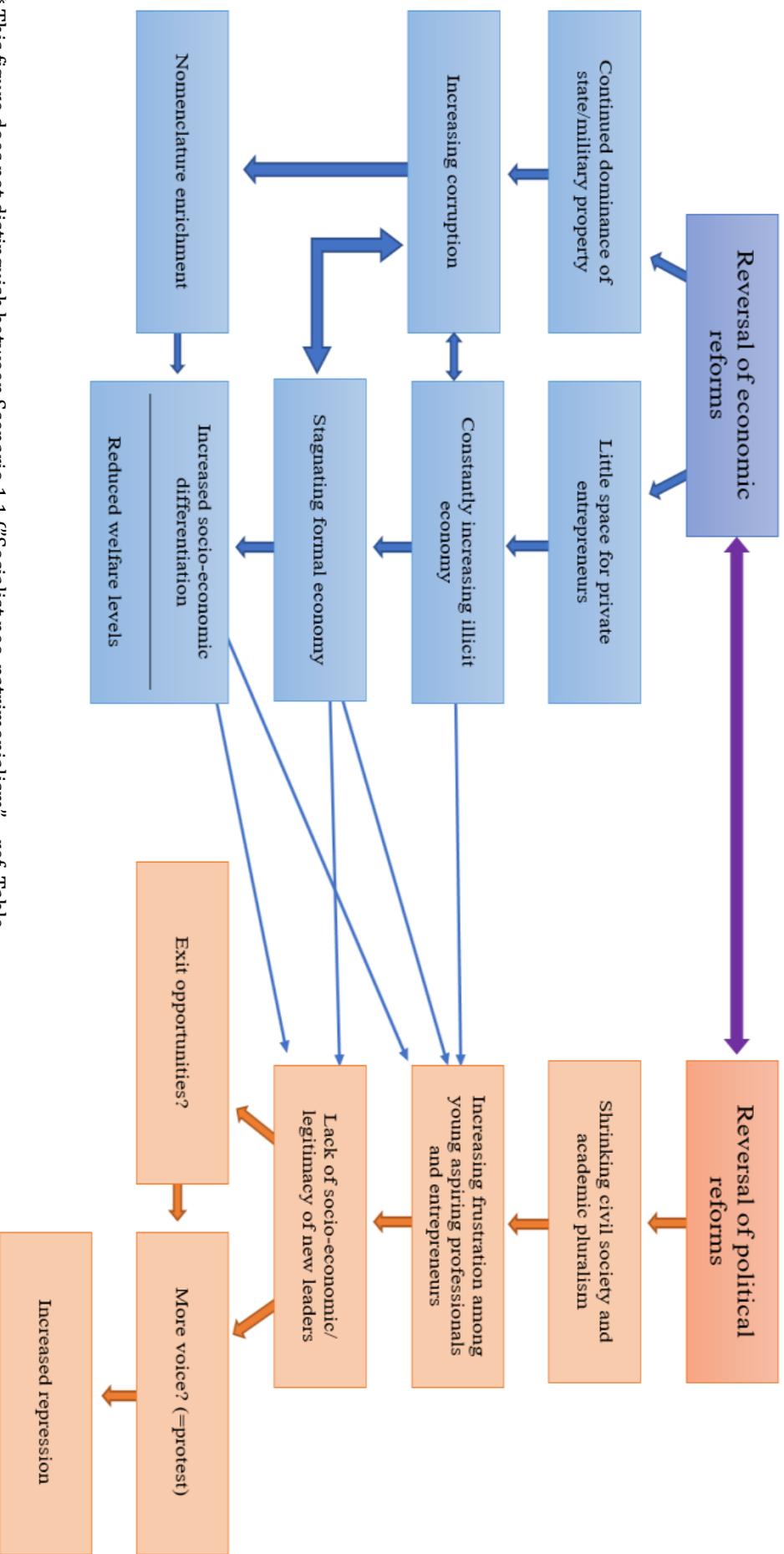
There is an increasing differentiation of political positions among ordinary party members. Although leading cadres are extremely careful not to express any diverging positions, simply because that would be the same as committing political hara-kiri, it is generally assumed that these differences within the power structures of the party with related institutions will become more visible when the new generation now begins to take over.

We perceive an increasingly potential tension in the Cuban society: a significant percentage of the Cuban workforce—perhaps as much as one in three—is now independent of state employment but still heavily dependent on the discretionary power and abuse by state employees (ref what we have termed '*the strangle hold of symbiotic inter-dependence*', see Indicator 2.5). Important segments of the state and party structure are doing their best to revive anti-imperialism, while the overwhelming majority of Cubans seems to welcome normalisation of relations with the US. If significant sectors of the Cuban people perceive that it is the Cuban side that are holding back on the easing of economic opportunities (what many Cubans call 'the internal blockade'), in a situation where the safety valve of 'exit' is no more so easily available, the government could be met by much stronger and perhaps open protest from ordinary Cubans. That could leave the power structure with two options: increase the repression of opposition or allow a democratic opening.

Cuba has not yet seen a serious surge of social protest as we have referred to in China, partly also in Vietnam. If such social protest were to spread in Cuba, there is at present no real mechanism in place to handle them, like the so-called *routinised contentious bargaining* applied in China, contributing to the regime's resilience (Chen 2012). In other words, Cuba has not shown a similar capacity to allow social protest and meet it with the *contentious authoritarian* mechanism that seems to be working quite effectively in China. Cuba might be obliged to look for heavy-handed response mechanisms if protests become more widespread.

The neo-patrimonialist option is illustrated in Figure 12.2.

**Figure 12.2**  
 Scenario 1: Status quo towards neo-patrimonialism



\* This figure does not distinguish between Scenario 1.1 ("Socialist neo-patrimonialism" - ref. Table 10.1) and Scenario 1.2 ("Oligarchic neo-patrimonialism - ref. Table 10.2). The main difference is that in the "oligarchic" variant, state including military property will rapidly be appropriated by the state and military nomenclature, probably leading to even faster and greater corruption and socio-economic differentiation.

### Scenario 1.1: Transformations towards a socialist neo-patrimonial (or authoritarian market economic) state?

Cuba believes in the possibility to combine the principles of a market economy based on supply and demand, and state planning. In President Castro's Report to the 7<sup>th</sup> Party Congress he stated that this combination had been "successfully demonstrated in the 'reform process' in China and the 'renovation process' in Vietnam" (Castro 2016). So, to the extent Cuba has any foreign models for its own 'updating', it is about these two countries and particularly Vietnam. The great economic successes of these two socialist countries, and the generally accepted prospects of China rising to become the leading world power, are of course elements that make them extremely attractive as role models for Cuba.

The question is, however, how much of the millennium-long historic, cultural and more recent structural characteristics of these two Asian countries (ref. Chapters 3.9.4 and 3.9.5) are relevant for post-Castro Cuba. Above all, how much of the last 40 years' economic experiences of the two 'sister socialist countries' is Cuba prepared to implement? Vietnam took a decisive step to fully re-integrate with the international economic system and join the World Bank and the IMF in the early 1990s, simultaneously deepening the strategic market reform (*Doi Moi*). All this was made possible by normalisation with the US, leading to the lifting of the US economic embargo. Cuba never achieved the same when a similar process was initiated by ex-President Obama, but we have also shown that Cuba failed to take full advantage of the US opening, thus perhaps adding difficulties to a full lifting of the US embargo.

Market reforms in Cuba have been much more careful and have seen a clear backlash after the first years of Raúl's reforms. This is the case regarding market freedoms and profit, investment and expansion opportunities for private entrepreneurs as well as for farmers/peasants, and more surprisingly also for cooperatives. Cuba in reality—and in spite of measures to sanction illegalities—seems to prefer a largely black survival economy to a more regulated marketplace for SMEs, artisan producers and farmers. Cuba has in principle introduced the same liberal regime for foreign direct investment

(FDI), but the country's absence from international financial institutions (another difference from China/Vietnam) and serious doubts about the country's capacity to honour financial commitments and allow repatriation of profit are factors that makes it impossible to attract significant FDIs. Vietnam has been less restrictive with the permission for non-state economic interest groups to organize horizontally (towards what we have called 'economic society'). Limits to political reforms are about the same, although Vietnam is practicing a significant internal party pluralism that so far has been completely missing in Cuba. Cuba is now finally like Vietnam and China introducing term and age limits for its leaders, eventually permitting a generational renovation that has gone quite smoothly in the two other countries while being blocked in Cuba.<sup>553</sup> Cuba is still an extremely centralised system, while the decentralised and bottom-up initiatives that have been critical economic reform drivers in China and Vietnam have been completely missing. The same is the case for complaints and co-optation mechanisms that have provided effective absorption capacity for social protest (*contentious authoritarianism*). With the loss of young Cubans' exit option to the US, and the lack of conditions for the *pragmatic acceptance* of authoritarian regime that still exists in China and Vietnam, Cuba is confronted by a legitimacy challenge that may become very tough to cope with short of a resort to quite massive repression. This is so even if Cuba has so far avoided the massive corruption problems and elite enrichment seen in the two other countries. So, while Cuba has been much more restrictive with the introduction of market mechanisms and opening for private sector growth out of fear for losing political control, such control may eventually be lost precisely because the over-caution is leading to a deepening economic crisis that makes it more and more impossible to keep the social contract with the population and maintain a functioning system.

It may well be tempting for Cuba to copy the Chinese/Vietnamese combination of an authoritarian one-party system with a functioning market economy. So far, however, the country has been unwilling to introduce the necessary market reforms to achieve the economic success of its two Asian friends.

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<sup>553</sup> As we have noted elsewhere, China is now going the other way.

Referring to President Xi's new power concentration in China, in many ways comparable to Fidel's previous position in Cuba, it is also difficult to see how post-Castro leaders in Cuba may build new and effective leadership models with the necessary legitimacy.

The 'Socialist Neo-patrimonialist scenario' is summarised in Table 12.1 (please see end of chapter). Compared to our Politics–Economics correlation matrix, this Scenario corresponds to Route 1.

#### Scenario 1.2: Transformations towards an oligarchic neo-patrimonial state

The main difference between the 'socialist' and the 'oligarchic' variants of neo-patrimonialism is that the latter—like in Russia and Angola—is much more based on privatisation or outright stealth of public property by the former nomenclature, and thereby massive private enrichment. This system may have a more formally democratic polity, with transitions from party monopoly to hegemonic parties. There may also be some more pluralism in civil society and the media, but Russia has seen a clear narrowing of this space and a strengthening of the authoritarian structures during the Putin regime. In that way, the transition from present socio-political structures need not be so difficult, even if some formally democratic reforms are allowed. This resembles the option prescribed by Azel (op.cit.), which he calls the 'Mexican PRI' variant. A close Cuban ally, the Bolivarian Republic of Venezuela founded by Hugo Chavez, also had some resemblance of this model before it started approaching collapse under Maduro.

There is a general concern that the increasing economic power of military-controlled corporations will gradually lead to enrichment of the military leaders of these companies, and generally of the political leadership:

"The most apparent concern in this sense is that the role of the military in key points of the economy is enabling the future economic empowerment of the dominant clans through a virtual piñata, leading to the self-annihilation of the system by those who are inheriting the power."<sup>554</sup>

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<sup>554</sup> Reinaldo Escobar: "Trump, los militares y la división de poderes en Cuba", *14ymedio*, 20/06/2017.

(See some possible characteristics of the ‘oligarchic neo-patrimonialist’ scenario in Table 12.2 (please see end of chapter)).

Scenario 1.2 represents a combination of Routes 2 and 4 in the Politics–Economics matrix, with serious regression along both routes back towards economic and political exclusion. Particularly in Angola, the A&R concept of ‘extractive’ structures is clearly of relevance.

#### Scenario 2: Transformations towards a Transnational neo-authoritarian state

Another scenario, not so different from the two former, is an alliance between the military corporate elite and multinational oligopoly capital, first and foremost from the US, and probably dominated by big Cuban-American investors. This option is of course only fully possible if and when the US embargo/blockade is lifted. There were several signs that both sides were getting prepared for such partnerships during the Obama presidency. President Trump has signalled a hardened relation to Cuba during his term and has specifically banned any relations with military corporations. But if a post-2020 US President wants to promote big business relations with Cuba, there is nowhere else to turn than to the military-managed corporations, which have already been actively wooed in US-Cuban negotiations before Trump’s new restrictions were put in place.

One could perhaps expect such investments to lead to an unfettered, freewheeling capitalism, where state regulations were completely thrown out. That is not necessarily the case. The anti-Castro elite that left Cuba after the revolution, many of whose family descendants would be among the investment candidates, has in fact a tradition of close relations with the State, as highlighted by Valdés and Landau (2012):

“[M]any of those same anti-Castro Cuban ‘conservatives’ showed no opposition when President Fulgencio Batista introduced ‘big government’, or strong state intervention in the Cuban economy. Indeed, since 1934 Batista used the state to play a major role in transforming and regulating Cuba’s economy.

These Cubans – conservative only in their opposition to revolution — have never become ‘libertarians’, nor have they favoured laissez-faire capitalism. Some of the major fortune

makers in pre-revolutionary Cuba made use of that highly regulated economy to amass their wealth. So-called sugar king Julio Lobo reaped his fortune from a thoroughly regulated sugar market. Pre-revolutionary Cuba's government had divided sugar profits among the large, medium and small growers, and assured each partner of his proper share."

What is quite likely is that this scenario would reduce state *property* to a minimum, and that there would be a very heavy pressure for the return of most of the nationalised and confiscated properties. By going through the list of the 550 biggest proprietors in pre-revolutionary Cuba, the real economic oligarchy that fled to Miami (Jimenez, 2008),<sup>555</sup> one can easily spot a number of still very rich family descendants in Southern Florida who would have little doubt to rush back to Cuba if conditions permit it. The biggest of them, the Fanjul family with close links both to leading Democratic (Clinton) and Republican (Bush) families in the US, would probably be among the first and foremost. Jimenez (ibid:207), lists the Fanjul family as the third biggest non-US capital group in Cuba (the above-mentioned Lobo being the first), with land properties of 60,000 hectares, ownership of ten sugar factories and three alcohol distilleries. Today, the family group produces 6 million tons of sugar every year in Florida and the Dominican Republic, three times the total production of Cuba. This is the brand of families, the two brothers Alfonso ("Alfy") and José ("Pepe") still maintaining their Cuban citizenship that would probably be very keen to return and reconquer dominance of the Cuban economy if they were allowed to.

What we may imagine under such scenario (ref. Table 12.3 at end of chapter), is that the military-corporate presence at least from the start would still be quite high (but gradually subordinated to big foreign capital and possibly privatised in the hands of the military-dominated nomenclature), that small and medium private entrepreneurs could have a prominent but not dominant role, and that the agriculture would be predominantly export-oriented. A formal multi-party system would probably be introduced, most likely with a hegemonic party where military and foreign capital groups have dominance and where civil society pluralism would hardly be allowed to challenge these

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<sup>555</sup> It is interesting to note that this impressive documentary work, published in Havana, makes no mention of the property belonging to Castro father, Don Ángel: the *Manacas finca* in Birán, today a museum in Holguín province, with its 10,000 hectares domain (although most of it was rented permanently from the United Fruit Company), with some 300 families living and working on the property (Szulc 1986:99). The Castro family no doubt belonged to the landed oligarchy in pre-revolutionary Cuba.

interests. This is not a recipe for a welfare state: corruption would be significant, legitimacy rather limited, and the need for repression would probably also be great. One may hope that even such a model would not imply the return of the mafias and Batista-like conditions, although it cannot be ruled out.

This might be Route 5, the fast track, in our Matrix, perhaps with an end goal close to what A&R describes as inclusiveness, but with serious flaws in what advocates of the Nordic model would see as a desirable goal (=“the way to Denmark”).

#### **12.4. A scenario for transformative democratic policies**

Scenario 3: Transformative democratic policies: towards a mixed economy with more participatory polity

In the theory chapter, we raised the issue of whether ‘transformative democratic politics’ were possible in a Cuban case, based on the Stokke and Törnquist (2013:3) definition: “[P]olitical agendas, strategies and alliances that use formal and minimalist democracy to introduce politics and policies that may enhance people’s opportunities for improving democracy and making better use of it.”

The concept has been developed and studied mostly with reference to formal democracies, often described as ‘nascent’ or ‘fledgling’ regimes born out of the ‘third wave of democratization’ and still with a certain amount of civil and political liberties in place, but where good democratic intentions have subsequently gone astray:

“Democratization in the Global South, in turn, has suffered from a similar paradox to that of development with poverty. The defence of civil and political liberties and of generally free elections, as has happened in India, and the introduction of these in other countries, are greatly to be welcomed. But while efforts at privatisation, reliance on self-management by civil society, and elitist and technocratic governance that have been inspired by neoliberal ideas have sometimes coincided with enhanced civil and political rights and for reasonably free and fair elections in formerly authoritarian countries, empirical evidence shows that

they have not yet yielded substantial improvements with regard to sound administration, the rule of law, and genuine popular representation” (Törnquist and Harris 2016:4).

Is it possible to introduce a similar discussion in a country like Cuba, which has not gone through a similar formal democratisation, thus having a *pre-transition* state, still undergoing *post-totalitarian transformations*, but with heavy Leninist, authoritarian, centralist, verticalist, opaque structures remaining? When the reforms proposed by President Raúl Castro have been meeting so much resistance as we have seen particularly since 2016, we have argued that this is caused by the intransigent party hardliners perceiving them as undermining the revolution’s very power structures, and that they therefore seek refuge behind these structures in order to sabotage further reform. A lesson worth noting from the USSR, clearly studied carefully in Cuba, is that partial reform represents a real threat to the breakdown of the entire system (Kornai, 1992; Brown, 2009). But it might be worthwhile discussing whether such a process could have any relevance in a Cuban post-Castro reform process, as an alternative source of legitimacy and a new social contract for the new generation of leaders.

As a more concrete indication of which political visions we have in mind, we referred to the Törnquist and Harris definition of social democracy: *Democratic politics* towards the combination of *economic growth* and *social equity*. Such experiences are derived not only from the ‘Great Nordic Transformation’ of the 1930s, but also from more recent Latin American cases (Costa Rica, Uruguay, Ecuador, Brazil during the Lula era).

Growth and equity are clear official commitments for Cuba’s Communist Party and government (ref. also Monreal above), but hardly realistic to achieve under present circumstances. So we would have to turn the definition on its head and ask: is there any way that the new Cuban leadership replacing the Sierra Maestra generation could see more participatory processes as a way to achieve re-distributive economic growth aiming at the re-establishment of the welfare state—or even accept more democratic practices as an outcome of such processes?

What would in that case be required? Törnquist/Harris have discussed four dimensions that would be of relevance:

*Dimension 1: “Broad popular interests and ideas translating into the formation and organisation of democratic political collectives”.*

In *Cuba* there is no tradition (since the revolution) for independent political action (by individuals or groups). But there is now for the first time a carefully emerging economic, civil and political plurality to build on, meeting with angry resistance from the Party hardliners that seem to have gained the upper hand for fear of losing the political control. The Cuba policy of the Trump administration is not at all promoting such plurality, but what happens after April 2018 is still in the blue.

*Dimension 2: “efforts to build strong democratic linkages between state and society”.*

In *Cuba*, the challenge is to *de-couple* the extremely vertical and top-down dependency linkages between state and society, and substitute them with more horizontal, independent and participatory linkages: building formalised participatory channels on local and national levels. The same present situation applies here as under the previous dimension. Cuba has a (too) strong state, but requires more rational and effective implementation mechanisms and institutions.

*Dimension 3: “struggle on the basis of common popular interests and ideas for universal civil, political, and social rights, and related welfare policies”.*

*Cuba* has a strong welfare tradition. But this has been the result of *benefits being endowed from above*, and also financed by international allies. The challenge now is to allow citizens and organised collectives to struggle for these rights from below. The most likely starting point for this would be through cooperatives, if they were allowed to become a backbone of Cuba’s economic development, and live up to internationally recognised cooperative principles. Another interesting move would be more decentralised public policies, strengthening local governments, perhaps promoting some kind of participatory budgeting. But there are not yet any signals in that direction.

*Dimension 4: “attempts at the development of growth coalitions (social pacts) between sections of capital and labour in the widest sense of the terms, as well as between labour and agrarian producers”.*

In *Cuba*, neither capital nor labour is so far independently organised. But such social pacts and growth alliances are in fact carefully being developed between private entrepreneurs, their employees and publicly owned companies in situations where the private sector is gaining strength and making itself unavoidable—particularly in parts of the tourism sector. Ideas about public-private partnership in the productive use of family remittances (ref. ideas promoted by ex-economy minister Rodríguez) might also be an element of relevance to this dimension. In the agricultural sector, there could be an obvious opportunity to establish growth coalitions between producers of different categories, if the decision from the 6th Party Congress (2010) of allowing second-degree cooperatives had been implemented, so that producer-controlled agro-industrial complexes could be established.

Latin America has in many ways been the main regional arena for the phenomenon of *politicised democracy* during the first decade of the twenty-first century, represented by the coming to power of a large number of left-leaning governments originally based on strong popular movements, most of which with close links of solidarity with Cuba. It may be argued, however, that these experiences are quite different from the ‘Nordic model’ that in many ways inspired the concept of ‘transformative democratic politics’. A fundamental characteristic of this model was a social movement led by radical labour organisations that acquired and transformed state power to become a tool for societal transformation, with an institutionalised system of mediation.<sup>556</sup>

Over the years, leftist governments in Latin America, brought to power by innovative mobilisation efforts by civil society and popular movements, have developed worrisome authoritarian attitudes, also expressed through very apologetic assessments of the lack of democracy in Cuba (see e.g. argument in Mainwaring and Pérez-Liñán 2015). This situation of mutual approximation between Cuba and leftist governments during this period in other Latin American countries (Venezuela, Bolivia, Ecuador, Nicaragua, to a certain extent Brazil and Argentina) led to an interesting trend of Cuba moving towards some kind of *Latin American normalcy* (Bye 2014). In this situation, one might assume that Cuba could find inspiration in elected democratic and mixed economy structures of

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<sup>556</sup> A good summary of the Nordic model, its history as well as its present and possible future characteristics, is to be found in a recent study: Dølvik et. al. 2015.

other Latin American countries. With recent economic and political backlash for several of these leftist and pro-Cuban governments (Venezuela, Brazil, Argentina, Chile), this source of transformative inspiration has again become less relevant.

We may imagine some steps towards a “social democratic” transformation in Cuba:

- The state must distinguish between its regulator and employer roles (and fully define its form of state capitalism).
- Private business must be allowed to organise as legal entities (in principle approved by 7th PCC Congress) and to organise employer interest groups.
- Self-employed, artisans etc. must be allowed to organise and negotiate with the state.
- Cooperatives must be given real independence (according to international cooperative principles) and procedures for negotiation with the state must be established—and second-degree cooperatives need to be authorised and promoted.
- Labour unions must be given more autonomy and access to negotiate with both state, non-state domestic and foreign investment employers.
- Agrarian producers must also be allowed to organize horizontally and negotiate with state and with commercial intermediaries under state regulation. Cuban agriculture is deeply transforming from plantation to domestically oriented small-scale family farming units, and this could be a good basis for democracy to take hold).

Let us look at how the above-mentioned dimensions and possible steps relate to the present ideological position of the Cuban Communist Party.

Cuban socialism was defined in the strategy document presented to the 7th PCC Congress (April 2016) (‘Economic and social model for socialist development in Cuba’) and approved more than a year later:

“The strategic objective of the Model is to stimulate and consolidate the construction of a prosperous and sustainable socialist society – economically, socially and environmentally – committed to the strengthening of ethical, cultural and political values forged by the Revolution, in a sovereign, independent, socialist, democratic, prosperous and sustainable country.” (S/E)

Basic principles of the strategy:

- The socialist state as the basis for preservation of all national and humanistic values: Equal opportunities for all without any form of discrimination.
- State property of the basic means of production, socialist planning, guaranteeing universal and free social services—but opening for non-state property (national and foreign).
- ‘Socialist democracy’: mixture of representative and direct, but subject to the *leading role of the Communist Party of Cuba*, the unique and organized vanguard of the nation (a principle thrown out by Scandinavian social democrats in the 1920s and 1930s).

So, here is the 10,000-dollar question:

*Is there a case for post-Castro Cuba building a new legitimacy structure, building on the strong and clientelistic state with its historical social achievements, but gradually transforming it towards more democratic participation of autonomously organized citizens and collectives (cooperatives, self-employed, increasingly autonomous unions and farmer associations, employers’ associations), interacting with a more de-centralized and transparent state (with strengthened local government)? Could this occur in parallel to more pluralistic representation in a Legislature that gains more independence from the Executive (an opportunity that now seems to have been postponed for after 2018)?*

Which experiences from the establishment of the Scandinavian welfare states, building on the ruins of the deep social crisis of the 1930s, could be relevant for Cuba in the coming years (Lie 2012):

- Combination of Keynesian macro-economic policies and collective wage negotiations/agreement between horizontally organised unions and employers (state, military corporations, private SMEs, farmers/cooperatives, FDIs).
- Historic compromise between antagonistic social and political forces.
- How can the variety of socio-economic actors emerge with sufficient strength to enable such policies: be allowed to organize interest- and issue-based horizontal organisations, independent of party and state dominance?
- Combination of representative and participatory and perhaps deliberative democracy (with corporative elements).
- Growth promoting welfare policies and the re-foundation of the Cuban welfare state.

While Mesa Lago claims that egalitarianism in Cuba had a high cost when it comes to productivity<sup>557</sup>, Professor Moene claims consistently that Norwegian egalitarianism may have been quite positive for productivity (Moene 2016). It would be very interesting to discuss whether this could become a realistic opportunity in Cuba.

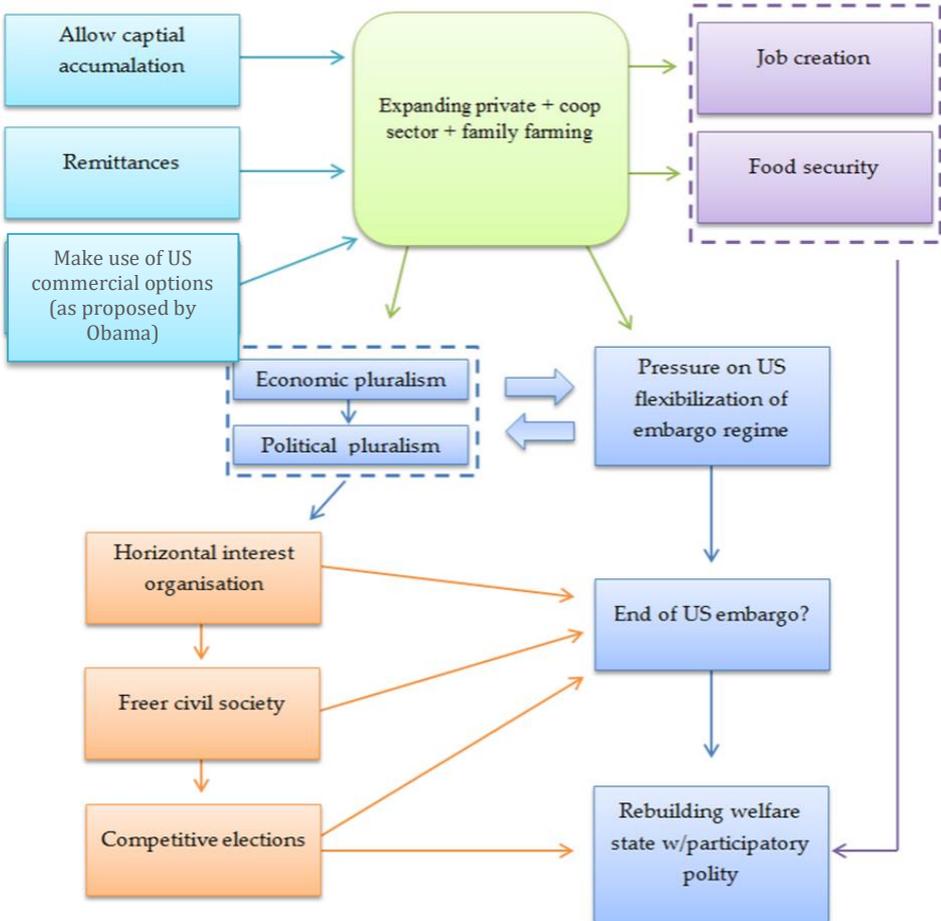
This is our Scenario 3, illustrated by the figure 12.3 below, and summarised in Table 12.4 (please see end of chapter). Fitting it into our Politics–Economics Matrix, it would be in a combination of Routes 2 and 4.

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<sup>557</sup> At Cuba Posible seminar, New York, 26.05.16.

Figure 12.3

Scenario 3: Participatory democracy with socio-economic and welfare state rehabilitation



The Scandinavian traditions of *planning, mixed economy with a strong state role as regulator as well as owner, and welfare state*, is attractive to an increasing number of Cuban intellectuals and academics, and possibly also to reform-oriented parts of the nomenclature (those still believing in re-distributive and ethical socialism).

*The window of opportunity for such alternative policies was not taken care of during the last two years of the Obama administration. It is highly uncertain if and when it returns.*

## **12.5 The rejection of systematic market reform and the danger of collapse – some final considerations**

If we look at the critical variables of the various scenarios, we will note that there are particularly two that will be at the centre of attention in the months and years ahead during the critical juncture. One is fully under the control of the US; the other under the full control of Cuba, but they are closely dependent on each other.

The US embargo is still in effect despite President Obama's efforts to perforate it as much as he could. Mr Trump is committed to keep it, and so is Congress at least until after the November 2018 elections. As long as the embargo is in effect, it is virtually impossible for Cuba to access the international financial system, which again makes it extremely difficult for Cuba to mobilize FDI of any magnitude, seen as a key condition for sparking the necessary growth of Cuba's GDP to save the economy. The main intended beneficiary of FDI is the state economic sector, particularly the military-controlled corporations.

On the Cuban side, there seems to be a close relationship between the maintenance of the Leninist political system and its accompanying economic system (centralist and vertical one-party and state-dominated system holding back on both economic and political pluralism). Unlike China and Vietnam, Cuba would possibly have to let go of its political power monopoly if the country decides to open up the economic space for a strategic non-state sector (SMEs plus autonomous cooperatives).

The main condition for the US abolishing the embargo/blockade is of course that Cuba abolishes its Leninist system. But the last thing the Cuban Communist Party would do is to accept this as a condition and do as Uncle Sam demands. On the contrary: the more President Trump demands this, the stronger will the position of the hardliners in Havana be, and the less likely is it for any significant political opening to take place. So, under the present circumstances, neither side will take the necessary first step to change status quo.

*The only way is for either side to start taking mutually reinforcing steps that may soften the position on the other side.* That was assumingly what Presidents Obama and Castro attempted, but the US steps – to propose dealing with the Cuban non-state economy—were not met by reciprocal response: Cuba permitting this to happen by opening a larger space for its entrepreneurs and cooperatives.

Being confronted by a far tougher negotiator, who is keen to court the Castro brothers' bitterest enemies in Miami, the first step this time around may have to come from Havana. By seeing that the blockade will remain, also blocking the entry of FDI of any significance while the economy is in deeper crisis than ever, the post-Castro government taking office in 2018 would have to call off the reform '*pausa*' and get into '*prisa*' (*hurry*) mood and finally start implementing all the measures that were on the table when Raúl's reform policy was launched. That would imply:

1. Legalising private enterprise and offer them appropriate conditions to grow, re-invest and generate liveable jobs;
2. Giving peasants and farmers control of the entire production-marketing cycle, by favouring small and medium-scale family farming for the purpose of national food security and import substitution;
3. Promoting autonomous cooperatives as a strategic sector both in agriculture and in urban branches of the economy, including second-degree cooperatives that may put in place continuous marketing channels and agro-industry;

4. Allowing non-state wholesale chains;
5. Fully legalising remittances and other medium-size FDI in the private sector;
6. The toughest of all, but probably unavoidable, would be to match the increasing economic pluralism with more political pluralism: more space for civil society, allow horizontal interest organisation with negotiation options, and even allow more competitive elections (not necessarily multi-party as a first step) – the first opportunity without constitutional interruption would only be in 2023.

If most of these steps are taken on the Cuban side, it would be very hard for the US to avoid lifting the embargo/blockade, particularly if the Republican/Democratic correlation of forces is changed after Congressional elections in 2018 or the next presidential elections in 2020. That could take Cuba a long way towards our scenario 3: mixed economy with participatory democracy, with good prospects of re-building the welfare state.

If all such reforms continue to be rejected and the US stands firm or even takes more steps back on its side, if the old Cuban revolutionary generation keeps doing like the Ostrich burying their heads in the sand till their bitter end, the worst of all scenarios cannot be ruled out: the full collapse of the system; state failure. In fact, all four scenarios discussed above are based on the introduction of far more extensive market reforms and high to medium foreign direct investments, which is today not viable without some major concessions in the economic policy. There is today no prospect of significant alternative sources for the economic growth so desperately needed in the Cuban economy. If the situation in Venezuela ends with a complete disaster, which now may seem unavoidable, the most important present source of foreign currency, in the form of oil deliveries paying for medical and other Cuban professional services will also vanish. This could produce hardships comparable to the 'Special Period' of the 1990s. There would simply be no political legitimacy to cope with such a situation in Cuba post-Fidel and post-Raúl. In the worst of cases, therefore, partial or full state failure cannot be ruled out, although we are still far from that situation.

**Table 12.1**

Scenario 1.1: "Socialist" neo-patrimonialism (or authoritarian market economy)

<b>Economic variables</b>	<b>Political variables</b>	<b>Social variables</b>
State property: H	State regulation: H	Social distribution: L-M
Military corporate dominance: H	Monopolistic political party	Corruption: H(-M)
Nomenclature property: M	Ideological pluralism: L(-M)	Welfare state: L-M
Autonomous cooperatives: L-M	Civil society pluralism: L(-M)	Legitimacy: L(-M)
SMEs / private entrepreneurs: M-L	Interest organization: vertical	Repression: M-H
Diaspora investments: M-L	Democratic political participation: L	
Desired FDI: H	Socio-political dialogue: L-M	
IFI role: H	De-centralization: L-M	
Trade dependence: H	Rule of law: L-M	
Agriculture: export-oriented (with high military dominance)		
Growth: M		

**Table 12.2**

Scenario 1.2: "Oligarchic" neo-patrimonialism

<b>Economic variables</b>	<b>Political variables</b>	<b>Social variables</b>
State property: L	State regulation: L-M	Social distribution: M
Military corporate dominance: H-M	Hegemonic political party	Corruption: H-M
Nomenclature property: M	Ideological pluralism: M	Welfare state: L-M
Autonomous cooperatives: L	Civil society pluralism: M	Legitimacy: L-M
SMEs / private entrepreneurs: M-L	Interest organization: vertical / horizontal	Repression: M
Diaspora investments: M-L	Democratic political participation: M	
Desired FDI: H+	Socio-political dialogue: L-M	
IFI role: H	De-centralization: M-H	
Trade dependence: H	Rule of law: M	
Agriculture: export-oriented (with high FDI dominance)		
Growth: M		

**Table 12.3**

Scenario 2: Transnational neo-authoritarianism

<b>Economic variables</b>	<b>Political variables</b>	<b>Social variables</b>
Nomenclature property: H	State regulation: M	Social distribution: L
Military corporate dominance: H	Monopolistic or hegemonic political party	Corruption: H
Autonomous cooperatives: L	Ideological pluralism: L-M	Welfare state: L
SMEs / private entrepreneurs: L-M	Civil society pluralism: L-M	Legitimacy: L
Diaspora investments: M-L	Interest organization: vertical	Repression: M-H
Desired FDI: H	Democratic political participation: L	
IFI role: H	Socio-political dialogue: L(-M)	
Trade dependence: H	De-centralization: L	
Agriculture: export-oriented (with combined FDI / mil. corp. dominance)	Rule of law: L-M	
Growth: M		

**Table 12.4**

Scenario 3: Mixed economy with participatory democracy

<b>Economic variables</b>	<b>Political variables</b>	<b>Social variables</b>
State property: H	State regulation: H	Social distribution: H ("inclusive growth")
Military corporate dominance: M-L	From hegemonic towards pluralistic party system	Corruption: M-L
Nomenclature property: L	Ideological pluralism: H-M	Welfare state: H
Autonomous cooperatives: H	Civil society pluralism: H	Legitimacy: H
SMEs / private entrepreneurs: H	Interest organization: horizontal	Repression: L
Diaspora investments: H	Democratic political participation: H	
Desired FDI: H-M	Socio-political dialogue: H	
IFI role: H	De-centralization: H	
Trade dependence: H	Rule of law: M	
Agriculture: family farming with cooperatives		
Growth: M		

L=Low

M=Medium

H=High

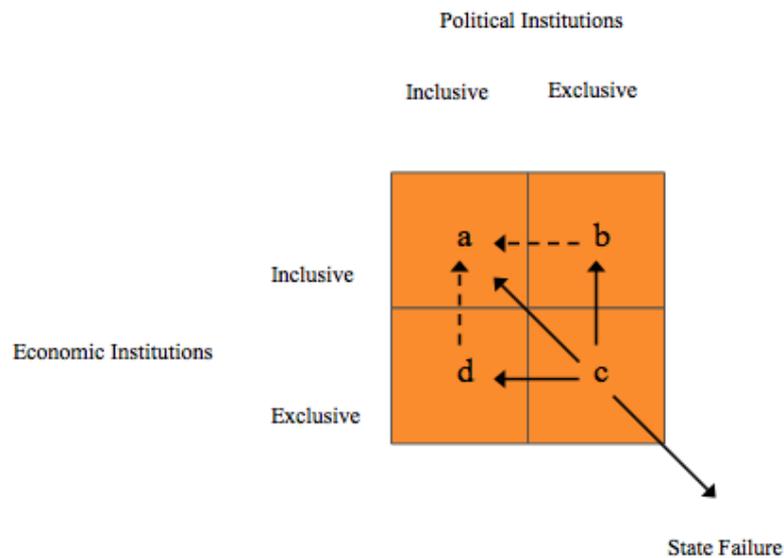
## Chapter 13: Conclusions

We shall here summarise the entire discussion of this dissertation: the relationship between economic reforms within a new international reality, and the prospects for political transformations in Cuba.

Most observers agree that the reforms set in motion by Raúl Castro during his ten years as President, particularly those approved by the 6<sup>th</sup> Party Congress in 2011, were the most comprehensive and the deepest reforms carried out during the entire revolution, with the intention to save the country's economy in view of all accumulated problems inherited since 1959.

The key question we have studied in this dissertation is this: *whether and to what extent a widening of economic pluralism has been taking place in such a way that it may lead to increasing political pluralism and de-concentration of power; or alternatively, whether changes in the political and power structure may accelerate or slow down the speed of economic reforms.*

We have tried to illustrate these options by drawing some alternative routes on a roadmap, by means of possible movements within a politics vs. economics correlation matrix (Figure 2.1, reproduced below):



Two principal routes are discussed: Route 2, with movement from cell c to cell b and a possible further move towards cell a, implying changes from exclusive to more inclusive economic institutions or *economics leading to political change*; vs. Route 4 from cell c to cell d and also in that case a possible further move towards cell a, implying changes from exclusive to more inclusive political institutions or *politics leading to economic change*.

These routes have been assessed in relation to nine challenges, studied with the help of a total of 56 indicators (ref. Annex 1).

Raúl Castro has been breaking once forbidden ideological barriers during these ten years. His preference seems to have been what we have called Route 1, *economics only*, the Chinese and Vietnamese way, where political institutions remain basically exclusive. Willingly or not, however, the reforms have also implied certain movements along both Route 2 and Route 4. It has turned out to be impossible to avoid the affecting the political arena completely.

The contradictory character of his rhetoric as well as his acts may be understood as an attempt to balance conflicting forces within the Cuban power circles. Most observers would agree that Reforms were moving too slowly, before a virtual counter-reform gained prominence during the latest 2-3 years of Raúl's era. The result of this has been paralysis rather than renewal.

We have in this dissertation discussed various alternative transformation modalities (ref. Whitehead 2009):

- The Spanish post-Franco ‘model transition’;
- The double or triple transition from communism and a state-run economy (and even an opposite military alliance) to what seems to be bouncing back to ‘illiberal democracy’ in countries like Poland and Hungary;
- The ‘miracle transition’ in South Africa promoting co-existence between apparently irreconcilable enemies – but perhaps even there some of the miracle is gone; and then the Sino-Vietnamese economic transformation without the change of political regime.
- The most failed of all modalities is clearly democracy imposed from outside, with US-attempted regime change – the publicly announced US policy towards Cuba until Obama. So far, not even the Trump administration has returned to this policy in spite of key advisors (like National Security Advisor Bolton) in principle arguing strongly for it. It remains to be seen whether the Trump administration succeeds with a new version of regime change in the case of North Korea.

We have discussed such modalities in relation to a variety of arenas, partly following the logic of Linz and Stepan (1996). Have the economic reforms approached anything like an institutionalized economic society, with the state bureaucracy facilitating an ‘enabling’ set of market rules? Has this given rise to a freer and livelier civil society? May this push open a more autonomous political society, with strengthened rule of law?

According to Fukuyama (2014), “it is the balance between a strong state and a strong society that makes democracy work”, with the society imposing accountability on the state. Cuba is in the quite enviable position of having a strong and unified state, so the missing link here is a stronger civil society capable of challenging that state. We have tried to study to what extent that has emerged.

Post-authoritarianism, say Linz and Stepan, can be brought about *by choice* (deliberate policies of the rulers), *by decay* (through internal ideological erosion), or by *social conquest* (citizen mobilization).

Przeworski (1991) has argued that there is a line from the breakdown of regime legitimacy to the establishment of counter-hegemony, but that “an alternative future” will only emerge when vertical control is substituted by horizontal organization which manages to present new collective alternatives.

One way of achieving this is by building alliances around broad popular interests, promoting collective action through *transformative democratic politics*, building new social pacts substituting the Leninist system. This, according to Törnquist et.al (2016), would represent a more politicised and participatory democracy, as an alternative to a liberal transition that in the real world of 2018 has ended up with overwhelming democratic fatigue. Is this possible in a pre-transition regime like Cuba? Rather than jumping to a Westminster democracy model, may also elements of deliberative or consensus democracy be applicable?

Building on these theoretical and empirical observations, we may then address the key question of this study:

The macro-economic outcome at the end of the Raúl Castro reform era was quite depressive, resulting from political hesitance and resistance against structurally necessary market reforms. Investments and growth have stayed far below what is required to rehabilitate the economy; fiscal deficit is reaching dangerous dimensions; GDP is still one third lower than the pre-crisis level of the mid-1980s. Hopes for a life-saving injection through foreign investments (FDIs) have not materialised.

Paradoxically, family remittances may have boosted the non-state sector with twice as much investment capital compared to FDIs going to the state sector, despite official policy ruling out foreign investment in the non-state sector.

Raúl Castro—rather than handing over a country on a recovery path as intended by his reform programme—is *ending two generations of rule initiated by the 1959 Revolution*

*with the worst economic and social crisis since the 1990s.* Two of the main reform aims were never achieved: There has been no improvement in food self-sufficiency or reduction of currency demanding imports, and chronic food shortages are continuing. An inefficient state sector still has to cope with a largely redundant public workforce receiving salaries that continue falling far short of subsistence needs, thus forcing most public employees to seek additional informal and illegal survival options.

The *ideological resistance to private property and profit-making* as a basis for business expansion, has never been given up. Most accumulated non-state capital therefore stays unproductive. A large part of state companies continues running at heavy losses. The private sector has not been allowed to develop in such a way that it may compensate for redundant public jobs. This situation will become even more unsustainable when the long-postponed abolition of the dual currency system – a cornerstone of the original reform plan – can no longer be put off. There are disastrous estimates that half of all remaining public employees may have to be laid off due to the inflation effect when monetary unification finally takes place. This headache, like so many others, is simply passed on to the post-Castro leaders.

Private entrepreneurs, after all now occupying an increasing role in the Cuban economy, are similarly and systematically forced to commit illegalities in order to operate, i.a. due to continued ban on wholesale structures and arbitrary tax policies. 60% of the private economy has been pushed underground to an informal and largely illicit existence, thus escaping the state regulatory capacities.

Together, state employees and self-employed form *a socio-economic puzzle of illicit symbiotic interdependence* that obliges the majority of the Cuban population to exchange ill-gotten goods and gains, with the *maintenance of state employment often as little more than a necessary part of the Cuban parasitic survival strategy*: public employees embezzling state assets, and the self-employed using these stolen assets or favours obtained through bribes in their businesses, and/or staying informal and thus under-reporting heavily on their tax obligations. The majority of the self-employed are left to *micro-size survival and 'savage capitalism'*, constantly exposed to harassment by state inspectors that play their part in the parasitic relationships. Fear of 'kulakization' of the

peasants, and of promoting a middle class of entrepreneurs favouring deeper economic and even political reforms, has apparently been at the root of efforts to backpedal on market reforms, no matter the negative effect on economic rehabilitation.

There is a more dynamic and sustainable part of the state sector, dominated by military-managed corporations. An interesting difference is emerging between this sector where the need for complementary private services is recognized and public-private partnership is promoted, and on the other side the highly inefficient rest of the state sector afraid of being outcompeted. It is noteworthy that this relatively successful part of the state sector is often working quite closely with the more entrepreneurial and professional part of the private economy. Both are concentrated in the most dynamic part of the domestic economy: tourism.

The social effects of the peculiar twists and turns of the Cuban economy are no less devastating. To be poor in itself is hard; to be falling from a relatively acceptable socio-economic status in a country with small social differences, all brought about by the Revolution, to a situation where you simply cannot make ends meet and the social security no more exists, is far worse. This is not at all compatible with the idea of social justice, the very bedrock of the Cuban Revolution. Poverty is now affecting increasing segments of the Cuban population. This is what marks the great difference with the role models China and Vietnam, undergoing far deeper market reforms with spectacular growth and upward social mobility for the large majorities. These regimes are therefore enjoying a high degree of *pragmatic acceptance*, a missing element in today's Cuba. The informal character of the non-state economy is also blocking the introduction of a rational tax system, depriving the state of significant income opportunities and of an essential measure to combat the rapidly increasing social inequalities.

The reforms stopped short of empowering new economic actors that might have challenged the political structures. Everything has been done to counter the logical causal impact of what we have discussed as challenge 4: political implications of socio-economic changes. There has been a clear *differentiation between early winners and early losers of the reforms*, with the latter group apparently supporting those forces within the Party that wished to reverse the entire reform process. Those turning the reform clock

back based on ideological anti-capitalist resistance may probably do so with the support of rank-and-file State and Party functionaries and the humblest sections of society who are among the early losers. Many of them are old people who always have been the staunchest supporters of the Revolution.

A unique opportunity emerging in the international arena of throwing overboard the old imperialist dominance (challenge 5) was wasted for the same reason: fear of giving up the old domestic order. When the imperialist enemy image started disintegrating with the new US-Cuban rapprochement and ex-President Obama's charm offensive directly vis-à-vis the Cuban people, it seems to have been perceived as a threat that could deal a fatal blow to the entire power monopoly with its justification of the limits to civic-political liberties. Then President Trump came along, again making it easier to dust off the same enemy image. As a consequence, the typical Cuban 'Us versus Them' syndrome of pasting the imperialist CIA stamp on everybody who dares to express an independent voice was revived. Reforms towards a strengthened and more autonomous civil and academic community (challenge 6) were reversed, and internal stigmatisation particularly of the pro-dialogue parts of this community was intensified. The bunker mentality was once again strengthened. The increasing rejection of any alternatives to status quo demonstrated that efforts by a group of academics and intellectuals to open a constructive dialogue with power insiders seem to have fallen on deaf ears, confirming the impression of a *collective autism syndrome paralysing the power elite*. Rather than taking necessary measures in time, the power holders acted like the ostrich: burying their heads in the sand.

An illusion seems to be lingering on in Havana that it is still possible, in 2018, to run a country by anti-capitalist principles, without a functioning market economy. It is now soon 30 years since the Council for Mutual Economic Assistance (COMECON or CMEA – to which Cuba belonged) was dissolved, it is more than 30 years since Vietnam launched its pro-capitalist *Doi Moi* reforms, and it is more than 40 years since Deng Xiaoping started promoting capitalism in China. North Korea, the only self-declared socialist country along with Cuba that until now may be characterized as anti-capitalist, seems to be seriously considering the option of trading its nuclear arsenal for capitalist development and follow the examples of China and Vietnam. There is increasing concern

in the world – 200 years after the birth of Karl Marx – about the evil aspects of global capitalism. But hardly any Marxist economist would today argue that a country can prosper without one form of a market economy or the other. *No matter which transformation model becomes reality – the economy must be fixed by a much deeper market reform. There is no way the younger Cuban leaders may square the circle to avoid this.*

Staying practically alone outside of all international financial institutions (IFIs)<sup>558</sup>, Cuba is effectively cut off from international systems for credits and guarantees that are required in order to attract FDIs or to restore the macro-economic balance. The anti-imperialist contempt for global capitalist institutions is of course partly explained by the US embargo, which also implies a blockade against Cuba joining the IFIs. But even when the OAS in 2009 voted to welcome Cuba back, a decisive step for re-joining the Inter-American Bank, ideological rhetoric took preference over pragmatic needs. Cuba is offering generous incentives and actively courting foreign investors for the salvation of the economy, while domestic capital accumulation is still illegal, and non-state Cuban companies are legally ruled out and systematically victimized. The fear of losing political control is paradoxically driving the market economy underground, undermining equality values to an extreme degree, and effectively undercutting the political legitimacy.

Raúl Castro's historical shift in Cuba's international role from an anti-imperialist vanguard to a diplomatic facilitator was also apparently pushed aside, and the old anti-imperialist rhetoric was resumed.

Other political reforms, like the unpacking of the tight-knit and homogenous power institutions (challenge 7) have been avoided. The almost complete overlap between Party Politburo, top Government executives and top Legislature leadership plus the military command was maintained. What we have called 'the 12 Apostles', the majority of whom are men in their 70s and 80s with a record from the original revolutionary

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<sup>558</sup> According to the World Bank website, only Andorra, Liechtenstein and Monaco, in addition to North Korea and Cuba, are not members of the World Bank Group (comprising 189 nations)

movement (26 of July) have refused to leave the stage. All hopes for a more open and pluralistic polling process during the 2017/18 elections of the first post-Castro Legislative and Executive leaders came to nothing: through a systematic smear campaign, all candidates not vetted by the Communist Party were accused of being counter-revolutionary and effectively eliminated as candidates.

No real political paradigm shift has been permitted, and early signs towards a less authoritarian political system gradually evaporated (challenge 8). The unavoidable generational and policy renewal kept being postponed almost until the old-guard power elite reached the biological end-station. The new generation who was carefully permitted to take over Government leadership almost by default in 2018 is thereby being rid of any likely source of legitimacy (challenge 9).

In a society where an omnipotent State during almost two generations has been taking the responsibility to guarantee its citizens good education and health standards, with access to a meaningful job and life career, relatively decent incomes and social security, what has been expected in return is a total loyalty by the citizens to the Government. Now that neither of these fundamental human conditions may any more be fulfilled, *the all-inclusive socio-economic-cultural-political pact is disintegrating*. The majority is still staying away from a direct confrontation with those in power. More than anything, this may be a consequence of their fear that all their accumulated illegalities—well known by the State's pervasive security apparatus—represent a Sword of Damocles that may hit them if they openly act in defiance of the loyalty pact. Perhaps that is also a reason why the Government prefers to maintain a savage petty-capitalist system rather than attempting to regulate market relations within a more functional mixed economy. Seen from the citizens, whether formally being state-employed or self-employed, they know that the pact with the state was always based on a paternalistic goodwill of Fidel and his revolutionary generation. It was never codified as citizens' rights, and the loss of the historical guarantees is therefore not subject to claim or defence through any kind of legal process or political mobilisation.

*By summarising the discussion of the nine challenges with each their hypotheses, we draw the following conclusion of this study:*

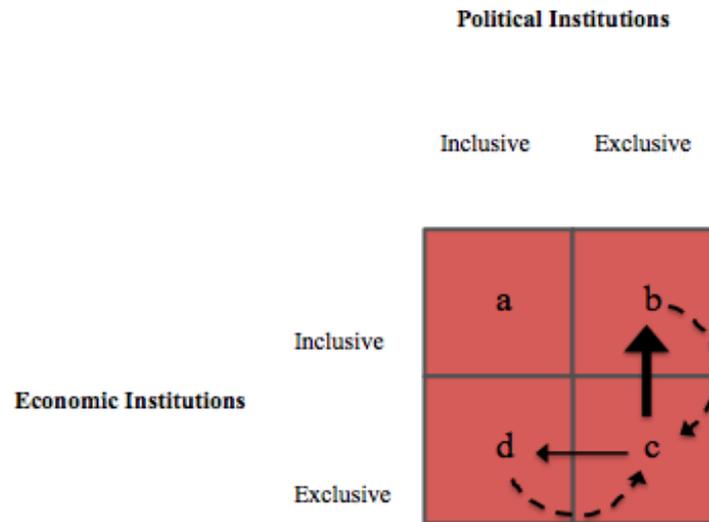
We will claim that the *potential* for a causal relationship between economic reform and political transformation has been confirmed during these years. The restructuring of the Cuban social fabric, brought about by changing economic realities, has presented the political power with serious challenges to allow decisive political restructuring as well. The fear for losing the political power monopoly and seeing a repetition of what happened in the USSR and the previous socialist camp of Europe, is probably what has convinced the old-guard conservatives of the Cuban Communist Party to reverse economic reforms that might undermine the political status quo. This may even possibly have happened against the will of President Raúl Castro, but perhaps with the support of Fidel as long as he was alive, thus providing the conservatives with a political clout against Raúl's best reform intentions.

What we may conclude is that neither economic nor political reform has gone deep enough to really allow us to respond to the overall question of the dissertation. We have seen a significant growth of a small-scale private economic sector challenging the state economic power monopoly, with potential effect for the growth of a more autonomous civil society. Significant information pluralism has emerged, perhaps making the political power monopoly less relevant even when it formally persists. But these later phenomena are also consequences of political openings, like the emigration reform, the conversion of significant groups of urban citizens to real estate proprietors and rural citizens to individual land tenants, and the growing access to Internet. The latter has hardly been avoidable, due to technological development. *As we can see, there are causal links going either way: along Route 2 as well as Route 4 of our Roadmap.*

*What we are left with is a strong politically motivated effort to reject the logical causal relationship between economic and political transformations. This caused the counter-reform that dominated the latest 2-3 years of Raúl's regime.*

As we illustrated in Figure 10.1 (reproduced below), the clear movements towards cell b (more economic inclusiveness) as well as cell d (more political inclusiveness) have caused alarm that such change might trigger further slides towards cell a. This would de facto mean the full introduction of market economy and a pluri-party system, rejected both for ideological reasons and due to the power logic of a Leninist political system.

This is what has produced the counter-reform, forging a return towards cell c on the economic as well as the political dimension:



*The overall response to the question we set out to discuss in this dissertation is therefore that Cuba during the first 7-8 years of the Raúl Castro decade was moving towards more economic pluralism with a certain effect also on political pluralism. There was also a certain liberalization of the political power structure leading to accelerated economic reforms. During the latest 2-3 years of the Raúl Castro era, however, economic as well as political reforms have been reversed, in an apparent effort to avoid further slides towards market economy and a less authoritarian political system.*

Cuba has a new non-Castro President from April 2018: Miguel Díaz-Canel, a civilian from the post-Revolution generation who is not yet leader of the Party, thus having a much narrower power base than his predecessors. From the outset, he was presented by his mentor Raúl Castro as an heir who was systematically brought up to step in with the purpose of guaranteeing *continuity and no transformation* of the Cuban polity. We assume that national independence and social justice – the rebuilding of the welfare state – remain as overarching values and goals of the rejuvenated Cuban regime. We also take it for granted that there is an aim to base this on the highest possible degree of political legitimacy. How can that be achieved?

In this situation of desperate need for new ideas about the country's future, the Party gives the impression of apparent monolithic unity about nothing but "continuity", where nobody dares to show their cards or express doubts about the state of affairs. A new Head of State is taking over from the octogenarian revolutionary generation, without presenting a program or a vision for the future, apparently with no clue about What Is To be Done<sup>559</sup>. The lack of open debate, consultation with domestic experts or international agencies, let alone with the population at large, is leading to an open question of how and where a new leadership may look for qualified and comprehensive new policies.

The big question on Díaz-Canel's watch will be what to do with the long-delayed unavoidable economic decisions, starting with the currency unification. This may soon oblige his government team to revive Raúl's unfinished reform agenda: give peasants and farmers more autonomy, expand the private sector and the market economy, legalize private companies, offer cooperatives more autonomy and a strategic role in the economy. Such measures may now be more unavoidable than ever, in order to provide people with food on the table, liveable jobs and a hope for the future in a legally regulated and law-abiding society. Raúl Castro *may* now support his own original reform steps from behind, perhaps providing his chosen successor with a more solid political backing than what he had himself. Return to the economic reform mode may also set in motion the political transformations that were held back during the ten *raulista* years studied here: a Route 2 movement according to our roadmap, the *economics leading to politics* route.

If, on the other hand, the younger leaders fail to revive the reform agenda and inject some new hope in a stagnating society, they risk provoking a redefinition of the correlation of political forces, in such a way that the opposite causal logic kicks in: may the crisis of legitimacy or even hegemony lead to dissolution of the power monopoly and thereby open the gates to a more comprehensive market economy? A lesson learned from the USSR dissolution is that by attempting to push aside inconsistencies of partial reform, counter-hegemonic threats may be appearing on the horizon, causing a

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<sup>559</sup> Ref. the political pamphlet written by Lenin in 1901

complete political paradigm shift. In relation to our roadmap, this would imply a Route 4 movement that we have called the *politics first leading to economics* logic.

Despite the expected continuity, the new generation of leaders may be obliged by facts on the ground to define a new way for Cuba. A critical juncture like the one expected for the 2018-2021 period implies that the stage may be set for a qualitatively different institutional development, which may give rise to completely new 'path-dependent processes': decisions taken, and choices made, during the critical juncture may have a lasting and limiting impact on future options. *The previous critical juncture in Cuba was the 1959 Revolution. Are we now awaiting another qualitative transformation of similar dimensions? Or are there so many strings attached to the selected new leadership that their role will be purely transactional, waiting for other actors to take the lead?*

In such a situation, the *power of agency* exercised by new leaders may become decisive, with a space for more pragmatic and voluntarist decision-making that so far has been blocked by the historical leaders. *Who may be the agents of change in such a situation? Will they come from younger party cadres, for instance provincial leaders? Is there a post-revolution military generation ready to step in when Raúl as the guarantor of the military institutional party-loyal discipline disappears along with his generation of generals? A situation to watch is also the difference of interest and perspective between 'officers in uniform' and 'officers in guayavera' (i.e. the corporate leaders). May new actors outside of the power circles finally gain more autonomy and influence, for instance drawn from new alliances of independently organized entrepreneurs, peasants/farmers, intellectuals, artists, information workers, and above all an increasingly impatient youth generation?*

There is still so much uncertainty about events as Cuba is moving from castroism to post-castroism, that it is worthwhile discussing alternative scenarios (Chapter 12). We have argued that the heavy trends discussed in this dissertation point in the direction of a 'socialist' or 'oligarchic' form of neo-patrimonialism as the most likely outcome, with a mixture of Russian and Sino-Vietnamese regime role models. An alternative scenario may be some form of transnational neo-authoritarianism with the US returning to play a dominant role, although this may have been put on hold by the Trump administration. If

Mr Trump succeeds to bring a country like North Korea into the capitalist world, may Cuba be the next on his list? Will 'the new deal' he has been speaking about be anything different from a mini-Florida? Will that under any circumstances be accepted, in complete disregard of everything the Cuban Revolution has represented?

We have also argued that a very different alternative is perceivable: a participatory democracy with socio-economic rehabilitation and the revival of the welfare state. But the latter option will require a series of transformative decisions implying political paradigm shifts like those discussed in Chapter 11, during the 2018-2021 critical juncture. This will only occur with realignments of the present political correlation of forces in Cuba, and probably only if a serious crisis of hegemony were to emerge. Short of this, the abolition of the Leninist state structure is highly unlikely to occur.

We cannot rule out a worst-case scenario—unfortunately not completely improbable if deeper reforms continue to be rejected: there may be a real danger of collapse and state failure. Raúl's words from 2010 may become reality: "Either we rectify, or the time is up for continuing to balance on the border of the abyss; we sink, and we will sink the efforts of entire generations."

During the last couple of Raúl's presidency years, after beginning carefully to let the spirit of a different society out of the bottle, the old-timers of Cuba's Communist Party have been struggling to put the spirit back in. For the new President to continue that struggle instead of responding to the temptations that young Cubans had begun to get a taste of, will not go down well. Most youth would rather expect him to do like the lumberjack's son in the Grimm Brother's fairy tale: to let the demon out of the bottle again and thus giving them a hope for a more prosperous future.

Now that the old loyalty pact between citizens and the state seem to be falling apart while the generation that made the Revolution is reaching the end of the road, anything may of course happen. Cubans have historically sought the *exit* option rather than voicing demand or protest, including during the Raúl Castro era. The US side has again decided to shut the door on new Cuban immigrants, while young people find their life careers getting increasingly gloomy at home. New leaders have little to offer in terms of

a new merit-based legitimacy. The question is then whether Cuban youth will finally *raise their voice* and demand some kind of *transformative*—rather than pure *transitional*—change.

When Raúl Castro stepped down as Head of state and government in April 2018, at least formally ending a 58-year long Castro regime, he had spent two formal periods in these positions. If he found his Revolution on the border of the abyss back in 2010, his reform era has failed to come up with the life-saving parachute. That formidable task is now left to his successors.

Ending this research project at the entry point of the critical juncture, makes it easy to propose what follow-up research could consist of: continue studying the correlation between economic and political processes in the following years. Perhaps that might provide us with a better response to the questions we raised for the Raúl Castro era.

## **Appendix 1:**

### **List of challenges**

***Challenge 1: Significant retreat of the state in the agricultural sector, as a measure to meet the massive need for increased food production.***

*H<sub>1.0</sub>: No real independence for individual peasants and farmers; continued state control of food distribution.*

*H<sub>1.1</sub>: Peasants and farmers gaining increasing autonomy (transition to family farming), with good access to implements and markets.*

*Indicators to watch regarding this challenge:*

*Indicator 1.1: Movement from state to non-state land tenure?*

*Indicator 1.2: General autonomy and sovereignty for peasants/farmers?*

*Indicator 1.3: From state-regulated to market-based commercialisation?*

*Indicator 1.4: De-bureaucratization of agriculture?*

*Indicator 1.5: Strengthening of family farming?*

*Indicator 1.6: Sufficient food supply to urban areas, at affordable prices?*

*Indicator 1.7: Reduced import dependency?*

***Challenge 2: Loosening of state control and dominance of the economy – growth of non-state economy – aiming at sustained economic growth and employment generation.***

*H<sub>2.0</sub>: status quo: a continuation of state property hegemony, combined with an increasing non-state workforce left to micro-size survival options and “savage capitalism”.*

*H<sub>2.1</sub>: Opening a significant space for MSMEs (micro, small and medium enterprises) and other non-state entrepreneurs (including cooperatives), in a more regularised market economy.*

*Indicators to watch regarding this challenge:*

*Indicator 2.1: Explicit political will to de-monopolise the state economy?*

*Indicator 2.2: Increasing de-regulation of state companies?*

*Indicator 2.3: Continued dominance of military corporations?*

*Indicator 2.4: Transfer of workforce from the public sector to self-employment?*

*Indicator 2.5: Private workforce gaining more independence from the state?*

*Indicator 2.6: Growing weight of the non-state sector in the Cuban economy?*

*Indicator 2.7: Growth of an autonomous cooperative sector?*

*Indicator 2.8: Incentives / dis-incentives for other potential non-state growth initiatives?*

***Challenge 3: Massive need for productive investments to spur economic growth and employment generation.***

*H<sub>3.0.1</sub>: status quo: disincentives for non-state investments*

*H<sub>3.0.2</sub>: Reform FDI regime and promote investments predominantly through state corporations; spurring significant state sector growth and employment creation and macro-economic growth*

*H<sub>3.1</sub>: Allow/promote diaspora investments as well as domestic entrepreneur accumulation and investment; spurring non-state growth and employment creation and macro-economic growth*

*Indicators to watch:*

*Indicator 3.1: FDIs playing an increasing role in Cuba's economic development?*

*Indicator 3.2: Family remittances and other sources of investment promoting private sector development?*

*Indicator 3.3: Increase in other sources of foreign currency?*

*Indicator 3.4: Increasing partnership between foreign investors and national enterprises?*

*Indicator 3.5: Capital formation ratio improving?*

*Indicator 3.6: Creative destruction taking place?*

*Indicator 3.7: Macro-economic outcome of the reform era*

***Challenge 4: Political implications of socio-economic changes.***

*H<sub>4.0.1</sub>: Consistently resisting more autonomy for non-state economic actors that could follow logically from a changing economic arena; thus resisting political transformations.*

*H<sub>4.1.1</sub>: Economic reforms leading to new sources of acceptance for political status quo?*

*H<sub>4.1.2</sub>: Accepting more autonomy for non-state economic actors with potential for political transformations*

*Indicators to watch:*

*Indicator 4.1: Winners and losers of the reforms with conflicting political interests*

*Indicator 4.2: An emerging middle class with distinct interests?*

*Indicator 4.3: Evolution of social conditions and previous egalitarian structures*

*Indicator 4.4: Private sector gaining potential power position?*

*Indicator 4.5: Ideological acceptance/resistance to private property and enrichment*

*Indicator 4.6: More autonomous interest organisation permitted?*

***Challenge 5: A changing international context: How to influence the US to abandon the embargo/blockade; and/or compensate the embargo by help of other international alliances.***

*H<sub>5.0</sub>: The relationship of hostility to the US continues, thus also maintaining the justification against political liberalisation.*

*H<sub>5.1</sub>: There will be a gradual accommodation of Cuban-US relations during the second presidential term of Barack Obama, allowing the introduction of major economic and political reforms as part of that process.*

*Indicators to watch:*

*Indicator 5.1: Cuba searching for a new international role*

*Indicator 5.2: US-Cuba relations: Towards the end of the embargo and the Cuban “bunker mentality” justifying lack of civic freedoms?*

*Indicator 5.3: Strengthened ties to Latin America—isolation of US embargo policy?*

*Indicator 5.4: Improved relations to the rest of the world?*

*Indicator 5.5: What international Zeitgeist is framing Cuba at the end of the Castro era?*

### ***Challenge 6: Emergence of a more pluralist civil, academic and media society.***

*H<sub>6.0</sub>: Status quo, with heavy restrictions on all independent academic expressions, civil organisation and public debate in general.*

*H<sub>6.1</sub>: A gradual opening for a constructive public debate, with organisational expressions and innovative academic positions emerging and being tolerated, also being reflected by non-official media outlets.*

*Indicators to watch:*

*Indicator 6.1: Increasing civil society pluralism*

*Indicator 6.2: More autonomous role for academics and intellectuals?*

*Indicator 6.3: Churches playing an increasing political role?*

*Indicator 6.4: Increasing role for independent information actors?*

*Indicator 6.5: More respect for dissenters?*

*Indicator 6.6: Emerging “agents of change”?*

### ***Challenge 7: Differentiation of State vs. Party functions; division of state powers (legislative vs. executive)?***

*H<sub>7.0</sub>: Continuation of overlap between party and state functions; executive and legislative roles*

*H<sub>7.1</sub>: Distinction between party and state functions; the Legislature operating more independently of the Executive*

Indicators to watch:

*Indicator 7.1: Communist Party showing any sign of opening up?*

*Indicator 7.2: Will there be any visible steps away from the Communist Party power monopoly?*

*Indicator 7.3: How representative are members and leaders of the Communist Party?*

*Indicator 7.4: More differentiation between Party and State functions and leaders?*

*Indicator 7.5: Any change in the role of the Military?*

*Indicator 7.6: Bureaucracy remaining as barrier to reforms?*

### ***Challenge 8: Moves towards a less authoritarian and more pluralist political system?***

*H<sub>8,0</sub>: Status quo, with no significant political reforms*

*H<sub>8,1</sub>: Significant political reforms being introduced.*

Indicators to watch:

*Indicator 8.1: New ideological trends?*

*Indicator 8.2: A political evolution towards more liberal regime characteristics?*

*Indicator 8.3: Less authoritarian culture inside the Communist Party?*

*Indicator 8.4: The role of pro-regime mass organisation mobilisation.*

*Indicator 8.5: Any sign of a more open/pluralistic election process?*

*Indicator 8.6: Improved rule of law performance?*

### ***Challenge 9: Generational renewal with a new source of legitimacy.***

*H<sub>9,0</sub>: The revolutionary generation, those who have been in power since 1959 and other old-timers, will cling on to their positions until the bitter end (until they pass away or become physically and/or mentally unfit), while also avoiding the necessary economic and political renewal to provide the next generation of leaders with a new source of legitimacy built on performance.*

*H<sub>9.1</sub>: Raúl Castro will initiate a gradual transfer of power to younger leaders, and also introduce economic and political reforms upon which they may build a new popular legitimacy through merits and pragmatic acceptance.*

*Indicators to watch:*

*Indicator 9.1: Will the 7<sup>th</sup> Party Congress (2016) lead to a deeper Party leadership renewal?*

*Indicator 9.2: How thorough renewal of State leaders (2013 and 2018)?*

*Indicator 9.3: Reform continuity or counter-reform?*

*Indicator 9.4: New source of legitimacy emerging?*

*Indicator 9.5: Voice or Exit?*

## **Appendix 2:**

### **Note on sources**

This dissertation is the product of a long journey through the Cuban political landscape, actually going all the way back to my first stay in Cuba in the late 1970s. Most of the material, however, is obviously collected during the ten years dealt with—2008-2018. During these years, the author has visited Cuba on numerous occasions every year, discussed relevant issues with a large number of Cubans from all walks of life, participated in seminars and workshops, worked more directly with Cuban and non-Cuban colleagues, read drafts and final articles, had access to informal discussions among Cuban scholars that they normally would be quite careful to let foreigners listen to. The level of confidence thus shown to me cannot be abused.

For this reason, there are relatively few formal interviews, recorded and used through direct quotes. In many cases, I cannot reveal the exact identity of sources, for obvious reasons given the characteristics of the Cuban political system.

In the following, there is a list of persons with whom I have had relevant academic conversations, in many cases on several occasions, in many cases both oral and by e-mail. I have not made formal interviews with Cuban officials, simply because I have not had an academic visa giving me access to such interviews, but also because such interviews in Cuba are normally of limited value. There are of course a long list of quotations from public speeches and interviews, appropriately referred to in the text.

#### ***List of Cuban conversation partners:***

Carlos *Alzugaray*, ex-Ambassador, co-President of Cuba chapter of LASA (Latin America Studies Association).

Domingo *Amuchastegui*, ex-intelligence analyst, Cuban Ministry of Foreign Affairs, now residing in Miami and still writing extensively about Cuban current affairs.

Luís *Bérriz Pérez*, President, Cubasolar (NGO working for renewable energy).

Harold *Cárdenas*, Political scientist, Director of the *Jóven Cuba* association, now PhD scholar at Columbia University, New York.

Armando *Chaguaceda*, Political scientist, University of Guanajuato/Mexico.

Iliana *Díaz Fernández*, Economist, CEEC.

Elaine *Díaz Rodríguez*, Director, Periodismo de Barrio.

Laritza *Diversent*, Lawyer and Director of Cubalex Legal Advice Centre, since 2017 forced to leave Cuba and set up the Centre in exile in the US.

Reinaldo *Escobar*, Journalist 14ymedio, Havana.

Oscar *Espinoza Chepe*, late Cuban economist and political prisoner.

Karina *Gálves*, economist and leader of Centro de Estudios Convivencia, in 2017 sentenced to three years in prison.

Nora *Gámez Torres*, Journalist Miami Herald / El Nuevo Herald, PhD in Music Anthropology City University of London.

Anicia *García Álvarez*, economist, Professor University of Havana, ex-Director CEEC.

Osiel *Gouneo*, Ballet Dancer who migrated to Norway, now performing at the Oslo Opera.

Ivet *Gonzales*, journalist, IPS

Lenier *Gonzalez*, Sub-Director General of Cuba Posible.

Rafael *Hernandez*, Editor of Revista Temas (published by the Ministry of Culture).

Eduardo *Lamora*, film director living in Paris (Norwegian-Cuban citizen).

Miriám *Leiva*, freelance journalist, co-founder of *Damas en Blanco*, widow of late Cuban economist Oscar Espinoza Chepe.

Max *Lesnick*, journalist living in Miami, close friend of Fidel Castro, Alfredo Guevara, José Ramón Machado Ventura and other Cuban leaders, relations going back to common student struggles against Batista.

Arturo *López-Levy*, Political scientist, now teaching at University of Texas, US.

Idael *Márquez Artiaga*, self-employed entrepreneur, Pinar del Rio.

Pedro *Monreal*, economist, ex-CEEC, Director Académico Cuba Posible, official at Unesco (Paris).

Emilio *Morales*, ex-official CIMEX, now Director of Havana Consulting Group, Miami.

Yailenis *Mulet*, economist, previously researcher at CEEC.

Armando *Nova*, agricultural economist, CIEI and ex-CEEC, both of the University of Havana.

Liliana *Núñez Velis*, President, Fundación Antonio Núñez Jiménez (environmental NGO)

Leonardo *Padura*, Cuban novelist.

Jaime *Ortega*, Cardinal and ex-Archbishop of Havana.

Yaima *Pardo*, blogger.

Omar Everlenny *Pérez*, economist ex-CEEC (also previously CEEC Director), in 2016 suspended from his researcher position there.

Yasmin *Portales*, blogger, Observatorio Crítico de Cuba.

Emma *Proenza Suárez*, owner of Bed & Breakfast business.

Roberto *Robaina*, ex-Minister of Foreign Affairs, removed from this position in 1999 and later made a living as a private restaurant owner.

Alejandro *Rodríguez Rodríguez*, independent journalist and blogger.

Norges *Rodríguez*, blogger (now living in the US).

Pablo *Rodríguez*, anthropologist, Professor, Anthropology Institute, Ministry of Science, Technology and Environment.

Leydis *Rosaenz*, lawyer, Partner and Cuba representative of QR-legal (German law firm).

Carlos *Saladrigas*, Cuban-American businessman in Miami, supporting entrepreneurial training through Catholic Church and actively lobbying for diaspora investments.

Yoani *Sánchez*, journalist and Director of 14ymedio, Havana.

Ricardo *Torres*, economist, CEEC.

Taylor *Torres*, blogger (now living in the US).

Juan *Triana Cordoví*, economist (and Ex-Director), CEEC.

Roberto *Veiga*, Director General of Cuba Posible.

Pavel *Vidal Alejandro*, economist ex-CEEC, professor Pontificia Universidad Javeriana, Cali, Colombia.

Reinaldo *Vivas Zerquera*, restaurant owner, Trinidad.

Plus a large number of Cubans who remain anonymous.

***List of non-Cuban conversation partners:***

Claes *Brundenius*, Economist, Professor Emeritus, University of Lund.

José *Chofre Sirvent*, Director Académico, Departamento de Estrudios Jurídicos del Estado, University of Alicante (Spain) (responsible for a long-term collaboration with Cuban universities).

Guy *Cristophe*, First Secretary, Embassy of France in Havana.

Samuel *Farber*, Political Scientist of Cuban origin, Professor Emeritus, Brooklyn College of the City University of New York.

Richard *Feinberg*, Latin America Initiative at Brookings Institution, Washington DC (ex-Special Assistant to President Bill Clinton).

Marc *Frank*, ThomsonReuters correspondent in Havana, living there since the 1990s.

Fabio *Goebel*, Head of Business Development, Odebrecht, Cuba.

Bernt *Hagtvet*, Political Scientist, Professor Emeritus University of Oslo.

Ted *Henken*, Sociologist, Professor, Baruch College, City University of New York.

Eric *Hershberg*, Political scientist, Professor of American University (Washington DC).

Bert *Hoffmann*, Political scientist, German Institute of Global and Area Studies (GIGA), Hamburg.

Jan Tore *Holvik*, ex-Norwegian Ambassador in Havana.

Jonas *Lovén*, Swedish Ambassador in Havana.

Andrew *MacDonald*, British Investor in renewable energy sector.

Javier *Merino Condado*, Counsellor, Embassy of Spain in Cuba.

Ingrid *Mollestad*, Norwegian Ambassador Havana.

Dag *Nagoda*, ex-First Secretary, Norwegian Embassy, Havana.

John Petter *Opdahl*, ex-Norwegian Ambassador, Havana.

Manuel *Orozco*, Inter-American Dialogue, Washington DC.

Philip *Peters*, Ex-Cuba advisor US State Department, Partner at D17 Strategies (Washington DC).

Matthew *Pickles*, Havana representative of Ernst and Young.

Fernando *Ravsberg*, Uruguayan journalist, based in Cuba since many years ago, ex-correspondent of BBC, regularly publishing opinion articles through his blog <http://cartasdesdecuba.com>.

Archibald *Ritter*, economist, Professor Carleton University, Canada (ref. his Cuba blog: <https://thecubaneconomy.com>).

Olle *Törnquist*, Political scientist, Professor at University of Oslo.

José María *Viñals*, Lawyer, Partner and Rep of Despacho de Lupicinio Abogados (Spanish law firm in Havana, representing several major foreign investors).

Laurence *Whitehead*, Political scientist, Professor, Dept. of Politics, Nuffield College, Oxford University.

Ståle *Wig*, Social anthropologist, University of Oslo, PhD candidate.

***Written publications quoted:***

*14ymedio*, digital daily, edited in Havana, most often not accessible on the public Cuban Internet ([www.14ymedio.com](http://www.14ymedio.com)).

*ASCE News*, news clipping service provided by ASCE (Association for the Study of the Cuba Economy), edited in Miami and sent for free by e-mail to all subscribers

*Associated Press*, US-based news agency with permanent representation in Havana

*BBC News* (website, often based on reports from BBC Havana Correspondent)

*Bohemia*.

*CaféFuerte*, news and information site (<http://cafefuerte.com>) edited by Cuban journalists residing in the US, offering its space to independent Cuban journalists living and working in Cuba.

*Cartas desde Cuba*, blog published by Uruguayan journalist Fernando Ravsberg (see non-Cuban conversation partners) (<http://cartasdesdecuba.com>).

*Convivencia Centro de Estudios*, opposition think-tank; its new office in Pinar del Río bought in the name of Karina Gálvez in 2017 was considered as illegally acquired, Mrs Gálvez sentenced to three years in prison (<http://convivenciacuba.es>).

*Cuba Contemporánea*, Cuban cultural review with roots back to 1913.

*Cuba-economía*, a blog published by the Cuban economist Eliás Amor Bravo, residing in Madrid (<http://cuba-economia.blogspot.no>).

*Cubadebate*, a Cuban website ([www.cubadebate.cu](http://www.cubadebate.cu)) mostly containing official information and opinions held by PCC hardliners.

*Cubaencuentro*, describing its mission as “analysis and reflection on the transnational Cuban community” (<https://www.cubaencuentro.com>).

*Cubainsidetheworld*, English-language official Cuban website (<https://cubainsidetheworld.wordpress.com>).

*Cuba Posible*, website edited by Think Tank of the same name ([www.cubaposible.com](http://www.cubaposible.com)).

*Cubaprofunda*, (<https://cubaprofunda.wordpress.com>), website with close links to Ministry of Culture

*Cuba Standard*, Miami-based digital news service on Cuban economy (<https://www.cubastandard.com>).

*Cubanálisis*, a Miami-based think tank managed by the exiled Cuban economist Eugenio Yáñez (<http://www.cubanalisis.com>).

*CubaNet*, digital news service edited in Miami ([www.cubanet.org](http://www.cubanet.org)), frequently used as publication channel for independent Cuban journalists

*Diario de Cuba (DDC)*, information website edited in Miami ([www.diariodecuba.com](http://www.diariodecuba.com)).<sup>560</sup>

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<sup>560</sup> Access to DCC in Cuba was blocked in 2017 , but a way around this measure was later announced through the downloading of a special software (ref. DDC 12.01.18).

*Diario las Américas*, Daily newspaper specialising on Latin America, published in Miami (<https://www.diariolasamericas.com>).

*The Diplomat Magazine*, international affairs magazine specialising on the Asia-Pacific region.

*Economic Trend Report*, quarterly publication by *Cuba Standard Economic Reports*, co-authored by the Colombia-based Cuban economist Pavel Vidal and the business journalist Johannes Werner, publishing its own *economic activity index* as a compensation for heavy limitations and delays in the publication of public statistics in Cuba.

*EcuRed*, pseudo-academic website with an editorial line close to the official party line, also hosting the virtual journal *Cuba Contemporánea* ([www.ecured.cu](http://www.ecured.cu)).

*EFE*, Spanish international news agency with permanent presence in Havana

*El Estado como tal*, private blog by economist Pedro Monreal

(<https://elestadocomotal.com/>).

*El Nuevo Herald*, daily edited and published in Miami (in Spanish) with wide coverage on Cuba ([www.elnuevoherald.com](http://www.elnuevoherald.com)) (ref. English-language daily *Miami Herald*).

*El País*, Spanish daily, previously with frequent coverage by full-time correspondent in Havana, who was expelled from Havana in 2011 and has never been replaced.

*Engage Cuba*, a US coalition of private companies, organisations, and local leaders lobbying for the lifting of US embargo against Cuba: ([www.engagecuba.org/](http://www.engagecuba.org/)).

*Espacio Laical*, Catholic cultural magazine (<http://espaciolaical.net>).

*Gaceta Oficial*, Cuban Government's official announcement site ([www.gacetaoficial.cu](http://www.gacetaoficial.cu)).

*GlobalPost*, an online US digital journalism company, (<http://www.globalpost.com/>).

*Granma*, official organ of the Cuban Communist Party ([www.granma.cu](http://www.granma.cu)).

*The Guardian* (London).

*Havana Times*, independent Cuban blog and magazine edited in Nicaragua (<https://www.havanatimes.org>).

*Inter-Press Service (IPS)*, Third World news agency, Havana Bureau (<http://www.ipscuba.net>).

*Martí Noticias*, webservice ([www.martinoticias.com](http://www.martinoticias.com)) edited in Miami (ref. also Radio and TV Martí), financed by the US Government.

*Miami Herald*, daily edited and published in Miami with wide coverage on Cuba ([www.miamiherald.com](http://www.miamiherald.com)) (ref. Spanish-language daily *El Nuevo Herald*).

*The New York Times* (New York).

*Observatory on Economic Flexibility*, tool for country economic analysis (<https://atlas.media.mit.edu/en/profile/country/cub/>).

*OnCuba Magazine* and *OnCuba website* ([www.uncubamagazine.com](http://www.uncubamagazine.com)), published by a Cuban-American media group based in Nevada (managed by Hugo Cancio), with permanent and duly accredited correspondent office in Havana. The magazine is available free of charge on most flights from the US to Cuba. Cuban journalists and scholars are frequently contributing to OnCuba.<sup>561</sup>

*Palabra Nueva*, Journal of the Archbishop's office in Havana (<http://palabranueva.org>).

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<sup>561</sup> In an internal speech in February 2017, then First Vice President Díaz Canel attacked the magazine and said it was going to be closed. This never happened.

*Postdata*, a multidisciplinary team of bloggers “which wishes to tell stories from Cuba based on the interpretation of a variety of sources” (<http://www.postdata.club/>).

*Progreso Semanal*, “an independent publication of a progressive character”, published online in Miami with frequent articles by prominent Cuban economists (<http://progresosemanal.us>).

*ThomsonReuter*, Havana Bureau (i.a. with the senior foreign correspondent in Havana, Marc Frank) (ref. also *Reuters Business News*).

*USAToday* (Virginia, USA).

*Washington Post* (Washington DC).

## Appendix 3:

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## **Appendix 4:**

### **List of acronyms**

ACHN: Asociación Cubana de Hombres de Negocios

ALBA : Alianza Bolivariana para los Pueblos de Nuestra América

ANAP: Asociación Nacional de Agricultores Pequeños (National Association of Small Agriculturalists)

APEC: Asia-Pacific Economic Cooperation

ASCE: Association for the Study of the Cuban Economy

BNDES: Banco Nacional de Desenvolvimento (Brazil's state development bank)

BRICS: Brazil, Russia, India, China, South Africa

CABEI: Central American Bank for Economic Integration (BCIE in Spanish)

CAF: Corporación Andina de Fomento

CBO: Community Based Organisation

CCS: Cooperative of Credit and Services

CDR: Comité de Defensa de la Revolución (Neighbourhood Committees)

CEEC: Centre for the Study of the Cuban Economy

CELAC: Community of Latin American and Caribbean States

CEPAL: Comisión Económica (de la ONU) para América Latina y el Caribe (English: ECLAC)

CIEI: Centro de Investigación sobre la Economía Internacional

CIEM: Centro de Investigación de la Economía Mundial

CIMEX: Cuban Import-Export Corporation (military-controlled conglomerate)

CENISEX- Centro Nacional de Educación Sexual de Cuba

CNA: Cooperativas No-Agrícolas (Non-Agricultural Cooperatives)

COMECON: Council for Mutual Economic Aid (English acronym: CMEA) – the previous Soviet-bloc economic cooperation community

CPA: Cooperativa de Producción Agropecuaria (Agricultural Production Cooperative)

CPI: Corruption Perception Index

CTC: Confederación de Trabajadores de Cuba (Cuba's Trade Union Confederation)

CUPET: Unión Cuba-Petroleo (Cuba's State Oil Company)

DGI: Dirección General de Inteligencia (Cuba's main state intelligence agency, under the Ministry of the Interior – MININT)

ECLAC: UN Economic Commission for Latin America and the Caribbean (Spanish: CEPAL)

EIU: Economist Intelligence Unit

ETECSA: Empresa de Telecomunicaciones de Cuba S.A. (Cuba's state monopoly telecommunication service provider)

FAR: Fuerzas Armadas Revolucionarias (Cuba's Armed Forces)

FDI: Foreign Direct Investment

FEU: Federación de Estudiantes Universitarios

FLACSO: Facultad Latinoamericana de Ciencias Sociales

FMC: Federación de Mujeres Cubanas (Cuba's Women Federation)

GA: General Assembly

GAESA: Grupo de Administración Empresarial S.A. (main business conglomerate of Cuba's Armed Forces)

GARE: Gabinete de Redimensionamento Empresarial (Angola)

GDP: Gross Domestic Product

GDR: (former) German Democratic Republic

GESPI: Government Employee with Significant Private Income

GPCL: General Principles of Civil Law (China)

HDI: Human Development Indicator

IADB: Inter-American Development Bank (also often known as IDB)

ICA: International Cooperative Alliance

ICCPR: International Covenant on Civil and Political Rights

ICESC: International Covenant on Economic, Social and Cultural Rights

ICRC: International Committee of the Red Cross

IDB: Inter-American Development Bank (Spanish: BID)

IFI: International Financial Institution

IMF: International Monetary Fund

IMTC: International Money Transfer Conferences

INGO: International Non-Governmental Organization

KGB: the former USSR Intelligence and Security Police

MINAG: Ministerio de Agricultura

MINCIN: Ministerio de Comercio Interior

MINEM: Ministerio de Energía y Minas

MINFAR: Ministerio de las Fuerzas Armadas Revolucionarias (Ministry of Defence)

MININT: Ministry of the Interior

MINT: México, Indonesia, Nigeria, Turkey

MOU: Memorandum of Understanding

MSME: Micro, Small and Medium Enterprises

NEP: New Economic Policy (USSR under Lenin)

NGO: Non-Governmental Organization

NUPI: Norwegian Institute for International Affairs

OAS: Organization of American States (Spanish: OEA)

OEC: Observatory of Economic Complexity

OEE: Organizaciones Económicas Estatales

ONEI: Oficina Nacional de Estadística e Información (Cuba's Buro of Statistics)

OSDE: Organización Superior de Dirección Empresarial

PCC: Partido Comunista de Cuba

PURC: Cuba's Communist Party in the 1940s

REDFE: Red de Facilitadores Electorales

R-o-L: Rule of Law

SEF: Programa de Saneamiento Económico y Financiero (Angola)

SEZ: Special Economic Zone

SME: Small and Medium Enterprise

SNHT: Tourism and Hotel Workers Union (affiliated to CTC)

SPE: Sistema de Perfeccionamiento Empresarial

SUIN: Cuban national ID system

SUM: Centre for Development and the Environment (affiliated to the University of Oslo)

TCP: Trabajador por Cuenta Propia (Cuban Self-Employed Worker, with a special license)

TI: Transparency International

TRD: Tiendas de Recuperación de Divisas (Foreign Currency Shops)

UBPC: Unidad Básica de Producción Cooperativa (a “collective” largely state-controlled cooperative)

UJC: Unión de Jóvenes Comunistas (Cuba’s Communist Youth League)

UNA: Unión Nacional de Acopio (the *Centros de Acopio* is the state system of purchase and distribution of agricultural products)

UNASUR: Union of South American Nations

UNDP: United Nations Development Program (Spanish: PNUD)

UNESCO: United Nations Education, Science and Culture Organization

UPEC: Unión de Periodistas de Cuba (Cuba’s Journalist Union)

UPR: Universal Periodic Review (country-by-country human rights assessment mechanism under the UN Human Rights Council)

USSR: Union of Soviet Socialist Republics = ex-Soviet Union

VCCI: Vietnam’s Chamber of Commerce and Industry

WB: World Bank

WFP: World Food Programme (Spanish: PMA)

WJP: World Justice Project

ZEDM: Zona Especial de Desarrollo Mariel