Can Cuba Liberalize?
Using a Comparative Typology of Communist Liberalization
to Assess the Island Nation’s Prospects for Development

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ABSTRACT

In 2011 the Cuban Communist Party adopted 313 Lineamientos for political, economic, and social reform to address the inefficient and unproductive state of the Cuban economy. This document and the subsequent policies have tangibly defined President Raul Castro’s plainly different approach to defining Cuban socialism compared to his brother Fidel’s predeceasing administration that accepts the need for the marketization of the centralized economy and a major downsizing of state bureaucracies. I believe the most promising way to predict the future of Cuba as it transitions from an entirely centralist model to a more market-based orientation is to compare the policy changes since the introduction of the Lineamientos to the transitions of the other post-Communist nations around the world. I will construct a comparative typology to analyze these three models of post-communist liberalization in terms of the nature of their economic and political reforms, the capacity of the central state to regulate the economy and maintain rule of law, local perceptions of state legitimacy throughout liberalization, and the influence of external cultural and political forces on countries’ reforms. By placing Cuba into this typology and drawing parallels between its transition experience and those of its predecessors, I will show that Cuba is indeed pursuing Chinese/Vietnamese style reforms, but its lack of economic and political institutions regulating the expanding private sector presents structural hurdles similar to those faced by the Soviet Union upon liberalization. I believe the Cuban economy will continue to reform in a gradual and experimental manner, but change in terms of higher standards of living is years away for the average Cuban citizen. My observations and conclusions are informed by political theory, select economic data from the Cuban National Office of Statistics and the World Bank, and a series of over 60 interviews I had with Cuban nationals, experts, and ex-patriots in Havana, Washington, and Miami over the past year.
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¡Viva Cuba Libre!
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I
Finding the “Middle Ground”

INTRODUCTION

When I decided to research the current state of Cuba’s economic liberalization and ideological transition just over a year ago, colleagues and friends urged me to pick a more topical subject. For many people—political scientists included—who have lived through decades of stale U.S.-Cuban relations, heard stories of economic hardship and stagnation on the Caribbean island, and whose most recent memory of a major Cuban news story was that of child rafter Elian Gonzalez a decade ago, Cuba was simply an uninteresting choice for my CDDRL Honors Thesis topic. But I’ve had my heart set on Cuba since I visited the western half of the island (illegally) four years ago on the most adventurous and eye-opening family vacation ever. It was March 2011, one month before the adoption of the Lineamientos de la Política Económica y Social del Partido y la Revolución—or Raul Castro’s 313 point policy plan to restart the Cuban economy through partial privatization and market adoption—and hope for a brighter future was palpable in the humid Havana air. Among the tour guides, casa particular hosts, and random hitchhikers we encountered during the trip, most were optimistic that the Cuban government was on its way to implementing genuine and deep reforms to improve their standard of living. How the Cuban Communist Party could increase productivity through market reforms and simultaneously keep “Socialismo o Muerte” painted on the walls of its city streets has piqued my curiosity ever since.

I had my first interview for this project with Michael Shifter the Director at the Inter-American Dialogue (IAD) in Washington D.C. I was still acquiring a vocabulary for
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describing Cuba’s recent economic developments and had barely dictated my research question. At the end of our interview, I asked Mr. Shifter how my project could contribute something original and useful to the saturated Cuban analysis space, to which he replied, “Find the middle ground.” The “Cuba issue”—a moniker used to describe both the persistence of the U.S. Embargo as well as the survival of a totalitarian regime in the Americas—has been vigorously analyzed by two opposing factions: a right-wing coalition of Cuban immigrants living in Miami teamed up with the struggling few democratic activists on the island on one hand, and party loyalists, juventud rebeldes (youth party members), and other revolucionarios on the other. Any truth to be uncovered about the actual motivations of Cuban actors, the political and economic aspirations of the Cuban people, and even basic statistics gets obscured through the vigorous polarization of the “Cuba issue.”

In this project I’ve challenged myself to “find the middle ground” between these ideological camps. I interviewed members of struggling civil society organizations in Cuba, left and right leaning economists running the leading Cuba studies programs in the U.S., a Cuban state statistician, a remaining Cuban Marxist, Cuban business lawyers, and Cuban youth on the streets of Havana to construct a multi-dimensional lens through which to analyze the Cuban transition. And I’ve deeply questioned my assumptions about what Cuba should be and replaced them with empirically based conclusions about what Cuba is and how it is changing.

Obviously after the shocking recent changes in U.S.-Cuban relations that have occupied headlines this year, very few would challenge my interest in the socialist country’s current state of affairs. During my late 2014 interviews with academic experts
in Washington and Miami, I made sure to end my interviews by asking “hypothetically, what are the chances that something drastic happens in terms of America’s stance towards Cuba before the end of the Obama administration?” Some would roll their eyes, most would sigh, but almost all avowed that significant changes in relations between the feuding neighbors was years, perhaps a decade, off. Given the barriers to negotiation both sides, including the imprisonment of USAID representative Alan Gross, Cuba’s inclusion on the State Department sponsors of terror list, and the bolstering presence of right wing diaspora sympathizers in Congress, these experts had very low expectations for reengagement. But when the Republicans took both houses of congress and Obama’s lame-duck period floated in, restarting diplomatic relations with Cuba became one of his few actionable legacy policy options. The reopening of the U.S. Embassy in Havana and the beginning of nonstop flights from major U.S. cities to the island means cultural, scientific, and informational exchanges between the two countries will have drastic effects on Cuban already transforming society. However, major business and investment deals will not be allowed until the formal embargo is lifted through Congressional action.

The idea that Cuba is changing is, in my opinion, uncontestable. Some say the tangible changes affecting daily life, including the arrival of cellular phones, the opening of small, independent businesses, and the allowance of private sales of cars and property are not sufficiently profound to constitute steps towards full-on liberalization. But through my studies I’ve concluded that, at the very least, an ideological pivot has reoriented the party from communist to socialist self-identification. Revolutionary principles of absolute equality for all and completely centralized economic institutions and industries have given way to the harsh reality that Cuba’s economy is stagnant,
unproductive, and uncompetitive in global markets. The state simply cannot continue to play the enormous role it of ultimate provider and regulator that it has sought to play for decades. The process of teaching the Cuban population to become more self-reliant and to accept certain levels of inequality will not be easy, but according to President Raul Castro, it must be done for the sake of the revolutionary country’s future.

What exactly this future holds for Cuba is hugely contested and difficult to conclude. Selecting an analytical framework with which to analyze the early signs of transformation since the introduction of the *Lineamientos* has been a challenge given the minimal Internet penetration, dated economic statistics, and relatively little survey data. Because of these obstacles, I’ve decided to look outside of Cuba and study the liberalization experiences of its communist predecessors, namely China and Vietnam, Central and Eastern Europe, and the Former Soviet Union. This thesis seeks to discover under what circumstances authoritarian governments have attempted to liberalize and how these approaches compare to the Cuban reforms of the past half-decade. I will construct a comparative typology to analyze these three models of post-communist liberalization in terms of the nature of their economic and political reforms, the capacity of the central state to regulate the economy and maintain rule of law, local perceptions of state legitimacy throughout liberalization, and the influence of external cultural and political forces on countries’ reforms. By placing Cuba into this typology and drawing parallels between its transition experience and those of its predecessors, I will show that Cuba is indeed pursuing Chinese/Vietnamese style reforms, but its lack of economic and political institutions regulating the expanding private sector presents structural hurdles similar to those faced by the Soviet Union upon liberalization. I believe the Cuban
economy will continue to reform in a gradual and experimental manner, but change in terms of higher standards of living is years away for the average Cuban citizen. My observations and conclusions are informed by political theory, select economic data from the Cuban National Office of Statistics and the World Bank, and a series of over 60 interviews I had with Cuban nationals, experts, and ex-patriots in Havana, Washington, and Miami over the past year.
OUTLINE

In Chapter 2, I will give context to the study of authoritarian liberalization as it relates to the post-communist experience. I’m seeking to understand when, why, and how communist countries have transitioned from centrally controlled authoritarian systems to the various, market-oriented configurations they embody today. What does it mean for a country to liberalize? Does economic liberalization necessitate political liberalizations? What are policies or events that induce economic and political liberalization? How does speed and ordering of reforms affect outcomes?

Chapter 3 will document Cuba’s changing economic, political, and social realities. I begin with a brief analysis of historical trends that I believe are important to keep in mind when assessing the motivations of Cuba’s leaders and the modern Cuban society. These include pervasive sentiments of nationalism and anti-imperialism that are held by large portions of the pueblo Cubano, the special diplomatic and economic dependencies Cuba has had on larger nations throughout its history, and the sad reality that Cubans are accustomed to living through difficult economic and social times. This last characteristic of the Cuban population presents a particularly serious challenge for the country moving forward; how can a population that is so used to merely getting by on government subsidies learn to create its own economic opportunities and foster private welfare?

The next section of this chapter will analyze the CCP’s economic liberalization strategy. I will begin by describing the ideological distinctions between Fidelismo and Raulismo, or the ruling styles of Cuba’s revolutionary hero and his brotherly successor. Raul’s frankness about Cuba’s need to become more efficient through privatization and
decentralization has resulted in the creation of the Lineamientos and the adoption of market-oriented policies. I will summarize the society-wide debate over privatization strategies, citing the work of Cecelia Harnecker who finds that Cubans can be best organized under statist, economist, and self-managerialist frameworks. Critical features of the Cuban economy will be outlined, including the crisis over the dual-currency system and the lack of provisions for foreign direct investment flows. Cuba’s immigration and depopulation problem will add a direr dimension to this analysis.

Separate from this analysis of Cuban macroeconomics, I will discuss what I believe is the formation of new political institutions in Cuba, namely the use of country-wide public debates to gage constituent opinion about the Lineamientos and the horizontalization of election management responsibilities in two Cuban provinces. Finally, I will note some of the social peculiarities I noticed during my visit to the island that speak to the unique ways in which Cubans help each other survive through economic hardship, including through innumerable, insidious black market transactions. This analysis of Cuba’s modern day economic, political, and social realities, informed by the most recent literature and dozens of first-hand interviews, shows that Cuba is indeed moving in a new direction. What exactly that direction is and how successfully Cuba can develop will be best described using a comparative typological approach incorporating the experience of its communist predecessors.

In Chapter 4 I will lay out a framework for the typology used to analyze the liberalization experiences of post-communist countries categorized into three distinct models of development. In the East Asia model, comprised of the Chinese and Vietnamese market authoritarian experiences, economic and structural reforms have been
implemented through measured, sequenced, and experimented programs. Two-tiered pricing schemes have created competitive markets while continuing to protect state-dependent enterprises. Strong sentiments of nationalism resulting from years of cultural fermentation, coupled with economic performance legitimacy have resulted in relatively positive perceptions of state officials, especially given the authoritarian nature of their governance. China and Vietnam are experimenting with political reforms, implementing semi-competitive local and township elections, transparency initiatives, and more meritocratic-based promotion systems to minimize paternalism and institutionalize good political practices.

The Soviet Union implemented rapid and unsequenced *perestroika* reforms at the end of the 1980s, resulting in eventual collapse and the creation of the modern day, largely authoritarian Commonwealth of Independent States (CIS) nations. Soviet power structures created inconsistencies as policies were unevenly implemented across the Union’s territories, causing industrial structural and trade distortions. Production plan mentalities discouraged innovation and any total factor productivity advancement, which many consider an essential ingredient for economic modernization and growth. Self-perceptions of failure, disastrous economic performance, and diverse, ethnically based political interests created instable economic and political environments that to this day scare of potential investment and have resulted in sluggish growth.

The Eastern and Central European countries reformed through a similarly rapid set of reforms, but achieved much greater economic success due most certainly to the profound establishment of economic and legal institution that safeguard healthy market practices, protect private property, and mediate conflict. These countries were quickly
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integrated in Western European supply chains and political life, initially via European Commission trade agreements and eventually through full EU membership. Democratic consolidation was achieved through negotiations of elite pacts, encouraged by the populist “color revolutions” of the 1980s and strong nationalist claims to representation. Although Eastern Europe lags behind its Western counterparts in terms of GDP per capita and cultural prominence, they have caught up to their neighbors in freedom scores and business environment metrics.

Cuba will be placed into this typological framework in chapter five, and the analysis of its economic, political, and social development in the past five years will be qualified in the same sectional manner as the three post-communist models were in Chapter 4. I argue that economic reforms need to be profounder and more widespread in order to establish market behaviors and reduce general dependency on the state. The allowance of more critical content in state-run media as well as on independent online blogs and publications and the drastic increase in cell-phone connectivity will serve to further widen the civic space, creating a more collaborative and well-informed Cuban society in ways that were not possible during Gorbachev’s glasnost reform period. Cuba needs to build sound economic and legal institutions to facilitate the market integration of privatizing firms and educate the Cuban population on proper commercial practices. Additionally, if Cuba seeks to reform in line with the East Asian model and retain its authoritarian political character, the government will need to liberalize prices, integrate the two currency markets to curb inequality, and greatly downsize its subsidy programs to target the most at risk citizens.
The conclusion to this chapter will summarize my findings and attempt to answer the question “Can Cuba (successfully) Liberalize?” or will economic stagnation, weak purchasing power parity, civic repression, and population decline define the island for the years to come?
CHRONOLOGY OF CUBA’S ECONOMIC REFORMS

2006

*July* – On July 31, Fidel Castro temporarily delegates power and Raul Castro takes over provisionally as head of the PCC

2007

*May* – Private taxi drivers notice that police are no longer stopping them to check to see if they are licensed

*July* – Raul Castro’s first major speech as acting President gives a glimpse of his reform ideas, calling for “structural changes and changes of concepts”, placing a priority on agriculture

*December* – The under-the-table pay tips that foreign companies have long provided in hard currency to Cuban workers are legalized

2008

*February* – Raul Castro is formally elected as Cuba’s President of the Council of State.

*March* – Following Raul Castro’s promise to remove “unnecessary prohibitions” that affect citizens’ lives, a series of consumer restrictions are lifted. Computers and DVD players are permitted for public sale, Cubans are permitted to have personal cell phone accounts, and Cubans are finally welcomed to stay in tourist hotels and rent cars previously only available to tourists.

*July* – Decree-Law 259 is formalized providing for the distribution of idle state lands to individual farmers and cooperatives. Grants are made in usufruct in ten-year terms for individuals and 25-year terms for cooperatives.

*August* – A new labor policy removes ceilings on individual earnings in the state sector and directs state sector employers to develop sliding pay scales that reward productivity

2009

*January* – New regulations enable licensing of new private taxis, and their numbers double within six months

*April* – The government begins turning over small barber and beauty shops to their workers, who pay rent and utilities and otherwise run the shops as their own business.

*June* – A new decree permits Cubans to hold more than one job, except for persons holding high-level jobs, teachers, and health sector personnel.

*August* – Raul Castro tells the National Assembly that Cuba might have to do without some unsustainable social services. He confirms the gradual closure of public boarding schools that combine study and farm work, which generations of Cubans attended.

*August* – The Office of the Comptroller is established to strengthen auditing of state enterprises.

*September* – The government announces plans to begin the process of closing 24,700 workplace cafeterias.
2010

August – To encourage foreign investment in the tourism sector, the maximum term for land leases to foreign companies is extended from 50 to 99 years.

September – A statement by the Cuban Labor Union Federation announces that half a million state sector workers will be laid off by April 2011, accompanied by a parallel increase in the non-state sector.

October – Regulations affecting small private entrepreneurship are substantially liberalized. Licensing offices, which for years had approved very few applications, assist applicants and generally grant licenses within a week. A new tax system for entrepreneurs is instituted. In the first month, 29,000 new entrepreneurs are licensed.

November – The Lineamientos are published in draft form and subjected to nationwide discussion.

December – Finance Ministry announces that 1.8 million workers will join the non-state sector by 2015 and describes the elements of a new tax policy under discussion.

2011

February – State media announce that sugar is being phased out of the monthly household ration book, leaving consumers to buy sugar in state stores at eight pesos per pound (about half the U.S. retail price), rather than at the ration book’s deeply subsidized price. Similar announcements have been made regarding other products, as the ration book is slated for eventual elimination.

May – Following approval by the Communist Party Congress, the Lineamientos are published in final form.

October – Car sales are legalized. Previously, Cubans could only sell pre-1959 cars.

November – A new decree permits Cubans and foreigners legally residing in Cuba to buy and sell residential real estate, with a limit of one residence and one vacation home. The measure streamlines real estate transfers and encourages owners to update their titles.

December – The government releases 2,900 prisoners serving sentences for non-political offenses.

December – Cuban banks begin to offer loans to entrepreneurs, small farm producers, and persons needing funds to fix up their homes.

December – New regulations allow all agricultural producers to sell directly to hotels and restaurants in the tourism sector. Previously, tourism businesses could only buy from a state enterprise.

2012

January – A moveable drilling platform for offshore oil exploration arrives in Cuba and begins exploration north of Havana, giving rise to hopes that Cuba could become self-sufficient in energy.

March – Council of Ministers meeting approves pilot projects for the creation of private cooperatives in three provinces in sectors other than agriculture.

April – The number of Cubans working in the entrepreneurial sector reached 371,200, an increase of 230,000 since October 2010.

September – The government announces 17 measures to improve the performance of its chronically underperforming farm cooperatives, including giving more autonomy to the
cooperatives and their managers and ending the practice of using state funds to prop up those that operate at a loss.

November – National Statistics Office announces that 1,431,589 cellular phone lines were in use at the end of 2011, representing 27 percent growth from the previous year.

December – New laws take effect permitting the creation of private cooperatives outside the farm sector through conversion of state enterprises and by citizens who apply for permits to create new cooperatives. Unlike the small entrepreneurial sector, cooperatives are open to professionals and there is no list of permitted lines of work.

2013

January – New travel and migration law takes effect, doing away with the requirement that citizens obtain an exit permit (tarjeta blanca) to travel abroad.

February – Cuba’s parliament appoints Raul Castro to a new five-year term as president and Miguel Diaz-Canal his first vice president. Raul announces he will step down from power when this term ends in 2018.

July – The labor ministry announces that 429,458 licensed entrepreneurs are operating in Cuba. In late 2010, the figure was 143,000.

July – Data on 2012 farm production show mixed results that are not enough to reduce food import costs significantly.

July – The pilot project phase for non-farm private cooperatives is proceeding, with 197 approved to run farmers markets, take over bus transportation, provide construction services, and more.

December – State officials announce that the Convertible Peso (CUC) would disappear, the first time the government explicitly admitted their desire for such action.

2014

January – The first phase of the Mariel deep-water seaport is inaugurated by Cuba and Brazil, indicating Cuba’s desire to greatly strengthen its trading capabilities.

February – The EU and Cuba launch negotiations to increase trade, investment, and dialogue on human rights, the most significant shift in diplomacy since Brussels lifted its Cuba sanctions in 2008.

March – Parliament approves a new foreign investment law that allows Cubans living abroad to invest in small private enterprises.

April – The state creates the first wholesale market for agricultural supplies.

July – Russian President Vladimir Putin announces that he will cancel billions of dollars of Cuban debt from Soviet times, Chinese President Xi Jinping signs a bilateral accord during a visit to Havana.

September – New rules sharply limit the amount of goods people can bring into the country and raises customs duties.

December – Castro and Obama make separate speeches announcing new efforts to normalize relations between the neighboring countries, including the re-establishment of embassies in Havana and Washington.
II
The Study of Authoritarian Liberalization

There is a wealth of literature on political liberalization that may shed light on not only whether Cuba will be able to liberalize in the wake of communism, but how that process may look in comparison to other countries in the East and South. Varying structural and historical factors affecting state identity induce diverse courses of liberalization, but the literature largely concludes that transitions from authoritarianism to something more liberal can be compared by the resulting growth rates in GDP/capita, the relative change in civic activity, and the institutionalization of economic and political mechanisms that regulate commerce and politics. Economic and political liberalization are related, but the modern Chinese and Vietnamese experiences demonstrate that these processes can occur independently. These comparative cases demonstrate that continued liberalization in Cuba, especially of a democratic nature, is not inevitable.

In *Authoritarianism in the Age of Democratization*, Jason Brownlee demonstrates that authoritarianism in the modern era is resilient, even during a time when global pressures emanating from increasingly prominent international organizations are urging nations toward liberalization.¹ He writes that authoritarianism has entered something of a “half-way” house, noting that many regimes have received direct external pressure to liberalize and cede political space to its constituents but show few signs of doing so. As global powers have pushed developing nations toward a form of Westernized liberalization, nations with authoritarian regimes have learned how to maintain a monopoly on power through legitimate means. Brownlee’s research suggests that in

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² Jason M Brownlee., "Low tide after the third wave: exploring politics under
many parts of the world, rather than simply acquiescing to changes in the global order, many authoritarian countries have transitioned toward systems that are only liberalized on the surface. The use of elections may appear to be a move toward liberalization, but authoritarian regimes have developed the ability to control these elections, and thus, use them as a tool of oppression. Brownlee notes the presence of structural inertia and how it is often underappreciated as a factor in allowing authoritarian regimes to retain their influence. In short, the authoritarian regimes in places like Iran have subsisted on momentum above all, and their existence perpetuates their continued existence. The façade of elections may appear to give the people a voice, but the structures remain unchanged in political reality for these individuals, so liberalization remains something of a dream rather than a reality. External rents, an autocrat’s personality cult, and economic favoritism all play a role in supporting sultanism and the security of autocracy.\(^2\) If genuinely competitive elections of some sort take place in Cuba, even at the local level, we cannot assume that this would result in a rush to full blown democracy if the institutional processes governing elections are administered by central party officials.

Supportive of this theory of inertia is Janos Kornai, who writes at length about the way communism took hold in China. According to Kornai, communism conquered Chinese rural society over four decades and made its way into every interconnected part of social, political and economic life. Through the restructuring of peasant ideology and move towards agricultural cooperatization, communism and the authoritarian structure infected all of China and created a sort of societal momentum leading to the

nationalization of Chinese communism.³ Because Chinese communism had grown through grassroots channels to become something of a homemade product, authoritarianism was able to maintain its hold even without some of the direct tools of oppression that might have previously existed.

Teresa Wright uses China to suggest that over time, the interpersonal and professional relationships between political elites can allow a country to retain its authoritarian character even as free, multiparty elections institutionalize. In China, the political activities of the China Democratic Party may predict some political change on the horizon.⁴ She writes that this political movement has helped to challenge some of the conventions held by political elites, who have controlled the country’s economic and political landscapes through a single party arrangement. As she illustrates through her interviews with youth party leaders, there is hope among the Chinese that their country could follow the model put forward by Taiwan, where political change has emerged via grassroots demands for greater government transparency, more meritocratic promotion processes, and a larger civic space.⁵ This comparison is problematic, though, because China continues in an arrangement where the political elites possess both the power and the willingness to suppress alternative forms of political activity in order to protect the economic interests of their most influential supporters. As the author notes in both pieces cited here, even after authoritarian regimes are officially overthrown, the ruling and elite class that orchestrated the paradigm shift often develop incentives for stopping the

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citizensry from organizing in a further democratic manner, such as was the case in Taiwan. Cubans worry that in 2018 when the Castro family is expected to transfer presidential power to a non-familial heir that a new generation of political and economic elites who have benefited from the careful privatization and distribution of economic assets will coalesce and uphold Cuba’s authoritarian governance.

Merilee Grindle and John Thomas write at length about how political reform is often influenced by economic elites and the personal motivations of individual policy makers. Because policymakers in developing systems who are unregulated by independent legislatures and judiciaries can be pressured by elites with special interests or military authority, the rewriting of political systems and social contracts often reflects the rational interests of these individuals and not necessarily the majoritarian desires of the greater constituency. It is important to recognize that in Cuba as in China, reform is the result of specific processes and choices, and likely not a product of grassroots, civic development. The civic space in both countries is tightly controlled so as to prevent communication and organization between non-state political activists.

In order for citizens to persist living pacifically under authoritarian rule, they often have to acquiesce to that rule. This requires the use of certain forms of political ideology that allow for the maintenance of power and control among the ruling classes. The justifications for authoritarian rule can often infect the ways in which individuals think of themselves and their rights, and they can persist as the reasoning behind the ruling class’s oppression. Robert Mayer writes about the different ways in which authoritarian rule is justified by elites for public consumption. Authoritarian regimes are

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often in the business of convincing people that they need strong, central commanding leadership. His research reveals that in Asia and Latin America, authoritarian regimes have historically created a paternalistic relationship between them and the people they rule.\(^7\) This necessity of protection allows the perpetuation of authoritarian structures, and such rhetoric has been important in Cuba over time in the face of ‘northern imperialism.’

But as geopolitical stability concerns have become a relic of past conflicts in the face of warming U.S. relations and hastened economic activity with the European Union, the paternalistic rhetoric employed by revolutionary Fidel Castro has become significantly less potent.

Along these lines of legitimacy and ideology, it is important to analyze the public relations and public diplomacy approaches utilized by autocratic regimes to normalize their political legitimacy in public thought.\(^8\) David Schweikart analyzes how central power structures manage national communication apparatuses to deploy a common message, which over time gets adopted into civilian behavioral rhetoric, a sort of systematic brainwashing through education and publication. In Cuba, much of the policing of individual behavior is done not by state police but by neighbors. 98% of Cubans vote in uncompetitive, procedural elections not because they all genuinely support the current political process but because they fear the judgment of their neighbors, who have been educated through the school system and the state-controlled media that voting is a compulsory responsibility and defectors should be questioned.


Similarly, Stephen White suggests that strong economic performance is not a necessary condition for the sustained legitimacy of communist regimes. While theorists have opined that some degree of performance legitimacy is required for an autocratic regime to remain viable, White argues this conclusion is not supported by history. In fact, even as an economic slowdown has taken place, many nations have been able to wiggle significantly from a political point of view. Through their widespread survey of statistical studies regressing developmental indicators with democratic ones (Lipset, Cutright, Neubauer, Smith, Hannan and Carroll, etc.), Przeworski and Limongi show that there is no strong correlation between economic development and democracy, especially in particular regions of the world including Asia. They say state autonomy achieved by authoritarian regimes actually enhances economic performance because “1) the state has a role to play to make the economy function efficiently; 2) the state must be insulated from private pressures if it is to perform this role well; and 3) the state apparatus wants to perform well… Individuals often behave in a collectively suboptimal way as economic agents, specifically they underinvest.” However, Przeworski and Limongi do find a clear relationship between the ratio of rule-of-law index on the eve of transition to democratization index, on one hand, and economic performance during transition, on the other. Democratization without strong rule of law usually leads to collapse of output.

In support of this finding, Rodrik (1997) does not find much of the correlation between democracy and economic growth for 1970-89 after initial income, education, and the quality of governmental institutions are controlled for, but provides evidence that democracies have more predictable long-run growth rates, produce greater stability in

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economic performance, handle adverse shocks much better than autocracies, and pay higher wages.\textsuperscript{11} Continuing this analysis, Przeworski writes in 2000 that while his 1993 conclusion that there are no observable differences in long-term growth rates between democracies and autocracies, democracies appear to have smaller variances in the rates of growth, higher share of labor in value added, and a lower share of investment in GDP than autocracies.\textsuperscript{12} In other words, while it is entirely possible for autocratic states to foster economic growth through the adoption of market attributes, the structure of assets in democratic economies are more stably distributed than in autocratic ones.

A successful privatization initiative should achieve of two crucial objectives. First, it should create a management structure conducive to profit maximization, which ensures that the price and market reforms needed to achieve an efficient resource allocation in the economy are successful. Second, the initiative should avoid potentially serious fiscal problems for the government. These problems could arise either because of the loss of the incoming dividend flow or as a result of a sharp reduction in direct tax revenues from enterprises.\textsuperscript{13} The creation of an efficient structure for the supervision of management is the most complicated issue any privatization proposal must deal with. According to David Dollar, authoritarian governments with liberalized economies, constrained by the inability to raise tax receipts and by the simultaneous need to maintain redistribution in favor of particular social groups, are left with only several options for indirect financing of subsidies: 1) by maintaining control over particular prices, as Vietnam has done with fuel and other resource commodities; 2) Resort to trivial

\textsuperscript{11} Rodrik 1997
\textsuperscript{12} Przeworski et. al. 2000.
\textsuperscript{13} Lipton and Sachs, 1990
inflationary financing of the government budget; 3) through debt financing, such as the external borrowing Easter European countries sought on the eve of the Soviet Union’s collapse; 4) through the maintenance of an overvalued exchange rate that favors consumers over producers and exporters over importers, a common practice of the import-substitution performing nations in Latin America during the 1990s; and 5) through subsidization via the accumulation of non-payments, barter-transactions, and money substitutes, such Cuba’s special doctors-for-oil transactions with Venezuela.14 As Cuba moves forward with its market reforms, it will need to adopt a more lucrative revenue stream to finance the redistribution policies so tenant to its revolutionary values.

As Joseph Stiglitz demonstrates in *Frontiers of Development Economics*, economic performance can play a role in helping regimes ascend the ladder of legitimacy, but the microeconomic business cycle’s natural short-term cyclical booms and busts allow autocrats to justify economic downturns by pointing out the realities of long-term development.15 Promises on behalf of the regime for eventual growth in Cuba have proven empty over time. In the face of unchanging state wages that insufficiently sustain a family’s basic needs, a continued lack of manufactured goods, and limited mediums for expressing their disapproval, Cubans are choosing to flee the island to neighboring countries at a rate that has resulted in a net population decline over the past four years.

Timothy Colton argues that the pacing of liberalization reforms plays a significant role in the ultimate success of program implementation and institutionalization. Colton notes that, prior to the fall of the Soviet Union, party leaders disagreed unrelentingly over the terms of a potential liberalization arrangement in the face of economic stagnation and

civilian protest in Eastern Europe.\textsuperscript{16} Officials worried that a rushed liberalization of economic assets and downsizing of the state could further excite combative democratic interests and cost the Soviet Union its hegemonic place among the pantheon of global military powers. As the author hauntingly predicts, drastic economic reforms including the dismantlement of Soviet supply chains coupled with an opening of a political space for special interests jarred the Soviet economy into collapse and created massive unemployment. When the government lost control of its economic arrangement, democratic uprisings sprung up all over the nation, taking advantage of the widened civic space created through parallel \textit{glasnost} political reforms. While this may have seemed like a positive movement toward liberalization, these uprisings were largely ethnically based, creating a combative political arena of uncompromising interests. Although gradualist reforms were likely unrealistic for the Soviet bloc due to mounting external pressures, likely a transitional period is needed to properly institutionalize market practices and independent legal bodies.

Juan Linz and Alfred Stepan provide corroboration of this theory, noting that in the nations where successful liberalization has taken place, one of the most important factors has been the existence of a transitional plan.\textsuperscript{17} If Cuba were to make such a transition, the country would need to do so slowly in order for the economy to adjust. However, it is critical to also enjoy a transition that is unequivocal. One can only assume that this kind of aggressive transition into a new system is important for breaking up some of the scar tissue that can allow authoritarian regimes to continue to infect various parts of the social and cultural reality in a place. With these two opinions, it becomes

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clear why it is so hard to predict successful movement from one system to another. In reality, there has to be tremendous finesse and some strength involved in this movement, and these things are difficult to get right for most people who are looking to fashion a new political reality in a country where authoritarianism has taken hold. Linz and Stepan also note that in opposition to classical totalitarianism, the modern post-totalitarian regime includes more economic and social pluralism, a non-charismatic leadership based on bureaucratic politics, a reduction of political mobilization and more pragmatic, welfare oriented, less ideological parties.18 This bears resemblance to China, Vietnam and the South Caucus states where the leaders are less characteristic of traditional despots and ideology takes a backseat to economic production and resource extraction.

Arturo Lopez-Levy raises a similar point regarding post-Castro Cuba19. As he writes, political actors do not operate in a vacuum. They do not simply make decisions on their own, but are acting with the knowledge that they have of their own country and of other countries that have tried similar ventures. This could act as a deterrent moving forward unless progressive lawmakers are willing to push for reform while using the lessons that they have learned from other nations, some of which have failed to liberalize and others of which have been able to liberalize successfully. As Cuba seeks to administer a more market-based economy but maintain a socialist orientation, the literature above describes several political provisions that should be taken into account. Such a central authority must protect class interests, respect the natural law of economic development, promote close ties between political leaders and businessmen, ensure strict

control over economic activities, mobilize economic modernization by encouraging
competition, and combine the centralization of political authority with a certain
democratization of the State apparatus to ease civic concerns. In Castro’s Cuba, political
corruption was the norm, and in ways, this has become an expectation among the Cuban
citizenry.\textsuperscript{20} Lance Taylor points out that if a country chooses to move toward
liberalization without having certain institutionalized checks in place to provision the
distribution of economic and political assets through open market or meritocratic means,
market actors will not interact successfully due to a lack of trust in the system’s ability to
protect their assets.

There are four major take-aways from this literary analysis that will assist in our
exploration of Cuba’s current transition. First, there is the issue of simultaneous political
and economic reform. While Gorbachev’s simultaneous liberalization of both societal
systems had disastrous implications for the economy, Eastern European leaders were able
to establish strong democratic institutions and legal mechanisms to regulate commerce in
the new capital-driven markets. China has sequenced its reforms more carefully, making
sure to liberalize its economy under central control before considering ceding political
space to civic organizations. The problem with following the Chinese path is that there is
no guarantee the Cuban regime will be resilient enough to get to the second stage of this
sequence.

The second finding from this literature is that authoritarian regimes can be quite
resilient, especially in the modern era when the mistakes of previous leaders can be
corrected upon and the state-control of media channels can manipulate public opinion and

international perception. Cuba could liberalize just enough to let off some social pressure mounting from both sides of the Florida Straights so as to encourage the lifting of the U.S. Embargo, but then not go any further to empower its citizenry. Thirdly, as the Chinese and Vietnamese cases indicate, liberalization does not necessarily mean democratization. It is foolhardy to assume that an economically empowered Cuban populace will organize a political momentum that could remove the Communist Party from power. Good economic performance can serve to strengthen state legitimacy, and the rewarding of privatized state-owned assets to favored party loyalists can further fortify a central regime. However, as our fourth finding illustrates, international factors in encouraging further liberalization can lead to great change. The U.S. is a disproportionately important neighbor to Cuba and the inevitably huge inflows of cultural and academic exchanges, remittances, and telecommunications that will enter the island as a result of the reoriented U.S. diplomatic approach towards Cuba will likely have a positive impact on the adoption of a market behaviors and principles of free speech.

In the following chapter, the current Cuban economic, political, and social landscape will be analyzed in light of the Lineamientos reforms of the past five years. Particular attention will be paid to the changing ideological character of the ruling party as its leaders accept the fact that privatization of state assets and a downsizing of public institutions is required to restart the productive forces of Cuba’s deteriorating economy.
Cuba’s Ongoing Economic, Political, and Social Transformation

CUBA IS CHANGING

Cuba’s existence makes very little sense. It’s often written off as a political anomaly; a stubborn little island with little economic potential, backwards leadership, and meager hope of resetting its political relationship with the U.S., the neighboring hegemon who for half a century has outlawed economic exchange with Cuba as a sanction against its communist leadership. The Helms-Burton Act, instituted in 1996 during the peak of U.S. unipolar control of the international system, reaffirmed the mission of the U.S.-Cuban embargo; to suffocate the Cuban economy until its leadership surrenders and makes way for the institution of democracy, which will liberate the Cuban people and spur economic development.

In 2007, Raul Castro publicly decreed that it was time for Cuba to change. The largely unproductive country, plagued by a lack of industrial capability, an economically destructive dual-currency system, and insufficient foreign investment, needs reforms. A manifesto titled Lineamientos de la Política Económica y Social, or Reforms, was introduced in 2011 and outlined a series of over 300 political, economic, and social reforms the regime deems necessary to carry Cuba out of economic malaise and into the 21st century international system. The thoughts outlined in the Reforms represent a stark ideological departure from Fidel’s wholly Marxist decrees; Raul has deemed market reforms deemed essential, and the state understands it cannot survive on such a massive scale.
The first section of this profile will delve into the ideological roots of the Cuban revolution. This will turn to an analysis of Cuba’s Special Period, the decade of severe economic hardship that followed the collapse of the Soviet Union. I will pay special attention to the regime’s effort to distance itself from Soviet ideology and reassert control over the struggling economy, leading up to the transition of power from Fidel to Raul. By demonstrating that an ideological shift has indeed occurred, I will refute the regime’s harshest critics who claim the recent ‘reforms’ are a merely a façade to distract the public from a further consolidation of economic and political power among party cadres. The next section will outline separately the political, economic, and social reforms laid out in Lineamientos and their relative stages of implementation. In terms of economic reforms, Cuba is fostering the gradual creation of a private sector through the allowance of small enterprise, opportunities for self-employment, and the permitted ownership of private property. Currently the main funding source for these private ventures are remittances from the U.S., which are higher than ever due to relaxed restrictions on the U.S. side. In terms of political reforms in Cuba, several municipalities have held contested elections for congressional representative positions and have experienced wide voter turnout. Additionally, previous travel restrictions preventing many Cubans from ever leaving the country have largely been eliminated, allowing for a greater transmission of political ideas between Cuba and its neighbors.

What we’re witnessing in Cuba under Raul’s leadership is a stark departure from the ideological framework that governed the country under Fidel. Although the profundity of the Lineamientos programs already employed leaves much to be desired, Raul has stated every intention of going further in order to downsize the size of the state
and the citizenry’s dependence on it. The slow pacing of reforms reflects the regime’s wariness of letting power slip away too quickly or deepening economic strife via hyperinflation and unemployment. The revolutionary system created under Fidel needs renovation, and for the first time in history leadership is openly accepting criticism from a growing space of civil society actors, especially the Catholic Church and scholars at state-managed publications and academic institutes.
THE CUBAN REVOLUTION

Over the course of half a century the Cuban Revolution transformed between a tenacious guerilla victory mentality and mass mobilization campaigns of the 1960s, to its institutionalization in the 1970s with the adoption of Soviet-style economic and administrative reforms, to the economic crisis instigated by the collapse of the Soviet Union, and finally to the Special Period of the 1990s when the regime’s survival was very much at stake. Fulgencio Batista overthrew the Machado dictatorship in 1933 and became a democratic revolutionary, helping to institute electoral democracy in Cuba and eventually serving as president from 1940-1944. Batista then traveled to the U.S. after his party lost the presidency and he divorced from his first wife, and returned to his island nation in 1952 to run again for president. But when the polls took a turn against him, Batista garnered military support, forcefully took the presidency, and served as an illegitimate dictator until 1959. Under Batista, many pillars of the groundbreaking 1940 Cuban democratic constitution were overturned. The regime formed strong ties with American businessmen, who took over 70% of land and private capital by the end of Batista’s rule. Corruption, prostitution, gambling, and gang activity were rampant, and harsh signs of inequality plagued the Cuban population.

Enter Fidel Castro, a zealous young lawyer who called on the judiciary to impeach Batista on claims of corruption and tyranny. Unsuccessful in this venture, Fidel and his brother Raul began forming an armed militia and took their protests to the streets. Both were jailed after a massively destructive and symbolic armed revolt on July 26th, 1953, only to be released two years later and exiled to Mexico. There, the Castros met the Argentinian revolutionary Che Guevara, received military training from Spanish
Republican military commander Alberto Bayo, and recruited a team of 80 soldiers to sail on the *Granma* to the eastern part of Cuba. For the next three years (1955-58), the July 26th Movement survived a series of incredible military victories as they moved west through the mountainous Cuban terrain towards Havana. By 1959, populist support had largely shifted in the Castro’s favor and the Revolutionary Armed Forces (FAR) took over Havana on January 3.

For the first year of governance, Castro’s self-declared socialist party instituted a series of successful reforms to boost literacy rates, healthcare access, and reduce unemployment across the island. The regime seized private land and had hoards of foreign holders expelled. Fidel called for the public execution of vocal Batista supporters, called the *Spiros*. The regime boasted 20,000 executions, but many claim this figure is greatly exaggerated and closer to 2,000 people died.\(^\text{21}\)

The twin pillars of the Revolution, the Communist Party (PCC), with its inner circle of veterans from the guerilla struggle against Batista, and FAR, are recognizable for their loyalty and deference toward Fidel and the Revolution he led. Founded in 1965, the PCC did not hold its first congress until 1975. Since then, party congresses have been irregular (there was one in 1997, then not another until 2010). This is not the typical trajectory of a hegemonic Leninist party. The FAR have never been defeated in the field of battle, are enormously respected by ordinary citizens, and have assumed important responsibilities in diverse government ministries and agencies.\(^\text{22}\) Not only is the FAR


responsible for external defense and internal security (the Ministry of the Interior is under
the supervision of the Ministry of the Armed Forces), its officers also run most of the
joint ventures with foreign investors. To this day, members of the military operate in the
highest management positions of state operated enterprises; in recent years Raul has even
encouraged his military cadres to travel to countries like Canada and Uruguay to study
business administration so as to keep economic power in the hands of party loyalists as
these enterprises begin to privatize.  

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THE SOVIET AND SPECIAL PERIODS

Why exactly Cuba was “pushed East” is highly contested, but most attribute it to Castro’s strong disdain for U.S. financial support of Batista during the 1950s. Although President Kennedy was quick to show support for the populist Castro cause, this was quickly retracted once it became clear that Cuba was forming strong ideological and financial ties with the Soviet Union. Under Kennedy, the U.S. initiated a full economic embargo against Cuba in 1960, the battle at The Bay of Pigs took place in 1961, and the climax of the Cuban Missile Crisis occurred in 1962. These events served to push Cuba closer to the Soviet Union by solidifying profound distrust for the ‘imperialist’ U.S. in the eyes of the Cuban citizenry. Had the U.S. attempted to engage more diplomatically with the new Cuban government, it is unlikely that the socialist revolutionaries would have adopted a communist party moniker. Fidel began calling his party Communist immediately following the Missile Crisis and started preparing for his first party congress. During the 1970s, Fidel dispatched tens of thousands of troops in support of Soviet-supported wars in Africa, including the MPLA in Angola and the Mengistu Haile Mariam in Ethiopia. Standards of living reached record lows during this period and public discontent was rife. The economy turned around in 1975 after the OAS lifted its sanctions on Cuba, marking the beginning of the island’s modern political and economic integration with Latin America. Throughout the 1980s, Cuba’s economic dependence on the Soviet Union intensified. By 1986 the Soviet bloc accounted for over 80% of Cuban trade and was subsidizing the Cuban economy at a level equal to at least 10% of Cuba’s gross product. When Soviet sugar prices fell 18% in 1981, the impact on the Cuban

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24 Henken, Ted. Cuba. ABC-CLIO, 2013. (76)
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The economy was so profound that the island was forced to renegotiate its debt in 1982. By the mid 1980s, Cuba’s terms of trade with the Soviet Union had deteriorated by 17%. The impact of the fall of the Soviet Union on the Cuban economy was profound: GDP fell by 34.8% between 1990 and 1993, imports were reduced by 75%, and inflationary pressures unleashed a huge fiscal deficit of 33% that increased the money supply in the hands of the population by 66% measured in relation to GDP, with the consequential expansion of the black market economy. But however dramatic the economic impact of the Special Period may have been, the resulting social and spiritual decline was even greater in scope and long-term effects. Average calorie and protein intakes declined by more than 30%, unemployment reached 8% (from 0), and there was a regressive income distribution that strongly favored those with access to the convertible peso (i.e. Cubans receiving foreign remittances and those interacting with foreign visitors and tourists such as hotel staffs and taxi drivers).

Cuba began a process of gradual recovery in 1994, but 1989 output levels were not restored until 2004, totaling 15 years of lost growth. Visible consequences of the Special Period include significant decapitalization in all sectors of the economy, the dramatic fall of real terms worker incomes, and a deteriorating Gini coefficient, which has sagged from 0.25 to an estimated 0.40 over the last 25 years. This is extremely high for a system that is purportedly in existence to make people “equal”—for comparison’s sake, 0.40 is roughly the same as the U.S. Gini. Cuban economists rebut that their

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country’s equality is reflected in equal subsidy provisions for healthcare, education, sustenance, and housing and not in income figures that are exacerbated by dual-currency conversions. SOCIAL successes of the post-1990s reforms include achievements in national nutritional levels (which have surpassed those achieved in the 1980s) and educational advancement (15% of the workforce has graduated college).

On the other hand, there are aspects of the Special Period that have not been overcome, which include an external financial imbalance, a low level of economic inefficiency (including abysmal labor productivity), a largely unproductive agricultural sector, excessive centralization, bureaucracy, and a lack of worker participation in decision-making. The real wages of state employees only reached 27% of their 1989 levels by 2013. And since 2008 spending on education, health, social welfare, and housing have diminished as a proportion of the state budget and gross domestic product, due to a lack of state financing.

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28 Hernandez, Rafael. Interview by author. February 16, 2015. Havana
29 Rodriguez 2013, (107)
HISTORICAL TRENDS

Reflecting on this brief historical analysis, three themes come into focus. The first is a profound sense of nationalism and anti-imperialism that has defined the goals of the Revolution and the psyche of the Cuban people. The Cubans are proud of their revolution. As Sarah Stevens of the Center for Democracy in the Americas puts it, “They really feel like they stand from something that’s unique and amazing in the world. It’s solidarity with your neighbor; with your community, with your country, with other third world suffering classes.”

The Cuban Revolution was homegrown, and Castro’s regime took pains (even more so after the disintegration of the Soviet Union) to emphasize their nationalist credentials and to present the FAR as the heirs of national heroes such as José Martí and Antonio Maceo. Moreover, in the Cuban case, the United States is the “imperialist” “Goliath” power; and Castro, the David who successfully challenged its hegemony and restored national dignity to the country.

This nationalism is manifested in public criticisms of the new foreign investment laws. According to Phil Peters, the Cuban media spent at least as much time reassuring the orthodox communist Cubans in the system that foreign investment was acceptable and not an insult on their sovereignty. These policies were not contrary to Cuban nationalism, according to the regime, because everything is still under state auspices.

The second historical theme worth noting is the economic and political dependency Cuba has had on other nations, from the U.S. in the Batista period, the Soviet Union during the Cold War, and more recently, Venezuela and China, where the former has arranged for the trade of large amounts of oil in exchange for doctors, and the latter

has donated fleets of cars and trucks and serves as a symbol of pseudo-communist economic independence.  

Lastly, Cuban people are used to tough times. The island itself is practically frozen in time, evident from its 1950s American cars that still serve as principal modes of public taxi transportation to its sheer lack of industrialization. ‘Malaise’ accurately characterizes the state of political thought amongst normal Cubans, who sometimes see escape via the Florida Straight as a more palpable option to holding out for any significant reform. This diminished public discourse makes a democratic future all the less likely for Cuba, even as the Castros’ time apparently comes to a close.

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32 Sanchez, Jorge Mario. Interview by author. February 17, 2015. Havana
LIBERALIZATION

Is Cuba liberalizing? It depends who you ask. Georgetown Political Science Professor Eusebio Mujal-Leon claims the government is “ceding space.” The new property laws that allow for individual ownership of real estate, cars, and small businesses, could be looked at as a legalization of previously non-legal forms of property. In his eyes, the state has authorized the laundering of properties, a process that benefits the elite. Dissidents on the island claim that the reforms lack the profundity and velocity necessary to succeed, even though they may be moving in the right direction. Others such as Julia Sweig, Senior Fellow for Latin America at the Council on Foreign Relations, would argue that the Lineamientos represent a significant move towards economic freedom and a definite step in the direction of Chinese/Vietnamese societal modeling. In terms of politics, although the political space is still small or for some non-existent, it is clear that the PCC has distanced itself from the communist moniker. Anthony Maingot at Florida International University did an analysis of 25 major Cuban economic writers and discovered that not one of them mentions Marx, only one mentions Fidel Castro, and nobody mentions Che Guevara. On the other hand, they are all revolutionaries who believe in the ideals of a socialist society and want to maintain it. This is, in his opinion, “the future of Cuba.”

Freedom House polled a random sample of Cubans in both 2010 and 2011 once the Lineamientos were rolled out and found that these new policy aspirations had sparked optimism amongst the population. Figure 1 illustrates a significant finding: despite the

34 Sanchez, Elizardo. Interview by author. February 13, 2015. Havana
fact that GDP per capita barely increased from 2010 to 2011—the time when the *Lineamientos* were adopted as policy by the Cuban assembly—Cubans became significantly more positive about the prospects for genuine change. In 2011, 41% of respondents believed the country was making progress, as compared to only 15% in a previous survey completed in 2010. Moreover, expectations are rising: 30% (up from 17% in December 2010) expect their family’s economic situation to improve in the next 12 months, although 62% say it will be about the same.\(^{37}\) And by 2013, an International Relations Institute (IRI) survey found that 45% of Cubans (a different sample, but similar in composition) believed the situation of their family would improve upon the impending changes. Optimism is spreading.\(^{38}\)

![Figure 1: 2011 Freedom House Public Opinion Survey](https://example.com/image.png)

Unlike the process of opening that started after the fall of the Soviet Union, the essential difference of the more recent liberalization that was initiated in 2007 and

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adopted by the Cuban assembly in 2011 is the political and ideological understanding in society and the elite of the need for change as a key aspect of the continuity of Cuban socialism. In an impassioned speech on July 26, 2007, President Raúl Castro made the case for a deep examination of Cuba’s economic situation, pointing out, “There is no issue concerning national development and the conditions of life of the people that has not been responsibly dealt with and whose solution is not being worked on.” Nevertheless he went on to warn, “I must stress however that there will be no spectacular solutions. Time is needed and above all for serious and consistent work.”

The reason for this was that, while Cuba embarked on a partial and hesitant course correction upon the sudden withdrawal of Soviet subsidies, its Latin American neighbors made major strides forward through structural reforms and deepening engagement with the global economy. Only through such integration with global markets can Cuba hope to modernize its factories and farms, realize economies of scale, and gain access to new technologies and investment capital.

The most important innovation of Raulismo has been to renovate the Fidelista coalition by placing a new generation of technocrats (drawn from both the PCC and the armed forces) into the highest ranks of government and administration. As Raul Castro explained at the time, “the excessively centralized model that characterizes our current economy must change, with order and discipline and with the participation of the workers, to a decentralized system in which planning remains the main instrument of

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setting a socialist direction, but does not ignore the existing tendencies of the market.”

According to William LeoGrande at American University, there is not a clear consensus yet among leaders as to exactly how small the state will get and how large, in turn, private enterprises will be allowed to grow. Raúl has repeatedly stated that the state will prevent the “accumulation of wealth,” but what this signifies numerically is still a “work in progress.”

Any sort of wealth accumulation may be a long way off for many Cubans, who are still very much used to state patronage as a primary source of their essential needs. As Julia Sweig puts it, the state is rewriting its social contract and telling its citizens that they need to become more self-sufficient. Raúl has often repeated the argument that socialism does not mean egalitarianism. Under his new understanding of the Cuban economy, “socialism is equality of rights and opportunities for all citizens, not egalitarianism. Work is simultaneously a right and a duty, a motivation for personal realization for each citizen, and should be rewarded according to its quantity and quality.” This is an ideological change of course, says Sweig, and the state is trying their best to protect the weakest with a subsidiary floor, avoid instant domination by the north.

Cuban civic activists argue that current reforms greatly favor those with notable government affiliation or access to foreign remittances. Reinaldo Escobar of 14 y Media complains that current liberalized laws only help the proletarian class: allowing the

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44 Sweig interview, 2015
purchase of mobile telephones, the sale of cars and houses, and the ability to stay in tourist hotels are liberties only the moderately well-off get to enjoy. All the middle class wants—say many—is higher salaries, and moving towards the end of Raul’s second mandate, reforms have not been able to put more money into the average Cuban’s pocket.

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PRIVATIZATION

How much inequality will Cubans tolerate in exchange for higher productivity and greater opportunities? Cuba will likely continue on its gradual path toward a more open, pluralist society, while preserving its foreign policy independence. In late 2010, Raul Castro pledged to eliminate 500,000 state jobs in the first six months of 2011, with an eye to incorporating over 1.8 million workers (out of a total estimated work force of 5.3 million) into the private sector by 2015. But the government managed to eliminate only 137,000 positions that first year. Still, the reforms are making a serious impact. Small businesses currently employ some 400,000 citizens, an increase of 154% since the liberalization of self-employment began in October 2010.46 According to the National Institute on the Cuban Economy, one million workers out of the five million-person workforce will need “restructured” (aka privatized) positions.47

Economist Cecelia Harnecker categorizes the various economic beliefs held by Cubans into three ideological categories, the “statists,” “economicists,” and “self-managementists.”48 The main socialist goal for the “statists” is a well-managed, representative state in control of society—a stronger state that functions properly and ensures that subordinates perform their assigned tasks. They stress that such a state differs from a capitalist one in that it responds to the interests of working people, not private capital. “Economicists” believe the main goal of socialism should be to develop society’s productive forces in order to create more material wealth. For them, economic

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47 Sanchez, Jorge Mario. Interview by author. February 17, 2015. Havana
growth generates an increase in purchasing power and in turn improvement in material conditions, and they see both privatization and a market economy as essential tools for this type of development. “Social justice” is, for economists, an uncomfortable word. They suggest that Cuba must choose between efficiency with inevitable inequality, on one hand, and social justice with poor material conditions on the other. In contrast, “self-managementists” argue that genuine democratic management would lead to efficiency, productivity, and equality. The self-managementists attribute economic underperformance to the insufficient sense of true ownership by workers and managers. They argue that self-management in the form of cooperatives, co-management, and community enterprises in coordination with democratically managed local governments is necessary to achieve higher levels of development in both social capacities and economic productivity.

Harnecker claims the economist position is the one that currently predominates both within the state and among a majority of Cubans. Heavily exposed to the hegemonic worldview that private enterprise and markets work best, many believe that privatization and marketization represent the best path to sustained economic growth. At the same time, however, Cubans generally do not consider private enterprise and markets natural and hope to prevent their inequalities and other negative side effects, such as price differentials and higher profits for commerce over production.49

In 2008 in line with the emphasis given to increasing food production, Decree Law 259 was approved (subsequently amended in 2012 by Decree Law 300), allowing for the free handover of vacant land and poorly exploited to private citizens. At the same time, Cuban citizens were allowed to rent tourist facilities and to purchase mobile phones.

49 Ibid (118)
and computers, all in Cuban convertible pesos (CUCs). Not only is Cuba's population aging (18% of the population is over 60), but also the country's economy is heavily tilted toward the services sector. There are over 180 legal categories for self-employment, but these professions, including managers of independent restaurants and bed-and-breakfasts, are concentrated in the services sector, which makes up 80% of the national economy.\textsuperscript{50}

In contrast, when Vietnam began its \textit{Doi Moi} (renovation) economic reforms in 1986, services accounted for about 33% of GDP, whereas the productive base represented nearly 67%. In 2008 the Ministry of Labor and Social Security resolved to link state workers’ wages with productivity.\textsuperscript{51} These new rules eliminated the price ceiling on what workers could earn beyond their base salary, but their implementation has stagnated because the Labor Ministry has ended up imposing productivity-tied pay schedules that are not attractive to workers or managers.\textsuperscript{52}

In late 2012, Havana legalized the creation of transportation cooperatives -- private, profit sharing entities owned and manage by their members -- to fix bottlenecks in agricultural distribution. Meanwhile, 100 state enterprises are now running their finances completely autonomously as part of a yearlong pilot program. A small number of state enterprises, including research centers, high technology corporations, and business management organizations like Azcuba, GAEFAR, and Bicubafarma, are significantly autotomizing their economic and financial management. 70% of national profits are concentrated in 6% of state-owned enterprises, almost all of which are

\textsuperscript{50} Lago, Carmelo, and Jorge F. Pez. \textit{Cuba under Raul Castro: Assessing the Reforms}. (95)


\textsuperscript{52} Harnecker (110)
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included in this process. The goals of this major privatization include the recapitalization of enterprises, using increased profits to improve workers’ wages, promoting the creation of a wholesale market of surpluses over state production targets, and to make sure that international prices are correctly reflected in the costs of domestic firms. The new tax law of 2014, which requires the self-employed to pay as much as 50% of income over 50,000 pesos per year, attempts to balance the objective of introducing a tax culture in a population already has reduced incomes, an intention to stimulate the new private sector, and as a policy to avoid the ‘concentration of wealth.’

There seems to be a great deal of misunderstanding when it comes to the entrepreneurial landscape in Cuba, a discrepancy that became evident during my interviews with various political and social leaders in Havana. Officials such as Jorge Mario Sanchez at the Institute for the Study of the Cuban Economy and Eusebio Leal, the Havana City Historian, claim that entrepreneurs are granted a whole host of economic liberties, including the ability to take out small loans, open multiple branches of a restaurant, casa particular, or beauty parlor, and employ sizeable teams of employees. Others, such as Karina Chiu, director of the Convivencia group, and Reinaldo Escobar, editor of 14 y Media and husband of infamous Cuban blogger Yoani Sanchez, assert that these economic liberties are simply non-existent or unattainable for the average Cuban.

The amount of red tape, founding fees, and steep tax barriers required to open a small business limits the practice to those with strong party connections or cash flow via remittances. And since the majority of new economic provisions are dictated as

53 Cordoví (128)
54 Ibid (126)
55 Interviews with Sanchez and Leal, February 2015. Havana
56 Interviews with Chiu and Escobar, February 2015. Havana
corollaries to the Lineamientos and not necessarily codified into publicized law, it is near impossible to know exactly what is legal and what is hearsay. Mario Sanchez rebuts that there is a lot of misunderstanding due to a lack of civic education on modern laws; students of state universities (who are more often than not sincere party-loyalists) and other party affiliates are more likely informed of their civic capacities than those estranged from political life. While the government states that its primary goal is to maintain “rights to access” in all aspects of life, economic prosperity tends to favor those loyal to the revolution and its goals through insidious aspects of Cuban life.
CURRENCY

The Cuban convertible peso (CUC), which is practically equivalent to the U.S. dollar and equal to 25 Cuban pesos (CUP), today functions as the currency of the tourist sector whereas most state workers are paid in CUP. The values of the CUC and CUP are considered equal within and between state enterprises, a bizarre accounting practice that helped insulate CUP prices from inflation following the collapse of the Soviet Union. This conversion inconsistency makes it difficult for analysts and investors to estimate the real cost of doing business with Cuban companies and overvalues the CUP’s international exchange rate. Economists agree that the least disruptive way to move towards a single currency would be to gradually merge the two exchange rates, which would need to coincide with a steady rise in GDP and salaries.57

Cuba suffers from painfully weak purchasing power at parity compared to that of other countries. A study by the University of Miami’s Institute for Cuban and Cuban-American Studies shows, for example, that to purchase fourteen ounces of powdered milk, the average Cuban worker has to work 57.5 hours. To make the same purchase, the average worker in Costa Rica has to work only 1.7 hours. Comparable disparities hold for the other items analyzed in the study’s consumer basket.58

Limited access to dollars serves to exacerbate racial tensions. The vast majority of Cubans receiving remittances from relatives living abroad and able to become self-employed are white. Afro-Cubans, without access to remittances from family members

57 Sweig and Bustamante (43)
abroad, are left behind as income inequality increases. Loyalists remind dissenters that the “pueblo Cubano” pays “1 centavo for their house, 1 centavo for their phone, nothing for healthcare, nothing for education;” compared to the purchasing power of countries like Nicaragua or Guatemala, these thinkers believe Cubans are relatively well off. In response, Reinaldo Escobar points out the painful truth that the average Cuban has to work 1.5 days (for 25 “peso Cubano” or 1 CUC) in order to purchase an after-work beer, a simple pleasure characteristic of blue-collar workers everywhere.

59 Ibid (23)
60 Interviews with Mario Sanchez, Leal February 2015. Havana
61 Interview with Escobar, February 2015. Havana
FOREIGN INVESTMENT

After more than 20 years of meager FDI in Cuba, it is clear that the benefits in terms of improved productivity, efficiency, and gains derived from improvements in management are beyond doubt. Globally the Cuban economy grew in four years at an average annual rate of 2.5 per cent, without decreasing in any year despite the negative impact of the economic crisis and the US blockade, while Latin America and the Caribbean grew at an average 3 per cent annually over the same period. During the brief period from 1993 to 2001, the Cuban government published some limited, highly aggregated data on foreign investment flows. Cumulatively, they reported flows through 2001 totaled $2 billion. This data series was discontinued after 2001 when Cuba began entering in joint ventures with notable partners like Venezuela and China, which offered capital on subsidized terms in ideologically comfortable state-to-state deals. In 1998, the Cuban government made clear its preference for large-scale joint ventures to smaller ones, a preference that appears to remain in place. Yet according to Richard Feinberg, this “bigger-is-better” prejudice flies against contemporary trends in international economic thought, which argue that small and medium-size firms are often more innovative and flexible, and employ more workers per dollar invested than very large firms. Of course, this is not necessarily an either/or proposition; larger firms obviously benefit from surrounding efficient, specialized smaller firms.

The flows of FDI to Cuba compare unfavorably to the experience of other countries, whether for countries of similar size and location in the Caribbean Basin or in high-growth East Asia. From 1990 to 2009, years in which Cuba was attracting roughly $3.5 billion in FDI, Costa Rica attracted $14 billion; the Dominican Republic, $17 billion; and Chile, $110 billion. Two pertinent Asian countries, Vietnam and Taiwan, attracted about $50 billion each. Socialist Vietnam retains a strong state presence in the economy and remains a one-party state.\(^\text{64}\)

In February 2013 a new agreement was reached with Russia to cancel the debt accrued by Cuba prior to the collapse of the Soviet Union. According to research and data presented by The Havana Consulting Group LLC remittances to the island have had a rapid rise since 2006, the year that remittances totaled US$1.25 billion and reached US$2.29 billion by 2011.\(^\text{65}\) Marino Murillo, Cuba’s minister of the Economy, has said that the island needs at least 2 billion dollars a year I investment to achieve an economic takeoff.

In 2014 Cuba attracted approximately $500 million in foreign direct investment

\(^{64}\) Ibid (16)

(FDI)—or just 1% of GDP.\textsuperscript{66} Figure 2 compares FDI inflows as a percentage of GDP across the aforementioned countries, illustrating just how far Cuba has to go in terms of attracting foreign capital compared to its developing neighbors and East Asian counterparts. Given its tumultuous political history and underdeveloped economy, it is difficult to accurately predict how quickly investors will flock to Cuba once the embargo has been lifted in full. But a good comparison might be the Dominican Republic, another Caribbean nation with roughly the same size population as Cuba. The Peterson Institute for International Economics estimates that Cuba could potentially attract as much foreign capital as the Dominican Republic, which currently receives $17 billion in FDI ($2 billion from the U.S). But this won’t happen overnight—in the Heritage Foundation’s Index of Economic Freedom, Cuba ranks 177\textsuperscript{th} out of 178, ahead only of North Korea.\textsuperscript{67}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure3.png}
\caption{FDI as a Percentage of GDP 2010-2013 (World Bank)}
\end{figure}


IMMIGRATION

From 1990 until 1993, emigration (Cubans leaving Cuba) amounted to around 5,000 persons annually. However, as the Special Period increased in intensity so did emigration. The “rafters” crisis in 1994 saw 48,000 emigrants drain out of the country. Effective population decrease has continued ever since, and this permanent external migratory balance causes, from 2006 onward, and absolute decrease of the Cuban population. According to Aja (2006–2007), the emigrants were, from the 1990s-onward increasingly younger (between ideal working ages 20-40), which contributed to the serious economic crisis and indicated a loss of confidence in the revolutionary project. Between 12 and 13% of migrants are professionals. According to Casañas (2006–2007), the professions mostly represented among the emigrant population are engineers, doctors, teachers and professors.

The population of Cuba in 1990 was 10,662,148. In 2010, it barely passed 11 million (11,241,161). Since 2004, it has experienced deep population stagnation with periods of absolute decline from 2006-2008 and 2010. Valdes and Sainz demonstrate that high-level education increases the probability of Cubans emigrating. The positive educational self-selection problem has significant negative consequences, especially the loss of human capital. Highly educated people do not hold jobs that allow them access to hard currency, so effectively their income is much lower than jobs that require little


education. For example, a university professor paid a state wage in the national currency may make six times less money as a waiter at a Sol Melía resort who receives tips in convertibles, worth 25 national pesos each. The incentives for higher education are disappearing, leading to an exodus of teachers and engineers, for example, to the tourism industry. The resulting income inequality will likely also present problems for norms of social trust, solidarity and the prioritizing of social or public good over individual gain.\(^\text{72}\)

In 2013 a new migration law eliminated the need for “white cards,” as the historically expensive and unpopular exit permits that all Cubans must obtain in order to leave the country, were known. This expands the amount of time Cubans can legally reside abroad without the risk of losing their bank accounts, homes, and businesses from 11 months to two years and allows those who left the country illegally, such as defectors.

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![Figure 3: Change in Cuban GDP, Population, and Unemployment Over Time (World Bank)](image-url)
and rafters, permission to visit or possibly repatriate.\footnote{Sweig and Bustamante (42)}

Figure 3 illustrates how Cuban GDP, population, and unemployment have changed over time. Unemployment spikes after the severest point of the Special Period in 1994 and has gradually declined ever since. However, the Cuban population has declined as well, reaching net loss rates in recent years. The decreasing population coincides with declining GDP growth rates.
POLITICAL REFORM

Most would argue that economic liberalization has far outpaced the opening of political competition and space for political protest. However, two distinct features of Cuban political life in the 21st century indicate that new forms of political institutions may be forming. The first is the widespread public participation in community discussions about the Lineamientos. After the National Assembly had finished presenting its proposals for reforms in 2010, all members of grass-roots and professional organizations and all other interested members of the public were invited to attend open meetings to scrutinize the proposed legislation and suggest amendments. From November to March of 2011, 8 million people attended these discussions and 781,644 submissions for amendments were received. The government has called for disagreement, for the expression of different viewpoints.

It was not the first time that this type of nationwide debate involving large numbers of people had taken place in Cuba. Following the collapse of the Soviet Union, more than 80,000 “workers’ parliaments” were held in workplaces, schools, and mass organizations in 1993, and more than 3 million people expressed concerns and put forward proposals on how to deal with the new situation. About 68% of the more than 200 guidelines were modified, but only a few of the changes, such as those related to market planning and prices, were substantial. Whether these discussions were truly open and safe spaces to voice discontent for the Lineamientos is vigorously contested. Opponents described them as “formalities,” “staged,” and “meaningless” and insist that

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75 Harnecker (109)
76 Ibid (111)
all of the “modifications” were far from significant. Nevertheless, one of the most important goals incorporated into the Guidelines is that local governments should play a guiding role in state and non-state economic activities, creating new enterprises, collecting taxes, and handling funds earmarked for local development.

The second political institution developing slowly in Cuba is the establishment of national, provincial, and local assembly election committees. In two Cuban provinces, Artemisa and Mayabeque, local coalitions of prominent community members are being given responsibility to construct party slates for local congressional elections. This electoral restructuring constitutes part of the government’s greater effort to reorient the government horizontally and create a division between local businesses and their governing bodies. The role of local government is being defined more precisely to oversee political processes and collect tax revenues, and less to regulate commerce. August has documented emergence of these particular political abilities and writes that active Cubans who are frustrated with the current political system are being given an opportunity to change it.

Cuban elections are unmeaningful in form and function. With 98% participation, Cuba can boast, perhaps with the exceptions of North Korea or Kazakhstan, the highest voter turnout on the planet. Beyond this, there is nothing commendable about the Cuban electoral process. Candidates—all obviously members of the party—are elected in slates, have no opportunity to publicize a political platform, and, in the case of local elections, are often strong-armed into running for office as these officials garner very little political

77 Interviews with Chiu, Soler, Tamayo February 2015. Havana
78 Frank, Marc. Interview by author. February 13, 2015. Havana
power and societal recognition.\textsuperscript{80}

The Freedom House poll mentioned earlier outlined the complaints of the people of Cuba, including criticism of the restraints on freedom of expression and economic hardships, but it also reported, “Many respondents, however, were more measured, believing in socialism but wanting to see some reforms and liberalization.”\textsuperscript{81} Even the Catholic Church, arguably the best-organized civic organization on the island, affirms its political neutrality and has opted for negotiation, if not accommodation, with the regime. There has been a modest but noticeable increase in civil disobedience over the past decade Nonetheless, “human rights groups and opposition organizations remain isolated, weak, and subject to constant harassment. They confront daunting obstacles in making their views known and in connecting with ordinary citizens.”\textsuperscript{82}

Groups of moderate Catholics and reformist Marxists have circulated a series of proposals for political reform online, which include allowing direct, competitive, but single-party elections for all of Cuba’s major leadership positions, unrestricted access to the internet, freer media, and more effective separation of governmental powers. The proposals have provoked opposition from some defenders of the status quo while generating substantial interest and debate among academics on the island.\textsuperscript{83}

Not every Cuban is supportive of the political system and wants the status quo to continue, but neither is Cuba a society that faces so much repression that the right opportunity would bring an immediate uprising against the government. Cubans

\textsuperscript{80} Interview with Mario Sanchez, February 2015. Havana
\textsuperscript{81} Moreno, Brady, and Ribar (15)
\textsuperscript{82} Mujal-Leon and Langenbacher (18)
recognize, appreciate, and want to maintain the wide-ranging benefits of the Revolution, including the excellent health care and free access to education. Landau (2008) argues that Cubans have been de-politicized by the government’s circumvention of public dialogue, although some Cubans are very politically aware and engage regularly in critical discussions. But Landau argues that young Cubans, who do not remember the bad days prior to the Revolution, or the good days when socialism brought societal benefits and trade with the Soviets provided higher living standards, remember instead the hardship of the Special Period. Jensen, Danziger, and Venkatesh (2007) purport that arguments of ‘cyber-optimists’ who suggest the Internet will engage young people politically are not easily applied to Cuba. Reuters correspondent Mark Frank postulates that, if Cuba were to hold an open election featuring a progressive social democratic party, that party would likely win—at least if it promised to maintain universal education, healthcare provision, and the lack of crime and violence on the island. A recent Washington Post poll supports this claim, with 58% of respondents sharing a “negative” rating of the PCC and 52% agreeing that Cuba should have more than one political party.88

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84 Dominguez, M. (n.d.). Youth and Education in Cuba. In Cuban Studies 42 (pp. 3-23). University of Pittsburgh Press. (7)
87 Interview with Frank, February 13 2015. Havana
SOCIETAL RESTRICTIONS

Civil-society groups are continuously harassed by state security forces and remained largely unrecognized by the PCC. In Havana I met with Karina Chiu and Yoandy Izquierdo who run the Convivencia group, an association of social democrats who seek to teach citizens how to live together “despite all of their differences” through a monthly publication. Out of fear for their organization’s survival, Convivencia prints their journal in Miami and has it smuggled into the country. They operate solely through international donations. This operational scenario is illustrative of the general experience of civic groups throughout Cuba. While meeting with prominent dissident Berta Soler, leader of the infamous Ladies in White, we were followed by state spies, which was enough to scare me away from a more thorough interview. Intimidation towards these societal actors is pervasive or, as Soler put it “oppression is everywhere.”

Elizardo Sanchez of the Cuban Commission for Human Rights and National Reconciliation—who operates his organization with relatively little state retaliation due to his recognition as a prominent Marxist scholar—claims that Cuba has “the worst situation of civil and political rights in the entire Western world; worse than Venezuela, worse than Nicaragua.” This sentiment is reflected in wider societal sentiment; according to the previously sited Washington Post/Univision poll, 75% of Cubans feel that they “have to be careful” when expressing themselves in public.

Although the Cuban economy may be unstable and formal civil organization weak, social ties on the island remain as strong as ever. A “paz social” or profound

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89 Chiu, Karina. Interview by author. February 17, 2015. Havana
90 Soler, Berta. Interview by author. February 16, 2015. Havana
91 Sanchez, Elizardo. Interview by author. February 13, 2015. Havana
92 Univision (2015)
societal peace characterizes daily life in innumerable ways.\textsuperscript{93} Crime rates are the lowest in Latin America, and people roam the streets freely with little fear of confrontation. This was evident during my visit to Calle G, a central hangout for a distinct group of Havana’s rebellious, somewhat marginalized youth. On weekend evenings, gangs of alternatively dressed teens roam up and down “El G” socializing, playing music, rapping, and canoodling. Sparse streetlights barely illuminate the shadowy boulevard, but there are no safety concerns. Several eager kids told me, “Peace is the only good thing about this [profanity omitted] place.” Eusebio Leal talks of a “social character of Cuba”, evident in its strong pension programs, lengthily maternity leave, and the notably kind disposition of the Cuban people.\textsuperscript{94} Regardless of what happens to Cuba moving forward, an ideal scenario would uphold the harmonious and secure aspects of public life.

A survival mentality unifies average Cubans, who have opted to not “vote with their feet” by immigrating to the U.S. but have instead turned inward and vowed to get by.\textsuperscript{95} These strong community ties manifested in three distinctly Cuban social and economic customs. The cola or queues in Cuba take up significant time in every Cuban’s day as people line up around blocks at ration stores, to fill up their phone cards, and to manage their often meager finances in banks. These lines are self-regulated; people approach the line, ask “¿La última?” or “Who’s last?” and take their place. One may come and go throughout the duration of the wait and be assured that the person before and after them in line will save their spot. The second social custom particular to Cuba is known colloquially as Radio Bemba. Although Cuba has relatively low levels of

\textsuperscript{93} Interview with Leal, February 15 2015. Havana
\textsuperscript{94} Ibid
\textsuperscript{95} Stephens, Sarah. Interview by author. August 12, 2014. Washington D.C.
Can Cuba Liberalize?

connectedness – in landlines, cell phones, and Internet connectivity – it has high levels of social capital or connectedness. *Radio Bemba*, basically word of mouth, seems to be surprisingly effective at spreading information about politics, pop culture, and the country’s new economic regulations.  

Finally, strong social ties are manifested in Cuba’s burgeoning shadow economy, where many turn to launder or purchase goods and services simply to get by, as the *libreta* or ration card only provides 10 or so days worth of food a month. Outside of rations, people pay up to 20 times the market price of food to get by in the parallel convertible market. Reinaldo Escobar points out that the majority of Cubans, who make only 20 CUC a month, must steal in order to feed their families. “Trabajo plus” or economic activity outside of state sanctioned commerce, pervades every aspect of daily Cuban life.  

For example, there is no state industry to repair all of the old cars on the island; many repairmen who work in state factories operate side businesses to repair old Chevrolets and Fords using stolen scrap metal from their day job. Other people buy bulk commodities in the black market at discounted prices and sell them through state vending establishments; they get to pocket the difference and report low sales for the day. People don’t see these small, largely uncoordinated actions as directly combatting the government, rather, as necessary and harmless steps everyone must take to get by under the current system.  

While *Radio Bemba* provides limited access to information across towns and provinces, telecommunications in Cuba are still largely limited. In 2008 there were one million landlines and 800,000 cell phone subscriptions in Cuba (less than 8%  

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96 Wylie and Glidden (151)
97 Interview with Escobar, February 15 2015. Havana
98 Tamayo, Yariley. Interview by author. February 15 2015. Havana
Can Cuba Liberalize?

By 2013, 17.3% of Cubans had an individual mobile-cellular subscription. Cell phone minute-rate prices have come down drastically in the past five years, but the devices themselves are still quite expensive for Cubans on a fixed income. Most Cuban citizens must pay for cell phones in convertible pesos, which many receive via remittances from family members abroad. Even cell phone owners are careful not to use their minutes and instead use their cell phones like pagers, returning calls when they have access to a landline. To do otherwise would be excessively expensive for most people.

According to the International Telecommunications Union, in 2013 25.7% of Cubans had access to the Internet, but only 12.7% of households had a computer and only a forth of those could connect online. Critics charge that the Cuban state is deliberately restricting Internet availability for political reasons. The official explanation for the restrictions on Internet availability is related to the small amount of bandwidth on the island. According to the government, the U.S. embargo prevents Cuba from connecting to the undersea fiber-optic cables. As a result connections must be processed through satellites, which limits the bandwidth available for the island and is very costly. At the beginning of 2011 the state announced that a fiber-optic cable was going to be installed between Venezuela and Cuba which by some estimates would increase the rate of data transmission by 3,000 times. The installation of the 1,600-km cable was finished in February 2011 but the government pushed back the date it would be operational, moving the date to June and then July. However, these dates came and went with no noticeable

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100 Wylie and Glidden, 2013 (109)
101 Ibid (113)
change in Cuban connectivity. Then, in January 2013 Reuters’ Cuban offices reported improved speed in Internet transmission, indicating that the cable was operational.\(^\text{103}\) In May 2013, the government announced it had activated a cable from Jamaica to Cuba, further increasing the bandwidth on the island. However, speeds remain poor in comparison to other countries (several people in Havana pointed out that neighboring Haiti, a much poorer and resource-deficient country, has far more dependable connectivity). There has been little said about why the cable is not functioning as expected. Rumors abound in Havana with everything from fraud to government indecision being blamed for the delay.

Worrisome for the future of Cuba’s socialist model is its aging population. In 1990, 1,000 EAP people could sustain 237 seniors. Over 20 years later, the same number of active workers has to support over 275 seniors, owed to increases in geriatric life expectancy. Impressive achievements in geriatric care weigh ever more heavily on the shoulders of ever-fewer youths.\(^\text{104}\)


\(^{104}\) Hernandez and Foladori 2014 (37)
U.S. RELATIONS

Experts in Washington, Miami, and Havana agree on one thing; U.S. foreign policy towards Cuba has failed to incite desired transformations on the island. Cuba is not alone in this respect. For example, in the case of Vietnam, it was only after the lifting of the U.S. embargo in 1994 that the economy began to transform in earnest. Mark Frank astutely notes that, “the U.S. has never overthrown a government that we haven’t had relations with.”  

Given Cuba's proximity to the United States and its relatively low labor costs, a similar shift in U.S. law could have a profound impact on the island. Wylie and Glidden (2013) write about the ‘Cuban Spring’ fallacy, an American policy conviction that the Cuban state is near collapse and that the Cuban people are poised to revolt against their government. The idea that the U.S. could engender revolution in Cuba via communications technology is part of this larger narrative. On the basis of nationalism alone, it is unlikely that the Cuban people would rise up against the Revolution, effectively letting the U.S. ‘win’. While one may argue that the Cuban people are motivated by material incentives, it is also true that Cubans still find value in solidarity, and are more likely to value equality over individual freedoms. Otero and O’Bryan argue that due to these factors it is likely that Cuba could experience a transition from below, although it may be to a form of democratic socialism, contrary to the expectations of many U.S. policy makers.

When pressed for explanations for its lack of governmental transparency, the

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105 Interview with Frank. February 13 2015. Havana
106 Wylie and Glidden, 2013
government has pointed to U.S. hostility, affirming that the U.S. Treasury might take advantage of greater transparency to harass Cuba’s economic partners or seize Cuban assets.\textsuperscript{109} These fears may well be justified, demonstrating an example of how U.S. sanctions engender precisely the behavior—in this case, extraordinary state secrecy—that the U.S. denounces.\textsuperscript{110} In March 2010 the Obama administration announced that companies like Microsoft and Yahoo could avoid the export restrictions imposed on Cuba, Iran and Sudan. Now these companies are able to apply for a general license to export Internet services and related software to these three countries.\textsuperscript{111}

With hope on the horizon for normalized relations between the U.S. and Cuba, it is important to note that the reopening of at U.S. Embassy and the removal of Cuba from the State Sponsors of Terror list does not in any way constitute a lifting of the embargo or a license for open commercial activity between the two countries (although the opening of the U.S. Embassy in Havana in late 2015 may provide legal loopholes for U.S. corporations with civic or academic endeavors to set up shop on the island). Such a drastic policy change would require an act of Congress and is not predicted to happen in the near future. Additionally, any provision of economic activity on the U.S. end need not and likely won’t be directly reciprocated by the Cuban government. While visiting Havana, I met with Emilio Ucha the President of Inversiones Pucara S.A., a Panamanian luxury good distributor. The company facilitates the trade of liquors, handbags, perfumes, and other fine commodities from European companies to state merchants. This commercial intermediary illustrates the reality of doing business in Cuba; for the time

\textsuperscript{109} Feinberg 2013 (17)
\textsuperscript{110} Ibid (18)
being, everything will go through the central system. Flooding the Cuban market with American goods will not be possible so long as the government retains such a strong grip on commercial inflows and exports.

Dissidents and government loyalists alike assured me that nobody in Cuba hates the U.S. In fact, American culture in the form of music, fashion, sports, and celebrity are cherished almost universally on the island. Cubans want Americans to visit and experience their rich culture, a vacation route that will become increasingly more common as major U.S. airlines like JetBlue and Delta begin regular, non-stop service to Havana starting Summer, 2015. Cubans also understand quite well the economic benefits an open exchange with their northern neighbors could have on their day-to-day lives and will hold seldom a protest to prevent the influx of American tourists, commodities, and demands.

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112 Ucha, Emilio. Interview by author. February 14, 2015. Havana
CUBA ON THE CUSP OF CHANGE

Cubans and Cuban specialists alike disagree about the fundamental motivations of the Cuban government, the profundity of current reforms, and whether or not there is hope for the future. Coming to any sort of conclusion about where Cuba is now is difficult and contentious. However, from this analysis I would like to keep the following considerations in mind moving forward into a typological examination of post-communist liberalization:

1. The Cuban government understands that it needs to restructure its economy in order to become increase state efficiency, eliminate the dual-currency system, and improve agricultural and industrial productivity to balance out the despairingly service-oriented workforce.

2. New laws permitting self-employment and modest entrepreneurship are changing the way Cubans think about self-provision and the economy. However, taxes and bureaucratic barriers prevent many entrepreneurs from achieving privatized commercial success and favor those with access to remittances or party favors. Additionally, a lack of entrepreneurial know-how and general misinformation has prevented widespread adoption of new policies.

3. Changing relations with the U.S. are sparking optimism among Cubans who are eager for hard tourist currency and access to northern markets. However, as the Cuban government controls all foreign trade flows and manages all foreign direct investment through joint ventures, it is unclear whether future economic relations with the U.S. will feed the infantile private Cuban economy or help the government oversee the “enflorencimiento” or flourishing of its revolutionary project.

4. Cubans are proud of their strong social values, manifested in their redistributive economics, universal healthcare, strong education system, and “paz social.”

5. Cubans are slowly organizing to demand more political liberties, some of which are being seceded through the provisioning of local elections. However, demand for access to the Internet is not being satisfied and will likely result in further international condemnation of the Cuban government.

The recent Cuban transition, defined time wise in this paper by the introduction of Lineamientos ideology in 2009 through today, is relatively young compared to its
communist predecessors. In order to predict the likely outcome of Cuba’s reform strategy, we will turn now to analyzing the experiences of countries liberalizing under the East Asian, Central Eastern European, and Former Soviet Union/CIS models. Instead of dissecting the profile of applicable countries like I did with Cuba in this chapter, I will instead generalize the models regionally and compare them across in terms of the nature of their reforms (pacing, sequencing, profundity), state capacity (institutionalization, rule of law, government expenditure), perceptions of legitimacy (size of civic space, respect for government authority), and external influences (international financial institution membership, academic and cultural exchanges, Western political relations).
Can Cuba Liberalize?

IV
Modeling Authoritarian Reform Through a Comparative Typology of the East Asia, CIS, and Central and Eastern Europe Models

COMPARATIVE TYPOLOGY OF POST-COMMUNIST LIBERALIZATION

It is incredibly difficult to predict what will happen with Cuba moving forward; there are so many variables at play. The recent changes in U.S. diplomatic engagement with the island came quite unexpectedly. Almost every single one of my esteemed interviewees in Washington and Miami said they did not expect a significant shift in U.S./Cuban relations to transpire before the end of the decade, let alone the end of the Obama administration. What happens in 2018 with the Castro succession is largely uncertain, with current Vice-President Diaz-Canal seen as the most likely potential inheritor of the country’s highest seat of power. And on top of all this, there is very little research data that can be analyzed to firmly grasp the full spectrum of public opinion on the island or the current state of the economy.

Because of this, I believe the most potentially successful way to predict the future of Cuba as it transitions from an entirely centralist model to a more market-based orientation is to compare the policy changes since the introduction of the Lineamientos in 2011 to the transitions of the other post-Communist nations around the world. Several of my interviewees (mostly those who tend to favor the regime’s point of view) opposed this framework, claiming that Cuba has too many structural peculiarities and a past too distinct from the Former Soviet Union states, so as to make any comparison inaccurate. I agree that comparing Cuba to Russia or China reveals very little; its size, geostrategic
importance, and cultural history obscure direct comparisons. However, I’ve found that through comparing Cuba’s transition to three other models of transition—the Chinese/Vietnamese market-authoritarian model, the weak democratic transition model of the CIS states, and the full democratization and capitalization model of Central/Eastern Europe—and not to countries specifically, we can gain a great deal of perspective into Cuba’s transitional strategy and the likely outcomes of its recent policy measures.

The states included in the Eastern/Central Europe model are Hungary, Poland, Czechoslovakia, Estonia, Latvia, and Lithuania. The states used in the CIS model are Russia, Ukraine, Belarus and Armenia. And China and Vietnam make up the East Asian liberalization model.

The typology framework employed moving forward analyzes four characteristics of the three post-Communist liberalization models. First, I will look at the general nature of the transitional reforms. Did the case countries institute reforms gradually or was “shock therapy” employed? Were the economy and political spheres liberalized simultaneously or separately? Has growth been export-driven or domestic demand-driven? And was there an urgent political or economic impetus for the reforms or a more gradual transition? Second, I will classify the models based on state strength and scope. How well is rule of law enforced in the case countries? What sorts of political and economic institutions have guided or failed these transitions? How had the role, size, and capability of the state changed throughout transition? Third, I will attempt to gage constituent perceptions of state legitimacy. How large and active is the civic space and how has it changed over time? Is civic engagement collaborative or oppositional? Finally, I will compare the influence of external factors facing these transitioning states.
Are these countries prominent members of international organizations? Did Western cultural, economic, or political forces influence them during transition? How desirable are the commercial opportunities in these countries in the eyes of foreign investors?

It becomes apparent that the Cuban transition can be very much analyzed through this framework. Once we have qualified the nature of liberalizing reforms, strength and scope of the central state, perceptions of state legitimacy, and influence of external factors of our three models and of Cuba, we can draw comparisons that reveal a great deal about what Cuba may look like in a decade and whether there is imminent hope of greater prosperity for the island’s 11.3 million inhabitants.
THE EAST ASIA MODEL

Nature of Reforms

China and Vietnam have done what was previously thought to be impossible. The Asian industrial come-ups have achieved far above-average GDP growth rates for over two decades, by liberalizing significant portions of their previously centralized economies while maintaining authoritarian-style, single-party leadership. John Williamson, who coined the term ‘Washington Consensus,’ summarizes transition literature to distill the Chinese model into five similar components: a) gradualist approach to reform choices; b) willingness to experiment with policies; c) export-led growth; d) the maintenance of an explicit role for favored state owned enterprises (SOEs) in production; and e) maintenance of a politically efficient, authoritarian regime during this dramatic economic transition.114 In his analysis of Vietnam’s Doi Moi reforms, Vietnamese economist Vo Tri Thanh adds to Williamson’s model the acknowledgement of private business rights, social stability, and the integration of the economy into the regional and world economy.115

The introduction of market-based economic institutions was gradual in both China and Vietnam. Fearing jarring labor dislocations caused by a rapid privatization of SOEs (such as what happened in Czechoslovakia and Russia), Chinese and Vietnamese authorities employed a two-tiered pricing scheme. Under such a program, economic actors were required to meet a quota of output at a particular state-determined price, but

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were allowed to sell output above said quota at a market price. This was called the “dual-track” plan in China and the “three-plan” system in Vietnam. Through these provisions, both countries allowed the private sector to expand alongside the state sector until eventually the former outpaced the later, particularly in China.\(^\text{116}\) Private (some foreign) producers and local town and village enterprises (TVEs) bridged the disparities between plan estimates and actual production. After some time, both counties allowed for losers in the form of liquidated, inefficient SOEs.

Jason Kornai argues that East Asian growth rates were initially based on the intensive use of capital and labor—much as had the Soviet Union’s early growth.\(^\text{117}\) When the agricultural sectors in China and Vietnam were initially liberalized, significant state labor was freed up, which facilitated rural savings and drove the new industrialization.\(^\text{118}\) Compared to the Soviet bloc, China and Vietnam had far smaller state-owned industrial sectors to unwind through massive privatization, and Vietnam was actually considered to be under-industrialized.\(^\text{119}\) China and Vietnam’s sustained growth can most likely be attributed to total factor productivity (TFP) growth, or the employment of technological advancements to improve production efficiencies.\(^\text{120}\)

The gradual implementation of reforms and lack of immediate impetus to reform (such as economic collapse or government overthrow) has allowed China and Vietnam to

\(^{116}\) Danay Quintana Nedelcu, "Cuban Education between Revolution and Reform," *International Journal of Cuban Studies*, 2014, (211)
\(^{119}\) Thanh 2014 (80)
experiment with the creation of new economic policies. In China, examples of such experimentation include the dual-track pricing scheme described above, special economic zones for foreign investment, and TVEs that promoted local government ownership. In Vietnam, experimentation took the form of foreign enterprise investment zones, one-stop-shop business registrations, and household rice contracting.\textsuperscript{121} Guided by a strong state hand and faced by no strong political opposition, China and Vietnam have been able to experiment with economic policies to find those that best suit the unique cultural and structural characteristics of their countries, which has resulted in sounder and more deeply integrated systems of economic activity.

Without a doubt China and Vietnam have been only been able to usher in gradual reforms and experiment with policy using a strong ruling hand and efficient control. During an interview with Ted Turner in 1990, Fidel Castro stated that the then-recent Tiananmen Square crackdown was “regrettable” but prevented “chaos and generalized anarchy” and therefore leaves the Chinese with “no alternative.”\textsuperscript{122} China and Vietnam’s violent histories of military campaigns provided the communist parties with an insurmountable level of political control. Both of these parties are indigenous and nationalistic; China sought to drive out Western powers that had invaded since the Opium War of 1840 and won a decisive, bloody victory over Japan in 1945. In Vietnam, the nationalistic agenda was to drive out first its French colonists and later American imperialists.\textsuperscript{123} In addition, the Chinese and Vietnamese populations were (and largely


\textsuperscript{123} Minqi Li, ”The 21st Century: Is There an Alternative (to Socialism)?” \textit{Science & Society} 77, no. 1 (2013): (17)
still are) considerably poor and uneducated, especially in comparison to their Eastern European counterparts. The poor and less-educated Chinese peasantry is less likely to demand political rights and freedoms, as they are more focused on basic economic needs for subsistence. Although the Vietnamese population has an intelligentsia tradition inherited from the Democratic South, in comparison to Eastern Europe the intrinsic value of representative government is far weaker. Because of this, the communist parties of China and Vietnam have been able efficiently to obtain the necessary political control to institute their gradual economic reforms.

State Capacity

The ability of the largely authoritarian Chinese and Vietnamese governments to assert themselves politically and exercise authority over their populations is evident in their control of accessible media and the lack of threatening social unrest. At the same time, the parties in both countries have exercised a progressive retreat in terms of what they attempt to control, and they have shown tolerance for a limited degree of interest-group politics while maintaining a Leninist structure of centralized dominance. But while political processes remain highly centralized, control of economic activity has been greatly dispersed to local governing bodies. As opposed to Eastern European and other developing post-Communist economies where new entry firms were private or state-owned, Chinese entrants have been controlled by local governments. These rural community governments play no role in the election of national governors but instead

124 Kerkvliet 1998
support the central state by providing local public goods and managing local business development. In this sense, China and Vietnam are quite decentralized when it comes to economic management, with each province acting like a subsidiary of a larger corporation. In contrast, Eastern European countries upon liberalization were organized more like U-formed corporations, with intense regional specializations.

The Former Soviet Union diversified production across its subunits, creating regional specializations of products and industrial concentrations in particular locations. In contrast, China and Vietnam, which never fully implemented central economic planning schemes, left provinces internally diversified. This generated competition among local, rival producers with similar products, and the existence of multiple production sources protected the national economy from regional shocks. However, to protect domestic production and regulate consumption, China and Vietnam still protect several types of goods, including petroleum, fertilizer, steel, and sugar, through quantitative restrictions and foreign exchange management.\(^{125}\) And the size of the private Chinese and Vietnamese economies cannot be overemphasized; in 2012 SOEs still account for 40% of GDP in China and 24% in Vietnam, although a significant fraction of these enterprises operate in protected-goods industries.\(^{126}\)

With this more horizontal management structure, the Chinese and Vietnamese governments are able to regulate economic activity more efficiently than the Soviet Union could under its entirely centralized management. Macro economic policies are

\(^{125}\) Thanh 2014 (85)

\(^{126}\) Malesky 2014 (402)
produced at the national level and implemented locally, providing wide scope to already politically strong state institutions.

Perceptions of Legitimacy

The two Asian Communist parties have over time come to symbolize national identity that has served as a source of legitimacy, which was comparatively weaker in Europe. Even in the Soviet Union where resistance to German invasion in WWII served to create patriotic pride, the various non-Russian nationalities within the USSR held on to their strong individual loyalties and cultural histories. Unlike the liberation wars in China and Vietnam that were rurally-based, the Bolshevik Revolution and subsequent government was urban based and cultivated a suspicion of rural communities, evidenced by the imposed collectivization of the Soviet countryside. As mentioned above, the Chinese and Vietnamese governments have opted for administrative decentralization in the countryside and have trusted local party factions to institute national policies.

Political liberties in China and Vietnam have not amplified significantly since the Cultural Revolution and the unification of Vietnam, made evident by their largely stagnant Polity IV measures. Property rights in these countries are poorly protected, legal institutions are opaque and not independent, political opposition remains severely repressed, and participation in political decision-making is limited to a select few. However, several governance reforms in both countries point to a brighter, freer political future for the Chinese and Vietnamese people. In China, these policies include the

127 Kerkvliet 1998
introduction of semi-competitive elections at the local and township level, transparency innovations like the Chinese Open Governance Initiative and the partial liberalization of the Internet to communicate with constituents about societal grievances. Vietnam’s reforms are arguably more advanced; semi-competitive elections are taking place at the national level, citizens are providing feedback on draft legislation before promulgation, and a cadre evaluation system is being implemented to institutionalize meritocratic promotions. But neither China nor Vietnam intends to tolerate any erosion of its power monopoly; both parties still harshly suppress dissidents and have received a great deal of international criticism as a result. Citizens of both countries claim that there is little evidence the new election structures provide a meaningful link between voters and candidates and that political campaigns contain little substantive content.

Additionally, as the Chinese and Vietnamese economies have adopted market characteristics, inequality has intensified much more than the original party leaders would have liked. Prosperity in China is enjoyed disproportionately by party members living in the country’s booming metropolis, and international watchdogs have criticized the country for allowing wealth to accumulate for some while many citizens continue to work in sweatshops in inhumane conditions, with insufficient compensation. Its GINI coefficient has risen from 29 in 1987 to a staggering 47 in 2012. In Vietnam the change in inequality has been less severe but still significant, rising from 34 in 1993 to almost 40

128 Malesky 2014 (403)
in 2012.\textsuperscript{131} Both countries need to minimize the social costs of their liberalization policies to prevent potential political unrest. Through the encouragement of private sector development, reform of labor markets, and the establishment of social safety nets, China and Vietnam could build stronger workforces and better distribute their growing national pies.\textsuperscript{132}

\textit{External Influences}

In comparison to Eastern Europe and the CIS countries, China and Vietnam have taken a significantly more oppositional stance toward Western cultural and political influence, integration and assistance. During China’s political turmoil in the 1980s, according to the recollections of Former Premier Zhao Ziyang, “it was clear that China’s top leadership, rarely thought about the international consequences of its decisions. During the crisis, the most decisive factors influencing the calculations of key leaders involved were domestic, such as the power struggle within the top leadership.”\textsuperscript{133} Strategically, a hostile China could destabilize Asia and threaten vital Western interests (especially in the area of nonproliferation). Economically, Western businesses were likely afraid to lose their billions of dollars in investment in China to access a fast-growing market with huge potential. Toward the end of the 20\textsuperscript{th} century, China’s growing


\textsuperscript{132} Thanh 2005 (81)

\textsuperscript{133} Minxin Pei “China: The Doomed Transitional Moment of 1989” in McFaul and Stoner 2013 (394)
economic ties with the West directly expanded cultural and intellectual exchanges, and worries about negative reactions from Western businesses entered the Chinese psyche.134

Both China and Vietnam have taken significant steps to integrate themselves into the international economic community through membership in various multi-lateral organizations and the establishment of bilateral trade agreements. China joined the World Trade Organization in 2001, with Vietnam following suit soon after in 2007. Both countries have signed trade agreements with the EU, and Vietnam signed a BTA with the U.S. in 2000. Vietnam has deeply integrated itself into the Southeast Asian economic community through active membership in ASEAN and APEC. Both countries have received supportive rhetoric from other East Asian leaders such as Singapore’s Lee Kuan Yew and Malaysia’s Mahathir Mohamad regarding Asian values and the decline of the West.135 This support, along with rapid economic growth and rising overall standards of living, give the Chinese and Vietnamese governments more international leverage for making claims of state legitimacy.

Finally, although the transaction costs and risks of doing business are still considered high in both Vietnam and China, in 2013 China and Vietnam received $348 and $9 billion respectively, in foreign direct investments, constituting 7% of China’s economy and 10% of Vietnam’s.136 Clearly foreigners are interested in conducting business in these countries despite the high risks of doing so, which indicates to these governments that they must be doing something right.

134 Ibid (389)
135 McCormick 2008 (128)
THE CIS/FORMER SOVIET UNION MODEL

Nature of Reforms

While the liberalization of communist states has differed in its effects on economic growth rates and social transformations, the conditions of the former Soviet Union after the Cold War allowed for stark local differences in the effects of liberalization on economic growth rates and social transformations. Local governments in the former Soviet Union held considerable control over whether to free up local food markets entirely or continue maintaining rationing policies. In effect, this may have minimized the effects of liberalization on social policies and led to heterogeneous changes to economic growth rates, as local markets were inconsistently liberalized. This led to the nature of the liberalizing reforms to be inconsistently applies across the former Soviet Union. Meanwhile, corruption of government officials persisted even after the Cold War, leading to uneven regulations and limited reforms in certain localities.

However, unlike the Chinese and Vietnamese economic reforms that were gradualist and highly sequentialized in nature, the Former Soviet Union employed an immediate, albeit somewhat flexible, reform. This abrupt type of economic transition, reform, and liberalization is commonly referred to as "shock therapy," given the harshness of its sudden withdrawal of state subsidies, removal of price and currency

139 Ibid.
controls, and rapid trade liberalization.\textsuperscript{141} Some researchers use the term ‘shock therapy’ in an attempt to explain why many of these rapid economic transitions achieve very little, while others in similar political conditions attain abundant economic success.\textsuperscript{142} According to these scholars, gradual economic transitions, such as those of China and Vietnam, tend to lead to improved institutionalization of economic reforms and market stabilizers, while abrupt transitions lead to huge provisional gaps in new markets that were once filled by the state. Such gaps lead to high price distortions in local and regional markets, leading to potential social unrest, poor social conditions, and distrust of the forces behind the liberalization reform.\textsuperscript{143}

Vladimir Popov, on the other hand, argues that the speed of reforms in the Former Soviet Union did not matter a great deal per se. Instead, the Soviet economy’s industrial structure and external trade patterns were greatly distorted; industries were separated geographically and all trade moved in and out of Moscow. Additionally, poor macroeconomic policies and the employment of import substitution were “inconsistently followed across territories, resulting in the inability of the governments and the central banks to fight inflation in the first half of the 1990s.”\textsuperscript{144}

The importance of the speed in which economic reform occurs may have influenced the Former Soviet Union’s liberalization in three fundamental ways. The sudden and rapid economic reforms led to the following: a greater distortion in the structures of many industries and in the external trade patterns of the state, the collapse of

\textsuperscript{141} Popov, Vladimir. "Shock therapy versus gradualism: the end of the debate (explaining the magnitude of transformational recession)." \textit{Comparative economic studies} 42, no. 1 (2000): (22)
\textsuperscript{142} Ibid, (19)
\textsuperscript{143} Ibid, (24, 36)
\textsuperscript{144} Ibid, (98)
several important institutions just before and during the transition which led to
disorganized, unmanageable, and chaotic transformations with little crisis management,
and inefficient and ineffective economic policies, which led to low macroeconomic
stability.\textsuperscript{145} Additionally, at the time of the liberalization, the Soviet Union workforce
was primarily service-oriented and was required to allocate substantial resources in an
effort to reform the market structures that resulted from the centralized economy.\textsuperscript{146}
Consequently, there was little specialization in many industrial enterprises especially
agriculture; many markets were over-industrialized, perverted trade flows were common,
and the Soviet Union was over-militarized.\textsuperscript{147}

The Former Soviet Union began a transition to a market-based economy in the
year 1986 by means of the state’s partial liberalization of trade through a select number
of ventures. This inconsistently regulated process resulted in a politicized privatization
selection process marred by favoritism and corruption.\textsuperscript{148} The process of economic
transition and liberalization worked in the Former Soviet Union to undermine any
political and macroeconomic change that was initiated by the state. In fact, there is strong
evidence of this in the Former Soviet Union’s persistent inability during the past few
decades to effectively transmit authority across its territories.\textsuperscript{149} The state’s authority has
been challenged not only by regional and local government actors, but also by regional
economic actors who have been made politically powerful through early economic and
social changes and the reformation of property rights. Such groups benefited from a

\begin{thebibliography}{99}
\bibitem{Stoner} Stoner in Stoner and McFaul 2013 (58)
\bibitem{Ibid} Ibid (60)
\bibitem{Popov} Popov (99)
\bibitem{Stoner2} Stoner in Stoner and McFaul 2013 (34)
\bibitem{Ibid2} Ibid (30)
\end{thebibliography}
centralized state that was unable to regulate the state’s activities.\textsuperscript{150} Thus, such actors worked to penetrate and control the branches of federal bureaucracies in each of the regions and the regional politicians from governors to legislators.

The complexity in promoting, encouraging and spreading innovation were the central faults of the communist economic system. The widespread growth trap was, most particularly, a failure to accomplish industrial progress. The incentive structure of the Soviet economies principally worked against innovation. As a result, transition countries have inherited obsolete technologies and no structure for implementation and distribution of innovation. The core responsibility of the Soviet-type enterprise was to execute the government plan, not maximize profits. The successful enterprise executives were those who discovered techniques to fulfill the plan efficiently. Building a better system or finding a technique to at produce at lower cost was not appreciated or rewarded. The significance of plan fulfillment came at the expense of cost reduction and low innovation. Reducing costs was not crucial to the executive of a Soviet enterprise. This threatened plan implementation, and any financial gains would be taxed anyway.

\textit{State Capacity}

At the end of the 1980s the Soviet Union began collapsing and losing substantial amounts of state capacity precisely because its dictatorial character, coupled with a disastrous economic performance, delegitimized the regime in the eyes of its citizens.\textsuperscript{151}

\textsuperscript{150} Ibid (38)
Can Cuba Liberalize?

The former Soviet Union went from being a state with very extensive scope (e.g. no private property) and a moderate degree of strength in administrative capabilities, to a state with a much narrower scope of functions and an equally diminished degree of state capacity once democratized.¹⁵²

Economic decline was most likely a cause of Soviet collapse, but political unrest definitely played a role. By simultaneously liberalizing both economic policy and creating political space through the glasnost reforms, the Soviet Union quickly gave voice to diverging political and economic interests without the political and legal institutions necessary to manage them. The multiethnic nature of the former USSR facilitated the emergence of a kind of national economic chauvinism, which usually ignores considerations of economic expediency. "Particularistic contracting" made brilliant use of existing hierarchies and patrimonial relationships to build a constituency for even more economic reforms. But there have also been a series of unintended consequences. Applying different rules to different localities and enterprises ran counter to proclaimed legal norms and, indeed, gave the impression that those who succeed did so because of the special privileges they were allotted by higher levels, rather than because of their hard work or good ideas. In other words, the "particularism" in particularistic contracting taints the process of reform with the appearance of corruption and the common perception that power is being transformed into money. In Soviet successor states such as Ukraine and Belarus where government officials resisted market-oriented reforms, the consequences were disastrous.

¹⁵² Ibid (13)
At the beginning of economic and social reform of the Former Soviet Union, there were great burdens on the government’s leaders to liberalize the state. The military-industrial complex played a very large role in the national economy. Just as the maintenance of long-term military parity with much of the rest of the world was given up, it became clear that any conversion from excessive militarization to industry would suddenly require much greater losses than expected. Related to the question of how quickly reform would take place, there was strong suggestion that liberalization and privatization would be held off until sufficient legal and organizational frameworks were established for the private sector to operate. Unlike the conditions in China, the fall of industrial and trade structures led to economies that were mostly in rapid decline, and the new governments struggled to establish credibility and control. In fact, liberalization, the budget constraints for governments, and privatization were preferred to the advancement of private interests.

The poor central economic capacity of the Former Soviet Union on the eve of its collapse was evident through its outdated property structures and lack of incentives: its infant private sector did not respond to market signs due to a lack of property rights and legal institutions, making further fiscal policy measures largely ineffective. Additionally, there were huge resource distortions, and the state has suffered trade disruptions since the 1990s. Additionally, the re-drawing of borders in 1991 led to the creation of 15 new states, which triggered massive trade disruptions. Additionally, the new Russian state for some time did not possess significant control over the distribution

of its currency. And weak central economic institutions and the partial management of large enterprises led the Former Soviet Union to be unstable.

It may be useful directly to compare the Russian and Chinese transitions, the emblems of the CIS and East Asian models respectively, to better understand how the two once communist leaders of the world and regional hegemons managed to pursue strikingly different development paths. The two nations differ starkly in the stability and ideological unanimity of their ruling parties, the consistency and implementation of sound macroeconomic policies, and the level of influence of external political and cultural forces. Of the three central theories of state development discussed in political science – modernization theory, institutional capacity, and rational choice institutionalism – rational choice institutionalism provides the best explanation for the dissimilar development tracks of China and Russia. As stated previously, China has quite clearly defied modernization theory by developing a robust industrial economy and a well-educated populace, while maintaining authoritarian control of society. Over the past decade, neither China nor Russia has had secure private property rights, effective corporate governance or a strong financial system. But the two exhibited a huge difference in performance, which obviously cannot be attributed to the presence or absence of traditionally ‘best-practice’ institutions.

Rational choice institutionalism, or the state-building framework that argues that actors maximize individual utility using state institutions, can best explain China’s


\[155\] Ibid.

success and Russia’s failure.\textsuperscript{157} The Cultural Revolution left China in serious economic and social discomfort, which, in the eyes of the CCP, rendered major institutional changes necessary in order to maintain party control. In the Soviet Union of 1985, by contrast, although economic decay was widely felt, there was no sense of crisis, but rather an overwhelming sense of constancy.\textsuperscript{158} China forged a model for market authoritarianism using its broad state scope and strength and formed transitional economic institutions that decentralized economic control to lower municipalities, permitted economic agents to maximize rents in either a planned or market pricing system, and allow for significant inflows of FDI. These policies effectively strengthened the government’s ability to collect tax revenues, wield political and economic global hegemony, and provide public goods and services. Russia’s leaders, however, have made much poorer use of institutions to maximize their control of enterprise and rents. McFaul and Stoner conclude Russia’s path is likely to be something like that of Angola—an oil-dependent state that had grown previously from high oil prices but floundered in when those prices dropped, the leaders of which seemed more intent on staying in office to control oil revenues and other rents than on providing public goods and services to the beleaguered population.\textsuperscript{159} While authoritarianism \textit{per se} may not have determined different economic outcomes in China and Russia, the quality of the authoritarian leadership and consistency of governance has.

\textit{Perceptions of Legitimacy}

\textsuperscript{158} Åslund 2007 (29)
\textsuperscript{159} McFaul and Stoner 2008 (84)
Whereas socialism in Central and Eastern Europe lasted forty years and was largely imposed from the outside, socialism dominated Russia for more than seventy years, became a way of life, and was essentially a domestic rather than imported product. Unlike their counterparts in Central and Eastern Europe, the Russian reformers had to implement systemic transformation while their formerly unified state was rapidly disintegrating. The USSR’s failure and collapse, although driven by poor economic performance, was probably more of a political failure born of false expectations.160 Soviet leaders expected and urged that communism would lead to convergence, even global economic domination. Fulfilling consumer satisfaction was also an unrealistic goal that was missed; real per capita consumption by private citizens was much lower than straight GDP per capita figures suggest, due to high investment rates and military expenditures.161 One cannot fail to notice that average real incomes declined drastically at the beginning of market reforms, while inequality of income distribution increased. Whereas one-fifth of the population of the former socialist camp saw its living standards improve, almost one-third fell into poverty. A recent UN study found that 147 million people in this part of Europe currently earn less than four dollars a day; at the end of the 1980s there were only 14 million people in this category.162 From an international perception, the legitimacy of government officials in the CIS states after the collapse has remained very poor in comparison to Eastern European counterparts.

160 McFaul 2004 (38)
161 Ibid (41)
162 "Ten Years of Systemic Change in Central and Eastern Europe and in Russia: Results and Lessons." *Russian Politics and Law* 39, no. 2 (2001): 6-29. (18)
Self-perceptions of failure definitely come into play; once part of a polar political hegemon, the Soviet populations are now confronted with pseudo-democratic governments with special economic interests and deep military ties. They lack genuine representation due to highly rigged and corrupted elections, and, despite modest economic growth at the very end of the 20th century, have faced economic stagnation.\footnote{Stoner and McFaul 2014 (36)} Belarus, Yugoslavia states (Serbia and Montenegro), and the Muslim countries created out of the old Soviet Era in Central Asia are far behind in applying social equality, democratic/liberal systems and free-market initiatives. During Yeltsin’s democratic governance in the 1990s, sharp political disagreement over the power of the president versus the legislature resulted in the slow passage of laws on privatization, landownership and bankruptcy, which marred the transition process and exacerbated an already bleak economy. McFaul and Stoner attribute Russia’s brief economic turnaround at the turn of the century to the eventual implementation of these new laws, but public criticism echoed through new channels of free expression weakened regime legitimacy and likely led to Putin’s reversion to authoritarian governance.\footnote{Stoner and McFaul 2008 (78)} Over the past several years, renationalization of briefly privatized companies has caused overall declines in performance and slowed investment, both foreign and domestic.\footnote{Ibid (82)} And Putin’s policies continue to undermine social development by exacerbating income inequality (largely fueled by unequal distribution of oil rents), maintaining low investment in human capital (health, education) and infrastructural capital, and undermining property rights.\footnote{Stoner, K. (2014, November 10). Former Soviet Union and E. Europe. Democracy and Development PS 114D Fall Quarter 2014. Lecture conducted from Stanford CA.}

\textit{External Influences}
On top of weak transition institutions and poor macroeconomic policies, Russia was highly influenced by external forces, including strong Western political and cultural ideological transmissions via foreign broadcasting, the arms race with the U.S., and the international oil market. Evidence detailing the effect of Western cultural and political influences on the Soviet psyche during the beginning of perestroika reforms is not nearly as abundant as that of Central and Eastern Europe, although Stoner argues that the amount of effort and money that the Soviet state spent on jamming Radio Liberty and Voices of America and on stemming the import of other Western cultural relics demonstrated the considerable role this broadcasting played in the battle for minds within the Soviet empire.\textsuperscript{167} Soviet distress was further exacerbated by the cost of the arms race with the U.S.\textsuperscript{168} And the collapse of the international oil market in the 1970s and steep price drops in the 1990s played crucial roles in exposing the weaknesses of the Soviet economic system, which has grown increasingly dependent on oil rents.

In response to the strong economic performance of its Central and Eastern European counterparts due to EU affiliation, Russia has spearheaded the creation of a Eurasian Customs Union (EUU), which was established in 2014 by leaders of Belarus, Kazakhstan, and Russia, the membership of which has since expanded to include Armenia and Kyrgyzstan. This is seen as an extension of the existing Commonwealth of Independent States (CIS), which was created in 1991 as a loose regional association that nominally oversees financial, legal, and security related cooperation measures. The union has controversially re-polarized Europe, evidenced most recently by Ukrainian societal unrest and driven by pulls from Brussels and Moscow to join their respective

\textsuperscript{167} McFaul and Stoner 2013 (39) 
\textsuperscript{168} Ibid (56)
associations. The CIS organization has been marginally successful, unifying some of the collapse’s biggest losers over strategic regional goals, including energy production and transportation. This group of countries participates marginally in the World Trade Organization; Armenia joined in 2003, Russia only joined in 2012 and Kazakhstan and Belarus are still negotiating their accession. One might easily conclude that delayed membership in international organizations has stalled growth in these countries.
THE CENTRAL AND EASTERN EUROPE MODEL

Nature of Reforms

After 1989, devolutionary movements led to significant border changes in Eastern Europe, resulting a new, modified map that included twelve countries, namely: Czech Republic, Slovakia, Macedonia, Serbia/Montenegro, Bosnia/Herzegovina, Croatia, Slovenia – all newly formed countries – plus Poland, Hungary, Romania, Bulgaria, and Albania. From 1989 to 1992 most economies in the region abandoned the state-owned planning policy and initiated their transition to become liberal free market economies. All CEE countries suffered a decline in production at the start of economic transition. In some countries (Poland, Hungary and Czech republic) the crisis was rather minimal and short and was followed by sustainable economic growth at rates that surpassed all OECD economies.

There were three substantial issues specific to Eastern Europe, which made it almost impossible for central economies to improve declining economic rates. First, the central systems limit the abilities of individual private-enterprise executives to react properly to any changes in the economic environments. Rather, they produced at lower rates, regardless of product demand. Consequently, surpluses of many goods occurred as well as shortages of many others. Second, these economies did not have enough raw materials, products, technologies, and quality services to maintain economic growth. They were, thus, forced to turn their foci on the world markets. Many Eastern European governments began manufacturing goods to be sold outside of Eastern Europe, while many others lacking in manufacturing ability were forced to borrow large sums of capital.

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169 McCormick 2008 (141)
on international capital markets to pay for their industrial expansion. Third, Eastern Europe’s dependence on the Soviet economy was constant and acute. Such countries were highly dependent on the Soviet Union for almost all of their oil and natural gas inflows, all of which were purchased from Moscow well below going market rates. As a result, goods started moving in other directions and being sold at lesser discounts.

The results of the first years of economic transition were uneven. As prices were freed and old trade routes broken down, all countries in the region suffered high inflation major recessions and significant unemployment. The probability of closing the transition-related slump in per capita income increased much faster in countries that front-loaded the reform effort (CEE countries) than in those countries that left their transition agenda partial and incomplete (Southeast European and CIS countries). In Poland, structural and institutional changes were prioritized—in particular privatization—and market elements to encourage domestic investment, fortify smart financial habits, foster competitiveness, and rebuild the pension system. The Baltics started their transition later than Central Europe—most likely due to geography—but moved very quickly, expediting the sale of public properties and extending privatization to medium and large-scale enterprises within a decade. Other programs involved financial reform to regulate bankruptcy, foreclosure, supervision, and regulation, and privatization of natural monopolies. Hungary moved a bit slower; its 1993 liberalization program emphasized


172 Petrovic, Milenko. *The Democratic Transition of Post-communist Europe: In the Shadow of
the strengthening the governance of SOEs and improving bankruptcy policies before the 1996 program continued liberalization to completely privatize these enterprises, including banks.\textsuperscript{173} From these examples, it can be inferred that the liberalization of prices, trade, and foreign exchange was implemented quickly through legal and regulatory changes. Additionally, since these countries had grown familiar with concepts of entrepreneurship through limited economic exchanges with Western Europe, privatization of small businesses did not encounter major opposition. Competition policies, governance reforms, and enterprise restructuring have allowed the CEE states to privatize more successfully than the CIS countries by limiting opportunities for insiders to benefit from existing arrangements.

Figure one illustrates data from the 2014 ”25 Years of Transition Post-Communist Europe and the IMF” report and shows how nations in Eastern Europe were able or unable to enhance industrial productivity during the 1990s. The CEE-5 countries, or Poland, Czech Republic, Hungary, Slovakia, and Slovenia were, on average, able to restore industrial productivity to 1989 levels in 1998. Bulgaria, Romania, Croatia, Russia, and Ukraine, on the other hand, saw their industrial productivity cut in half, demonstrating—as stated previously—the failure of these countries’ unsequenced and uninstitutionalized reforms to establish the market regulatory institutions necessary to foster investment and commerce.

Figure 4: IMF Comparison of Changes in Eastern European Industrial Productivity

Although Poland, the Baltics, and other countries that embraced more front-ended shock-therapy reforms went through economic transition faster, there were still high initial social costs. Polish unemployment reached 16%, and over one million people lost their jobs, however by 1992 the economy had stabilized and began to grow.\(^{174}\) The experience in other Central European and Baltic countries was similar, contrasting significantly from countries like Belarus and Ukraine. These countries that stayed longer in the Soviet system had suppressed private sector initiative more vigorously and liberalized more gradually.

Conclusions about the pacing of reforms derived from the previous two models don’t hold when analyzing Central and Eastern Europe. Figure 2 also taken from the 2014 IMF report compares on the left the profundity of transition reforms (using EBRD transition indicators) to the change in GDP per capita from 1991 to 2012 across the CEE,

\(^{174}\) Ibid
South East Europe, and CIS countries. It is clear that the CEE countries that transitioned more profoundly (higher EBRD score) recovered higher incomes per capita than the CIS countries. On the right, using regression estimates and historical series of EBRD indicators, the IMF shows that the CEB countries who employed more “aggressive and frontloaded” reforms were more likely to recover their pre-transition income levels and in a shorter amount of time. From these graphs and using our previous analysis of the East Asian model, it can be inferred that political commitment to a profound transition rather than the pacing of liberalizing reforms is a better indicator of eventual success measured in recuperated pre-transition income.

State Capacity

The state capacity of Eastern Europe differed greatly from the collapsed Soviet Union due to differing pre-succession structural factors and strong political ones. There were social safety nets based on product subsidies and employment guarantees replaced by programs focused on unemployment, pensions, family benefits, and social
assistance. Rewards, bonuses and career paths depended on production in accord with government plans. Because plans were commonly tight, production plans ignored all other considerations. Although such plans contained signs for quality, value, technical enhancement, etc., these considerations were not obligatory. Another key feature of planning was that guidance and information flows were mostly vertical rather than horizontal. While higher government authorities organized the case with formal design than authentic practice, the interaction between businesses. An important drawback of the governmental, or institutional, cooperation structure in the Soviet-type economies was that businesses were heavily reliant on personal relationships rather than natural market-fostered agreements.

Most significantly, the CEE countries were able to effectively fortify rule of law through significant legal reforms, establishing strong property rights, enforcing antitrust laws, rigorously monitoring banking systems, and insuring bank deposits. Legal regulatory responsibilities of the central state were dispersed regionally through democratically elected local officials. As Huntington postulates, this was made possible through the consolidation of these “Third Wave” democratic states, negotiated transparently by like-minded pacts of elites eager to legitimize their national governments. These “third wave” Eastern European cases—as well as the subsequent “color revolutions” in the region—suggest that there may be a “tipping point” at which

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\(^{175}\) Heartwell in Burki 2004 (90)
the level of economic development, civic organization, and the emergence of an alternative coincide and democracy can emerge.\textsuperscript{176}

Perceptions of Legitimacy

The 1997 Eurobarometer documented overall citizen satisfaction of the development of democracy, the overall economic situation of the privatizing economies, and improvements in the human rights situations in Poland, Hungary, Bulgaria, and Estonia.\textsuperscript{177} The overall situation of Slovakia and the Czech Republic were evaluated much more negatively, perhaps because these countries had only split four years earlier and required a few more years for nationalism and economic welfare to permeate. Below-average satisfaction with democracy and negative evaluations of the market economy were found among younger and better-educated people, an indicator for an ongoing consolidation of both the political and the economic system in the region.

Today, those Eastern European countries boast the lowest Freedom House Freedom in the World and Heritage Foundation Index of Economic Freedom Scores among all post-Soviet states. These governments sit on laurels of economic performance legitimacy, comparatively free and transparent elections, and successful EU membership and integration.

However, throughout the 1990s the CEE states faced government instability, ethnic conflicts, and political apathy amidst the tumultuous economic changes. Helga


Welsh attributes this to “prematurely eclipsed bargaining and compromise” in early institutionalization of pluralist political structures. Helga Welsh claims the democratic consolidation and state-building processes in Eastern Europe were overly hastened to accommodate rapid privatization, which left unresolved issues of power distribution. This slowed down the adaptation of competitive conflict resolution mechanisms necessary to foster healthy democratic participation.\(^{178}\) When we move to our analysis of Cuba, it will be important to note how elite bargaining or lack thereof affects public perceptions of the *Lineamientos* reforms.

*External Influences*

Democratic consolidation was more successful in CEE countries than in CIS ones, largely due to the political and economic influence of Western Europe. The Helsinki Final Act of 1975 secured commitments to human rights and government from Eastern European leaders. Prospects for EU membership created democratic momentum among domestic citizenries. And economic modernization encouraged by burgeoning Western trade relations—especially through the German supply chain—helped foster a middle class with a social force capable of pressing for democratic governance. The responsible governments that emerged were able to dig themselves out of the inevitable post-collapse recession through dedication to democratic and market-based institutions, which fostered a healthy economic environment and legal stability. According to this model, privatization can only have a positive effect on economic activity if it is accompanied by

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necessary institutional transformation and effective economic policy in order to foster genuine competition. As a result, such countries as Slovenia (emblemized by self-managed enterprises), Hungary (dominated by foreign capital) and Poland (whose mass privatization didn’t occur until the end of 1996), although differing in their models of privatization and the size of the private sector they created, all have high economic growth rates.

Membership in international political and trade institutions offered new markets and movement of goods, in addition to strong regulatory and political frameworks to assist in the creation of sound market institutions, support of structural reforms, and nurturing innovation through competition. CEE countries started joining the WTO as early as 1995, lowering tariff rates, coordinating trade legislation, and submitting to independent dispute settlement bodies. By the mid 1990s, many CEE countries had implemented bilateral trade agreements with the EU, which served as precursors to eventual full membership.

Poland’s experience illustrates how international market forces first crippled the liberalizing Polish economy but eventually spurred growth upon profound trade integration with Western Europe. Poland’s “Balcerowicz Plan” was a front-loaded stabilization and reform program initiated in 1989 in the face of disastrous initial conditions; most prices were centrally administered, hyperinflation was crippling the banking sector, the labor market was not functioning, the capital stock was depleted, and enterprise ownership was dominated by state firms. The reform package introduced tightened financial policies by pegging the zloty to the dollar, increasing interest rates, and eliminating income tax exemptions and most government subsidies. Capital markets
were established to facilitate ownership changes, and the tax system was modernized based on income tax and VAT. Initially, Poland suffered an output loss due to the collapse of the Comecon market—which destroyed competitiveness—and disinflation in the face of import competition—which resulted in declining real wages. But the country rebounded as larger enterprises were privatized, and Poland was able to serve the German supply chain, driving up exports and facilitating industrial integration with Western Europe. Substantial investments from Western countries and successful policies made Poland one of the winners of transition.

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180 Ibid.
PROFUNDITY OVER PACING

These are the key takeaways from this typological analysis that will be applied to Cuba’s ongoing economic transition in the following chapter:

Nature of Reforms

- China and Vietnam have been able to transition their economies to largely market-oriented structures by experimenting with various gradualist reforms, making sure to protect state-dependent economic actors through dual-tracked pricing systems and subsidy programs.

- The CIS states struggled to uniformly privatize state owned enterprises. Because of the dispersed nature of industrial production across the entire Soviet Union, the post-Soviet states lacked the self-sufficiency necessary to increase total factor productivity and build new industries. The politicized privatization process encouraged favoritism, which worked counter to the establishment of trust and legality in the new capital driven market.

- Central and Eastern Europe employed front-loaded reforms with an emphasis on building legal institutions to protect property and investment. These countries experienced initial economic setbacks but were able to recoup their pre-transition GDP per capital levels once large state owned enterprises were privatized at the end of the 1990s.

State Capacity

- China and Vietnam have horizontalized regulation of commerce and conflict resolution apparatuses across political localities, enhancing the ability of the central state to regulate local commerce and collect revenues. Since economic planning structures were never fully centralized, provinces in China and Vietnam, became internally diversified, generating competition among local, rival producers with similar products, and insulating the national economy from regional shocks.

- The CIS states have failed to institutionalize economic and legal institutions that facilitate market performance as well as consolidate true democratic practices. The poor central economic capacity of the Former Soviet Union on the eve of its collapse was evident through its outdated property structures and lack of incentives: its infant private sector did not respond to market signs due to a lack of property rights and legal institutions, making further fiscal policy measures largely ineffective. The CIS states, especially Russia and the Central Asian autocracies, are unable to administer across their entire territories as their governing structures and revenue collection mechanisms did not properly decentralize.

- The CEE countries were able to effectively fortify rule of law through significant
legal reforms, establishing strong property rights, enforcing antitrust laws, rigorously monitoring banking systems, and insuring bank deposits. Commerce management was initially administered vertically, which was more possible in these countries than in the more Eastern Soviet-territories due to strong inflows of foreign direct investment in CEE manufacturing. Democracy was successfully consolidated by pacts of elites responding to nationalist “color revolutions” and influenced by imported Western political values via the Warsaw Pact and Helsinki Act.

Perceptions of Legitimacy

- Rural-based liberation wars in China and Vietnam have endowed the communist parties with a nationalist character unlike that of the Bolshevik’s Soviet party, which was installed through urban centers. In China and Vietnam, political liberalization programs are being employed in the gradualist and experimental manner of their predeceasing economic reforms in an attempt to appease international and domestic pressures for greater civic liberties while maintaining the supremacy and impermeability of central party authority.

- The democratizing Russian government was able to increase economic production towards the end of the 1990s through the provisioning of property rights, but public criticism echoed through new channels of free expression weakened regime legitimacy and encouraged Putin to revert to more authoritarian methods of governance. Without institutionalized democratic principles regulated through an independent judiciary and empowered legislature, autocrats in this region of the world undermine the desires of their constituencies to protect the economic privileges of those loyal to the regime.

- The CEE countries boast the lowest Freedom House Freedom in the World and Heritage Foundation Index of Economic Freedom Scores among all post-Soviet states. These governments sit on laurels of economic performance legitimacy, comparatively free and transparent elections, and successful EU membership and integration.

External Influences

- China and Vietnam have both taken steps to integrate themselves into the international economy via bilateral trade agreements and membership in the WTO, and Vietnam has been particularly active in Southeast Asian political organization. During the early days of liberalization both countries took adversarial stances towards Western political and cultural influences but have since fostered stronger relations with the EU and U.S., facilitated by large Western investment in East Asian production enterprises and academic and scientific exchanges.

- Unlike the early days of the Chinese and Vietnamese transitions, the Soviet Union was particularly affected by Western political and cultural influences, evidenced
by their preoccupation with ending Radio Liberty transmissions and European television broadcasts from educating their citizenry. The CIS countries are frequently ridiculed by international human rights bodies for the silencing of civic concerns and the corruption of elections. FDI flows to this part of the world are weak due to poor guarantees of property rights and instable financial intermediaries.

- EU membership has encouraged the CEE countries to adopt strong regulatory and political frameworks to assist in the creation of sound market institutions. Rapid economic integration into Western supply chains initially overwhelmed the uncompetitive CEE markets. Rapid industrialization financed by Western European corporations and investors improved Eastern-manufacturing capabilities and allowed these economies to benefit from free trade within the Eurozone leveraging their comparatively low-cost labor and inputs.
V

Inserting Cuba into the Post-Communist Liberalization Typology and Drawing Cross-Model Comparisons to Assess the Country’s Prospects for Development

Now that the East Asia, Central Eastern Europe, and FSU/CIS models have been outlined and greater defined the framework of this paper’s typology, it is time to see how Cuba compares across the four sections of analysis. This chapter will draw from the country profile in Chapter 3 and incorporate both scholarship from other comparative political scientists and original interview testimony to accurately place Cuba into the post-Communist transitology theoretical tradition. It will ultimately be revealed that the political goals of the Cuban Party’s *Lineamientos* policies align most closely with the Chinese/Vietnamese model for reform, but the structural deficiencies of the country more accurately compare to those of the FSU/CIS countries in the 1990s.

**THE CUBA MODEL**

*Nature of Reforms*

Cuba’s privatization and institutional reforms are advancing in a positive direction, albeit slowly. In a June 2009 Party document titled “Why the Adjustments”, the PCC revealed in its clearest terms ever its understanding of the deep structural problems facing the country, namely:

1) Low efficiency of the economic model
2) Excessive state protection of the population’s consumption
3) Subsidies that do not lead to an increase in productivity
4) A labor structure that does not correspond to the generation of earnings
5) Accumulated decapitalization of the economy and need to reinsert Cuba into the
world economy.\textsuperscript{181}

Since the Lineamientos were formally adopted by parliament in 2011, the government projected that by 2015 GDP growth would reach 5 or 6%; the reality is that the marginally privatized company is growing, if anything, around 1% annually. Experts agree the regime has to and will go further with the profundity of their market-oriented reforms.\textsuperscript{182}

Reforms thus far have been gradual and highly sequenced, similar to the Chinese and Vietnamese strategy to centrally control the privatization of key sectors of the economy. Kirby Jones, a former USAID official and current U.S.-based consultant for foreign companies interested in doing business with Cuba, recalls the failed aid packages employed by AID and the World Bank to rebuild the FSU states after the collapse, calling most reconstruction projects “tremendous failures.” Cuba, on the other hand, “very rarely makes announcements. They try things out, all these changes from taxicab rides to vendors in the streets, all those things were tried out in private projects in different cities out of the limelight to see what would happen. And then all of a sudden, the taxi is a very good example, one day with no announcement, what had been illegal for decades—meaning giving somebody a ride for money—no longer was.”\textsuperscript{183} This gradual experimentation recalls the Doi Moi reforms of the late 1980s.

However, as analyzed in Chapter 3, Cuba’s population is dangerously skewed towards the service-oriented sector of the economy, similar to that of the Former Soviet Union at the time of collapse. The repercussions of this are the defunct agricultural sector, weak industrial infrastructural capabilities, and a heavy dependency on imported

\textsuperscript{181} Frank 2013 (168) \\
\textsuperscript{182} Interview with Frank, February 13 2015. Havana \\
\textsuperscript{183} Interview with Jones, July 29 2014. Washington D.C.
goods. As the economy becomes increasingly stratified through the privatization of more state owned enterprises and the variable success of independent entrepreneurs, jobs will likely be created in manufacturing and agriculture that will require low-cost skilled labor that, for a short while, will not exist.

Domininguez and Erikson believe gradualist and sequentialist economic strategies can succeed. “Shock” strategies that generate fast change and implementation have worked well in the Czech Republic and the Baltic states, but gradualist and sequentialist strategies have worked well in China, Vietnam, and Uzbekistan. China began with a decisive change—the privatization of agricultural production, and went on to adopt other important changes in the organization of production. The first Vietnamese reform was to authorize sale of agricultural produce on the peasant market. This progressed almost instantaneously from scarcity to normal food supplies in the cities and to food exports. In industrialized Eastern Europe and Russia, agricultural liberalization was less crucial than in the rural peasant societies of East Asia. Cuba shows that its more liberalized non-sugar agricultural subsectors have made important gains. In the past two years, Cuba has begun to cooperatize rural and urban agriculture production, giving greater autonomy to non-state producers.

But excessively prolonged gradualism can bring about substantial harm. Bulgaria embarked on a path towards crony capitalism and postponed restructuring its banking system, which contributed to its 1997 crash and subsequent bout with inflation. In Slovakia, inadequate enterprise reform, a return to price controls, and a heavy

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185 Montenay 2009
dependence on borrowing resulted in an explosion in debt that rendered the country highly vulnerable to external pressures. And quite clearly the Russian case exemplifies most starkly the perils of insider privatization.\textsuperscript{186} Perez-Lopez continues this analysis using the Central/Eastern Europe and the FSU as examples of experience to show that transitioning states need to manage the inevitable economic contraction that occurs upon industry privatization so as to avoid anti-market backlash. This requires the correct sequencing of reforms to make sure priority economic institutions like are able to take root to support subsequent new entrants.\textsuperscript{187}

Arguably the most important institutional reform Cuba has made so far has been the opening of bank accounts, microcredit, and wholesale markets for the non-state sector, and the sale of homes, small properties, and establishment of inheritance rights for usufructuaries and homeowners.\textsuperscript{188} But these key economic reforms lack several integral components for success, namely full price liberalization and the elimination of the monetary duality (as discussed in Chapter 3). Price liberalization beyond agriculture is most likely to improve compliance with the law by lowering the opportunity costs of participating in the black market, create productive trading markets, and generate tax revenues for the state. Difficult experience with partial reforms from Russia and Bulgaria strongly point in this direction. Partial reforms empower and entrench insiders and block further change, instead rewarding corruption. In contrast, price liberalization is likely to

\textsuperscript{186} Domininguez and Erikson 2004. (236)

lead to improvements in the quality of products and the efficiency of services.

Fiscal stabilization is ultimately indispensable. Cuba currently imposes daunting licensing requirements, taxes, regulations, fines, and crackdowns on the self-employed cuenta propistas that scare many away from entrepreneurship. These restrictions are likely not intended primarily as redistributive nor as tax collection means, but instead as a vehicle through which political control can be exerted during this difficult period of political uncertainty. Tomas Bilbao of the Cuba Study Group says claims of private sector restrictions are overly pessimistic. He instead says Cubans are afraid to take out a standard loan with 6% interest over five years because there is no culture of debt on the island. For 55 years Cubans haven’t held a credit card or managed a bank account. He draws a parallel to China, where the first savings rates were extremely high but declined steadily over time as debt rates climbed. This comes down to a matter of polarized opinions; to someone who has never operated a business confronting government players, the regulations are unfamiliar and therefore daunting. Over time, entrepreneurial Cubans will likely adopt a debt culture and regulations will become more efficient.

Cuba’s excessive subsidization of loss-generating state enterprises creates further destabilization, similar to that of the Soviet Union pre-collapse. Following in the footsteps of China’s early reforms, some large enterprises have had their decision-making concerning management, production, hiring of workers, setting prices, and profit levels made independent, although these enterprises remain under collective ownership. Cuba were to continue to follow this “adaptive socialist market” or mixed economy model set

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by China and Vietnam, the state must permit self-employment in more skilled, high-value-added jobs for university graduates, authorize medium-sized enterprises, allow true cooperative independence, and reduce excessive taxes on non-state workers.

State Capacity

Raul Castro is no Deng Xiao Ping, but during a two-week study trip the now Cuban president made to China in 1997 he made it clear that he’s interested in implementing some Chinese-style economic reforms. Should Cuba successfully navigate between economic stagnation and total upheaval through the gradual downsizing of the central state, the East Asian model will serve as the most accurate comparison in terms of how hegemonic party states engage in economic reform, decentralize administration and enhance governance, introduce limited political liberalization (especially at the local level), and reorient the vertical operating structures of the central ruling party. Brownlee’s insights on strong central party control, cohesion and cooption of oppositional forces, and façades of political liberties in the form of controlled elections certainly comment on this experience.

With privatization reforms underway, Cuba must now focus on institutional reform in order to formulate institutions that support legality, create social safety net, and educate the public on market behavior. As the experiences of Central and Eastern European and FSU countries have shown, eliminating centrally planned institutions is relatively easy; it is much harder and more time consuming to build institutions that support and nurture the new market. The Soviet transition to capitalism was, for many

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Russians, a disaster, characterized by a marred and corrupt privatization process. Without a proper institutional framework, much the same could happen in Cuba given its huge portfolio of state-run enterprises closely tied to the military and its entrenched party bureaucracy.  

Perez-Lopez asserts that institutional reforms must set clear foundations for property rights, including a commercial code that sets bankruptcy rules and establishes policies that regulate trade. Chinese and Vietnamese agricultural reforms and subsequent enterprise reforms provided networks of rights and protections to motivate peasants and small town producers to launch their countries’ economic revolutions via the market. The CIS states illustrate the negative example of privatization processes rife with corruption. Cuba has a weak basis for property rights; despite recent reforms allowing the ownership and sale of small properties and commercial assets, many on the island still believe that the government could take property on a whim to serve some other project. The new push for local governments to initiate revenue-generating economic development projects, and the provisioning of new entrepreneurially derived tax revenues to help finance them, can give local governments a new degree of significance and responsibility. Given their interest in the revenues, municipal governments will increasingly feel a state in the success of the emerging private sector, creating opportunities for meritocratic leadership development.

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193 Ibid (154)

An institutionally supported private sector can enable the Cuban government to proceed more easily with its planned layoffs of state sector workers, therefore reducing government spending and strengthening the government’s fiscal position. Through the reduction of state debt, the government will be better poised to unify the national currency, ending the dual-currency system that, through the “inverted pyramid” societal reorientation, rewards workers with access to hard currency such as private taxi drivers and tourist hotel employees over state-employed doctors and professors. Similar to Eastern Europe’s social subsidy restructuring, Cuba can reduce the scale of its subsidy programs through the expansion of private sector incomes via further creation of cooperatives, foreign paid joint ventures, and a stronger agricultural sector. With greater private sector tax revenues, the government can afford to raise state sector wages—therefore increasing household incomes and reducing the need for government benefits such as the food ration libretas.

Julia Sweig describes the difficult road the Cuban government has laid ahead in terms of rewriting the revolutionary social contract. The government is being forced to tell Cubans that the state will no longer provide to the same extent as it used to; Cubans will have to become more self-sufficient. After 50 years of complete state patronage, this constitutes a deeply political and ideological change in direction on behalf of the PCC. Special interests within the Cuban bureaucracies are resisting these changes, as was the case in post-Soviet nations like Ukraine and Belarus. Up until and still today, in order to put food on the table everyone was stealing from the state through insidious black market transactions. State employees with access to in-demand goods who are making money off gallons of ice cream, or rice, or petrol, and selling it off the backs of trucks lose upon
liberalization. There are three generations of people in Cuba who have been raised believing that some modicum of social justice is their due, and that the state owes them that. Unraveling these expectations and reeducating the Cuban citizenry to become more self-reliant and participate in a competitive market will take time.\textsuperscript{195}

The large underground economy that has formed in Cuba resembles those of Eastern European nations on the eve of their transitions. A comparison indicates that these markets can give way to a marginalized informal sector that allows some groups of entrepreneurs to create powerful mafias, as was the case in Russia and other parts of the FSU. Cuba’s growing second economy consisting of legal microenterprises and the current underground economy poses both positive and negative implications for the central government. Proper institutionalization of market behaviors can help evolve the current economy into a more thoroughly mixed or full market form. Weak institutionalization will serve to benefit those with backdoor access to goods and hard currency.

The eventual size of the central Cuban state measured in terms of government expenditure of GDP is yet to be determined, but the three post-communist models in our analysis reveal that the proportion of state contributions to GDP do not necessarily decrease in “successful” countries, and in some cases even increased. In Hungary from 1990-93, the government’s share of GDP reached a maximum of 62%, while in Poland and Slovenia it remained stable around 50%. This held true despite the fact that state subsidies to industry fell by three or four times throughout the CEE economies.\textsuperscript{196} The

\textsuperscript{195} Interview with Sweig, September 19 2014. Washington D.C.

productive role the state plays in promoting stable development is manifested not only through high budget expenditures but also through the structure of this spending. There is a positive correlation between healthy economic dynamics in a country and relatively extensive state spending on education and science. Hungary, the Czech Republic, and Poland maintained their previous budget allocations to education throughout the 1990s, whereas in Bulgaria this figure was halved. In Cuba, where human capital is immense, maintaining state allocations to education and health research will provide the country a competitive advantage in the greater Central American market and facilitate adoption of market principles.

Figure 1 illustrates the 2014 Index of Economic Freedom’s measurement of government expenditures as a percentage of GDP. With close to 70% of production facilitated through state apparatuses, Cuba has by far the largest proportional state of any country in this model. And if the country seeks to follow the East Asian model for further liberalization, evidently it must cut down the state’s share of the economy by half. Figure 2 shows a different metric of state size, the World Bank’s General Government Final Consumption Expenditure measurement, which includes all government current expenditures for purchases of goods and services (including compensation of employees). Once again, we see the Cuban government’s proportional consumption is both the largest among its communist predecessors and has been climbing since its Special Period recovery began. China and Vietnam maintain the lowest proportional government consumptions, attesting to the robust and colossal size of their private economies. With a

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population 11% the size of Vietnam and a third of GDP, it is unlikely that the Cuban private sector will grow to overshadow the size of the central state anytime soon. Maintaining a decreased but sizeable share of government activity in production, if allocated to institution building programs like education, is likely the best course of action for the Cuban government.

Figure 5: Government Expenditure as a Percentage of GDP (2014 Index of Economic Freedom)
Perceptions of Legitimacy

Unlike the leadership of China, Vietnam, and the CEE countries, the Cuban government is suffering from a lack of performance legitimacy, evidenced by stagnant GDP growth and insufficient state wages. More powerfully, citizen disdain for the government’s performance is exemplified by consistently high rates of immigration from Cuba to its neighboring countries and the resulting net population decline. Cubans have been ‘voting with their feet’ for decades. However, as was discussed in Chapter 3, holding out for a ‘Cuban spring’ in which civic organizations organize a strong enough government opposition to overthrow the state, such as what happened with the ‘color revolutions’ in Eastern Europe, is foolish. The successful Eastern European democratizations developed a preponderance of pro-democratic forces at the moment of transition. The unsuccessful cases on the other hand, reveal a balance of power that tilted
Can Cuba Liberalize?

Cuba, with its weak civil society, amorphous opposition, and success of the ruling elite to manage its utility and convince the public that there is no alternative to the revolutionary project, lead to the conclusion that the Cuban government will maintain power for the foreseeable future, despite poor performance and growing financial anxiety among the populace.

As state-operated enterprises begin to privatize and joint-venture capital seeps into state-controlled apparatuses, worries about further inequality due to economic favoritism are running high among everyday Cubans. In public speeches the Cuban leaders have been emphatic about social impartiality and equality, emphasizing the importance of preventing a part of the population from getting rich first. But critics of the regime, including Institute for Cuban and Cuban-American Studies senior scholar Jose Azel, remain distrustful of regime inclinations. Azel draws a parallel to China: when the U.S. began to engage the East Asian giant in the 1970s, it was assumed that a liberalized Chinese economy would eventually create prosperity and economic freedom for the deprived Chinese people. He argues that personal freedoms and economic empowerment of the larger citizenry have not followed; instead, China’s capitalist engendered prosperity is enjoyed disproportionately by Communist Party cadres and affiliates. Azel’s worry is that Castro’s privatization initiatives will facilitate a similar transfer of wealth from the state to the ruling military and party elite to create a Chinese-

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199 Mujal-Leon and Lagenbacher, 2009 (21)

like kleptocracy. Civil society activists on the island echo these concerns to me during interviews, expressing doubt that the little wealth in Cuba currently centralized around state officials and their families would ever be distributed.

Prior to 1989, socialist countries in Europe had some of the lowest levels of inequality in the world. During the transition, inequality in income distribution began to rise: in CEE countries, a competitive environment has rewarded educated people and entrepreneurs for their skills and risk-taking. In the CIS countries, market reforms have been less encompassing and competition weaker, thus allowing a small elite to monopolize power in pursuit of its own interests. Self-employment and subsistence agriculture have persisted and wages have drastically decreased. In Cuba before 1989, physicians and university professors earned the highest salaries. Today, private farmers, transporters, domestic servants, and prostitutes top the inverted pyramid, encouraging many professionals to abandon their careers to pursue better-paid occupations. The ratio between the highest to lowest income earner in the 2000s was estimated to be 12,5000 to 1, up 1000 percent from just over a decade earlier. This inequality is fueled by remittances from abroad that are received by 35% of the population, who are mostly white Cubans. Cuba is trying to better target its most vulnerable citizens through the reallocation of social subsidies, but a stronger social safety net providing temporary income supplements to the poor will require a stronger commitment from the administration.

Despite fears of exacerbated inequality, previously mentioned openings for political expression in Cuba serve as glimmers of hope for future civic discourse. Like

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201 Azel 2013 (26)
China and Vietnam, Cuba is attempting to develop space for workers to exercise control over economic decisions through both the *Lineamientos* style community wide discussions that achieve massive participation rates and through the experiments in Mayabeque and Artemisa where local governments have been reorganized and horizontalized to create fairer administration of local elections.\(^{203}\) The Cuban press remains largely state-controlled, but its airwaves are featuring more blunt and accurate reporting and criticism of economic performance than ever before. Catholic media has given voice to advocates of economic reforms and human rights.\(^{204}\) Critics argue that the appearance of political “opening” do not and will not ever challenge official party domination.\(^{205}\) Continued relaxation of controls and broader debate among intellectuals and elites will lessen the totalitarian nature of the Cuban regime but will likely create a civil society closely enmeshed with and dependent upon a developmental state. Various forms of developmental states have arisen throughout history (Germany, Japan, Italy in the 19\(^{th}\) century, China and Vietnam today) where a middle class develops but not a bourgeoisie because of their dependency on the state.\(^{206}\)

*External Influences*

Cuba’s people can only benefit through strengthened external relationships via international financial institutions, joint-venture investments, cultural and academic exchanges, and tourism. CEE countries made more progressive developing institutional frameworks for a market economy than other countries in transition did because of the


\(^{204}\) Peters 2012

\(^{205}\) Suchlicki, Jaime. Interview by author. August 28, 2014. Miami

\(^{206}\) Grindle, Merilee 1999
incentive of integrating into the European economy and eventually joining the EU. A free trade agreement with the U.S. or greater area of the Americas could provide opportunities for Cuba to leapfrog some structural changes necessary for deeper market reforms.\textsuperscript{207} Vietnam has greatly benefitted from its normalized relationships with the IMF and World Bank in terms of technical exchange and training and development of governing officials. This has led to the development of a legal framework that regulates competition and the business world more widely, making Vietnam an attractive location for Western companies to locate their factories.\textsuperscript{208} Cuba could similarly benefit from international financial institution engagement as it integrates into the global economy.

International openness and reforms resulting from membership in these types of organizations compel change. Given the proximity to the rich and potentially hegemonic United States, with its sizable Cuban diaspora community ready to invest or return, Cuba will be looking to severely regulate the inflow of foreign capital. The evidence that foreign direct investments provide technology transfers that greatly improve techniques of organization, administration, and commercialization is overwhelming.\textsuperscript{209} China established legal parameters for joint ventures between domestic and foreign entities and has created a favorable economic environment for FDI through the creation of Special Economic Zones, construction of infrastructure, low-cost labor force, and diversified and attractive tax policy. Vietnam approved its first FDI law in 1987 and investment

\begin{thebibliography}{99}
\bibitem{207} Perez-Lopez in Stable, Marifeli 2007. (175)
\bibitem{208} Montenay 2009
\end{thebibliography}
accumulation has grown by a factor of 30 since. Foreign capital headed to Vietnam is channeled toward large economic programs (food production, consumer goods, and export lines), production that makes intensive use of Vietnam’s available resources (especially the labor force), and infrastructure construction.

The U.S. embargo restricts Cuba’s access to FDI resources and subjects the country to a “risk country” and associated impediments. Foreign enterprises in Cuba are highly concentrated in nickel, tobacco, citrus fruit, tourism, and communications industries, in which 80% of sales are represented by seven operations. In almost all the productive areas where Cuba has shown its best export results, foreign capital is present in one form or another. The government has outlined priorities for future investment in tourism, mining and petroleum (namely exploring in the Gulf of Mexico Exclusive Zone), geological surveys for mineral deposits, infrastructure (highway and port development), agriculture, and renewable energy. Cuba needs to develop a domestic investment culture that shows respect for private property and mediates conflict through institutionalized legal apparatuses before serious foreign investors will want to invest in Cuban markets.

American firms should be granted freedom to invest in Cuba on terms comparable to that of other international ventures. If the embargo were lifted, the economic and cultural effects of heightened exchange would demand new concessions to the market on behalf of the Cuban government. Cubans want Americans to participate in their economy and culture. Eusebio Leal, the Havana city historian, believes that the Cuban project faces no hope of enfloreciendo (literally flowering) without the normalization of political and

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210 Everleny “Foreign Direct Investment in China, Vietnam, and Cuba: Pertinent Experiences for Cuba” in Dominguez 2012 (201)

211 Ibid (212)
economic relations with the U.S. He sees Cuba as an eventual market for U.S. products, and vice versa. The country’s new agricultural cooperatives and tourist initiatives ripe for joint-ventureship require U.S. market demand.\(^{212}\) But beyond the economic advantages of improved relations between the neighboring countries, the Eastern European model demonstrates that an openness to cultural and intellectual exchange helps bolster certain aspects of political reform—namely governance (stability and transparency) and judicial framework (independence, compliance, and human rights protections).\(^{213}\)
CONCLUSION: Can Cuba Liberalize?

Figure 7 compares the relative differences in institutional strength, the presence of economic distortions (state intervention in the market through subsidies and price controls), the strength of rule of law, and the democratic character of the countries analyzed in Chapter 4. Cuba is the only country that changes position between the two charts, shifting from top left to bottom right. Interestingly, the countries in the right column have experienced the most successful economic liberalizations in terms of GDP/capita growth, FDI inflows, and export-led international market integration. For Cuba to fully shift into the right column and join its successful predecessors, it needs to build sound economic and legal institutions to facilitate the market integration of privatizing firms and educate the Cuban population on proper commercial practices. Additionally, if Cuba seeks to reform in line with the East Asian model and retain its authoritarian political character, the government will need to liberalize prices, integrate the two currency markets, and greatly downsize the size of its subsidy programs to target the most at risk citizens.
Cuba’s human capital-heavy but service oriented workforce is reminiscent of the Soviet economy pre-collapse. The steady, Doi Moi style cooperatization of urban and rural agriculture requires further liberalization of agricultural prices and establishment of wholesale markets. The cuenta propistas and small businesses now allowed to operate independently of the state show positive signs of establishing a business culture on the island, but daunting startup costs and bureaucratic regulations limit success to those with remittance inflows and state connections. Overall, economic reforms need to be profounder and more widespread in order to establish market behaviors and reduce general dependency on the state.

The central Cuban state is finding it more difficult to control economic activity emerging in the pervasive “second economy.” The dual-currency system and distorted pricing scheme are providing innumerable opportunities for Cubans to turn a profit through conversions, resulting in revenue losses for state-owned enterprises. Through privatization, the Cuban government hopes to downsize its overwhelming bureaucracies, but the provisioning of enterprise management to military cadres and party loyalists and not through a public bidding scheme mirrors the Soviet and East Asian privatization schemes that created distrust among the population.

Despite numerous structural reforms and promises for higher state-paid wages, the Cuban government has almost nothing to show for the past five years of reforms in terms of improved economic performance. As a result, Cubans continue to “vote with their feet” by emigrating to neighboring countries in search of higher incomes. Civil society is continually repressed, limiting political discourse and preventing any sort of political opposition from coalescing. However, the 2009 Lineamientos discussions and
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Restructuring of local election committees to allow for greater community participation in slate-making are steps forward in terms of building a culture of political participation. The allowance of more critical content in state-run media as well as on independent online blogs and publications and the drastic increase in cell-phone connectivity serve to further widen the civic space, creating a more collaborative and well-informed Cuban society in ways that were not possible during Gorbachev’s glasnost reform period.

Finally, the future of U.S.-Cuban relations is brighter than ever thanks to a new diplomatic course of engagement decreed by Obama in December 2014. New avenues for tourism and cultural and academic exchanges and an enormous émigré community eager to invest in new Cuban economic opportunities will no doubt dramatically impact the daily lives of every Cuban citizen. It remains unlikely, however, that any amount of political counseling or Internet penetration could create enough democratic momentum to encourage a “Cuban spring”, given the amorphous nature of political opposition and deeply nationalistic perceptions of the revolutionary regime. Just as the EU encouraged strong democratic reforms, greater respect for human rights, and the creation of strong trade provisions in Central and Eastern Europe through trade deals and regional agreements like the Warsaw Pact and Helsinki Act, the U.S. should facilitate Cuba’s integration into the American economic and political community.

How successful will Cuba be in energizing productive sectors of the economy to generate commerce and attract foreign investors? Rewriting the social contract and developing a sound business culture will challenge societal ties for years to come, potentially driving those unable or unwilling to adapt into impoverished scenarios. The State will continue to eliminate universal, indiscriminant public subsidies and will need
to create a steady revenue stream to finance a targeted social-safety net mechanism. Tenant social services, however, will not be eliminated due to the high amount of human capital and their demands for continued universal healthcare and free education.

Tourism will drive skewed economic growth in Cuba for a time being and will be responsible for financing further reforms. Until domestic firms can build manufacturing infrastructure and establish financeable enterprises, foreign investors outside of the tourism sector will turn to other Central American countries for venture investments. The Cuban government will likely continue managing joint ventures of large economic endeavors but will allow Cubans living abroad to support smaller firms independent of state regulation.

Based on the perceptions of legitimacy that indicate support for both new leadership and the ancien régime are dwindling, the PCC will continue to expand opportunities for private enterprise management and ownership and the licensing of urban and agricultural cooperatives. They will increase the non-state sectors’ capacity to create adequate employment opportunities to absorb state sector layoffs and thereby relieve both the state budget and the trade balance. If the restructuring of and investment in the manufacturing industry can be intensified without too much bureaucratic opposition in order to diversify the service-oriented workforce, tax revenue, high-wage employment opportunities, and a more efficient contribution to growth will eventually accrue from the streamlined statist and military sectors.

The government will continue to make sure that the Castro-wide family, defined through blood and politics, survives and maintains control of the revolutionary project. It is in the best interest of these actors that Cuba begins to develop, establishes commercial
relations with the U.S., and that the public sector maintains a dominant position vis-à-vis the private economy to perpetuate the FAR/PCC alliance. This economic favoritism and paternalism will inhibit undistorted market activity from occurring, like it did in the CIS states, and will intensify distrust of the central regime, should real wages fail to increase. The government will likely be able to unify its currencies in the next few years as U.S. dollars flow into state apparatuses. This will serve to flatten the inverted pyramid structure that rewards low-skill jobs with inordinate salaries and improve purchasing power at parity.

Therefore, I believe the Cuban economy will continue to reform in a gradual and experimental manner. Production and real wage increases will lag until significant investments in the tourism sector provide the state with enough revenue to properly restructure its enterprise management systems and fortify financial regulatory institutions. The Cuban population will stop shrinking as emigrants slowly return to support the family members they left behind and Americans relocate to manage their new ventures. Inevitable improvements in telecommunications capitalizing on mobile connectivity will widen the Cuban civic space and continue to engage the population in necessary political dialogue, although full-on democratization is extremely doubtful. A Chinese or Vietnamese model may be the goal, but Cuba has significant structural hurdles and deficiencies to overcome, which likely means change in terms of higher standards of living is years away for the average *Cubano*.
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