

POSSIBLE SCENARIOS IN THE CUBAN TRANSITION TO A MARKET ECONOMY

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The transition from a command economy system to the market economy has captured considerable attention from a wide array of academics in recent years. Despite prevailing debate, a number of consensual general theoretical points have developed, which relate to the program of reform, referred to as the “Washington Consensus,” the significance of institutions, the relevance of pre-existing economic conditions and predispositions (path dependency), and the critical role played by political factors in the reform process, particularly acute in attempts at simultaneous economic and political reform.

In the author’s opinion one of the most comprehensive, rigorous and solid analysis on this subject has been done by Janos Kornai.¹ Kornai clearly states that there is no universal prescription, that each country should pursue its own way in the transition, and that system change is necessarily a political process. He also analyzes ethical dilemmas to be faced during the post-socialist transition, namely: (1) peaceful transformation or rebellion and civil war; (2) administration of justice — transparent or corrupted, with integration or exclusion from former communist leaders, as a device of political parties struggling for power, a difficult trade-off between justice and continuity; (3) the decision about the speed of transition emanating from its complicated nature and supporting values; and (4) the trade-off between invest-

ment and consumption, benefiting future or current generations.

Kornai presents options for political regimes following communist dictatorships: from strongly repressive anticommunist regimes to expressly parliamentary systems with real competition among parties. He stands for democracy, the creation of a state of law, the strengthening of the private sector, privatization, transparency, price reform and liberalization, the reform of the welfare state. Kornai’s contribution to the study of transition to a market economy stresses the complexity of the endeavor and the comprehensiveness of the different aspects to be taken into consideration in the process.

Cuba is still immersed in a communist regime which absolutely denies human rights and democracy. In the Cuban case it would be premature to apply Kornai’s premises for the successful application of the transition since we do not know how, when, and under whose direction the transition will take place. It appears to be more convenient and timely to analyze the possible scenarios of the structure of power in Cuba once Fidel Castro is definitively gone.

The first section of this paper will analyze the conditions prevalent in Cuba before the transit to a market economy, including the foreign countries that are supporting the Cuban economy at the present time. The second section will present three possible transi-

1. Kornai, J. *What can countries embarking on post-socialist transformation learn from the experiences so far?* Cuban Transition Project, Institute for Cuban and Cuban-American Studies, University of Miami, 2004.

tion scenarios consistent with the conditions analyzed in the previous section and their feasibility. The third section will deal with the assumptions to make a successful coalition government.

CONDITIONS PREVALENT IN CUBA BEFORE THE TRANSIT TO A MARKET ECONOMY

Since the main purpose of this paper is to analyze different possible scenarios following Fidel Castro's death, let us analyze the main components of these scenarios: (1) current situation of the Cuban economy; (2) path dependency issues (including effects of indoctrination); (3) Cuban experience with foreign domination; (4) cohesion or division inside the Cuban communist party elite; and (5) Cuba's energy future.

Current Situation of the Cuban Economy

Cuba's current economic situation can be briefly summarized as follows:

- Scarcity has been present in almost all products of a typical Cuban consumer market basket since 1959, due to the contraction of aggregate supply (discouragement of suppliers as a result of price ceilings, socialization of private property, and typical inefficiency of socialist monopoly over all means of production) and the expansion of aggregate demand due to the adoption of populist measures such as 50% reduction of rents and gratuity of services such as education, health care, and funeral services. The subsequent inflation has been artificially "quenched" by the governmental policy of fixed prices and permanent rationing. On several occasions, barter has been a common means of exchange, for example during 1970–71 (as a result of the negative effect of the failed ten million tons of sugar plan, which diverted important resources from most branches of the economy to the sugar industry) and during the special period in the nineties.
- Weak domestic market, permanent depreciation of the Cuban peso, budgetary and balance of trade deficits, inefficient fiscal and monetary pol-

icies, catastrophic infrastructure (especially communications and transportation), huge external debt, lack of fulfillment of the rationed quotas for food and clothing, acute lack of medicines and medical instruments, increasingly precarious housing situation, dwindling direct foreign investment in Cuba partially due to red tape and arbitrariness in dealing with investors, and the ruin of the sugar industry, among other calamities.

- "Living conditions have deteriorated as evidenced by an acute housing shortage estimated at 1.66 million dwellings. At least 13 percent of the population is clinically undernourished as the state food rationing system now provides for only a week to ten days of basic alimentary needs. Unemployment has reached 12 percent, based on official data, and as many as 30 percent of workers are displaced or underemployed. With real wages down nearly 50 percent since 1989, and average salaries of US\$10 per month, university enrollment has fallen 46 percent as would-be college students opt for more lucrative jobs in the tourism industry. Cuba is projected to have Latin America's oldest population by 2025 with the island's demographic growth rate now at 0.2 percent. The elderly are already the most vulnerable as real pensions have declined by 42 percent and most pensioners survive on the equivalent of US\$4 per month."²

The communist regime has survived due to material and psychological repression as well as foreign aid from Venezuela, China and other countries. From economic and financial points of view, Cuba is ready for transiting to a market economy.

Path Dependency Issues

One important legacy from the Cuban communist regime is its considerably high degree of repression, which includes armed forces (the police and the arm) and civilian forces (the brigades of rapid response, usually made up of communist party members), the committees for defense of the revolution (repression

2. Staff Report, Cuba Transition Project, "Cuba's economy in the doldrums," Issue 43, June 18, 2003.

in the neighborhood), the labor unions (under the control of the communist party), the national association of small farmers, the young communist league, the federation of Cuban women, and the association of pioneers. The psychological repression acquires paramount importance. The educational system at all levels and the press are absolutely controlled by the communist party.

Psychological repression expressed through a very intense indoctrination process is an important component of path dependency. For the creation of a conformist mentality towards the benefits of communism, the following minimal conditions are required:³ (1) the social need of a political change; (2) the communist party's assumption of political and economic power; (3) the leader's deep knowledge about the people's values; (4) using the original values, the leader's shrewdness in transforming them in consonance with the new system; (5) adoption of populist measures, mostly anti-economic for the country, but beneficial in the short term for the people (with a view to gain their support); (6) control of the media; and (7) extension of the political campaign to the educational system, as well as the labor and family environments. Since all of these conditions were totally fulfilled in Cuba, a solid indoctrination process has pervaded the country over the last forty-eight years.

As part of this political campaign in favor of the system, Fidel Castro has been very careful in emphasizing a deep hatred towards the American government and its political system. The embargo against the Cuban government and the U.S. government support of Cuban counter-revolutionaries has reinforced these feelings. In particular the U.S. embargo has for a long time been the scapegoat for many of the Cuban president's mistakes.

Cuban Experience with Foreign Domination

By the same token, Cuba's experience with foreign domination of its economy has not been positive. Before 1959, the Cuban dependency on the U.S. fostered the monoculture of the raw sugar production,

which subjected the Cuban economy to the ups and downs of the world sugar market and to the management of the American yearly sugar quota. Batista's right-winged dictatorship was supported by the American government and provided a wonderful excuse for Castro's revolution.

After 1961, the ties between Cuba and the former Soviet Union were also centered on the sugar industry, this time with substantial subsidies. The high price that the Soviet Union paid for the raw sugar—advantageous for the Soviet economy that depended upon the beet sugar industry, by its nature much more expensive than the cane sugar industry—concealed the inefficiencies of the Cuban production of sugar, and perpetuated and worsened its technological backwardness. The Cuban people also had to pay the high price of losing freedom and be subjected to a communist regime. The ineffective policy of the Cuban government in relation to the production of sugar (an excessively early beginning of the sugar crop, which affected considerably its agricultural and industrial efficiency) led to its collapse when the Soviet Union withdrew its support after 1990. The simultaneous U.S. embargo and the demise of the Soviet Union, under the context of the inefficient economic policy inherent to any communist regime plus the stubbornness and economic blindness of the Cuban government, originated the so called “special period,” which thrust the Cuban people into its worst financial situation ever. Since the early nineties, the government has not been able to provide even the small amounts of basic food prescribed in the forty-eight-year-old rationing system, and Cubans depended on having U.S. dollars for getting their most elementary needs satisfied, such as milk, meat, soap, oil, clothes and shoes.

Despite the Cubans' traditional patriotic feeling, they have limited experience with a democratic political system. After reaching political freedom from Spain, the democratically elected governments were, on one hand dependent on the U.S. government, and on the other, subject to corruption. Three right-wing dicta-

3. Morales-Pita, A. “Lavado de cerebro (1ra parte),” *La Raza* weekly newspaper, February 4, 2007, page 15.

torships preceded the left-wing one presided by Castro, and Batista's last tyranny—from 1952 to 1958—strongly repressed any manifestation against the system and brought about a terrible civil war which claimed approximately twenty thousand deaths. This lack of freedom is a huge obstacle to get a democratic change in Cuba. People will have to learn to be free.

Since the last years of the twentieth century, Cuba has been helped from abroad by Venezuelan oil support, credits from China, dollar remittances from the Cuban Americans, and European, Canadian, and Latin American tourism. The majority of these foreign supports are unstable and beyond the control of the government and may contribute to a considerable instability in the economy.

1. Economic relations with Venezuela

- Cuba's foreign debt with Venezuela is 5.97 billion dollars as of November 2006,⁴ which represents almost 30% of the total estimated hard currency debt of the country.
- “Based on recently released 2006 crude oil and refined products production and consumption data by Cuba's *Oficina Nacional de Estadísticas* (ONE), we calculate that the market value of Venezuela's crude oil and refined products exports to Cuba amounted to over \$3.3 billion.”⁵ Consequently Venezuelan oil subsidies to Cuba exceeded \$3 billion in 2006.
- The Cuban Government joint venture with *Petróleos de Venezuela S.A.* in oil and gas refining and storage facilities is valued at one billion dollars, by far Cuba's largest joint venture with that country.⁶

- Cuban exports to Venezuela in 2004 were estimated in US\$ 300 million (14% of total exports), while imports from Venezuela in the same year amounted to US\$1.2 billion (23% of total imports).⁷
- “In 2004 oil-rich Venezuela became Cuba's main source of imports (21.2%) but only its third most important export destination (10.2%). The bilateral trade is based on the oil-for-doctors program, which reportedly provides health coverage for 17 million Venezuelans in return for oil. Venezuela began paying Cuban in 2005 for the approximately 20,000 doctors and other health-care professionals working in Venezuela, as well as for the tens of thousands of eye surgeries and other medical operations that Cuban hospitals provide Venezuelans.”⁸
- Although the Cuban balance of trade shows a deficit exceeding US\$5 billions since 2005, the services balance improved from close to zero in 1990 to an estimated surplus of US\$2.6 billion in 2005 and a projected surplus of close to US\$3.0 billions in 2006. Tourism and the provision of health-care services to Venezuela account for most of the increase in service earnings.⁹

2. Economic relations with China

- Cuba's foreign debt with China is 1.770 billion dollars as of November 2006,¹⁰ which represents almost 9% of the total estimated hard currency debt of the country.
- The Cuban Government joint venture with China Minmetals in nickel and cobalt mining is valued at \$600 million. Another joint venture with China (SINOPEC) relates to the exploration of oil and gas.¹¹

4. “Castro's Legacy: Cuba's Foreign Debt,” Cuban Transition Project March 1, 2007.

5. Piñón, Jorge. “Venezuelan Oil Subsidies to Cuba Surpassed \$3 Billion in 2006,” *Cuba Facts*, Issue 34, Cuba Transition Project, August 2007.

6. *Cuba Facts*, Issue 21, May 2006.

7. *Cuba Facts*, Issue 15, July 2005.

8. Library of Congress, Federal Research Division. *Country Profile: Cuba*, September 2006, page 16.

9. *Ibidem*, page 18.

10. “Castro's Legacy: Cuba's Foreign Debt,” Cuban Transition Project March 1, 2007.

11. *Cuba Facts*, Issue 21, May 2006.

- Cuban exports to China in 2004 were estimated at US\$194 million (9% of total exports), while imports from China in the same year amounted to US\$330 million (6% of total imports). China has become Cuba's fourth main source of imports.¹² Imports from China in 2005 also surged to about US\$560 making China Cuba's second largest trading partner that year.
- China has become one of Castro's most important allies based on the importance of bilateral trade, its fundamental role in the planned revitalization of Cuban transport infrastructure, investments in nickel, joint oil production in Cuba's offshore areas of high potential yield, and biotechnology.¹³
- Political and military relations have also been improving for the last few years.

3. Comparison between Venezuela's and China's economic and political situations

Since the governments of these two countries are helping the Cuban economy to stay afloat, it is interesting to analyze which of them poses the lowest/highest risk of instability. In Table 1, we make a comparison of some important economic indicators along with political considerations.

China is in a much better economic situation than Venezuela. From a political standpoint, China also shows more stability than Venezuela. It is curious to observe that the Chinese dictatorship—while keeping the political power in the hands of the communist party—is fostering the improvement of the market economy as a way to maintain control of the country. Venezuela, on the contrary, is consolidating its dictatorial regime towards communism, worsening its economic situation and openly threatening private property. It should be born in mind that the most frequent cause of dictatorship demise is the worsening of the economic situation of the country. Therefore, to depend on the Venezuelan government is more risky than to depend on the Chinese

government due to both economic and political reasons.

The previous comparison should be taken as a first step in the study of the economic, political and social influence of China and Venezuela on Cuba. A deeper analysis goes beyond the scope of this paper.

4. Cuban foreign trade

Table 2 shows selected Cuban foreign trade indicators (exports, imports, balance of trade, balance of services). “After deficits in the current account of US\$653 million in 2001, US\$276 million in 2002, and US\$136 million in 2003, the country's balance of payments enjoyed a surplus of US\$134 million in 2004 and US\$143 million in 2005. The positive current account balance in 2004–5 was due primarily to Cuba's almost regular annual surpluses in the services balance, mainly as a result of strong revenues from international tourism and other services (such as health and education services exported to Venezuela in exchange for cheap oil) as well as new sources of financing from China and high nickel prices. The current account deficit was expected to be a relatively low US\$374 million in 2006 and US \$358 million in 2007.”¹⁴

Cohesion or division inside the Cuban communist party elite

According to Kornai, there are four general kinds of political regimes following the demise of the communist regime: (1) repressive strongly anticommunist; (2) autocratic rule, disguised dictatorship including some aspects of parliament (elections, a powerless legislature); (3) semi-autocratic, semi-parliamentary system; and (4) expressly parliamentary system, with real competition among parties for the right to govern.

In order to speculate about the kind of political regime following Fidel Castro's death, it is convenient to analyze the balance of power inside the Communist Party of Cuba. According to a paper by Yáñez,

12. *Cuba Facts*, Issue 15, July 2005.

13. “Cuba-China Relations,” *Cuba Facts*, Issue 21, May 2006.

14. Library of Congress, Federal Research Division. *Country Profile: Cuba*, September 2006, pages 17 and 18.

Table 1. Comparison between Venezuela's and China's Economic Indicators

Indicator	Venezuela	China
Inflation	Highest inflation rate in Latin America (close to 20%). ^a Food prices rising even faster than the overall index	Low, ranging from 1.2% in 2003 to 1.7% in 2006 and projected around 3% in 2011. ^b
Unemployment	10 — 15% ^c	Around 10%
Market for foreign investment	Remains a challenging place to invest due to its focus on expanding the state-led development model. "Investment in most sectors is unlikely to thrive against a background of distortionary macroeconomic policy (with price and exchange controls expected to be retained), rising threats to property and contract rights, unpredictable state intervention, and a growing bureaucratic burden." The burden of oil investment will fall increasingly on the public sector, but here there are questions over efficiency and technical capacity. ^d	A good location for foreign investment due to low wages (although they increased around 8% between 2006 and 2007 in line with growth in the economy) and their political dictatorship that keeps workers' rights at bay. China holds the largest amount of foreign-exchange reserves in the world, topping 1 trillion U.S. dollars in the fall of 2006. ^e
Dependency on the price of oil	Very high. If oil prices decline from record highs in the medium term, there would be adverse consequences on the fiscal deficit and the public debt. The budget deficit was 2% of GDP and is expected to grow to around 4% of GDP in the next five years. ^f	China imported US\$84 billion during 2006 (oil is the second item in importance). Not so dependent on oil considering its positive current account balance, low external debt/GDP ratio of 11 % in 2006, diversified sources of imports and exports, and participation in a joint venture with the Cuban government in the exploration of oil. ^g
Real GDP annual growth	Should decline from 10% to around 3% as of 2008 ^h	Above 10% during the last five years; expected to descend gradually to 7.4% in 2011. ⁱ
Exchange rate	Unstable and expected to deteriorate from 2,700 Bolivares for a dollar in 2006 to around 5,300 in 2001	Pegged to the dollar as a way to keep competitiveness in the trade with the U.S., which absorbed 21% of its exports and 7.5% of its imports during 2006. The exchange rate (7.97 Rmb to US\$1 in 2006) is estimated to diminish gradually to 6.64 in 2011. ^j
Political stability	Confrontation with the private sector (accused by the government to foster inflation), revolts from students and the opposition, and political tensions inside the governing party.	The Communist Party of China is the only political force. Its standing is undermined by endemic corruption, the widening wealth gap between urban and rural areas, and the large number of lay-offs accompanying reforms. The number of protests has risen from 10,000 in 1994 to 87,000 in 2005 involving almost 4 million people. "Access to information is still strictly controlled, and the media (including the Internet) are subject to a high degree of censorship and official monitoring." ^k

a. "Scarcity amid abundance," April 12, 2007, *The Economist*.

b. Economic structure from the Economist Intelligence Unit. *China country profile*. June 5, 2007.

c. Economic and financial indicators, *The Economist*, March 3, 2007, and Venezuelan profile, European Commission, Brussels 2007.

d. The Economist Intelligence Unit, *Country Briefing: Venezuela*, April 20, 2007.

e. Economic and financial indicators, *The Economist*, March 31, 2007.

f. Ibidem

g. Economic structure from the Economist Intelligence Unit. *China country profile*. June 5, 2007.

h. Economic and financial indicators. *The Economist*. March 31, 2007.

i. Economic data from the Economist Intelligence Unit. *China country profile*, June 5, 2007

j. Economic structure from the Economist Intelligence Unit, *China country profile*, June 5, 2007

k. Political forces from the Economist Intelligence Unit, *Country Briefings: China*, February 5, 2007.

Table 2. Cuba's Foreign Trade Indicators
(in billion US\$)

Indicator	2005	Estimated 2006	Estimated 2007
Imports	7	7.9	8.5
Exports	2.7	2.8	3.3
Deficit in balance of trade	4.3	5.1	5.2
Balance of services	2.6 (surplus)	2.8 (surplus)	

Source: Library of Congress — Federal Research Division — Country Profile: Cuba, September 2006, pages 17 and 18.

Benemelis and Arencibia¹⁵ there are five groups with power in the island: (1) a group headed by Raúl Cas-

tro and the Commanders of the Revolution; (2) the first executive group basically composed high levels members of the Political Bureau of the Party, who report to the elite; (3) the second executive group made up of ministers; (4) leaders with less political importance, including the so-called "Talibans"; and (5) the pajama group, demoted by Fidel Castro but acceptable to Raúl Castro, who could play an important role as advisors in the reactivation of the economy.

One of the main problems faced by these groups is to institutionalize the power that was concentrated in Fidel Castro. The division of power among State, Government, National Assembly, and Party is also acquiring paramount importance since no one is able to control the four organizations of power. There are internal battles for power inside these groups, with different points of view about crucial economic, political and social issues. This division might also affect Mr. Hugo Chávez's influence on the economy of Cuba and the existence of the Communist Party of Cuba.

Given the strong repression existing in Cuba, after Fidel Castro is definitely gone there may be a bloodshed caused by competition for power among the Communist Party elite and some political outbursts in the population. It is hard to predict the extent of the consequences of the revolt, which—if coincident with a worsening of the economic situation—might have big repercussions. For example, in the summer of 1994, even under Fidel Castro's presidency, the people of Havana manifested public disappointment with the food policy of the government, which led to the approval of the farmers' market in Havana.

From the preceding paragraphs it follows that out of the four general kinds of political regimes following the demise of the communist regime, some sort of intermediate system might be adopted depending upon the gravity of the economic situation.

As far as the political economy postulate is concerned, given the preponderance of repression in Cuba and communist path dependence, capitalism would have to be created without capitalists because the communist party will not voluntarily devolve the power to democratic institutions unless it is forced by the economic situation.

Cuba's Energy Situation

- Although since the collapse of the Soviet Union, Cuban domestic oil production has increased significantly, it still relies on imported oil to meet its domestic demand. In 2005, Cuban oil production was reported at least 65,000 barrels per day [bpd]. Cuba has an annual deficit of approximately 100,000 bpd of crude oil/petroleum products to meet a demand of around 170,000 bpd. Venezuela has filled Cuba's oil deficit and supplies close to 50% of Cuba's domestic oil consumption.¹⁶
- Cuba consumes all of the natural gas that it produces and has no natural gas imports.
- The low volume of country's rivers limits hydroelectric capacity.
- In addition to having low generating capacity, the electricity sector has suffered from chronic system failures.
- According to the United States Geological Survey,¹⁷ there is an estimated 4.6 billion barrels of undiscovered oil, 9.8 trillion cubic feet of undiscovered natural gas, and 0.9 billion barrels of undiscovered natural gas liquids in Cuba's North Basin.
- As of May 2007, Cuba has awarded twenty offshore blocks, representing five concessions to international oil companies in Spain, India, Malaysia, Canada and Venezuela. These commitments by international oil companies in the exploratory work underscore Cuba's potential in oil.
- "The challenge for foreign oil companies operating in Cuba would be how to commercialize future hydrocarbon production in the most efficient and cost effective way as long as the U.S. economic and trade embargo against the Cuban government remains in place. With the possible exception of PDVSA's future revamped Cienfuegos refinery, Cuba does not have the refinery

15. Yáñez, E.; Benemelis, J.; Arencibia, A. "La inadvertida, completa y exitosa sucesión castrista." *Electronic Journal Cubanálisis el Think-Tank*, www.cubanálisis.com, November 2006

16. Library of Congress, Federal Research Division. *Country Profile: Cuba*, September 2006, page 14

17. Piñón, J. "Cuba's Energy Future," Cuba Transition Project, *Focus on Cuba*, Issue 85, May 2007.

or conversion capacity needed to process large amounts of heavy crude oil production in its two other refineries. The U.S. does have that refining capacity to process heavy crude oil. Cuba does not have the refinery or conversion capacity needed to process large amount of heavy crude oil.

- The economic and political implications for the island, not only of becoming oil self sufficient but also a possible net crude oil/products exporter, could become a major challenge for future U.S. policy toward Cuba.”¹⁸

POSSIBLE SCENARIOS IN THE CUBAN TRANSITION TO A MARKET ECONOMY AFTER FIDEL CASTRO’S DEATH

The author proposes and analyzes three relatively extreme scenarios for the transition, all of which assume that Fidel Castro is definitely gone. Fidel’s charisma and influence on the different groups with power in the communist party is a deterrent to any attempt to change. Intermediate situations based on combinations of the factors included in the analysis are left for future consideration. The three relatively extreme scenarios are the following:

1. The communist party is the only economic actor in power, enhances repression and keeps control of the country without any opening to a market economy.
2. The communist party is the only economic actor in power, enhances repression and keeps control of the country but introduces elements of a market economy in a way similar to Vietnam or China.
3. The communist party shares the power in coalition with the Cuban American community and the Cuban dissidents and receives foreign aid from the United States government.

In Table 3, we summarize the conditions required for each scenario and its feasibility in view of the present and foreseeable circumstances.

There are several factors which are considerably uncertain and may affect the prevalence of one scenario over the other, namely: the support from Venezuela, the successful exploitation of offshore oil, the unity or division inside the communist party of Cuba, and the effectiveness of repression on the Cuban people. There are also political factors which make predictions very difficult.

World history indicates that one of the main reasons for the demise of a dictatorship is the worsening of the economic situation in the country. The history of the regime’s economic policy has shown that the degree to which it has been open to changes has largely depended on Cuba’s economic situation. The successful exploitation of offshore oil is still uncertain due to economic, political and technological reasons; whereas the support from Venezuela is highly unpredictable because of economic and political factors not only inside Cuba but also internally in Venezuela, as well as in the interrelationship between both governments. If both of them fail, all other things constant, scenario number three will prevail. If one of them fails, all other things constant, scenario number two may take place.

The unity or division inside the communist party of Cuba will have an influence on the effectiveness of repression on the Cuban people and the possibility of a civil war. If Fidel Castro’s death unleashes a division inside the party and the army and subordination to Raúl Castro collapses, a civil war may occur. Under these circumstances, stampede of Cubans emigrating to the U.S. is likely. Given the prevalent U.S. government policy in relation to immigration, an intervention to stop the bloodshed and the stampede would be possible. These conditions would render the third scenario very likely. If the differences inside the communist party and the army can be settled, the civil war would be highly improbable and then scenario number two would most likely occur.

18. Piñón, J. “Cuba’s Energy Future,” Cuba Transition Project, *Focus on Cuba*, Issue 85, May 2007.

Table 3. Scenarios for the Transit of the Cuban Economy to a Market Economy

Scenario	Required Conditions	Feasibility
1	<ul style="list-style-type: none"> a. Favorable macroeconomic situation. b. Unity and consensus inside the Communist Party. c. Stable support from Venezuela. d. Favorable trade and relations with China. e. Successful exploitation of offshore oil. f. Unusually high prices for main Cuban exports in the world market (nickel and sugar). g. Reinforcement of repression and non rebellion outbursts in the people. 	<ul style="list-style-type: none"> a. Highly unlikely given the precariously current economic situation and its unstable dependence on foreign governments' decisions. b. At present there are three main groups: the hard-liners, the centrists (Raúl Castro is one of them), and the reformers. After Fidel Castro's death the divisions and internal struggles would probably be reinforced. c. Since Mr. Hugo Chávez (1) is not equally supported by the three groups; (2) Venezuela's internal economic situation is not favorable; (3) Mr. Chávez's popularity is declining in his country; and (4) Fidel is Mr. Chávez's main support in Cuba, the support of the Venezuelan government is not reliable. d. As long as China's economic situation keeps improving and there is no political disruption in the relations with Cuba, chances are that Cuba will continue benefiting from this foreign partner in the near future. e. The geological certainty of this natural reservoir, the technological feasibility of its exploitation, and the financial convenience of this investment will determine the likelihood of this event. f. This factor is highly unpredictable although demand for nickel is increasing from China and India. g. Although the increase of repression is a fact, the degree of the Cuban people's subordination may change under the influence of Fidel's death and/or internal divisions in the communist party.
2	<ul style="list-style-type: none"> a. Stagnating and worsening macroeconomic situation. b. Divisions and factions inside the communist party. c. Unstable support from Venezuela. d. Unfavorable trade and relations with China. e. Unsuccessful exploitation of oil in the sea. f. Unusually low prices for main Cuban exports in the world market. g. Repression is successfully confronted by social and political outbursts in the population. 	<ul style="list-style-type: none"> a. Highly likely given the precariously current economic situation and its high dependency upon foreign countries' decisions. b. Highly likely after Fidel Castro's death. c. Likely for the reasons stated in c) above. d. Unlikely although somewhat unpredictable and unreliable. e. Same as (e) above. f. Considering behavior of world prices for Latin American raw materials during the last two decades, this condition is relatively likely. g. The worsening of the macroeconomic situation, Fidel Castro's death and the division inside the party may render this condition possible.
3	<ul style="list-style-type: none"> a. Unbearable macroeconomic situation b. Disintegration of the communist party. c. Unstable support from Venezuela. d. Unfavorable trade and relations with China. e. Unsuccessful exploitation of oil in the sea. f. Civil war with massacres of the population. g. Massive emigration to the U.S. h. U.S. intervention in Cuba. 	<ul style="list-style-type: none"> a. Highly likely given the precariously current economic situation. b. Raúl's charisma and influence over the military leaders may avoid this disintegration, which cannot be discarded. c. Likely if Venezuelan's economic situation continues to worsen or if the oil price descends d. If the U.S. is involved in the exploitation of oil in the Gulf of Mexico, relations with China might deteriorate. This assumption is possible. e. This condition depends upon technological and political factors involving several countries taking part in this exploitation. It actually is difficult to predict. f. Possible. g. Possible. h. Possible.

NECESSARY CONDITIONS TO ACCOMPLISH A COALITION OF POLITICAL ACTORS IN THE CUBAN GOVERNMENT

The possible formation of a coalition with three important political and economic actors — the communist party elite, Cuban-Americans, and the dissidents in Cuba — deserves special consideration.

Under the assumptions of scenario 3, the Cuban communist party elite would not be able to lead the country by itself. Following the Chinese and/or Vietnamese experience, in order to start the transit to a market economy, the communist party elite would need to join with other forces with entrepreneurial experience. The absence of a bourgeois class could

be filled by the Cuban-American group residing in Miami, who have the financial resources and the entrepreneurial skills corresponding to this class. The difficulty lies in their acceptance by the Cuban people, who know that the Cubans in Miami have been pushing for the enforcement of the embargo through their political influence on the U.S. government. The embargo has hardly affected Fidel Castro's power, but has terribly damaged the Cuban standard of living. In our opinion this situation could be solved by joining forces with the Cuban dissidence. Both groups could settle their differences under the common interest to improve the economic situation of their country of origin and to eliminate or diminish communist influence and indoctrination.

From the aforementioned considerations it follows that, if the economic or financial situation turns critical and the communist party is forced to ask other forces for collaboration, the joint participation of Cuban-Americans and the domestic dissidence could be a reality. The common interest to improve the Cuban economy—and the impossibility of attaining that goal by only one group—may be the basis of this coalition and would soothe the differences among the involved parties (the communist party, the Cuban-Americans and the dissidents). Under this coalition government, financial aid by the U.S. government might be a possibility. Anyway, even under this optimistic scenario, at least in an initial stage, there would be a mixture of a partial market economy under the shadow of a quasi-communist regime similar to the Chinese or Vietnamese systems. If the introduction of the market economy yields favorable economic results, the capitalist way of life propelled by the bourgeoisie might prevail in the mid or long terms.

It is important to highlight the importance of unifying forces inside the Cuban-American community in Miami and the Cuban dissidence. This unification is a necessary condition for a coalition of different forces. From our point of view, both political actors need to elaborate short, medium and long range plans and projections for transitions. There should not be loopholes or insurmountable differences inside the democratic forces at the moment of coalition with the communist party elite.

There are factors complementing the work of the Cuban-American community and the Cuban dissidence. The economic power and entrepreneurial experience is on the side of the Cuban-Americans, and the acceptance by the Cuban people is on the side of the Cuban dissidents. Both groups are materially interested in establishing a democratic government; and, therefore, would need to compromise on certain logical differences and concentrate on the reward of encouraging similarities. The Cuban dissidents or the Cuban-American community alone would find it extremely difficult to lead the country. Unifying forces between them would likely be a good step towards the formation of a temporary coalition government,

which might call for a truly democratic election process within a reasonable length of time.

Although the logistics and the methods to establish a market economy in Cuba go beyond the scope of this paper, the author believes that, if the third scenario takes place in Cuba and a coalition government is formed, the general lines of action to establish a market economy could be taken.

CONCLUSION

1. Kornai's analytic report referred to in this paper summarizes the most important aspects to be taken into consideration in the successful transit to a market economy, including the five most important aspects of the change of system, the ethical dilemmas, as well as important issues related to the options of political regimes, the creation of a state of law, the strengthening of the private sector, the privatization process, transparency, price reform and liberalization, and finally the reform of the welfare state.
2. Since Cuba still has not initiated the transition, the paper analyzes different elements of a transition scenario, such as the current economic situation, path dependencies issues, the Cuban experience in foreign domination, the cohesion or division inside the Cuban communist party elite and Cuba's energy future.
3. Cuba's economic situation is not favorable due to the scarcity of the most elementary goods and services, a weak domestic market, permanent depreciation of the Cuban peso, budgetary and balance of trade deficits, inefficient stabilization policies, catastrophic infrastructure, huge external debt, precarious housing situation, dwindling direct foreign investment and the ruin of the sugar industry. From economic and financial standpoints Cuba is ready for the transit to a market economy.
4. Cuba has a strong path dependency issue due to an intense process of indoctrination and multilateral physical and psychological repression comprising armed and civilian forces. The dissidence is extremely repressed and its actions have been basically limited to peaceful defense of hu-

man rights and the establishment of democracy. The government controls all economic activities and takes personal decisions out of the option of individuals. The most strongly-denied right in Cuba is to be free. All conditions necessary to create a strong psychological repression are fulfilled, including the leader's shrewdness to transform the people's original values in consonance with the new system and the extension of the political campaign to the educational system as well as the labor and family environments.

5. Cuban experience in foreign domination has not been positive from the beginning of the twentieth century, with the American domination of the first Cuban industry and its adaptation to the ups and down of the American economy, followed by the Soviet Union supremacy that continued the monoculture dependence on sugar cane and submitting the Cuban economy to the socialist bloc. After the collapse of the Soviet Union, and the extremely precarious economic situation of the so-called "special period," Cuba is highly dependent on Venezuela and China for its economic stabilization and growth.
6. Cuba's dependency on Venezuela is great since: (1) its external debt with this country represents approximately one third of the total hard currency debt; (2) Venezuelan subsidies to Cuba surpassed \$3 billion in 2006; (3) Venezuela occupies first place among Cuba's joint venture partners; (4) it has become Cuba's main source of imports; and (5) tourism from and the provision of health-care services to Venezuela account for most of the increase in service earnings. Consequently, a collapse or a recession in Venezuela can seriously affect the financial situation of Cuba.
7. Cuba's dependency on China is also considerable because: (1) its external debt with this country is almost 9% of the total hard currency debt estimate; (2) China became the fourth source of imports and the second largest trading partner in 2005. In 2004, the balance of trade with China showed a deficit of US\$136 million; and (3) China has become one of Castro's most important allies because of its weight in the bilateral trade, its fundamental role in the planned revitalization of Cuban transport infrastructure, investments in nickel and joint production of offshore oil in Cuba's areas of high potential yield and in biotechnology; political and military relations have also been improving in the last few years. A recession in China would also affect Cuba's current and perspective financial situation.
8. China's economic and financial situation is better than Venezuela's for the following reasons: (1) lower inflation and unemployment rates; (2) higher and more stable GDP growth; (3) less dependency on the price of oil; and (4) more stable and higher exchange rate with U.S. dollar.
9. From a political standpoint, China also shows more stability than Venezuela. It is curious to observe that the Chinese dictatorship—while keeping the political power in the hands of the communist party—is fostering the improvement of the market economy as a way to control the country. Venezuela, on the other hand, is consolidating its dictatorial regime towards communism, worsening its economic situation and openly threatening private property. It should be borne in mind that the most frequent cause of dictatorship demise is the worsening of the economic situation of the country; therefore, to depend on the Venezuelan government is more risky than to depend on the Chinese government.
10. There is division inside the elite of the Communist Party of Cuba in relation to the role of a market economy in Cuba and the preservation of a unique political party. Among the five groups with power mentioned above, there are different relationships with the Venezuelan government. The group led by Raúl Castro does not appear to be very sympathetic with Mr. Chavez's influence on the Cuban economy.
11. Given the strong repression existing in Cuba, after Fidel Castro is gone, there may be a bloodshed caused by competition for power inside the communist party elite and some political out-

- bursts in the population, including the dissidents. It is hard to predict the extent of the revolt, which may turn into a civil war.
12. Oil has been one of the main sources of economic dependency of Cuba on a foreign power. Nowadays Cuba depends on Venezuela to cover half of its oil demand and is involved in a joint venture with China and Venezuela to explore oil potentialities in the North Basin of the island.
 13. The economic and political implications for the island, not only of becoming oil self sufficient, but also possibly a net crude oil/products exporter, could become a major challenge for future U.S policy toward Cuba. It should be borne in mind that at the present time Venezuela, China, Canada, Spain, India and Malaysia have vested interests on Cuba's oil future.
 14. This paper foresees three possible scenarios in Cuba's transit to a market economy, which differ with respect to the degree of participation of the communist party elite in the government and the level of implementation of a market economy in close interrelationship with the situation of the Cuban economy and the effectiveness of its dependency on Venezuela and China.
 15. We think that the second or third scenarios are more likely to happen depending on the following factors: the support from Venezuela, the successful exploitation of oil in the north coast of the island, and (after Fidel Castro is definitely gone from the political scene) the unity or division inside the communist party of Cuba and the Cuban army, as well as the effectiveness of the repressive system.
 16. Under the circumstances of the third scenario it is possible that the U.S. government might intervene to stop the massacre and the emigration stampede of Cubans to the U.S. It is also considered that the communist party elite, alone, would not be able to continue to control the country and that a coalition government might be formed with the participation of the communist elite, the Cuban-American community and the Cuban dissidents.
 17. One important condition for the above scenario to happen is the unification of forces of the Cuban-American community in Miami and the Cuban dissidence. This unification is a necessary condition for a coalition of different forces. There should not be loopholes or insurmountable differences with the democratic forces at the moment of striking coalition with the communist party elite. The common interests of both groups in establishing a democratic government and in solving Cuba's economic problems may lead to a compromise solution. The Cuban dissidents or the Cuban-American community separately would find it extremely difficult to lead the country. Unifying forces between them would likely be a good step towards the formation of a temporary coalition government, which might call for a truly democratic election process within a reasonable length of time.
 18. Last but not least, both political actors need to elaborate short, medium and long range plans and projections for transitions. We believe that these plans—elaborated under objective economic bases—might convince the Cuban people of the legitimacy of the coalition and facilitate its consolidation process.