

DILEMMAS OF A CUBAN TRANSITION: WILL HISTORY REPEAT ITSELF?

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In the long-run Cuban history, tragic as it has been, shows that nothing is to be excluded as impossible.¹

Almost 30 years ago, a communist system in Central and Eastern Europe cracked and quickly collapsed, followed by the “unexpected” dissolution of the Soviet Union two and half years later. Today, only two nations still belong to that faded “socialist archipelago”: Cuba and North Korea.² While there are meaningful differences between them—structural, historical, cultural, experiential, military (nuclear weapon components), as distinct leadership and ruling elites—it is important to note the common threads that contributed to the long preservation of a “socialist system.” Among them: geography, geopolitics, geo-economics, a mix of nationalism and populism, social demagoguery, along with a high degree of state oppression and political violence. Recent events confirm that the North Korean totalitarian regime is surviving under the economic and political patronage of a great neighboring power. Any significant change there would happen only with China’s direct involvement, based primarily on Beijing’s vision of North Korea’s future.³ With such complex and subtle interests around the Korean peninsula, a German-style (as

a critical pillar of post-communist transformation in Europe) or China-Hong Kong version of South and North Korea unification is unlikely.

The Cuban situation is different, currently defined by the transitioning dynamics of a post-Castro period. That most significant transfer of power since the 1959 Revolution has coincided with the dramatic disruption of an economic “modus vivendi”—the drying up of subsidies from Caracas, resulting in increasing economic dysfunction, exacerbated by the disastrous consequences of hurricane Irma and new sanctions imposed by the Trump Administration. These new realities have challenged a preservation of the “status quo” and potentially created opportunities for adjustments in the island’s historical trajectory. A key question is whether this critical combination of factors can overcome political patterns dating back 60 years and provide passage to a new economic and political model for the future?

The experience of post-communist transitions shows that the main driving force of significant structural reforms can only be national in nature, i.e., it must be based on conditions in the country. Ultimately, national actors determine the substance and time-

1. Thomas, Hugh, 1998. *Cuba or The Pursuit of Freedom*. New York: Da Capo Press, p. 1508.

2. Neither Venezuela nor Nicaragua, which are frequently referred to in mass media as socialist countries, can be seen as part of that archipelago. In those countries markets have never been completely eradicated and political opposition (formally) has continued to exist. Meanwhile, reforms that followed in China and Vietnam, inserting strong market forces into their economies, dramatically changed the social and economic realities of these socialist autocracies.

3. Kaplan, Robert, 2018. *The Return of Marco Polo’s World: War, Strategy, and American Interests in the Twenty-First Century*. New York: Random House, p. 93.

frame of a transformational agenda. At the same time, external environments can readily help or hinder reforms. In Europe, returning to a common European house and the possibility of joining the European Union became a powerful unifying target, and encouraged Central and Eastern Europeans from the former socialist bloc to tolerate the hardships of transformational shocks. The international conditions affecting Cuba today, however, are far from those that existed during the fall of the Berlin Wall at the end of the Cold War.

A TURBULENT EXTERNAL ENVIRONMENT

Five years ago in an article in *Foreign Affairs*, Julia Sweig and Michael Bustamante attempted to justify Obama's rapprochement with Cuba by suggesting that deeper U.S.-Cuban political and commercial ties could "have repercussions beyond the economic realm, giving internal reformers more leeway and increasing support to the island for greater economic and political liberalization."⁴ The authors focused on Cuba's unique demographic, geographic, and economic realities which, they believed, set the island apart from other countries that moved away from communism. If we look closely at these realities, we find nothing unique in the island's typical socialist, economic and demographic situation, except perhaps Cuba's geographical proximity to the U.S.⁵ Eventually, however, expectations regarding accelerated reforms through bilateral détente and the opening of Cuba to the world haven't materialized. Havana missed an obvious opportunity to resume some modest, but badly needed economic modifications favorable to the incipient domestic private sector that had been initiated 10 years ago.

Former President Obama's confidant and adviser, Ben Rhodes, who was in the thick of Cuban matters and negotiated secretly with Havana to normalize re-

lations, has offered some insight on the failure of that policy. First, the U.S. side pushed Havana to promote internal reforms and accelerate reconciliation between Cubans and Cuban-Americans "too far, too fast." Second, these efforts provoked a pushback in both countries from opponents of rapprochement, including a reprimand from Fidel Castro.⁶

This relatively brief warming of bilateral relations confirms a standard takeaway from the post-communist transformation: external factors can only additionally support the work of internal reformers.

The major outcome of Obama's thaw was cracking of the myth in Cuba, cultivated for almost 60 years, about implacable American hostility. His initiative demonstrated the potential, when political will exists on both sides, for refusing to be trapped in the complexities and controversies of the past, and to move ahead by searching and finding new solutions. Such flexibility was possible because of a shift in U.S. public opinion, particularly among a young generation of Cuban-Americans, who embraced a more pragmatic and realistic approach to the island. Additionally, even some previously hardline leaders in the Cuban-American community came around to supporting President Obama's outreach to Havana.⁷ However, the Cuban government's response was extremely weak.

The Trump administration's rejection of this normalization policy to Cuba reflects a new political balance in Washington—the growing importance of a conservative Cuban-American electorate in the swing state of Florida, and GOP efforts to undo the previous administration's foreign policy initiatives. Some steps were adopted to tighten U.S. cooperation with Havana in the areas of tourism, investment, and trade, and to reduce diplomatic interaction in response to health incidents involving diplomats—the mysterious attacks on American Embassy personnel

4. Sweig, Julia and Michael Bustamante, 2013. "Cuba After Communism. The Economic Reforms That Are Transforming the Island." *Foreign Affairs*, 2013, July/August Issue.

5. Grishin, Vadim, 2017. "Economic Reforms in Cuba: What's Next?," *Cuba in Transition—Volume 27*, Washington, D.C.: ASCE, p. 108.

6. Rhodes, Ben, 2018. *The World As It Is. A Memoir of the Obama White House*. New York: Random House, pp. 358–359.

7. Huddleston, Vicki, 2018. *Our Woman in Havana: A Diplomat's Chronicle of America's Long Struggle with Castro's Cuba*. New York: The Overlook Press.

in Havana by a kind of sonic weapon.⁸ Such U-turns from political détente and business engagement to old fashion adversarial styles⁹ have played out amid the retreat of Western global liberalism and an advance of illiberal populism and patrimonial autocracies.¹⁰ Samuel Huntington's third wave of democratization (from the mid-1970s to the mid-2000s) initially promoted post-communist transitions. These have now converted into "democratic recessions", which run the risks of turning into full-fledged "democratic depressions".¹¹ The negative trend increases global skepticism, and constrains the efforts of reformist and pro-democratic forces around the world, while strengthening those who oppose them.

New autocratic leaders using electoral procedures (often based on manipulation and distortion of information) have gained political time and space and won the support of significant population groups. These "strong leaders" believe they are authorized by "the people" to intervene in developments beyond their borders. They are also seeking to rewrite history. Some of the goals are to discredit the accomplishment of post-communist transitions, foment and consolidate a shift toward reactionary anti-western nationalism, exploit fears of external threats by appealing to anti-migration phobias, and call for the restoration of strong state-regulated law and order. Notions of authoritarian modernization and competitive authoritarianism are again in political fashion. Some contemporary analysts and policy makers are emphasizing "traditional values," voicing skepticism about the possibility of progress and trying to convince the public that previous periods of market

transformation and structural reforms were abnormal—a kind of short run deviation from long-term historical development. A path dependence theory that advocates slow incremental evolution vs. abrupt structural change has captured the attention of many new partisans.¹²

One of the main instruments used widely by the new critics of transition is to separate and isolate factors behind such a transformation and show that they are unique and not repeatable. In the case of the Soviet Union's collapse, critics have exploited the concept of a so-called "Gorbachev moment," emphasizing a weak, corrupt leadership as the principal reason for the country's demise. Other critics, called "new traditionalists," have over-emphasized ethnic/national matters, the arms race, technological disasters and the effects of oil price drop in the Soviet economy at the end of the 1980s. While these factors were relevant, they did not appear in isolation but, rather, leveraged each other, creating irresistible pressures. Most importantly, the Soviet system with its obsolete institutions, policies, old-style ideologies, inflexibility, and technological lag was not capable of responding to these challenges or taking advantage of new opportunities presented by dramatically expanding international trade and investment, as well as rapidly developing innovative consumer products and technology.¹³

Similar attempts to rewrite history based on principles of populist nationalism have been made in Poland and Hungary, where transitions have been partially reversed and there has been a slide backward

8. The White House, Fact Sheet on Cuban Policy. <https://www.whitehouse.gov/articles/fact-sheet-cuba-policy/>; The White House, Strengthening the Policy of the United States toward Cuba. <https://www.federalregister.gov/documents/2017/10/20/2017-22928/strengthening-the-policy-of-the-united-states-toward-cuba>.

9. Such hard regime change policies pursued at times during the Cold War did not work in the past and are unlikely to work now. The assumption that increasing external pressure will cause rapid regime collapse has not been borne out in the last 60 years. The existing resilience and adaptability of the Cuban system has not been completely taken into consideration.

10. Luce, Edward, 2017. *The Retreat of Western Liberalism*. New York: Atlantic Monthly Press.

11. Diamond, Larry, Plattner, Mark, and Walker, Christopher (eds), 2016. *Authoritarianism Goes Global: The Challenge to Democracy*. Baltimore: Johns Hopkins University Press.

12. Auzan, Alexander. "Revolutions and evolutions in Russia: In search of a solution to the path dependence problem", *Russian Journal of Economics* 3 (2017): 336–347.

13. Gaidar, Egor, 2007. *Collapse of an Empire. Lessons for Modern Russia*. Washington, D.C.: Brookings Institution.

toward authoritarianism—surprisingly while remaining inside the EU institutions.¹⁴

These anti-democratic trends in overseas political life are directly and indirectly affecting Cuban political perceptions about post-communist transition. According to their current thinking, there is no reason to start a painful experiment with rule of law and democratization when many post-communist countries in later transitional stages have gone back to authoritarianism, and some, who never abandoned autocratic governance, such as China and Vietnam, have even become very successful economically. An ongoing public discussion in Cuba of a new constitution generally confirms that there is a climate of intellectual isolation and obsolete Martí-Marx-Lenin-Fidel localization in the application of core political and economic principles, concepts and ideas. In an extremely controversial constitutional draft some timid changes have been proposed to decomunization (the word communism is withdrawn from its text) and legalization of enrichment without right to accumulate property and wealth beyond the state sector. Overall, it protects “sacred” socialist norms, particularly one party system, and authorizes use of military force against political opponents. Such identity is an evident burden and outdated liability rather than an asset.¹⁵

There are many ways of spreading anti-reformist and neo-socialist ideology and rhetoric in the island today. Ben Rhodes, in the memoir mentioned above, describes a meeting with Raúl Castro in which the Cuban leader promises to send him a copy of his own biography written by a Russian.¹⁶ The author, Nikolai Leonov, a retired lieutenant general of the KGB, is a hardline active promoter of a Russian World concept, a revanchist idea of the restoration of the Soviet Union. In the early 2000s he was elected to the lower house of the Russian Parliament (State Duma) as a member of a nationalist party, Rodyna. Leonov has

closely identified himself with the current Kremlin administration, as a longtime friend and mentor of Vladimir Putin. His book about Raúl Castro is mandatory reading on the island. In the first page of Castro’s biography Leonov praises Josef Stalin as the greatest political leader of the XX century and uses every opportunity throughout his book to criticize severely any transitions from a socialist system, which he sees as treasonous.¹⁷

In general, Russian anti-reformist and anti-American propaganda is very active in the island. As an aside, Cuba is one of a few countries that representatives of Russian enforcement agencies are allowed to freely visit, as their trips are limited or entirely prohibited by the Russian government to more than 200 countries. The influence on Cuban society of such channels should not be overestimated, but it would be unwise to ignore them completely. Fortunately, Hegel’s history mole is relentlessly digging up the country’s political and economic ground. No one can stop the march of time. The Cuban center of political gravity is shifting generational power.

THE TRANSITION: CHANGE VS. CONTINUITY

History shows that power succession in socialist nations, as well as those in transition, can be brutal and challenging because it is often accompanied by redistribution or reconsolidation of power and wealth (on different scales), particularly under a generational model of succession. Previous balances and compromises between elites are frequently broken. There can be winners and losers in the process that complicate the scenarios and ways of managing them. Many socialist leaders, in the process of rising to the top, have rejected the legacy of previous rulers and blamed them for all past errors. Khrushchev held Stalin responsible; Brezhnev was critical of Khrushchev; Gorbachev defined the Brezhnev period as stagnant;

14. Fukuyama, Francis, 2018. *Foreign Affairs*, September/October.

15. *Proyecto de la Constitución de la República de Cuba*. 07.25.2018. La Habana: Empresa de Artes Gráficas Federico Engels.

16. Rhodes, Ben. Op. cit., p. 351.

17. Leonov, Nikolai, 2015. *Raúl Castro: un hombre en Revolución*. La Habana: Capitán San Luis.

Yeltsin humiliated Gorbachev; and Deng Xiaoping imposed major revisions on Mao's policies.¹⁸

Heads of secret services, and in some cases army chiefs, play a significant role in the succession processes. They can become “kingmakers” or “kings,” because civil institutions do not work properly or do not exist at all. Nevertheless, it is not easy to foresee the future policies of new autocratic rulers. A recent example of authoritarian takeover was the surprising emergence of Shavkat Mirziyoyev, after the death of Uzbekistan's first president, Islam Karimov. Many experts were sure that Mirziyoyev, receiving support from the country's head of National Security, would be more repressive than the widely criticized Karimov. Freedom House, a democracy watchdog, had long equated Uzbekistan with North Korea in terms of lack of political rights and civil liberties. Unexpectedly, Mirziyoyev, who won the presidential elections in December 2016, introduced several economic and judicial reforms and improved relations with neighboring countries. Uzbek's political spring shows that changes are possible when an aging authoritarian leader passes away and those who are part of the old system modify their identities to start reforms.¹⁹ The emergence of Deng Xiaoping and Michael Gorbachev confirm the proposition that socialist authoritarianism from time to time can make “fundamental errors.”

Can Cuba's rigid political and economic system produce innovative and creative leaders who will not limit themselves to stylistic changes? The new Cuban President, Miguel Díaz-Canel, is seen by some observers as a temporary, transitional political figure.²⁰

Such a conclusion seems premature, given that a challenging generational transition in Cuba is in its initial stages. Díaz-Canel as a political personality is, no doubt, to paraphrase George Kennan, a “product of ideology and circumstances.”²¹ He is an insider and a political survivor who understands perfectly well the limited time he has to deliver results that will satisfy the demands of different power groups. Concurrently, he has to consolidate his position, and gain popularity, primarily among the country's youth.²² He also needs to implement some long delayed reforms, focusing on unification of multiple currency exchange rates and fiscal consolidation in the context of Venezuela's economic crash.²³

To be efficient, Díaz-Canel should violate some written and unwritten taboos, but his authority is limited. He continues to be under the strict control—and watchful eye—of the old guard, specifically Raúl Castro who still wields “a golden share” of future policy decisions, as commander-in-chief and first secretary of the Communist party.²⁴ The separation of ideological, executive, military and administrative functions will likely be enforced by a new Constitution. This future division of labor and a split of the highest responsibilities between president, prime minister, head of the party and commander-in-chief suggests a fear of concentrated power in the hands of one person. An existing mutual mistrust can incentivize the struggle between different powerful sectors—party nomenclature, military and civil elites—for important bureaucratic positions. To become a unifying leader and make a difference, Díaz-Canel has to create the right identity and generate proper legitimacy. He does not belong to the privi-

18. Taubman, William, 2003. *Khrushchev: The Man and His Era*. New York: W.W.Norton & Company; Taubman, William, 2017. *Gorbachev: His Life and Times*. London: Simon & Schuster; Coase, Ronald and Wang, Ning, 2013. *How China Became Capitalist*. New York: Palgrave Macmillan.

19. Buckley, Neil, 2018. “Once-repressive Uzbekistan begins a post-Karimov opening.” *Financial Times*, February 13.

20. Labrador, Rocio Clara, 2018. “What Is Cuba's Post-Castro Future?” *Council on Foreign Relations*, April 18

21. Kennan, George (1947) *Foreign Affairs*, July, Vol. 25, No 4, p. 566.

22. Jimenez, Marguerite, 2018. *Foreign Affairs*, March/April.

23. Feinberg, Richard, 2018. *Cuba's Economy After Raúl Castro: A Tale Of Three Worlds*. Washington, D.C.: Brookings Institutions Press; Morris, Emily, 2017. *Foreign Affairs*, January/February.

24. Nelson, Anne, 2016. *Foreign Affairs*, November/December; Piccone, Ted, *What to expect from a post-Castro Cuba*. Washington, D.C.: Brookings Institutions, April 18.

leged revolutionary veteran nobility or the military cupula. He is not a Castro family member and does not head the party. At this stage he mostly looks like a compromise choice for a high-ranking manager.²⁵

Applying the same criteria, Raúl Castro's son, Alejandro, he could be even a more "natural" successor as carrier of a Castro Espín surname and his experience as liaison between the military hierarchy, security agencies, and civilian group interests.²⁶ Alejandro Castro played an important role as intermediary in Obama's secret diplomacy to normalize bilateral relations.²⁷ Because of a massive upcoming attrition of octogenarians from key power positions, the emergence of new names in the political arena should not be excluded. In any case, all of them, including Miguel Díaz-Canel (58 years old) and Alejandro Castro Espín (53 years old), belong to a new generation. Who from that generation will dominate remains to be seen in the island's changing dynamics.²⁸

CAN CUBA "COME IN FROM THE COLD"?

According to Janos Kornai's classification of socialist prototypes, Cuba today represents "classical socialism" transitioning to a reform socialist system.²⁹ All the main features of that classical socialist model are still there: the supremacy of state property; the dominant role of the state in the mobilization, distribution and utilization of national savings; the existence of a managerial hierarchy as an essential part of a command economy and nomenklatura system; the development of patron-client networks; the prevalence of an autarky; the persistence of shortages; the mobilization of the economy for the sake of militarization; the reallocation of resources from agriculture to industry and services; the limited role of money; the

fixing and distorting of prices; the predominant practice of soft budgets; the ongoing reality of hidden inflation; the constant hunger for imports and the aversion to exports; the low proportions of domestic consumption in GDP growth and the low efficiency of human capital investments; the egalitarian acceptance of common poverty among broad groups of the population; along with the perpetuation of messianic ideologies and tight political controls.

What Cuba has really missed since the global financial crisis of 2008/2009 is high and sustainable GDP growth—a situation that has dramatically worsened with the deepening Venezuelan crunch. The loss of financial flows from Caracas has been irreversible. Neither Beijing nor Moscow can provide a substitute role as generous sponsor. Various damaging storms in the past years, as well as Cuba's deteriorating relations with the U.S., had additional negative implications. Remaining stagnant and dysfunctional, Cuba's economy has undermined the stability of a "classical socialist prototype," as has happened in practically all other countries that belonged to the "socialist archipelago" and at best it has only pushed Havana to implement timid reforms that open a limited space for private sector development. From a macroeconomic perspective, Cuba has to switch from a model based on foreign subsidies to an investment-type economy. However, by eroding the "traditional model" and shifting to a "reformist socialist system" the country risks rising fiscal deficits, soaring inflation and foreign debts, unless new sources of growth are found.³⁰

The fear of ruling elites of losing state control over the economy and the powerful presence of vested interests motivated by protection of privileged rents, have significantly slowed down the pace of structural

25. Jimenez, Margueritte, 2018. "Cuba after the Castros," op. cit.; Feinberg, Richard and Ted Piccone, 2018. "Cuba's Stalled Revolution: Can New Leadership Unfreeze Cuban Politics After the Castros?" *Foreign Affairs*, September/October.

26. Álvarez Quiñones, Roberto, 2018. "Must Alejandro Castro Be President?" *Diario de Cuba*, 23 de enero.

27. Rhodes, Ben. Op. cit., pp. 213–216, 263–264, 284–285, 301–303, 348–350, 359, 413.

28. Cárdenas, José, 2018. *Foreign Policy*, February 7; Mourdoukoutas, Panos, 2018. *Forbes*, May 16; Deare, Craig, 2018. *Americas Quarterly*, May 30.

29. Kornai, Janos, 1992. *The Socialist System. The Political Economy of Communism*. Princeton: Princeton University Press.

30. Aslund, A. and Djankov, Simeon (eds), 2014. *The Great Rebirth: Lessons from the Victory of Capitalism over Communism*. Washington, D.C.: Peterson Institute for International Economics.

reforms in Cuba beneficial to society at large. Despite evidence that the current economic model has been exhausted, rent-seekers, as the most influential gradualist group in the country, continue to gain significant economic benefits through state budget subsidies, negative interest rates, multiple exchange rates and price disparities (domestic vs. world, public vs. private). While Cuban economic authorities have publicly recognized the tense economic situation, realizing that there is a need for significant inflows of capital, technology, and market development as prerequisites for future growth, Díaz-Canel remains cautious as suggested by statements about the need for foreign “productive” investments in tourism, energy, and food processing “without creating a threat to national sovereignty.”³¹

It is puzzling to read general and vague messages from Havana, because they explain too little if the reader does not know the hidden matrix of informal codes, but it seems evident how the existing system blocks and misses opportunities, making it less than clear how a mysterious decision-making mechanism is able to generate positive changes. There is also a great deal of uncertainty regarding the real goals that the current Cuban leadership is pursuing.

We can only guess (based on some official statements and frequent exchanges of delegations at different levels between Cuba and Vietnam) that Hanoi’s reform experience and socialist-oriented market economy could be appealing to Havana. Vietnam’s economy has had solid growth (above 5% of GDP) in the last 30 years and low inflation that reflects policy attention to maintaining macroeconomic stability. The rate of growth now is at roughly the same level as China’s (Figure 1).

Nevertheless, Vietnam’s example has not played a catalytic role and has not served as an inspiration for Cuba. While Vietnam introduced profound eco-

nomics reforms, which permitted the country’s per capita income to increase 20 times since the early 1990s, and pursued a strategy of normalizing relations with the United States, Cuba has put on hold its modest reform efforts and did not make efficient use of Obama’s rapprochement. Hanoi has allowed diversified ownership of the means of production, seeking the “development of a market economy with a socialist orientation.”³² Havana does not venture to reference the Vietnam reformist experience either in its draft of a new Cuban constitution or in any other public document, although it has stated that the planned new constitution has a transformational purpose and more advanced constitutional models were consulted, like those of Vietnam and China.³³ No doubt the most attractive feature of the Vietnamese transformation for Havana has been the stability of Vietnam’s one-party illiberal political regime, its slow state sector structural modification, and absence of shocks.

Having said that, we should admit that the two countries differ significantly, and many aspects of Vietnam’s transition cannot be directly replicated in Cuba: size does matter. The population of Vietnam (94.5 million) is 8 times the population of Cuba (11.5 million).³⁴ The structure of their economies also differs (Figures 2 and 3). Vietnam’s agricultural sector contributes 17% of GDP while Cuba’s represents about 4%. Cuba’s service sector dominates the country’s GDP (74%), while in Vietnam it makes up 46% of GDP.

Vietnam had a double transition—from a traditional agricultural society to an industrialized one, and from centralized economy to a “socialist market”. Steady integration into the global economy since WTO accession in 2007 has brought a higher flow of foreign direct investments and greater exports. Vietnam’s exports and imports are much more diversified (about 20% to the US, followed by 13% to China)

31. Hernández, Marcelo, 2018. *14 y medio*. La Habana, Junio 21.

32. Truong-Minh Vu, 2015. “Challenges for the Communist Party of Vietnam,” *Diplomat*. February 1; Resolution No. 02 KL/TW of the Politburo.

33. Acosta, Homero, 2018. *Granma*, August 2.

34. The World Bank Group. Country Data. Cuba. Vietnam. www.data.worldbank.org

Figure 1. China and Vietnam, Real GDP Growth in %; Actual and Projections, 1989–2020



Figure 2. Vietnam, GDP composition by sector of origin (% of GDP), est. 2017

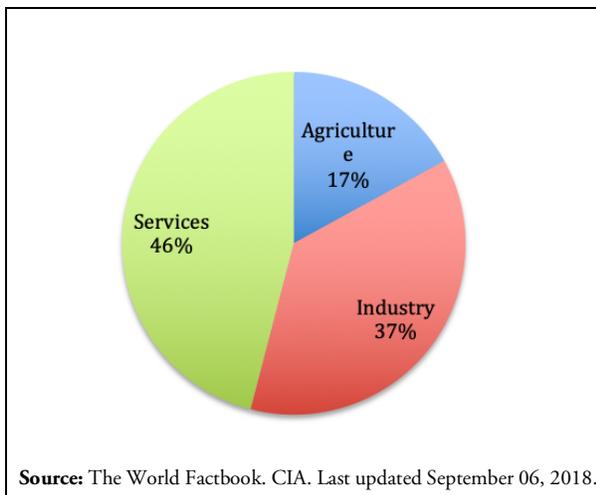
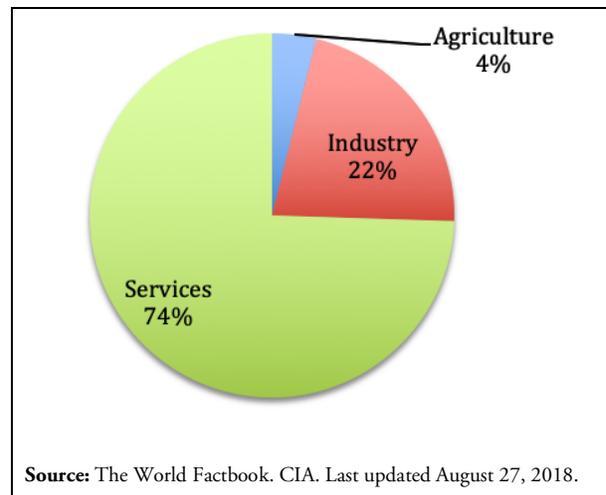


Figure 3. Cuba, GDP composition by sector of origin (% of GDP), est. 2017



than Cuba’s overall foreign trade. Vietnam’s way of integrating with the global economy is “thick” (the production and services of many Vietnamese enter-

prises now form an integral part of the global supply and value chains), Cuba’s is “thin”, with maximum involvement in state of the art offshore zones.

ECONOMIC DECLINE AS A TRIGGER OF REFORMS

The previously mentioned new critics of post-communist transition have extended their “innovative” approach to economic development strategies by insisting that gradual reforms and less globally integrated nations can significantly reduce their vulnerability to external shocks. They believe that mass mobilization, economic planning and state dirigisme are much more effective anti-crisis instruments than the traditional counter-cyclical fiscal measures and structural reforms that improve the allocative efficiency of resources, while boosting productivity and strengthening domestic-regional markets on the supply and demand side.³⁵ The reality has been more complex, with empirical evidence and data analysis showing that Central and Eastern European countries that applied shock therapy during their transition periods and relied mostly on “laissez-faire” policies, were much more resilient to global turmoil and exited from a crisis more quickly than some Central Asian republics, which got stuck in their transitions with huge reform gaps. China and Vietnam’s GDP growth slowed down at the time of global financial crisis of 2008–2009, but less than during the Asian financial crisis of 1997 (Figure 1). Such an outcome was determined by larger scale government interventions and evident progress in both countries: moving ahead on a track of structural reforms that stimulated market and trade diversification. Any growth strategy package should take into account external and domestic volatility. The eventual impact of external shocks can be significantly amplified by domestic factors: weak institutions, underdeveloped financial systems, bad governance, and well-connected political

or economic groups promoting biased anti-crisis policies. Unless domestic roots are remedied, sustained long-run growth will be difficult to achieve.³⁶

There is a vast literature that explains how an economic crisis can act as a trigger for transitions and structural reforms.³⁷ In the case of Cuba we would like to clarify how varying economic cycles can impact a future transition and in the process address certain questions: Is Cuba decoupling from the global economy? Which countries mostly affect Cuban GDP growth? Which sectors of the Cuba’s economy are more sensitive to global ups and downs?

Data in Table 1 shows a significant reduction in the relationship between Cuban economic growth and that of the world economy (0.58 in 1988–2017 vs. 0.16 in 2008–2017). We can also see a weakening relationship between the island’s development and GDP growth in the advanced economies (including U.S. and Canada), as well as in emerging markets (0.60 in 1988–2017 vs. 0.32 in 2008–2017). However, Cuban growth was strongly correlated to GDP growth in Latin America and the Caribbean region, with Venezuela and Brazil still maintaining leading positions. There was a huge jump in the significance of Chinese influence on the Cuban economy (from -0.07 in 1988–2017 to 0.32 in 2008–2017). The declining relevance of global economic growth for Cuba in the last 10 years means that the island, because of its considerable isolation and inefficiency, is less receptive to the positive impulses of global markets, while at the same time it is not sheltered from the negative side effects of global instability (see various charts of Cuba’s real GDP growth vs. GDP

35. Ostry, Jonathan, Alessandro Prati, Antonio Spilimbergo, Lone Christiansen, Prachi Mishra, Chris Papageorgiou, Rodney Ramcharan, Martin Schindler, Nikola Spatafora, Stephen Tokarick, and Thierry Tresselt, 2009. *Structural Reforms and Economic Performance in Advanced and Developing Countries*. Washington, D.C.: IMF.

36. Raddatz, Claudio, 2007. “Are External Shocks Responsible for the Instability of Output in Low-Income Countries?” *Journal of Developing Economics* 84: 155–87.

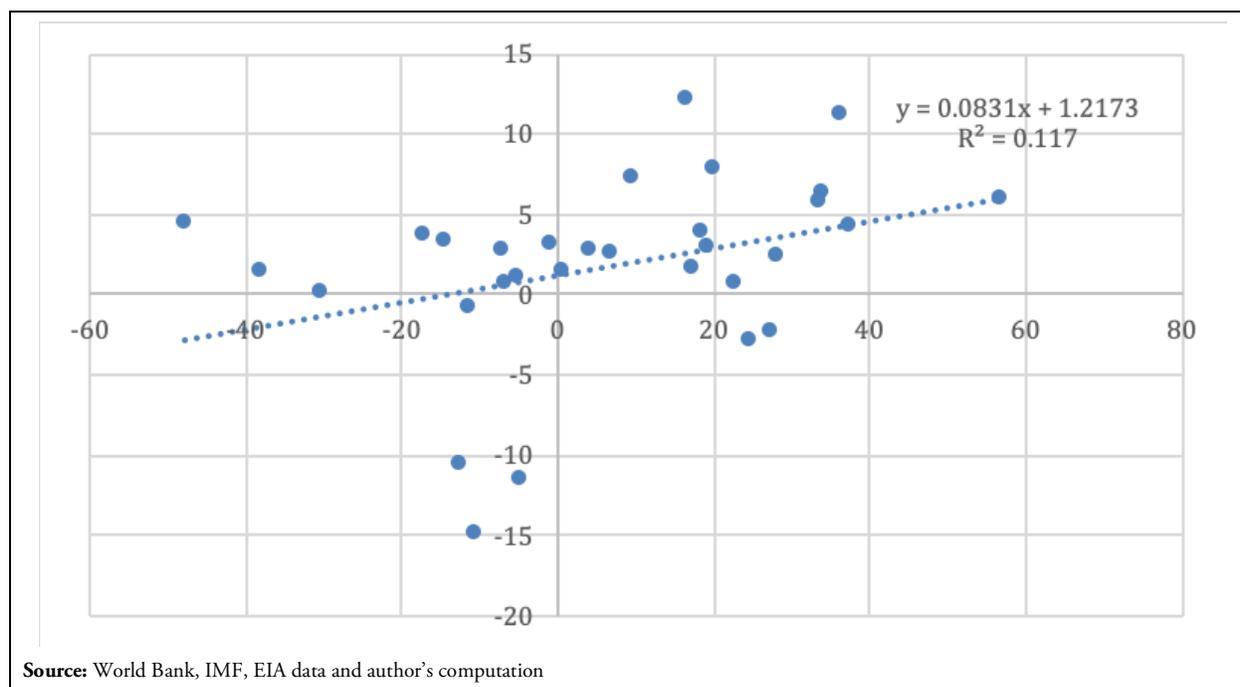
37. IMF, 2016. *When Do Structural Reforms Work? On the Role of the Business Cycle and Macroeconomic Policies*. IMF Working Papers. WP/16/62. Washington, D.C.: IMF; Fischer, Stanley, and Alan Gelb, 1991. “The Process of Socialist Economic Transformation,” *Journal of Economic Perspectives*, 5, 4: 91–105; Gaidar, Yegor, ed., 2003. *The Economics of Transition*. Cambridge, Massachusetts: MIT Press; Kornai, János, 1994. “Transformational Recession: The Main Causes,” *Journal of Comparative Economics*, 19(1): 39–63; Pickles, John and Adrian Smith (eds), 1998. *Theorizing Transition: The Political Economy of Post-Communist Transformations*. London: Routledge; European Bank for Reconstruction and Development. *Transition Report, 1994–2017*. London: EBRD.

Table 1. Correlation of Cuba’s real GDP growth (%) with real GDP growth (%) of China, United States, Venezuela, Brazil, Canada, LAC region, emerging markets and developing economies, advanced economies, and the world, 1988–2017

| | China | United States | Venezuela | Brazil | Canada | Latin America and the Caribbean | Emerging market and developing economies | Advanced economies | World | Cuba |
|-----------|--------|---------------|-----------|--------|--------|---------------------------------|--|--------------------|-------|------|
| 1988–2017 | (0.07) | 0.17 | 0.11 | 0.22 | 0.36 | 0.12 | 0.60 | 0.22 | 0.58 | 1.00 |
| 2008–2017 | 0.32 | 0.09 | 0.67 | 0.35 | 0.04 | 0.46 | 0.32 | 0.06 | 0.16 | 1.00 |

Source: World Bank data, author’s computation

Chart 1. Regression of Cuba’s annual GDP growth and change of oil prices, 1987–2017



growth of its selective economic partners in the Annex).

Initially our assumption was that the Cuban economy, which continues to have an ongoing dependence on Venezuela’s GDP growth through subsidies and trade in goods and services, would be strongly dependent on the oil price variable. Chart 1 shows that this correlation is not as significant (0.34) as expected. We can partially explain it by a floating cost rate system of medical and other services.

A much stronger dependence of the country’s economic growth comes from remittance flows (0.95), international tourist arrivals (0.93) and commodity prices on nickel, tobacco and sugar. See Chart 2 and Chart 3. At the same time, it’s obvious that these im-

portant drivers of Cuban growth have weak spots that can easily be affected by geopolitics and global market turbulences.

Interesting results also appear through regression analysis of Cuba’s real GDP growth as it relates to major natural disasters (R-squared 0.65). See Table 2. The average damage from hurricanes in the last 30 years has been around 0.7 percent of GDP annually. However in years following strong hurricanes, the Cuban economy normally adds 3.2 percentage points to GDP growth. So natural disasters, paradoxically, have not only been a curse for the island, but also a kind of additional stimulus. Nevertheless, there seems to be exaggeration in the logic of a recent article published in *Foreign Affairs* magazine, where the

Chart 2. Cuba nominal GDP in USD and international tourist arrivals

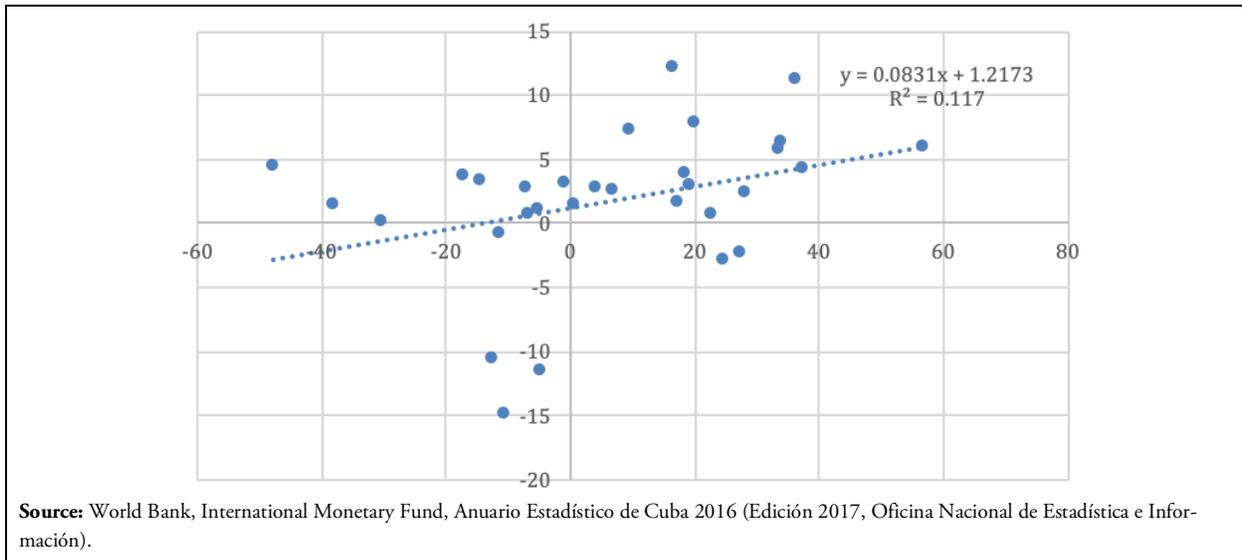
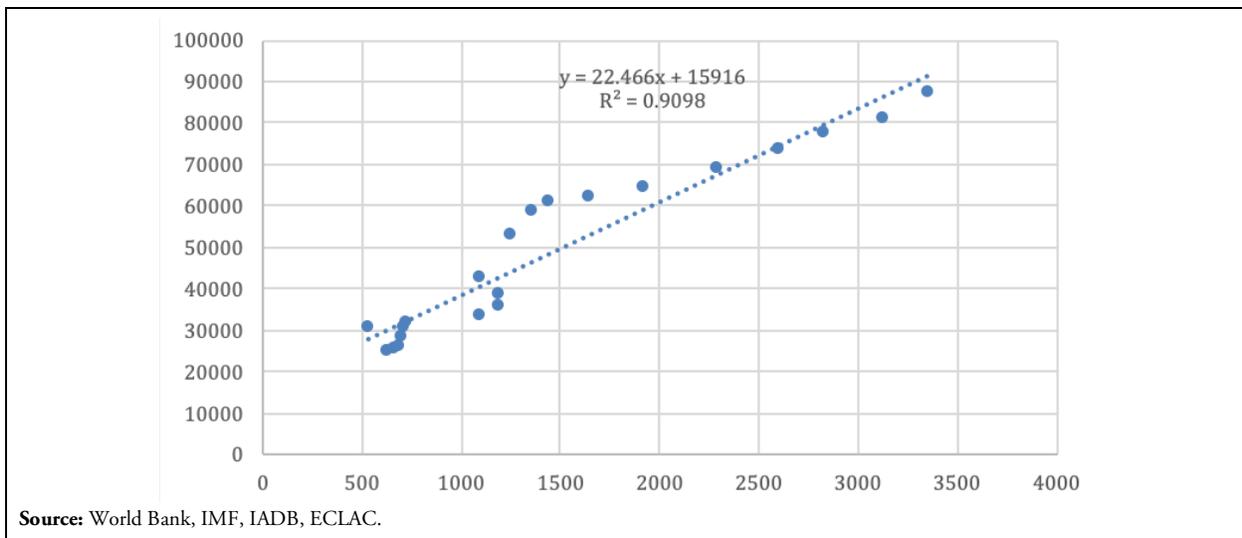


Chart 3. Cuba's nominal GDP in USD and remittances from the U.S



author chooses only major hurricanes as a catalyst for internal change domestically and external change vis-a-vis U.S.-Cuba relations.³⁸ Overall, hurricanes in Cuba, as in many other Caribbean countries, have remained an important cause of macroeconomic instability and human suffering.³⁹ Having said this, we also need to stress that downside trajectories of global

economic cycles can be much more devastating for Cuba than tropical storms.

POTENTIAL ROLE OF THE CURRENT ECONOMIC CYCLE IN A FUTURE CUBAN TRANSITION

Without going into detail on the theories of economic and business cycles, we should acknowledge that

38. Gettig, Erik, 2017. "How Hurricanes Helped Shape Modern Cuba," *Foreign Affairs*, October.

39. Acevedo, Sebastian, 2016. *Gone with the Wind: Estimating Hurricane Climate Change Costs in the Caribbean*. Working Paper. IMF Western Hemisphere Department. Washington, D.C.

Table 2. Regression of Cuba's real GDP growth (%) on major natural disasters, 1987–2017

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|--|-------------|-----------------------|-------------|----------|
| GDP_GROWTH__ANNUAL___NY_GDP_MKTP_KD_ZG(-1) | 0.332419 | 0.181555 | 1.83095 | 0.0858 |
| @PC(INTERNATIONAL_TOURISM__NUMBER_OF_ARRIVALS_ST_INT_ARVL) | 0.154267 | 0.061337 | 2.515069 | 0.023 |
| ND_DUMMY(-1) | 3.179747 | 1.131873 | 2.80928 | 0.0126 |
| EMERGING_MARKET_AND_DEVELOPING_ECONOMIES | 1.034819 | 0.318274 | 3.251348 | 0.005 |
| C | -5.106535 | 1.961452 | -2.603446 | 0.0192 |
| R-squared | 0.646119 | Mean dependent var | | 4.223658 |
| Adjusted R-squared | 0.557649 | S.D. dependent var | | 3.3347 |
| S.E. of regression | 2.217892 | Akaike info criterion | | 4.635248 |
| Sum squared resid | 78.70469 | Schwarz criterion | | 4.883944 |
| Log likelihood | -43.6701 | Hannan-Quinn criter. | | 4.689221 |
| F-statistic | 7.303241 | Durbin-Watson stat | | 2.124299 |
| Prob(F-statistic) | 0.001517 | | | |

Source: World Bank, The Emergency Events Database—Universite Catholique de Louvain

the global economic upswing that began in mid-2016 can be seen as the end of a global mid-term business cycle, and a peak in the rate of expansion of major economies.

First, we saw an initial acceleration of this cycle eight years ago, after the global financial crisis. In 2018 and 2019 we are likely to see 3.9% world growth as the “last chord” of an unusually long business cycle. Japan, China, EU and the United States, all have above-average growth expectations, in tandem with the global recovery of commodity exporters. There are only half a dozen countries with negative economic indicators, mostly those in the grip of civil strife (Libya, Syria, Venezuela, and Yemen).

Second, such kinds of acceleration usually happen when the world economy is close to a turning point. The IMF's last update of the *World Economic Outlook* emphasizes uneven prospects in the development of advanced and emerging markets “amid rising oil prices, higher yields in the United States, escalating trade tensions, and growing pressures on the currencies of countries with weaker fundamentals.”⁴⁰ The World Bank also acknowledges that the balance of risks, which include the possibility of disorderly financial market movements, heightened policy uncertainties, and rising geopolitical tensions, has shifted further to the downside in the short run.⁴¹ The World Bank has repeated its “mantra recom-

mendations” of implementing structural reforms and strengthening economic and financial policies to create space for the next downturn. Which leads one to wonder, how will these challenging circumstances affect Cuba?

On first glance, the Cuban system has demonstrated resilience throughout different historical periods. Problematically, it has also shown institutional rigidity, low managerial capacity and a lack of political will to implement top-down structural reforms and any kind of modernization. The island continues to be under the pressure of mounting problems and an outdated centralized socialist economy (as happened in the Soviet Union). Can a new leadership address chronic economic ills and urgent issues? Can it strengthen the country's financial system through currency exchange rate unification, to decrease state ownership and state regulation of economic activity, implement deep reform of SOEs, facilitate bureaucratic procedures for SMEs, initiate a real land reform, create new social safety nets, and improve the islands's business environment for FDI?

Can we expect such needed economic and institutional reforms to come from above, as the old generation slowly weakens its grip on power? Will such reforms occur without pressure from below, and without serious disruptions? These are relevant questions.

40. IMF, 2018. *World Economic Outlook*, update, July 16.

41. World Bank, 2018. *Global Economic Prospects. The Turning of the Tide*. July.

There are three main conditions for any reform to take place: elite agreement regarding future changes; strong and consolidated popular demand, and a deep economic crisis. We do not see any of these conditions happening in Cuba now, but lessons learned from post-communist transformations tell us it is almost impossible to predict when serious reforms will start and develop their own momentum.

It is possible that an upcoming global economic downturn may seriously hit Cuba and create pres-

ures from below that favor a long-awaited market transition. No doubt worsening economic conditions could undermine confidence in the stability and effectiveness of the new political leadership, so preventive anti-crisis measures should be an essential part of future reform strategies.

In fact, one can generalize overall that the next global economic crisis might trigger a reformist process. Whether that will actually happen, will still need to be seen.

ANNEX 1

Chart 1. Cuba real GDP growth (%) vs. U.S. real GDP growth (%), 1987–2016

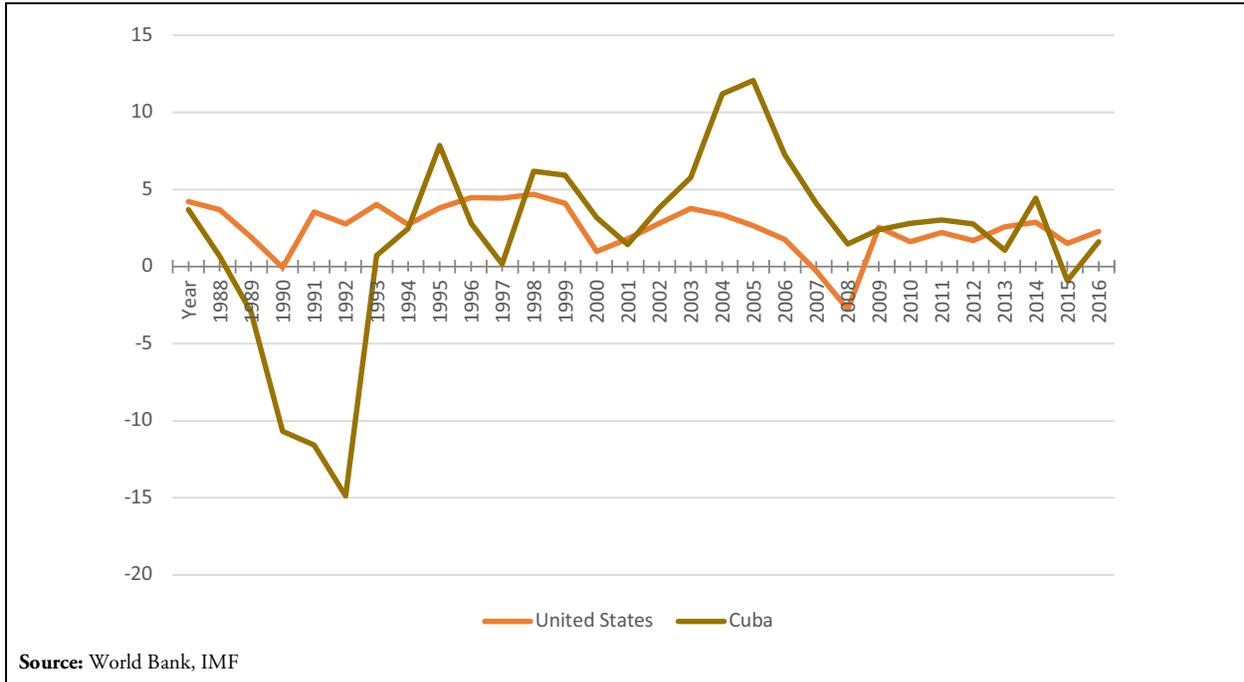


Chart 2. Cuba real GDP growth (%) vs. China real GDP growth (%), 1987–2016

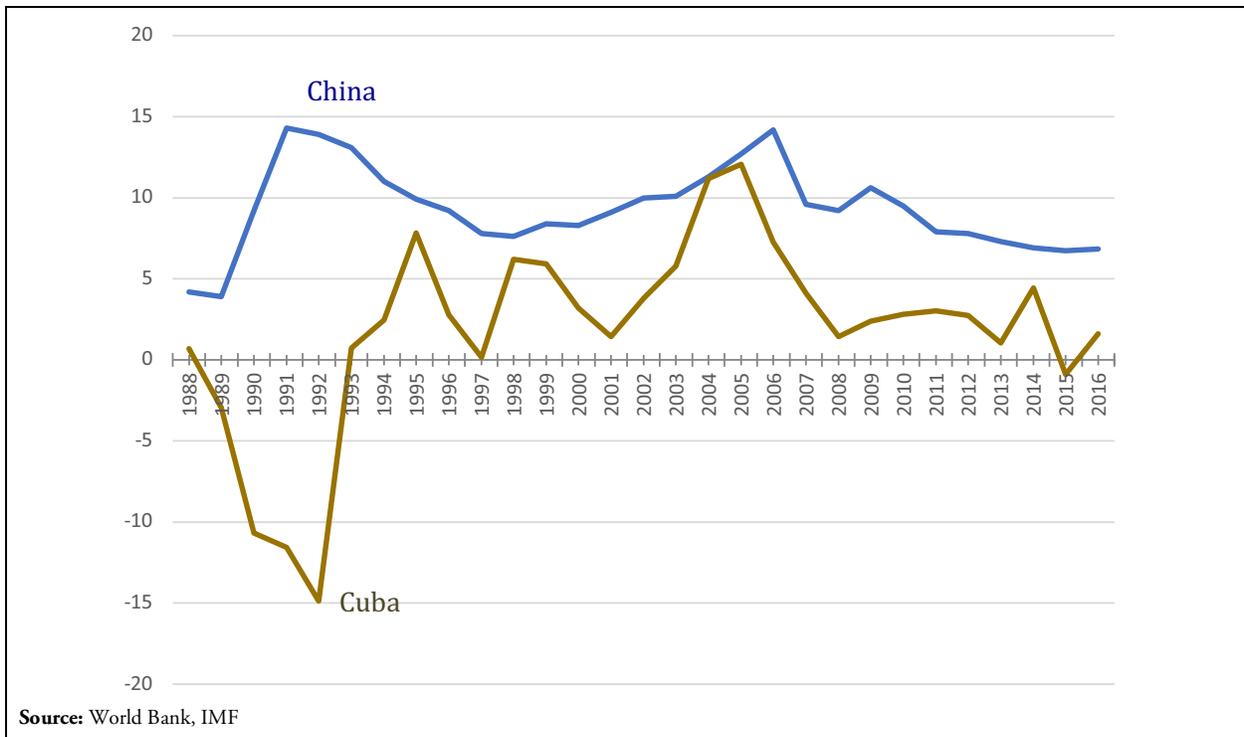


Chart 3. Cuba real GDP growth (%) vs. emerging markets and developing countries real GDP growth (%), 1987–2016

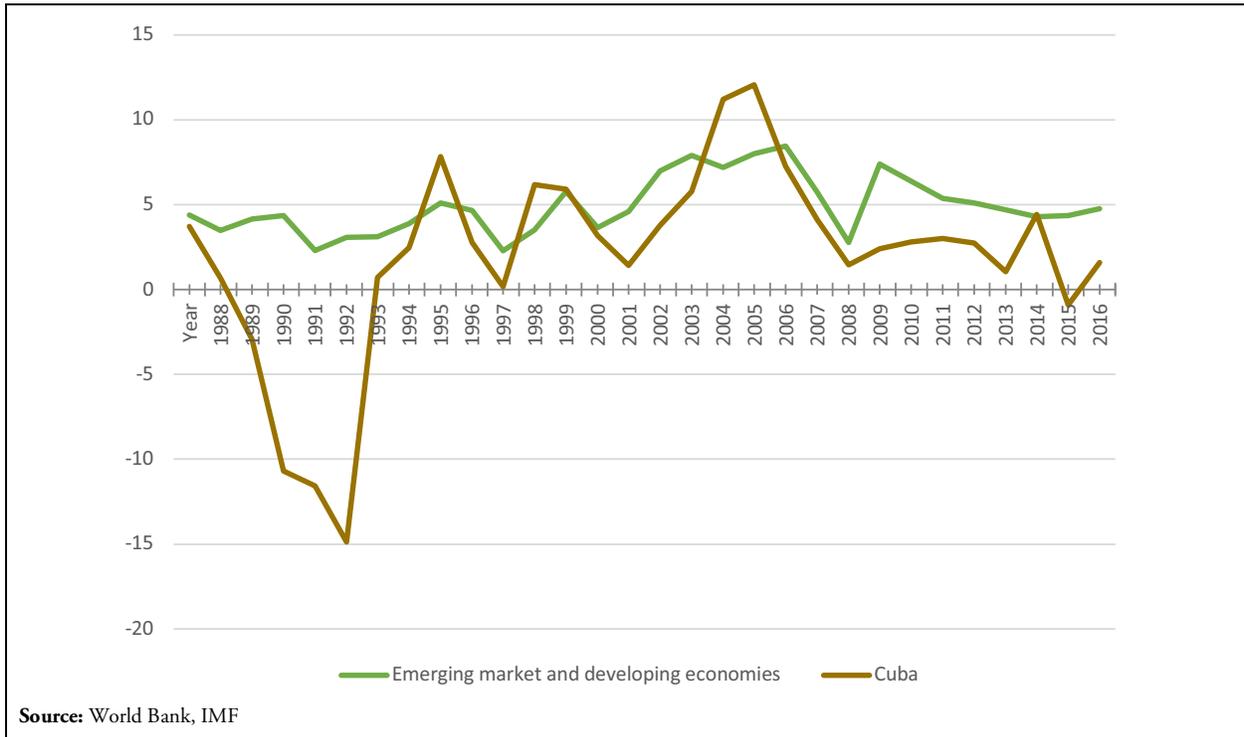


Chart 4. Cuba real GDP growth (%) vs. Latin America and Caribbean real GDP growth (%)

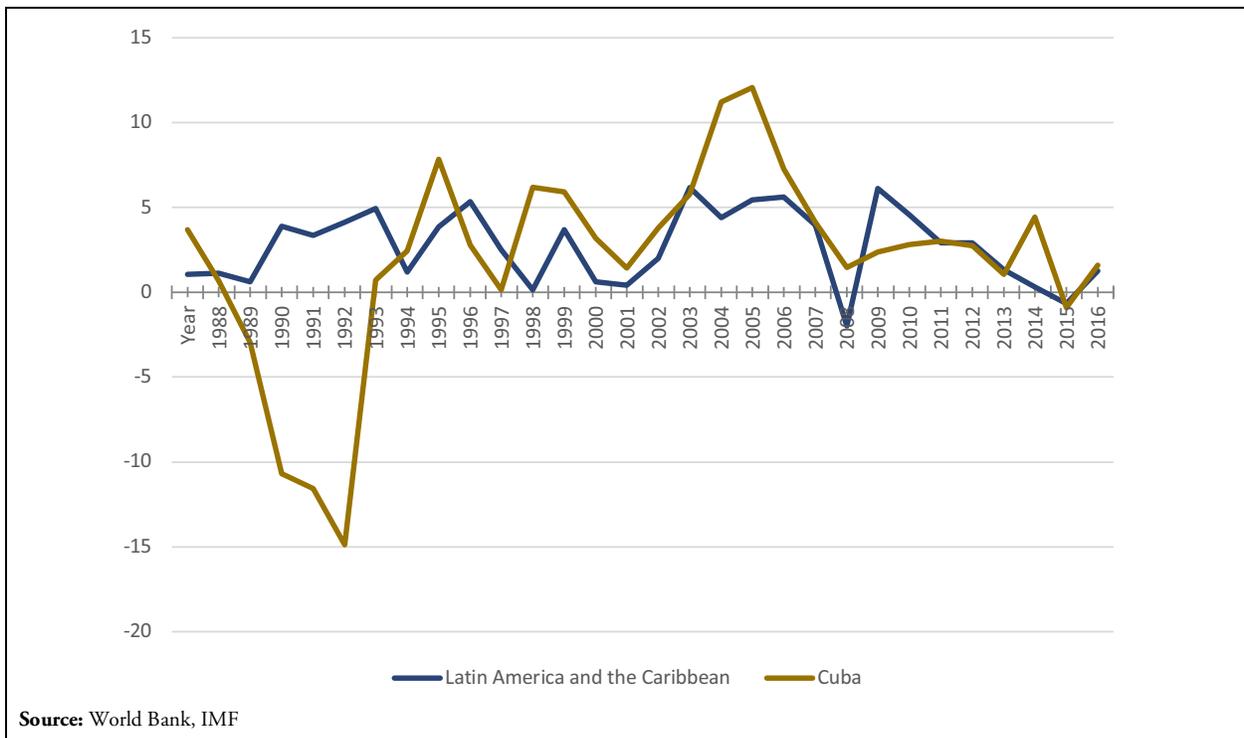


Chart 5. Cuba real GDP growth (%) vs. Venezuela real GDP growth (%), 1987–2016

