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In Cuba, it's the end of an era

Raúl Castro's departure marks the end of an era — and coincides with Cuba's worst crisis in decades. His successors face a daunting task

The 8th Congress of the Cuban Communist Party last weekend marked the end of an era. The 'historic generation', including Raúl Castro, retired from the highest political responsibilities. Castro's departure comes at a time when Cuba is going through its worst crisis in decades. And the island has two historic tasks pending: achieving prosperity for all, and satisfactorily resolving its dispute with the United States.

Nonetheless, Castro made some good decisions in his two terms at the helm of the island's government: he initiated and steered the reform process known as *actualización*; he tried to improve relations with the United States; and he kept a low public profile since 2018, when Miguel Díaz-Canel took over as head of state.

However, the initial momentum for reform has languished over the years. In this same Congress, Castro made very restrictive statements on private activity, the effects of which will be felt in the coming months. This Congress confirms the model to be followed: political orthodoxy with economic reform.

The difficult path to reform

Ten years ago, economic reform had been passed at the highest political level – rhetorically at least. Unfortunately, its implementation has left more and more to be desired. In 2011 and 2016, the Communist Party congresses adopted a number of position papers that were intended to serve as the basis for transforming the economic model.

Despite all predictions, however, the past five years have been less productive than the period from 2011 to 2016, with the possible exception of a few months at the end of 2020. The bewilderment of the Cuban population and international observers is entirely understandable.

In other words, Cuba urgently needs reforms. It has been an open secret for decades now that the Cuban model lacks solid economic performance. The brief periods of economic dynamism have so far been accompanied by generous forms of quid pro quos from the outside. This was the case with both the years of the 'Soviet Brotherhood' and the more recent temporary provision of medical aid to Venezuela. By having a functioning economy, the country could maintain independence and increase the cost of US economic sanctions. Since the collapse of socialism in Eastern Europe, this goal has become all the more urgent.

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Instead, Cuba's approach to reform has been inconsistent, to say the least. The results speak for themselves: rising inequality, antiquated infrastructure, the declining quality of public services, a high rate of migration, increasing dependence on foreign money transfers for foreign exchange, inadequate domestic food production – and the list goes on.

Covid-19 exposed Cuba's economic weakness

The economic crisis triggered by the Covid-19 pandemic has clearly exposed the great vulnerability of the Cuban production system. For decades, the Cuban economy has been stuck on a path of very low growth that has lost momentum in recent years. For example, GDP growth fell from 2.7 per cent in 2010–2015 to 0.9 per cent between 2016 and 2019. Then in 2020, output contracted by around 11 per cent, one of the biggest slumps in Latin America. Since 2013, exports have fallen by over one third, which also explains the difficulties in meeting foreign financial obligations. In 2020 alone, international sales plummeted by more than 30 per cent.

Not only has economic performance been poor, but it also leads to greater macroeconomic instability. The budget deficit has increased in recent years and is expected to reach 18 per cent in 2021. At the same time, the mountain of state debt is growing, there is considerable price pressure, and the national currency, the peso, has lost value on the informal market.

Some of these effects are unavoidable, but the results of the current strategy suggest an urgent need to adjust course. Economic reforms have stalled due to ideological shortcomings, political manoeuvring, and a lack of skilled professionals in the public sector. At the turn of the century,

reluctance to implement the necessary changes meant that much of foreign trade was once again tied to political agreements. Therefore, the economic problems of Venezuela, a close partner, now present a burden for Cuba.

The current economic crisis is the worst to hit the country since the severe slump of the early 1990s. All of the same the ingredients are there: shortages, inflation, dollarisation, long queues. The only thing missing is the power outages – so far, anyway, until you consider that a large part of the oil supply comes from Venezuela. The old tactic of making incremental changes for the sake of stability no longer seems viable if the island is to embark on a path to sustainable prosperity.

Resistance to reform

These errors and omissions have been exacerbated by the complexity of political change. Most of the structural factors that explain the general characteristics of the Cuban model have changed radically or are in a permanent process of transformation: political leadership based on charisma and historical legitimacy; foreign partners in a position to offer generous economic aid; a relative homogeneity of the population because of low inequality and a predominant ideology; and the relative economic isolation from the rest of the world as a result of US sanctions.

On countless occasions, well-intentioned directives have been twisted around and disconnected from their original content. There is a clear resistance to change, but not everyone is rejecting it for the same reasons. The bureaucracy has already been portrayed in public discourse as an obstacle to 'modernisation'. Those affected are convinced that they have a lot to lose if administrative processes become less important and functions and jobs are eliminated.

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Furthermore, as a result of the limited, unfinished and even chaotic corporate reforms since the 1990s, public institutions have broken down in various ways. They seem to be governed by unequal rules that inevitably favour some to the detriment of others. Even within the state apparatus itself, the same rules do not apply to all, and some are clinging to their privileges.

As a result, certain conservative circles have cleverly taken advantage of the spaces and legitimacy of public institutions to be critical of economic reform, sometimes in underhanded ways. However, the only alternative

on offer is the current model and resistance to it, which is becoming less and less popular among large sections of the Cuban population, especially the younger generation. Unsurprisingly, given the lack of progress in Cuba, the recent emigrants have proved to be one of the most stable pillars of the former US government's hard-line policies.

Cuba's relationship with foreign allies and foes

For years, the Cuban government has shown very little imagination when it comes to the role of foreign powers in the island's transformation process. The main focus has been on expanding alliances that provide preferential agreements to reduce the cost of US sanctions and, most importantly, postpone the need for major changes to address the dysfunctional economic model.

However, it is difficult to say whether China or Russia, Cuba's most important allies, are interested in offering unconditional aid at the level that would enable the crisis to be overcome. In contrast to other cases, Cuba has great potential, but successful implementation depends on a radical reform of the national model. This would explain the marginal participation of Chinese companies and the abrupt decline in trade between the two countries since 2015.

On the other hand, changes in the international environment could hold another, undesirable scenario in store for Cuba – namely that the country would once again be caught in a kind of Cold War in which it is pitted against its closest neighbour. This is a course that Cuba's leaders should definitely avoid at all costs.

The equation needs to be reversed: reasonable changes at home can improve the perception of Cuba on the part of its allies and even the United States. As Barack Obama said already several years ago, Cuba is a country very much in transition. In any case, it will be another generation that has to make progress in these areas. The historic generation could not.



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