

THE CUBAN ECONOMY IN 2008-2009:
Internal and External Challenges, State of the Reforms and Perspectives

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In 2008 and the first half of 2009 Cuba has gone through exceptional circumstances. Internally, Raúl Castro officially became the President of the Council of State and implemented several economic measures but moderate compared with the reforms suggested in the profound debate of 2007 and now virtually stagnant; four hurricanes caused losses for \$9.7 billion (20% of GDP), triggering the greatest food shortage since 1993, followed by tough government sanctions against sales at prices above the legally-imposed top. Externally, the world-market price of nickel shrank by 80% and cut revenues from the country main export; the 78% fall in the world-wide price of oil diminished the cost of that import but weakened Venezuela and might threaten its vital aid to Cuba; Raul has tried to diversify commercial partners and investors expanding ties with China, Russia and Brazil and entering the Group of Rio, whereas the European Union resumed its cooperation and granted humanitarian aid, but the worst global economic crisis since the Great Depression had an adverse impact on Cuba in 2008 and is worsening in 2009. As a result of all these factors, economic growth slowdown to 4% in 2008 (is projected between -0.5% and 2.5% in 2009), production declined, the fiscal deficit doubled, exports stagnated whereas imports escalated leading to a record deficit in the trade balance of goods (\$10.8 billion). Obama's election was received with euphoria by most Cubans, because of the new president's African ancestry; he has rescinded Bush's restrictions on Cuban-Americans' trips and remittances, and offered to lift the embargo ("blockade") if Cuba takes reciprocal steps. Raúl has offered to discuss everything but Fidel has been reluctant and even boycotted the negotiations. The OAS invited Cuba to solicit readmission in 2009 but the government rejected it.

This paper analyzes the above events in five sections: (1) deterioration in the domestic economic situation; (2) progress and difficulties in international economic relations; (3) debate on change, Raúl's policies and reform stagnation/reversal; (4) Obama's measures to normalize relations, Cuba's reaction and perspectives for lifting the embargo and its effects, and (5) conclusions.

I. The Economic and Social Situation Aggravated by the Hurricanes

The evaluation of Cuban economic performance is hindered by statistical lacunae and problems of reliability-comparability in some available data. ECLAC report for 2008 only includes Cuban figures in 10 of its 23 comparable tables. On the positive side: the

¹ Although taking full responsibility for this essay, the author gratefully acknowledges valuable comments from Alejandro de la Fuente, Pavel Vidal and Jorge Piñón, as well as many participants in the international seminar in San José and a presentation in Casa de América in Madrid. A brief summary of part of this paper is Mesa-Lago 2009.

National Statistical Office (ONE) has significantly cut the time of appearance of statistics in Internet, and Cuban economists continue increasing their scholarly output, in quantity and quality. This section contrasts Cuba's situation in 1989, at the eve of the crisis, with the year 2008 and compares the latter with Latin American averages (see Table 1).

Domestic Macroeconomic Indicators

Table 1. Macroeconomic Indicators of Cuba, 1989 and 2000-2008 (in percentages)

Indicators ^a	1989	2000	2001	2002	2003	2004	2005	2006	2007	2008
GDP growth	1.2	6.1	3.0	1.8	3.8	5.4	11.8	12.5	7.3	4.3
Gross capital formation/GDP	25.6	12.4	12.1	10.6	9.2	10.1	12.0	13.5	12.9	11.5
Inflation rate (CEPAL)	0.5	-3.0	-0.5	7.0	-1.0	2.9	4.2	5.7	2.8	4.9
Monetary liquidity-M2/GDP	21.6	33.2	39.2	42.5	40.6	41.5	42.7	38.6	37.2	40.6
Fiscal balance/GDP	-7.2	-2.1	-2.2	-2.7	-2.8	-3.5	-4.2	-3.1	-3.2	-6.7

^a 1989 based in 1981 prices, rest in 1997 prices.

Sources: 1989 and 2000-2006 from Mesa-Lago 2008a; rest from ONE 2008a, 2009a; ECLAC 2008.

Growth and Stability. The official GDP growth rate descended from 12.5% in 2005 to 4.3% in 2008, half of the goal of 2008 and slightly inferior to the regional average of 4.6%.² In the first semester of 2008 the rate was 6% but, if in the second semester the hurricane damages were equivalent to 20% of GDP, how it was possible to grow 4.3% in the year? Cuban economist Vidal (2009a) explains it because the losses/damages in housing infrastructure and stock of capital are included in the damages caused by the hurricanes but are not accounted for in GDP that, on the contrary, includes reconstruction activities in said three lines. The target of 6% set for 2009 will not be met; projections oscillate between -0.5% and above 2% (Murillo 2009; Vidal 2009b).

GDP is overestimated since 2003 by a statistical manipulation that adds the value of free social services and subsidies to prices of rationed goods. Since 2005 ECLAC had not published its own estimates of Cuba's GDP and reproduced the official figures with a note warning that they were under study, but its annual report of 2008 published Cuba's figures without commentary (ECLAC 2008). Oscar Mederos, ONE Director, declared that after years of discussions ECLAC "accepted without reserves" and notes the Cuban method (Reuters 12-16-2008). Luis Beccaria, Director of ECLAC Statistical Division, responded that they analyzed said method with Havana in order to settle the methodological differences and "a few months ago, ONE modified its method... in the calculation [of GDP] in 2007, aligning it to the international practice and also adjusting the calculations of previous years" (Agencies 12-18-2008).

Table 2 shows that the GDP rates from ECLAC old series, based on the international methodology and Cuba based on its own method, annually averaged 2.6% and 3.6% respectively in 2001-2004. The Cuban average was one percentage point greater due to the explained unorthodox additions and similar to the difference unveiled by Minister of Economy José Luis Rodríguez in 2003 when he gave two rates of GDP: 2.6% with the

² It is not possible to compare GDP per capita in 1989 and 2008 because there are two unconnected series: 1990-2000 and 2001-2007 (Sanchez and Triana 2008).

international methodology and 3.8% with the Cuban method. Conversely, the annual averages in 2001-2007 of the original Cuban figures and ECLAC with the “adjustments” allegedly done by Cuba in 2008 are 6.5% and 6.4% respectively, a minute reduction of 0.1 percentage points (Mesa-Lago 2008c).³ Some Cuban economists acknowledge the divorce between the official economic growth rate and people’s life improvement; Pérez Villanueva (2008) adds that said growth “is still insufficient to recover the economic levels previous to the crisis,” and Rodríguez (2008) believes that 2008 was “one of the hardest years since the fall of the USSR.” Gross formation of fixed capital declined 55% in 1989-2008 and was 11.5%, compared with the regional average of 22.4%, and one third of the percentage that Cuban economists consider necessary for sustained growth.

Table 2. Comparison of Cuba’s GDP Growth Rates by ECLAC and Cuba (percentages)

Sources	2001	2002	2003	2004	2005	2006	2007	Averages ^a	
ECLAC 2007	3.0	1.5	2.9	4.5	^b	^b	^b	2.6	
Cuba 2007	3.0	1.8	3.8	5.8	11.8	12.1	7.3	3.6	6.5
ECLAC 2008 ^c	3.2	1.4	3.8	5.8	11.2	12.1	7.3		6.4

^a First column annual average in 2001-2004; second column annual average in 2001-2007. ^b No figures given.

^c ONE 2008e publishes an identical series to ECLAC 2008.

Sources: ECLAC 2007 and 2008; Cuba ONE 2008a and 2009a.

Inflation was 0.5% in 1989; according to ECLAC it averaged 4.9% in 2008, whereas EIR (2008) reports 7% at the end of the year, vis-à-vis a regional average of 8.8%. Cuba’s CPI includes prices in the informal market but excludes prices in hard-currency shops (TRD) and these have significantly increased.⁴ Monetary liquidity (M-2) as percentage of GDP almost doubled, from 21.6% to 40.6% in 1989-2008, and Fidel warned: “there is an urgent need to avoid the surplus of money in circulation” (EFE 9-25-2008). The fiscal deficit doubled, from 3.2% to 6.7% in 2007-2008, compared to the regional average of 0.5%; it was the highest in the last 14 years and only surpassed by the 1992-1993 deficit. According to Vidal (2008b, 2009a) the deficit, financed by monetary emission by Cuba’s Central Bank, expands the currency in circulation and inflation, while reducing the real wage, as during the crisis of the 90s. In addition, the increase in the value of imports, extra expenses due to the hurricanes and the domestic decline in food production caused a rise in domestic prices; if the government continues subsidizing price increases it will intensify inflation and the fiscal cost in 2009.

³ The Human Development Index (HDI) estimated, in a debatable manner, Cuba’s GDP per capita in 2005 as 6,000 international dollars, ranking Cuba in the 21st position among 31 countries of Latin America and the Caribbean, and 29% below the regional average (UNDP 2007). The EIU (2008) calculated, even more unreliably, GDP in 2008 as 9,783 international dollars. According to ONE (2009), Cuba’s GDP per capita in constant prices was 4,073 pesos in 2008, including the additional value of free social services and subsidies to prices of rationed goods; converted at the unofficial exchange rate (24 pesos per dollar) it would be \$170 and at the official exchange rate (1 peso equals 1 dollar) it would be \$4,073 or 41% the EIU estimate. If we project the HDI estimate for 2005 (6,000) on the basis of Cuba’s GDP rates in 2007 and 2008 it would be 7,015 in 2008, 28% less than the EIU estimate.

⁴ ONE (2009) gives two contradictory figures on the CPI variation in 2008: 0.8% from December to December (versus 4.9% given by ECLAC) and 3.4% as annual average. The price of consumer goods in the informal market grew 4.3% in February 2008 over the previous year and 5.6% over January 2008 (ONE 2008c).

Production. In 2008 the agricultural sector grew 1.6% (versus 18% in 2007); the non-sugar manufacturing industry as well as electricity, gas and water grew 0.9% (versus 9.9% and 7.9% respectively); mining 2.9% (versus 3.4%) and commerce -6.2% (versus 0.5%). The increases in 2008 relative to 2007 were in sugar, construction and the rest of services (ONE 2008a, 2009).

Table 3 exhibits the production series of 20 key goods for domestic consumption and export; in 2008, 14 of them were below their 1989 level. The best performance was in mining that had impressive growth due to foreign investment. Output of natural gas jumped 37 times (it was tiny in 1989), crude oil four times and nickel grew 51%, however, since 2003 oil output declined and nickel stagnated (because of lack of expansion in installed capacity) whereas natural gas steadily increased but contributes only 22% to total fuel production. Domestic oil production (heavy and high in sulfur) and its derivatives meet only 35% of Cuban needs, the rest is imported. In October 2008 Rafael Terreyro exploration chief of Cuba's state oil enterprise predicted Gulf Coast deposits at 20,000 million barrels, later disclaimed as it was based on dubious estimates; so far an important discovery of commercially-profitable crude has not been made (*El País*, 3-29-2009).

Table 3. Physical Output of Selected Products in Cuba, 1989 and 2001-2008
(thousand metric tons unless specified)

Products	1989	2001	2002	2003	2004	2005	2006	2007	2008	2008/ 1989
Mining										
Oil	718	2,773	3,533	3,609	3,184	2,878	2,900	2,905	2,915 ^g	306
Natural gas ^a	34	595	584	658	704	743	1,091	1,218	1,261 ^g	3.608
Nickel	47	77	75	71	76	76	73	76	70 ^h	51
Manufacture										
Sugar	8,121	3,748	3,522	2,278	2,530	1,348	1,239	1,193	1,500	-82
Steel	314	270	264	209	193	245	257	262	256	-18
Cement	3,759	1,324	1,327	1,345	1,401	1,567	1,705	1,805	1,774	-53
Electricity ^b	15	15	16	16	16	15	16	17	18	20
Textiles ^c	220	47	30	28	30	25	27	24	32	-85
Fertilizers	898	93	92	72	49	43	41	18	38	-96
Cigars ^d	308	339	327	308	355	404	418	412	403	31
Shoes ^e	12	10	9	6	6	5	3	2	n.a.	-83
Soap	37	18	18	15	16	13	14	15	18	-51
Agriculture										
Citrus	1,016	957	478	793	802	555	373	469	352	-65
Rice	532	601	692	716	489	368	434	440	n.a.	-17
Cow milk	1,131	621	590	607	513	353	415	485	545	-48
Eggs ^d	2,673	1,525	1,778	1,785	1,749	2,066	2,341	2,352	2,275	-15
Tobacco leave	42	32	34	26	32	26	30	26	n.a.	-38
Tubers	681	1,380	1,437	1,844	1,946	1,801	1,330	1,480	n.a.	117
Cattle ^f	4,920	4,038	3,972	3,970	3,943	3,704	3,737	3,787	n.a.	-23
Fish/seafood	192	80	60	67	64	51	55	62	n.a.	-68

^a Million cubic meters. ^b Billion kw/h. ^c Million square meters. ^d Million units. ^e Million pairs. ^f Thousand heads. ^g Author's estimate: the combined oil-gas output in 2008 reportedly surpassed 4 million tons and 1.3% that of 2007 (Martínez 2008), because gas rose at high rates in 2003-07 whereas oil fell and stagnated, an increment of 0.3% was assigned to oil and 3.5% to gas. ^h Reported as 70,400 tons by Reuters 4-9-2009.

Sources: 1989 and 2001-2006 from Mesa-Lago 2008a; rest from ONE 2008a, 2009a.

The industrial⁵ share in GDP fell from 28% to 15% in 1989-2008 (Mesa-Lago 2008a; ONE 2009a). In the latter year output in most manufactures was far below the 1989 level: 82% in sugar (previously the main export), among the worse four in a century; between 18% and 96% in steel, cement, textiles, fertilizers, shoes and soap; but 20% above in electricity (although almost at the same per capita level) and 31% above in cigars.

The worst performance has been in agriculture (whose participation in GDP dropped from 10% to 3.9% in 1989-2008) due to the “collapse of sugar-cane agriculture, the systematic decrease in cattle heads and stagnation in non-sugar agriculture” (Pérez Villanueva 2008). The proportion of farm land that is idle or underutilized increased from 45% to 55% in 2002-2007; in addition good part of that land is covered by a thorny shrub (*marabú*) difficult to eradicate. In 2008, 20% of the employed EAP worked in agriculture but generated only 3.9% of GDP, an appallingly low productivity (based on ONE 2008b, 2009). Such factors explain the significant decrease in food self-sufficiency, which has forced the import of 84% of the basic food basket and even so unable to satisfy domestic needs as Raúl has recognized. Production in 2008 was below the 1989 level as follows: 23% in cattle heads (partly due to the fall in imported fodder and by-products from the sugar harvest); between 15% and 68% in milk, rice, eggs, citrus and fish-seafood (the last two important exports before the crisis), and 38% in tobacco leave (crucial for the manufacture of cigars); conversely, tubers were 123% above 1989 but 22% below the 2004 production peak.⁶

While the participation of production (manufacture, agriculture, mining, etc.) in GDP diminished, that of services jumped from 48% to 74% in 1989-2008 and generated 70% of GDP growth (ONE 2009a).⁷ According to Sánchez and Triana (2008) the leading services in GDP growth are labor intensive and go to final demand in the domestic market, which restricts productivity growth. Vidal (2009a) notes “signs of exhaustion of a style of growth mainly based in export of health care services to Venezuela.”

Social Indicators

Unemployment. The official rate was 1.6% of the EAP in 2008, 80% below the rate of 1989 and the lowest in Latin America, but it seriously underestimates the real rate because it counts like employees: dismissed workers under re-training, students who receive a payment for some work, and part time growers of food in their backyards and city parcels. If these groups were excluded, the rate would increase significantly. In addition, many unemployed do not register for work in municipal employment offices to avoid being sent to agriculture; at the start of 2008 there were 300,000 people “without ties to work” equivalent to 6% of the EAP (ONE 2008d). “The employment policy has often led to under employment”; new jobs are concentrated in the tertiary sector, specially the social programs of the “Battle of Ideas,” whereas employment in productive

⁵ Includes manufacture, mining, and electricity, gas and water.

⁶ Production of vegetables in 2008 was 40% below the 2004 peak.

⁷ Nova (2008) argues that the change of the method in the calculation of GDP not only has increased its added value but also the participation of the social services, reducing in turn the participation of the productive sectors.

sectors like agriculture and industry has declined (Pérez Villanueva 2008). Although the rate of open unemployment has been greatly reduced, disguised unemployment subsists and [the government] should consider the feasibility to continue creating jobs with systematic productivity losses (Sánchez and Triana 2008). It is estimated that from 30-40% of the employed labor force is unneeded (Monreal 2009). A survey taken by the Centro de Investigaciones Psicológicas y Sociológicas found that “employment is the fifth option—in the best case—among the aspirations of those youngsters consulted” (*Granma* 1-12-2009).

Wages and Pensions. In spite of increases in nominal wages and pensions in 2005, the average annual wage adjusted to inflation in 2008 was 77% below the 1989 level (author’s calculations based on ONE 2009a). Vidal (2009a) warns that the increase in the fiscal deficit, inflation and monetary liquidity in 2008 could lead to a situation similar to the one in the 90s, when “a dramatic fall of the real wage occurred” and the workers “paid an inflationary tax to finance the deficit.” The average real pension in 2007 was 61% lower than in 1989 but, although meager, pensions took 7.5% of GDP in 2008 and its cost is increasing. At the end of 2008 ages of retirement (55 women and 60 men) were among the three lowest in Latin America but Cuba had the second highest life expectancy, hence its average retirement span was the longest in the region. This problem is aggravated because the Cuban population is the second most aged in the region (17% had more than 60 years in 2008) and will be oldest by 2025; in absolute terms the population dwindle in 2006 and 2007, and stagnated in 2008. Finally, the revenue from wage contributions paid by enterprises is insufficient to finance the pensions, and the state-financed deficit jumped from 1.3% to 3.1% of GDP in 1986-2008 (based on ONE 2009a).

Health Care. The ratio of physicians per 10,000 inhabitants is the highest in the region, but between 35% and 48% of them (25,000 to 35,000) are working abroad, mainly in Venezuela, causing a severe domestic shortage and reduction in access to health care. Infant mortality in 2008 was 4.7%, the lowest in the Hemisphere after Canada, and declined 58% from 1989. Conversely, maternal mortality was 49 per 100,000 in 2006 versus 29 in 1989 (69% higher). The infrastructure of hospitals, potable water and sewage has seriously deteriorated and there is a severe shortage of medicine, most are only available by purchase in hard-currency stores albeit the latter problem has improved somewhat recently (Mesa-Lago 2008a).

Education. Registration in higher education increased 172% over that in 1989, but concentrated in humanities, social sciences and pedagogy, whereas it only grew 12% in agronomy and fell 40% in natural and mathematical sciences (Mesa-Lago 2008a). Graduation of engineer agronomists in 2009 was insufficient to meet demand and a cause of the fall in agricultural output: “it is necessary to act quickly because the deficit of specialists cannot be reverted in the short term” (*Bohemia* 12-12-2008). The experiment of massive training of social workers did not give the expected results and graduates have fall off. There is a severe shortage of teachers due to low wages paid, and the program of “emergent teachers” is recognized to suffer from serious flaws.

Housing. This is Cuba's worst social problem. Whereas the population doubled in 1959-2008, the number of dwellings built was lower to those destroyed due to lack of maintenance. Housing units constructed per 1,000 inhabitants fell from 6 in 1989 to 1.4 in 2003-04 and, although they increased to 4.4 in 2008 still were 27% below the 1989 level. In 2008 50,000 houses were built (ONE 2009a) incapable to compensate the 530,758 destroyed or damaged by the four hurricanes (see next section).

Poverty and Inequality. Poverty incidence in Havana rose 271% in 1988-2002 from 6% to 20%; according to a survey of perception of poverty in that city, 23% considered themselves poor and another 23% almost poor. Social assistance covered 5.3% of the total population in 2007 but in Havana at least 20% was poor and probably more in the rest of the country. The coefficient of inequality (Gini) increased 64% in 1989-1999 (the most recent data available) and excludes income in convertible pesos (CUC), if the latter were included, the inequality would be much greater (Mesa-Lago 2008a).

Hurricane Damages and Effects in 2008-2009⁸

The four hurricanes that hit Cuba in 2008 (Fay, Gustav, Ike and Paloma) inflicted casualties "near to 10 billion pesos or 20% of GDP" (R. Castro 2008b),⁹ destroying 30% of the harvests and 53,000 tons of food. They knocked down 156,000 hectares of cane and flooded other 518,847 (90% of the total sugar-cane land), and demolished or damaged mills, warehouses and railroad lines. Specially afflicted were banana plantations (350,000 trees destroyed in Guantánamo and Granma, and more than 80% of the total in Villa Clara), citrus (135,000 tons, 29% of the harvest, were lost, and many juice-processing plants damaged), rice (most of the harvest, the plant processor and 25% of the rice stored in Pinar del Río), tobacco leave (great part of the tobacco harvest and drying shacks in Pinar del Río), coffee (85% of the harvest in three Eastern provinces), poultry (about one million died, 80% of the total in the Island of Youth), eggs (million of units) and forests (375,000 hectares). Minister of Agriculture Alcides López predicted that there would be "six hard months ahead."

Hurricane Ike whipped the zone where three nickel plants are; it caused serious damage to the Che Guevara plant and minor to the Nicaro plant; six weeks after the hurricane the two plants had not resumed production (the Moa plant was already operational), and the three plants combined were 20% below the production plan. Gustav demolished 150 high-tension towers in Pinar del Río leaving 80% of the population without electricity and Carlos Lage said that a new electric network had to be built; in the Island of Youth almost all the network was destroyed. After a month of the passage of Gustav and Ike still 250,000 inhabitants in five provinces were without electricity, but most had been restored at the start of December. According to Rodríguez (2008) 530,758 homes were

⁸ Sources of this section are Messina et al 2008; *Granma*, Cuban TV, Reuters, EFE, AP, *El Pais*, *Nuevo Herald*.

⁹ Based on the figure of 9.7 billion in damages given by Minister Rodríguez (2008) and the GDP in current prices of 62.7 billion in 2008 (ONE 2009a), the formed was tantamount to 15.5% of GDP, the difference could be explained by the method of calculation noted by Vidal.

destroyed or damaged by the hurricanes in 2008;¹⁰ Raúl (2008b) added 70,000 affected by previous hurricanes and affirmed that 77% of the total (439.000) had not yet been repaired or reconstructed, a task that would demand between three and six years. The previous housing deficit was officially estimated at 500.000 units hence the current deficit should exceed one million units, 25% higher than in 1989. Also severely damaged were the telephone system, roads, bridges, factories, and health and educational facilities.

Partly due to the hurricanes in 2008 there were declines in production of citrus (25%), bananas (24%), tobacco leave (20%, 2% in cigars), rice and corn (10%), vegetables (6%), poultry meat (5%) and eggs (3%). These figures based on ONE (2009) are inferior to the reported 30% of harvests destroyed hence sugar-cane plantations probably suffered more than the average and the official prediction of sugar production in 2009 being similar to that in 2008 probably won't materialize.¹¹ Output of nickel diminished and that of oil probably stagnated. The government and ECLAC (2008) have largely attributed the slow down in economic growth to the hurricanes but, prior to those calamities, two Cuban economists had predicted it (Vidal and Fundora 2008).

Cuba received humanitarian aid from the World Food Program and other agencies of the United Nations, as well as from Venezuela, China, Russia, Vietnam, Argentina, Brazil, Mexico and other countries, but rejected the aid offered by the USA and the European Union, except for Spain and Belgium. The received aid officially reported is equivalent to 5-10% of the loss of \$9.7 billion.

The loss of 30% of the harvests caused a severe shortage of food supply in the free agricultural markets, aggravated because the government froze prices at the level before the hurricanes to avoid a raise by the farmers and speculation, but instead provoked an increase in hoarding, reduction of the legal supply and deflection to illegal sales. Vidal (2008b) said that “the worse of all options... is to control prices in the agricultural markets [because] it would foment the black market, distort prices and restrict the [necessary] incentives for the recovery of food production.” Months before, the government had increased hard-currency prices of milk, vegetable oil, beer, soap, etc.; whereas at the time it froze prices in the agricultural markets the state increased the price of fuel between 68% and 86%. This contributed to rising prices in other products, as mechanized harvests and transportation became more expensive, while virtually eliminated all profit in the sale of food at legal prices. Food supply fell 80% between August and October of 2008; and average agricultural output decreased 7.3% in the first quarter of 2009 (Vidal 2008b; *Granma* 3-10-2008; ONE 2009b).

Fidel called for a hard hand against the speculators and Raúl toughened sanctions against infraction of legal prices; “brigades of rapid action” were organized by public prosecutors, inspectors and policemen; the courts held fast trials and increased sentences even to double. In the City of Havana alone in the month of November 1,200 denunciations were processed, 40% were condemned to prison, 16% to fines and 8% to correctional work (*Tribune of Havana* 11-29-2008). On the other hand food imports were

¹⁰ The Island of Youth lost 80% of all its housing and the province of Pinar del Rio 45%.

¹¹ Production in 2009 was estimated in May between 1,2 and 1,3 million tons, 15-20% below 2008.

increased and by the end of 2008 supply had improved although it was still lower than a year before and some produce, like plantains, were impossible to get at any price (their output shrunk 61% in the first quarter of 2009). The gasoline price was cut 28% in December, still 40 percentage points above the previous rise and despite the strong fall of the world-market price of oil (AP 12-8-2008).

II. External indicators, International Economic Relations and World Crisis

Cuban external indicators are summarized in Table 4. The export value of goods in 2008 was 3.8 billion pesos (30% lower than in 1989) and that of imports 14.5 billion (79% higher), generating a record deficit of 10.7 billion, almost four times the 1989 deficit and 44% greater than in 2007.¹² Exports grew 2% in 2008 (versus 27% in 2007), imports 44% (versus 6%) and the deficit 68% (versus -3%). In 2007 57% of total exports were minerals (essentially nickel), whereas 24% of imports were fuels and 16% food. The 80% decline in the world price of nickel caused the small increase in exports in 2008, whereas the increase in the world price of oil and food explains the jump in imports (\$2.6 billion in food alone); the terms of trade deteriorated by 38% in 2008.¹³ Due to the world crisis, the commercial imbalance had worsened in the first quarter of 2009: 78% were imports and only 22% exports; and \$1 billion in losses are projected for the year because of the decline in the nickel price and tourism (Reuters, Havana, 5-26-2009). There are no credible statistics on the balance of payments, however, the current account was roughly estimated as positive in 412 million pesos in 2007, but negative in 621 million in 2008 (EIU 2008; see also Pérez 2008).

Table 4. External Indicators of Cuba, 1989 and 2001-2008 (in billion pesos unless specified)

Indicators	1989	2001	2002	2003	2004	2005	2006	2007	2008	2008/ 1989
Exports (goods)	5.4	1.6	1.4	1.7	2.2	2.0	2.9	3.7	3.8	-30
Imports (goods)	8.1	4.8	4.1	4.6	5.6	7.5	9.5	10.1	14.5	79
Trade balance (goods)	-2.7	-3.2	-2.7	-2.9	-3.4	-5.5	-6.6	-6.4	-10.7	296
Foreign debt ^a	6.2	10.9	10.9	11.3	12.0	12.6	15.4	17.8	18.3	196
No. of foreign business	n.a.	400	403	342	313	258	236	230 ^b	^b	41 ^c
No. of tourists	270	1,775	1,686	1,905	2,048	2,319	2,221	2,152	2,350	770
Tourism gross revenue ^a	168	1,840	1,769	1,999	2,114	2,399	2,235	2,236	2,538	1,410

^a In billion dollars. ^b AFP 11-7-2008 reports 362 in 2007 and 314 in 2008. ^c Comparing 2007 with 2002.

Sources: 1989 and 2001-2006 from Mesa-Lago 2008a; rest from ONE 2008a, 2009a; ECLAC 2008; EIU 2008.

The analysis of the external sector by Cuban economists identifies some important problems: (1) import substitution has declined, the export sector has little connections with domestic production, exports of services do not generate the desirable multiplying effect, and tourism that has the greater potential has slow down (Vidal and Fundora 2008); (2) unlike sugar and tourism, nickel has a low multiplying effect because it is

¹² Foreign Trade Minister Rodrigo Malmierca has revised these data: exports declined 2%, imports increased 41% and the deficit rose 69% to \$10.8 billion (Reuters, Havana, 4-10-2009)

¹³ Based on the base year 2000 (equal to 100) the terms of trade increased to 173 in 2007 but fell to 108 in 2008 (ONE 2009a).

refined abroad; (3) exported medical services contribute 50% to total export revenue of goods and services, some praise their success in generating hard-currency income, while others question their sustainability and low direct impact on the productive sector, but most agree that “Cuba should not repeat the historical error to make its economy dependant on a single sector and one country” (Sánchez and Triana 2008); and (4) there is a significant relationship between growth of GDP, exports and investment, the three indicators decelerated in 2007-2008, hence hard-currency availability diminished and constrains the progress of most economic sectors (Vidal 2009a).

The foreign hard-currency debt was \$18.3 billion in 2008¹⁴ (54% active and 46% “immobilized” or not paid for many years), three times the 1989 debt and excluding the debt with Russia estimated as \$21 billion, but including the debt with Venezuela estimated between \$5 and \$8 billion, the total debt including the nonconvertible with former socialist countries is calculated as \$45.9 billion (*El Nacional*, 7-19-2008; EIU 2008; ICCAS 4-3-2008). The hard-currency debt alone was tantamount to 380% of Cuban exports,¹⁵ in contrast to the regional average of 83% in 2006, the last figure published by ECLAC. Moody's describes the Cuban debt as “speculative and poor.” Alleging the increase in oil and food prices, Cuba suspended payments to Canada, Japan, France and Germany. Payment delays for lack of cash were also reported, which increases the risk of default, diminishes the country financial credibility and restricts the access to new credits in the world market (Frank 2008; Vidal 2008b). The number of foreign (mixed) companies fell 41% in 2002-2007; the government has shut down several of them, cancelled licenses to 14 foreign companies by alleged illicit activities, and the former Minister of International Economic Cooperation Marta Lomas declared that only large investments in strategic sectors would be kept. Nevertheless, the few significant successes have been achieved with foreign investment (tourism, petroleum, gas, nickel) in spite of state restrictions. Direct foreign private investment is being replaced by investment from Venezuelan and Chinese state enterprises that neither contribute state-of-the-art technology nor are based on feasibility studies (Pérez-López 2008).

Despite the world crisis and a fall of European tourists (but an increase of Canadians), the number of tourists in 2008 rose to 2.3 million (jumped 8 times over 1989) and the gross revenue (second source of hard-currency) increased to 2.5 billion pesos (15 times). Although both are historical records, they were only slightly higher than the 2005 peaks, due to increase of competition in the region, deterioration in the quality of Cuban facilities and services affected by low investment, and overvaluation of the convertible peso (Sánchez and Triana 2008). The number of hotel rooms doubled in 1989-2008 but only 48% were occupied (ONE 2009a), a reduction of 35% relative to 2000.

Venezuela. The Cuban economy has survived thanks to the credits, subsidies, investment and commerce provided by Hugo Chávez, that totaled \$9.4 billion in 2008: (1) payment

¹⁴ The Paris Club reported \$29.7 billion hard-currency debt in 2008, the difference could be due either to the inclusion of accrued interests or the Russian debt; Cuba suspended payments to the Club in 1986 and all negotiations have failed.

¹⁵ The service of the external debt, if it were paid, would be equivalent to 80% of government revenue and would be untenable (Perez 2008).

of about \$5.6 billion by services of Cuban doctors, nurses, teachers and other professionals who work in Venezuela; (2) provision of 97,000 daily barrels of crude oil and oil by-products (meeting 65% of Cuban total demand) with a price subsidy of around \$2.4 billion;¹⁶ and (3) investment in 76 projects for \$1.36 billion. For 2009 Venezuela has signed 173 projects for \$2 billion including the doubling in capacity of the Cienfuegos refinery by 2013 with an investment of \$1.4 billion (EFE 12-15-2008). Cuba's balance of goods deficit of \$10.7 billion in 2008 was largely compensated by the surplus in the balance of services of \$9.2 billion: 69% of it generated by professional services fundamentally to Venezuela. The latter is the first Cuban trade partner but its share in the total volume of goods declined from 23% to 19.6% in 2005- 2007; nevertheless the deficit in the trade balance of Cuba with Venezuela rose from 23.6% of the total deficit in 2004 to 28% in 2007.

The 77% collapse in the average world market price of the oil barrel from \$147 in July 2008 to \$34 in February 2009 is devastating for Venezuela because oil sales represent 90% of total exports and half of its fiscal revenue. GDP grew 4.8% in 2008 but it is expected to fall by 1.7% to 3% in 2009; the deficit in the current account is projected as 4.3% of GDP in 2009, contrasted with a surplus of 12.5% in 2008. The state budget for 2009 is set at \$77 billion based on a price of \$60 per barrel of crude, almost twice the world market price in February 2009,¹⁷ hence a budgetary deficit of \$33 billion should occur, 40% greater than in 2008. Oil production fell 15% in January 2009 below the level of November 2008, a lost of \$750 million. Since October 2008 the state oil corporation PDVSA halted payment to 6,000 providers accumulating a huge debt, which threatens to stop oil-tank ships. Direct foreign investment plummeted to \$400 million, the lowest in the region. Because of all this, Standard & Poor reduced to negative the ranking of Venezuelan foreign debt and Fitch cut it at four levels below the investment grade. Inflation jumped 33% in 2008 (highest in the region) and is expected to raise to 45% in 2009; to avoid hyperinflation and confront the severe decrease in fiscal revenue, the government reduced the state budget by 6.7%, increased the VAT from 9% to 12%, rose the domestic debt by 183%, halved the hard-currency sum and credit-card expenses allowed to travelers abroad, cut by 40% PDVSA expenses and services that had risen 44% in 2008, and suspended the free fuel supply to US poor people, although later restored it. He is also nationalizing domestic and foreign enterprises. Trade unions in oil, electricity, iron and aluminum, as well as 2 million civil servants are demanding a raise in their salaries. More drastic measures to control inflation would be needed such as devaluating the currency, creating new taxes, cutting some domestic social programs as well as subsidies to prices, and trimming foreign aid. International reserves (\$30 billion in February 2009) could be used to cover the deficit but they are diminishing fast, could fall to a critical level in six to nine months, and such action would worsen inflation. Right after winning the second referendum on February 15 that amended the constitution and

¹⁶ According to Venezuelan experts Cuba is not paying in cash for Venezuelan oil imports; Piñón estimates as \$3 billion the value of oil imports in 2008.

¹⁷ At the end of 2008 OPEC, which controls 42% of the world production, cut 2.2 million barrels daily starting in January, but the world price of the crude kept decreasing in January-February although it might increase somewhat in the rest of 2009. OPEC was expected to cut another 800.000 daily barrels in March to stabilize the world price (Bloomberg, 12-17-2008; EFE 2-21-2009; AP 3-4-2009).

allows his indefinite reelection, Chávez declared that the economic panorama “is tough and difficult” but asserted “We are not going to cut the budget on social expenditures!” furthermore he will neither devalue the currency, raise gasoline taxes or impose new ones. He may think that the reserves will be sufficient but will be forced to print more money hence stirring inflation and hurting the poor. To cope with the lack of liquidity, Venezuela sold seven tons of gold in the international market in March and was offering long-term crude contracts at a sharp discount (*Bloomberg*, 12-11 and 12-15 2008; *New Herald*, 12-20-2008; Bridges 2009; EFE 2-21-2009; *El País*, 3-22-2009; Ocando 2009).

Before Chávez lost the first referendum to allow his re-election in 2007, Fidel warned of the devastating consequences that such defeat would carry to Cuba. An aggravation of the economic situation in Venezuela could force Chávez, before cutting domestic social programs, to reduce the external aid of which Cuba is the main beneficiary and this would provoke a crisis similar to that of the 90s after the collapse of the USSR. In order to avoid a second Special Period, Raul is searching for alternative sources of commerce and investment.

China. Its participation in Cuba’s total trade grew from 8.4% to 17.8% in 2004-2007, when the Chinese became the second commercial partner, but still occupy a modest place relative to its interchange with Latin America. Thus the Chinese-Brazilian commerce jumped 46% in 2007 alone and Chinese trade with Panama was twice of that with Cuba. Only 10,864 Chinese visited the Island in 2007, 0.1% of all Chinese tourists. The commercial deficit with China represented 9.4% of Cuba’s total deficit, far below that with Venezuela and Spain and similar to that with the United States. Since 2003 “Cuba has rigorously fulfilled the payments and commitments subscribed with China.” Cuba’s main export is sugar (400,000 tons, 57% of the total) met even buying sugar from Brazil and Colombia, and the second is nickel (10,000 tons, 13% of the total). China is now the biggest provider of transport equipment to Cuba: a credit for \$1.8 billion granted in 2004 has allowed the purchase of 5,348 vehicles (buses, trucks, locomotives, tractors). But Chinese enterprises, independent and competitive, try to maximize gains and minimize investments, the reason why they have only invested \$40 million in Cuba (Díaz 2008). During his second visit to Cuba, in November of 2008, President Hu Jintao donated \$8 million and 4.5 tons in aid to help with hurricane’s damage; he also extended the second trench of a \$78 million previous credit to refurbished hospitals, and postponed 5-10 years the payment of loans granted in 1994-1998. But the Chinese promises to construct a plant of iron-nickel (\$500 million) and to exploit an enormous nickel deposit in San Felipe (\$1.4 billions) have not materialized. Raul proposed to Jintao 37 joint-investment projects for \$1.5 billions in mining, chemistry, tourism, sugar, and light industry; so far the main Chinese oil company has signed an agreement for exploration of petroleum and gas (EFE 10-27-2008; AP 11-19-2008; AFP 11-22-2008).

Canada. Is the third trade partner of Cuba, first in tourists (660,384 in 2007) and has invested \$2 billions in nickel, petroleum and gas. But the biggest investor, Sherritt International, abandoned its four oil concessions in the Gulf of Mexico due a 39% fall in its profits by the collapse of the price of crude and the high cost of drilling in deep sea, and suspended a \$29 million investment in Moa nickel plant because of the decline in

world demand for that mineral. Cuba accumulated a debt of \$120 million for petroleum extraction by Pebercan corporation, allied to Sherritt, and in January revoked its contract ending 16 years of collaboration. In February Cuba promised to pay the debt owed to Sherritt in five years at an interest of 5% above the international rate, guaranteed by the Central Bank (Reuters 8-27-2008; *Nuevo Herald* 1-24-2009; AP 2-26-2009).

European Union. The principal EU members jointly take 20% of Cuba's total trade, somewhat more than Venezuela, are the largest investors and send 37% of the tourists. After five years of froze relations due to the imprisonment of 75 dissidents in 2003, in June of 2008 the UE Council approved "Conclusions" ratifying the "Common Position" of 1996, but decided to resume cooperation with Cuba "without any conditions." The Council, however, exhorted the Cuban government to release the political prisoners and improve human rights, and promised to continue the political dialogue with dissidents. Fidel then chastised the Conclusions as "an enormous hypocrisy" and Raúl criticized the Common Position. During his visit to Cuba to sign the agreement, the EU Commissioner for Development and Humanitarian Aid Louis Michel didn't meet with the dissidents and announced a donation of \$38 million to help with the damages of hurricanes, whereas former Chancellor Pérez Roque demanded the elimination of the Common Position. The results of the EU change will be examined in Brussels in June of 2009 under the presidency of the Czech Republic that had resisted the resumption of the cooperation (Leiva 2008; Alfonso 2009). Spain is the fourth commercial partner of Cuba (8.4% of the total) but its deficit is the second highest (12.7%), is fourth in the number of tourists and main investor in that sector; Cuba owes \$1.8 billions to Spain since 1997. Chief of Government Zapatero took the initiative in the renewal of the EU cooperation, donated \$25 million in humanitarian aid, and has been invited to visit Cuba in 2009.

Russia. Is the tenth commercial partner of Cuba but its participation was only 2.6% in 2007. Premier Vladimir Putin's foreign policy offensive, combined with Cuba's need of alternative sources of oil and credit led to an increase in economic relations, consolidated with the visit of President Dmitry Medvedev on November 27, 2008. He opened a two-year line of credit for \$350 million and signed agreements to invest in oil and gas exploration, cooperation in nickel, sale of machinery and cars, and possible construction of an assembly plant to produce 500 cars annually (*BBC World* 11-10-2008). The state of the negotiation of the Cuban debt of \$21 billions to Russia that requires an agreement on the rate of exchange of the ruble is unknown. The Russian Court of International Commercial Arbitration approved a demand of the Moscow International Bank of Investments (MIB) to recover \$300 million owed by the Central Bank of Cuba and is now entitled to confiscate Cuban assets anywhere of the world and sell the debt titles, but MIB is trying to negotiate an agreement (*Kommersant* 9-4-2008). During Raúl's visit to Moscow in January-February 2009, 33 agreements were signed with Russia that granted \$354 million in credit and aid to Cuba: \$150 million to buy agricultural and construction machinery; \$100 million to rent equipment; \$47 million to buy a freight airplane; \$20 million credit for 10 years at 5% interest, and \$38 million in food aid; nothing was reported on the Cuban debt (EFE Moscow 2-3-2009).

Brazil. Is the seventh commercial partner of Cuba; President Lula visited Havana in January 2008 and signed 10 agreements of economic collaboration; in November Petrobras invested \$8 million in oil and natural gas exploration, with the possibility of investing more if successful. Raúl participated in the Summit of America and the Caribbean (CALC) sponsored by Brazil that united for the first time all countries of the region without the presence of the USA and the EU. Cuba was admitted to the Group of Rio and CALC Coordinator, President of Mexico Felipe Calderón, affirmed that the Cuban presence “will be very valuable for the construction of a common destiny with shared values”. The Group recommended Obama to terminate the embargo against Cuba (*Nuevo Herald*, 12-17-2008).

Other Countries. Since 2005 Iran has granted Cuba \$1.2 billions in credit to buy wagons, cars and construction materials, and to build highways and dams; in 2008 a maritime line began connecting Iran with Venezuela via Cuba and at the start of 2009 Iran expanded by \$400 million a preexisting credit line; it's not known if Iran exports oil to Cuba (EFE 1-7-2009). Mexico signed an agreement in 2008 to control Cuban illegal immigration through its territory; 25 Mexican enterprises signed businesses for \$23 million, Mexican exports increased significantly in 2008 and a \$1 billion trade exchange is expected in 2009; with these steps President Calderón expects to counterbalance the domestic left opposition (PRD) and negotiate the Cuban debt, while Cuba hopes to get another source of oil supply. After Cuba halted flights from Mexico due to the porcine fever, Calderón postponed his visit to Cuba prompting strong criticism from Fidel (ICCAS 8-11-2008; F. Castro 2009). Cuba has launched a successful diplomatic offensive in Latin America: in 2009 the presidents of Argentina, Chile, Ecuador, Dominican Republic, Guatemala, Honduras, Panama and Venezuela have visited Havana and most of them asked an end of the embargo. In the Americas Summit held in Trinidad in April virtually all countries asked the USA to terminate the Cuban embargo. In June, the 34 countries members of the OAS suspended the 1962 expulsion of Cuba and invited the latter to request readmission, but the Cuban government rejected the offer.

World Economic Crisis and Impact in Cuba. The international financial crisis since the Great Depression began in the United States but rapidly expanded to the entire world because globalization has interconnected all countries financially and economically. The crisis has reduced demand for raw materials (fuels, minerals, food, etc.) and their world prices have sharply declined, it is also expected to diminish international tourism.

Cuban scholars Pavel Vidal and Esteban Morales believe that the crisis will decelerate Cuban GDP in 2009.¹⁸ It has already caused an 80% fall in the world market price of nickel (making its extraction and export almost not profitable), 10% of sugar and 3% of cigars. The government has announced that external remittances will decline because of the crisis: many Cuban emigrants are unemployed or their income has decreased (IPS 10-22 and 10-30-2008; EFE 24-2-2009). In the first quarter of 2009, the number of tourists increased 1.9% but fell 2.6% in March and gross revenue shrunk 13.7% in the quarter (*Granma International* 5-19-2009). The crisis will also limit Cuban access to foreign

¹⁸ Vidal (2009b) predicts three scenarios: pessimistic -0.5%, medium 1%, and optimistic 2.5%. In view of the text analysis the latter seems not plausible.

credit and investment, as has already happened with Sherritt of Canada. At the end of the first quarter of 2009, fuel consumption was 8% above the plan and it was projected that, if that trend continued, 250,000 additional tons of oil would have to be bought in the rest of the year. The government decreed a 12% cut in fuel consumption across the board; hundreds of state enterprises and agencies were sanctioned for exceeding their fuel quotas; air conditioning was shut down in shops, cinemas and even some hospital rooms; public lights were cut; blackouts returned, and the use of electric fans made impossible in the hot summer (*Juventud Rebelde* and *Granma* 5-23-2009). It is possible that, due to the plunge in oil prices, Chavez has cut oil supply to Cuba;¹⁹ even worse would be a reduction in Venezuela's hard-currency payments for Cuban professionals as well as investments promised for 2009.

Neoliberalism and the Washington Consensus have shown severe cracks for years and have been criticized not only by the left but also by prestigious establishment economists like Nobel Laureates in Economics Joseph Stiglitz and Paul Krugman. The financial rescue by the state is the greatest intervention in the U.S. history since Roosevelt's New Deal and, ironically, it was initiated by Bush's neoliberal-conservative government. International financial organizations are studying the need for a new world order; the stricter regulation of the stock market was announced by Obama in his inaugural speech and Congress approved his "Plan for the Recovery and Reinvestment in the USA," near one trillion dollars geared to public infrastructure work, alternative sources of energy, aid to the states, etc. with the purpose of creating three million jobs.²⁰ These measures won't have immediate world-wide effect and therefore Cuba will suffer from the predicted worsening of the crisis in 2009. Cuban history demonstrates that crises have propelled economic reforms with beneficial effects, but Raúl's policies are not deep and comprehensive enough to achieve a recovery and seem to have stagnated.

III. Debate on Reforms, Raúl's Policies and their Stagnation²¹

In his speech of July 26, 2007, Raúl promised to introduce "structural reforms"; although he warned that all problems could not be solved immediately and the people should not expect spectacular solutions, his words generated the liveliest and deepest debate under the Revolution, raising in the population high expectations for change and improvement.

Debate on the Reforms

Pedro Monreal (2008) summarizes the problem: "The current economic system cannot serve as a departure point for development" because it does not fulfill its three basic functions. Pérez Villanueva (2008) adds that "the economic system not only has serious operational flaws but is in a dead alley." Both agree that a comprehensive, profound and

¹⁹ Another explanation is that Cuba was exporting part of its domestic oil production.

²⁰ According to James (2009), the U.S. crisis may reduce its model attractiveness for developing countries, whereas China has been less afflicted and its model of market socialism could get followers, making more urgent to reform the current market model.

²¹ This section is a summary of Mesa-Lago 2008a based on articles and statements from Cuban economists; it has been substantially enlarged and updated with new information until January 26, 2009, and added a new segment on the stagnation of the reforms.

integrated economic reform is urgently required. The debate displays a great variety of positions but all within the socialist parameters, although the range is wide from market socialism in China and Vietnam to state-collectivism in North Korea. Some participants in the debate argue that Cuba is searching for its own model but not define it precisely. The most important consensual points in the debate are identified below.

Property. A mixed economy is proposed that expands various forms of non-state ownership such as independent cooperatives in manufacture and services, small and medium enterprises, as well as increase in self-employment without the current tough restrictions. The state would decentralize its functions and decisions, establish a regulatory framework for the non-state sector, and keep property and investment in strategic sectors and large enterprises although making them more competitive and efficient.

Agriculture. The agricultural cooperatives (UBPC) must be autonomous and their members feel real owners. State buying of produce from cooperatives and private farmers at government-set prices below the market price (*acopio*) must be eliminated or radically transformed and the state should substantially increase *acopio* prices. Idle state land must be given to true cooperatives, families and individuals, either in ownership, leasing or usufruct. These changes and the opening to foreign investment in agriculture, especially in the sugar sector, would recover and exceed output levels prior to the Special Period, hence achieving food self-sufficiency and even a surplus for export. Some recommend that part of the increase in sugarcane output is devoted to produce ethanol and reduce fuel external dependency.

Monetary Policy. Virtually everybody agrees that the dual currency (national peso and CUC) should be eliminated, but that such action will take time, requires a more realistic exchange rate of the CUC and the dollar, and must be preceded by a significant increase in production and productivity. In order to confront the double shock (internal and external) of 2008, a devaluation of the CUC (currently overvalued) was suggested, which would also be an incentive for exports and a restriction for imports, hence helping to cut the deficit in the balance of payments in 2009.

External sector. A combination of import substitution, promotion of competitive exports and professional services, and increase in foreign investment is advised, as well as a radical change in the economy from the current one sustained by the exploitation of natural resources towards one based on intensive use of knowledge.

Social Policy. It must be financially sustainable in the long term, especially health care, education, social insurance pensions and social assistance, which jointly took 48% of the state budget and 33% of GDP in 2008 (ONE 2009a). Recommended are: targeted programs to reduce poverty and extreme inequalities; “subsidies to people” (social assistance) to replace universal subsidies to prices of rationed goods; a more rational allocation of health care resources (for instance, less to reduce infant mortality that is the second lowest in the Hemisphere, and more to old-age asylums and to repair the badly deteriorated infrastructure of potable water and sewage); greater emphasis on university

careers that foster development and better wages to teachers, reducing expenses at the elementary level since its registration is in sharp decline due to population aging; and free buying and selling of houses and better access to construction materials. Wages must be sufficient to satisfy basic needs, but policies to achieve that target have not been specified.

Citizen and Youth Participation. The people must participate more effectively in policy design, decisions and monitoring of results. The National Assembly must act, solve the problems and be accountable to the citizenship. The mass media must deal with the problems, criticize government errors and open space for the people to express their views and claims. Youngsters demand a more active role in and access to high positions of decision making. Pablo Milanés (2008) says to that respect: “I no longer trust any Cuban leader older than 75 years because all of them are ready to be retired... they are no longer capable... [their] socialism has stagnated... their original revolutionary ideas have become reactionary and... impede the progress of the new generation” that is forced to emigrate; “we must do reforms in many fronts... pass [the torch] to the new generations so that they make other type of socialism.”

Raúl’s Policies

When on February 24, 2008 Raúl officially became the President of the Council of State, he ratified and expanded in that body the “historical” revolutionaries, whose age averages 72 years; the failure to appoint young leaders in top posts caused disappointment among reformers. A key question is why Raúl promoted the debate and generated great expectations for structural reforms and later appointed hard-liners in the Council. At the start of 2009 the answer seems to be that Fidel, no longer President of the Council of State and Ministers but still First Secretary of the Party, influenced the appointments and surrounded by the hard-liners and through his “Reflections” blocks the reforms. The new generations will have to wait to get their opportunity until Fidel dies and the next election in 2013, when the Council members’ age will average 77 years.

The measures taken by Raúl since 2007 have been positive but, with few exceptions, they do not qualify as “structural” reforms; furthermore, there is a considerable breach between those measures and the reform proposals summarized in the previous section. Two types of changes can be distinguished: non-structural and near-structural.

Non-Structural Changes. Included here are sales in CUC of electric appliances, cellular phones²² and computers, as well as the admission of Cuban citizens to hotels previously reserved to foreign tourists. These measures are geared to the high-income group, the one with the economic capacity to buy those goods and hotel services, providing an incentive to them and extracting excessive money in circulation, but leave out the great majority of the population with insufficient income. If the government makes travel abroad more flexible, such policy would have similar effects.

²² In February 2009 it was reported that Cuba had 479.861 cellular phones, tantamount to only 4.3% of the population (*Juventud Rebelde* 2-8-2009).

In July 2008 Raúl authorized the operation of private transporters including taxis that had been banned in 1999. The Ministry of Transport Resolution was not enacted until January of 2009 and distinguishes between: (1) the cities, where taxis will only be able to operate in the routes not covered by public service, will fix tariffs based on supply and demand (with tops set by the state) and will have to buy their own gasoline; and (2) the interior, where there will be freedom of routes but the tariffs will be determined by the government, and transporters will receive gasoline quotas at subsidized prices. In both cases the state will grant licenses charging between 400 and 600 pesos monthly according to the type of vehicle (AP 1-12-2008). At the beginning of 2009 Raúl said publicly in Santiago that he would authorize the direct construction of houses by the population, in fact legalizing a practice generalized for many years but restricted by the shortage of construction materials; it is speculated that the government would sell these materials to families for building their own houses.

In order to cope with rising prices, wages and pensions were raised, and the extra payment in CUC or hard currency to employees of foreign or mixed companies was legalized, taxing those payments. And yet, even with those increases, wages and pensions adjusted to inflation continue to be well below the 1989 level. Raúl (2008a) warned Cubans to prepare for “a realistic” type of socialism,” economically viable and that eliminates excessive fiscal subsidies to promote equality: “Socialism means social justice... equality of rights and opportunities, not of income... Equality is not egalitarianism”. This criticism to Fidel’s idealistic policies of the past referred to a method announced by Raúl back in 2007: the payment of wages based on results to create stimuli to improve productivity and efficiency. Resolution 9 of the Ministry of Labor (2-2-2008) decreed that this method be nationally implemented by August 1, 2008, in a gradual manner, fitting the wage to the labor effort, eliminating the existing top so that those who work harder, labor extra hours or are more productive increase their income, to avoid that “a hotel bell porter earns more than a surgeon.” But in November only a “modest advance” in the method was announced and its implementation postponed until January 2009 for the following official reasons: the lack of studies to link the wage to labor results as well as information on enterprises that already have the system in place, the lack of involvement of trade union leaders, the shortage of skilled specialists to manage the method, and delays in printing the methodology to measure the work (*Granma* 10-28-2008; *Trabajadores* 11-24, 12-1 and 12-8 2008). In addition, the payment will be in national pesos with very poor purchasing power and won’t generate the desired incentives whereas wage increases will expand the already high monetary liquidity and stir up inflation (Espinosa 2008a). “Any wage increase not supported by productivity fuels inflation, leaving the real wage unchanged” (Vidal 2008a). In March the government announced a 6% cut in the state budget for 2009.

The law of pension reform approved in December 2008 raises in five years the retirement ages for both sexes (from 55 women and 60 men to 60 and 65) and the required years of work (from 25 to 30), imposes on workers a 5% contribution on their wages (previously limited to employees in state enterprises under *Perfeccionamiento Empresarial*), and increases the pension amount to those who postpone their retirement. These are necessary steps to reduce the enormous deficit in the pension system but will not equilibrate its

finances and will generate discontent if not accompanied by a recovery of the real pension.

Resolutions 187 and 188 of the Ministry of Labor established strict regulations and sanctions to fight labor indiscipline, but they are not the first of that kind in Cuba and their effectiveness is doubtful because such indiscipline is to a large extent caused by the severe shortage of consumer goods, wage insufficiency, transport difficulties and other problems faced by the labor force. Until those problems are solved or alleviated it will be extremely difficult to improve labor discipline and also fight corruption, like stealing state goods to survive (*resolver*). A survey taken by the Ministry of Labor among 2,042 enterprises in mid 2008 found 26,622 violations of the regulations: 46% of workers arrived late, 19% took longer than the stipulated time for meals and breaks, 10% left before exit time, 5% performed unauthorized chores during work time, and 4% abandoned the job without permission (*Granma* 2-11-2009).

Near-Structural Changes. Among them are the state payment of debt owed to cooperatives and private farmers for *acopio* sales, the modest increase in *acopio* prices, and the opening of special shops where farmers can buy in CUC spare parts, tires, work clothes and gloves, seeds, fertilizers, etc. Starting in 2009 private farmers would gain credits over normal *acopio* prices and be able to use them buying in those shops (Reuters 11-27-2008). These measures are incentives to increase agricultural production hoping to reduce food prices and diminish the dependency on food imports at high costs.

The deepest reform is law 259 of October 10, 2008 that stipulates the delivery in usufruct of state or UBPC idle land to cooperatives, individuals, and non-farming state entities, but imposing important limitations that create disincentives: (1) a maximum of 13.42 hectares is given to each grantee; (2) the land is covered with *marabú*, demanding a strenuous effort to cultivate it “in a rational and sustainable form” as the law commands; (3) the usufruct can be terminated if the tenant doesn’t fulfill such obligation, as well as failure to deliver the output contracted with the state, violation of environmental rules or reasons of public utility or social interest; (4) the law is unclear, in case of termination, whether the state keeps or reimburses the usufruct tenant for the work and investment done in the land; (5) the period of usufruct is only 10 years for individuals (20 years for cooperatives and state organizations) although is renewable if the usufruct tenant has complied with his duties; and (6) the usufruct tenant must pay a tax. Enforcement of the law was delayed three months; in March 2009, 58% of the 96,419 requests for 657,896 hectares had been given away albeit granting preference to state organizations (Reuters 10-9 and 11-17-2008; *BBC World* 11-11-2008; AFP 3-3-2009; *Juventud Rebelde* 3-22-2009).

Stagnation/Reversal of the Reforms

Several measures announced by Raúl had not been implemented by the end of April 2009: the elimination of monetary duality,²³ the termination of rationing,²⁴ the increase in

²³ Raúl said: “we must eliminate the dual currency but step by step, it would be audacious to predict in four or five years”(Granma 9-18-2008).

the real wage to satisfy basic needs, and a new tax system so that all the population contributes to the financing of services currently granted free or with strong subsidies. There is a “Catch 22 situation”: these measures are very difficult to enforce because they require a previous increase in production and productivity, which in turn demand further advances in structural reforms. The structural measures proposed during the debate have not been implemented either, for example: extend non-state property to true cooperatives and authorize the operation of small and medium enterprises; increase self-employment; grant autonomy to UBPC members to freely decide what to plant, to whom sell the produce and to fix its prices; eliminate or radically transform the *acopio* system; expand foreign investment (on the contrary, the number of foreign companies has fallen); legalize the selling-buying of houses; launch a feasible development strategy that would have a beneficial impact on the trade balance; and reassign expenses in health care and education in a more rational and sustainable way.

In his “Reflections,” Fidel has criticized the reforms directly or indirectly: (1) in September 2007 he labeled as “extreme revolutionaries” proposing neoliberal measures, two foreign social scientists from the left and with a history of support to the revolution; one of them (James Petras) responded that their proposals were within the spirit of debate opened by Raúl and didn’t go as far as some reforms suggested by Cuban economists, he also noted that the criticism to him could be applied to the internal debate; (2) in April 2008 Fidel complained that the Special Period should not be blamed for problems faced by the country and rejected the “shameful concessions to the enemy ideology”; (3) in October he said that some government leaders “dream about satisfying all the requests... that people wish” despite the hurricanes disaster, proclaimed that the government “needs rigorous discipline and an absolutely rational order of priorities,” and demanded savings in consumption and cut in the “dreamed” activities (F. Castro 2008).

At the end of 2008, in his speech closing the National Assembly, Raúl announced measures that closely followed guidelines in Fidel’s Reflections, thus he recognized that public accounts “do not match up” hence is necessary “to adjust all the dreams to the true possibilities,” lessen by hurricanes and the world economic crisis. Because of that, he had to give “second priority” to important issues, but “it is not a change in the economic strategy,” the reforms “have not been put in a drawer,” he had implemented “the partial measures allowed by the circumstances and they will advance, without hurry or excess of idealism, as resources become available.” He warned that “nobody, neither an individual nor a country can have the luxury to spend indefinitely more than receives,” thus it is essential “to adjust our hard-currency expenses to our income,” and despite advantageous economic relations with Venezuela, “we can’t increase unproductive expenses at the cost of contracting debts that would have to be paid by our children and grandchildren.” He affirmed that one of the nation fundamental problems is “the lack of systematic exigency at all the levels” that demands more rigor hence “everything requires regulation.” To “match up the accounts” he announced: “the elimination of improper gratuities and

²⁴ The elimination of rationing would demand a significant increase in social-assistance expenditures, exceeding the cost of price subsidies because of rising poverty and the high percentage of the population that depends on the rations. Hernández-Catá (2007) argues that it’s feasible to eliminate rationing but assuming that widespread structural reforms are implemented.

excessive subsidies” (except access to education, health care and social assistance), as well as vacation plans and subsidized meals to outstanding workers; a cut in half of state employees’ expenses for trips abroad, and the creation of a General Controller, above all central ministries and only subordinated to the Council of State, to control and supervise all direction structures, with stronger powers than in other countries (R. Castro 2008b).

The previous analysis indicates Fidel has blocked the reforms and maintained a significant quota of power, corroborated with the following evidence: (1) frequent Reflections revealing his decisions on key issues or criticizing stands that he dislikes; (2) meeting high dignitaries (Presidents of Argentina, Brazil, Chile, China, Dominican Republic, Honduras²⁵); (3) playing a key role in the dismissal of ministers (education, foreign investment and international cooperation, economics, and the secretary of the Cabinet); (4) taking control during hurricanes Gustav and Ike (whereas Raul was 17 days without appearing in public) and planning the reconstruction; (5) rejecting the offer of humanitarian aid from the USA and the EU; (6) recentralizing economic direction in response to the hurricanes and the world financial crisis;²⁶ and (7) clarifying Raúl’s offer to Obama to negotiate all issues with the USA (see below). Despite a Reflection in February saying that he had reduced its numbers “in order not to interfere or hinder the comrades of the Party and the government in the multiple decisions they must take to cope with the difficulties caused by the world economic crisis... none of them must feel compelled by my eventual Reflections...”; he actually increased those missives and in one of them embarrassed visiting President Bachelet harshly criticizing Chile’s usurping Bolivia’s access to the sea (F. Castro 2009).

Fulfilling his promise when assuming officially the government in 2008, Raul drastically restructured a third of his cabinet in March 2009 replacing 12 top officials that included two “favorites” of Fidel: Chancellor Felipe Pérez Roque and Vice-President of the Council of State and Executive Secretary of the Cabinet Carlos Lage. In similar and simultaneous letters the two officials accepted their “errors” and resigned to their membership in the Council of State, the Central Committee of the Party and the National Assembly. Their letters dated March 3 were published (*Granma* 3-5-2009) after a Reflection from Fidel in March 8 denouncing that “the honey of power... woke up in them ambitions that lead to a despicable role [which] filled with illusions the external enemy” (the U.S.A., the European Union?). Also replaced were the Minister of Economy and Planning and Vice-President of the Council of Ministers Rodriguez, and other key economic ministries like Finance and Prices, Foreign Trade, Foreign Investment and Economic Collaboration (the last two were fused), Domestic Trade, Food Industry and Steel-Mechanic Industry. Raúl also dismissed the Minister of Battle of Ideas (a position created by Fidel in 2004) and abolished said ministry, as well as Fernando Remírez de Estenoz, Chief of the Party Department of International Relations. Previously Raúl had

²⁵ According to Ecuador’s President Correa, Fidel couldn’t see him and Panama’s President Torrijos because of a serious relapse in his illness (EFE 3-10-2009).

²⁶ Resolution 193 of July 2008 prohibited mercantile operations to 29 large enterprises and restricted the list of goods they can import; Resolution of the Central Bank 1 of March 2009 empowering the president of the Bank to authorize cash deposits and withdrawals and if the amount is over 10,000 pesos to fill a detailed report of the origin and destination of the funds.

supplanted other seven civil employees, including the ministers of Agriculture (now fused with Fishing) and Transport. In May, the President of the Central Bank resigned all his posts in the government. These changes appeared to consolidate Raul's power who has appointed all economic ministries, sent the message that regardless how high an official is he/she can fall in disgrace, and established a monolithic and loyal group to face the ideological-political-economic challenges of a possible reestablishment of relations with the U.S.A. However, in his Reflection, Fidel denied the rumors on the "substitution of the men of Fidel by the men of Raul", assuring that he had been consulted on the changes and approved them.

These changes not only ratify the setback of the reforms but suggest a reversal. Lage was the architect of the 1993-1996 changes and his removal is a big loss (if his reformist stand "filled with illusions the external enemy," could not be said the same of Raúl's changes?). Rodriguez also played a key role in said reforms but, after Fidel launched the Battle of Ideas in 2003 and reverted several of those changes, he converted to the new line, asked for greater centralization and favored continuity in the 2007 debate. The new economic leaders are high military or party officials; now there are four generals, two commanders and a former colonel among the Vice-Presidents of the Councils of State and Ministers. Lage was replaced by General José Amado Guerra that was secretary of the Ministry of the Armed Forces under Raúl. Rodriguez's substitute in the Ministry of Economics is former Colonel Marino Alberto Murillo who as Minister of Domestic Trade was entrusted with controlling financial indiscipline and corruption in state enterprises. Commander Ramiro Valdés, a "historical" hardliner, has been promoted to Vice-President of the Cabinet. The new minister of Steel and Mechanics, General Salvador Pardo, directed military companies that supplied the Armed Forces. The new minister of Finance and Prices Lina Pedraza, as well as the one in charge of the Food Industry and Fishing, María del Carmen Concepción, were high officials of the Central Committee Secretariat, the former was Minister of Audit and Control and both have a reputation of being demanding and disciplinarians. The new Chancellor, when he was director of *Juventud Rebelde*, took a tough critical stand against Gorbachev's *perestroika* and *glasnost*. General Ulises Rosales del Toro, responsible for the failed sugar restructuring plan has been rewarded with the Ministry of Agriculture (*Granma* 3-3-2009 to 3-8-2009; Robles and Cancio 2009a, 2009b; Yanes 2009). The records of these civil servants and militarymen show nothing favorable to reform instead they are strict disciplinarians and endorse control measures, alongside with Raúl's style and military nature, searching for efficiency through the "*Perfeccionamiento Empresarial*" initiated by him in the Armed Forces. And yet, the generalization of such experience to the entire economy faces serious obstacles.

The "despicable role" and "errors" of the removed leaders, judged in a secret session of the Communist Party Political Bureau, are explained in a document attributed to the Party and circulated among its top members and government officials. Although the veracity of said document couldn't be confirmed, there are many signs that it's not apocryphal and leaves no doubt about the halting and reversal of the reforms (PCC 2009): (1) Lage, Rodríguez, Pérez Roque y Remírez were "extreme protagonists" who deviated from the

revolutionary path marked by Fidel and Raúl.²⁷ (2) Lage and Rodríguez were “seduced by ideas imported from failed changes in the disappeared socialist camp.” Rodríguez proposed “an economic reform that allowed small private property, opposed to the true revolutionary thought,” as solution to the crisis of the 1990s, and “Raúl intervened to stop and reprimand him [but Rodríguez] didn’t learn the lesson.” Taking advantage of Fidel’s illness and thinking that Raúl wouldn’t be able to govern, both officials “resurrected the old mercantile plans” based on the idea of “economic freedom” and “private enterprise [to] save socialism” but “socialism is saved with rigor, more control... more revolutionary vigilance...and more discipline.” After the hurricanes, Lage and Rodríguez “wanted farmers to sell their produce at any price, allowing a free market” but responsible revolutionaries opposed such “mechanisms that would have delivered the country to capitalism,” fought the black market and impeded an increase in prices. “Capitalist formulas have never functioned, whereas socialist formulas have been successful,” such as the enterprises operated by the armed forces (*Perfeccionamiento Empresarial*), “based on more control... and revolutionary effort, which will be applied to the rest of the economy.” (3) Pérez Roque’s and Remírez’ “gravest error was to give illusions to the enemy and made Washington believe that Cuba was about to change,” a weak attitude begging for favors, “contrary to Fidel’s thought who have always been clear that nothing has to be negotiated with the enemy.” When visiting Russia, Pérez Roque stated “if tomorrow we get rid of the blockade, we will have the most just and free country on earth... as only if the United States lifts the blockade Cuba would be free and just!” During Fidel’s sickness and the debate promoted by Raúl, both officials—without informing the two leaders, “as if they were the owners of the country”— promoted in the Ministry of Foreign Relations new regulations “to allow Cubans living abroad to enter our nation without permit, and Cuban residents to leave the country without permit, the white card and the habilitation of their passports,” and announced those changes abroad, collaborating with the revolution foreign enemies. (4) All four officials tried to implement a form of government based on “team work” and “collegiate decisions” as tools to introduce their subversive ideas and weaken the revolutionary ideology. (5) “Only Fidel’s profound generosity and the recognition of their errors by the former officials have avoided that their treason gets the response that they deserve.” These errors have to be known “to avoid their repetition, that those who didn’t fight in the mountains or contributed to the triumph of the revolution commit the sin of excessive protagonism and think their positions belong to them indefinitely... when can only be kept if they stay in the revolutionary road traced by Fidel and Raul.”

Other more prosaic reasons for the officials’ dismissal have been reported. A Spaniard resident in Matanzas, Conrado Hernández, a promoter of economic linkages between the Basque region and Cuba, but also an informer of Madrid intelligence, often invited Lage, Pérez Roque and Remírez for parties and taped their conversations. The officials made

²⁷ An alleged reason for the dismissal of Lage and Pérez Roque was their public endorsement of the union of Cuba and Venezuela, which Raúl rejects. It was also speculated that Pérez Roque’s destitution was due to his lack of technical background, coarse, aggressive, non-diplomatic and confrontational style, obstacles to a potential negotiation with Washington. His substitute, Bruno Rodríguez Parrilla, having solid party credentials, a career diplomat (represented Cuba in the U.N. for 11 years) with a more professional, cold and smooth style, would be a tough but effective negotiator (García 2009; Robles and Cancio 2009b; Oppenheimer 2009). The PCC document questions these reasons.

jokes about Fidel's age and illness, as well as Raúl's and Machado Ventura's political skills. Hernández was detained by Cuba's internal security and the tapes confiscated. After Pérez Roque received an ovation when leaving the Chancery for the last time, Raúl called the Party meeting and played the tapes (Urbina 2009).

It was expected that the future economic direction will be decided at the 4th Congress of the Party to be held in the second half of 2009 (the last congress took place in 1997 but should be every five years). The congress must be preceded by a program, previously circulated and debated throughout the country, drawing up the guidelines for economic and social development in 2010-2014; it should also choose the First Secretary of the Party deciding if Fidel continues or Raúl replaces him. In mid 2009 there were rumors that the congress would be postponed and neither the convocation nor any mention of it has been made in local party meetings. Potential reasons were discrepancies among the leaders on the program to follow; the fear that the debates escape official control, and the difficult economic situation (Espinosa 2008b; Cancio 2009). In any case, the crucial question is: what the congress could do economically that would not be more of the same unsuccessfully tried in the last half century?

The above analysis discredits the argument that the reforms were obstructed or slowed down in the second half of 2008 because of the damage inflicted by hurricanes and the world economic crisis. A counterfactual would be that such problems make the reforms even more necessary and urgent, as it happened after the failure of the 10-million ton sugar harvest in the 1970s and the collapse of the USSR in the 1990s. Let's assume that rather than giving idle state land in usufruct, submitted to many restrictions and preferable to coops and state entities, Cuba would have followed the more liberal Chinese or Vietnamese paths and give the land mainly to individuals, families and groups of farmers, under indefinite contracts with freedom to plant, sell the produce and set prices according to supply and demand. Such alternative strategy would not have been obstructed by hurricanes or the world crisis and led to significant increases in food production to meet domestic needs, cut imports and eventually export the surplus. Similar counterarguments could be applied to small and medium enterprises, self-employment, cooperatives in manufacture and services and so forth. Such policies would have not required any significant state expense and even contribute fiscal revenue if modest income taxes had been imposed on the new non-state groups. The increase in production and productivity, in turn, would have helped to gradually introduce more complex policies such as the elimination of the dual currency and rationing. The real reason behind the reform stagnation is the hard liners' fear that the changes would result in a decrease of their economic power from emerging groups independent from the state that would compete with inefficient state enterprises.

IV. Perspectives of Relations with the USA under Obama's Presidency

Barack Obama poses a challenge to the Cuban leadership unparalleled to any from the ten previous presidents: he is young, Afro-American, has a solid education, is charismatic and excellent orator, open minded and conciliatory, and with his message of change won the presidency with 70% of the electoral votes and has elicited universal support. His

election denies the stereotyped vision projected for 50 years by the Cuban government that depicts the U.S. society as extremely racist and incapable of transformation. The Cubans reacted positively to Obama's election hoping that he reestablishes relations, and several Afro-Cubans (Juan A. Madrazo, Pablo Milanés, María I. Faguagua) have expressed their joy, praised the defeat of the old U.S. racism that allowed such election, and compared it with the situation in Cuba.

Changes in Fidel's Views on Obama. In four Reflections in which he talked about Obama, between April and December 2008, Fidel took a skeptical even critical stand: (1) the Afro-American population in the USA "is victim of a strong racial discrimination" that will prevent Obama to occupy the White House"; (2) Obama "supports the system and] will lean on it... the preoccupation with the exhausting problems of the world really does not occupy an important place in [his mind]"; (3) "many dream that after a simple change in the leadership of the empire, it will be more tolerant and less hostile... It would be extremely naive to believe that the good will of one person can change the outcome of centuries of egoism and vested interests"; and (4) Obama is a "man of the modestly rich class with only a few million dollars. Not certainly a Lincoln... Somebody [Fidel] had to give a serene and calm answer... against the powerful tide of illusions that Obama created in the international public opinion"; "with [him] we can talk wherever he wishes [but] he must be reminded that the theory of the carrot and the stick won't work in our country... our fatherland can be turned to dust, but the sovereign rights of the people are not negotiable". But Fidel's first Reflection in 2009 smoothed his previous tone: "I do not have the smallest doubt of the honesty whereupon Obama expresses his ideas [but] despite his noble intentions many questions are unanswered"; and in a more dramatic turn he asserted a day later: "nobody could doubt the sincerity of [Obama's] words as he stated that he would turn his country into a model of freedom and respect of human rights in the world and for the independence of other peoples." Fidel then greeted Obama's decision to close the jail in Guantanamo and end torture, and affirmed that Obama "has changed under the inspiration of Abraham Lincoln and Martin Luther King to become the living symbol of the American dream." One week later, however, he reversed his stand again, accused Obama to "share in the Palestinians genocide" and demanded the return of the Guantánamo base, because keeping it violates international law principles that Obama "must obey without any conditions ... not to respect them is a act of arrogance, an abuse of his immense power". In another he complained that his critics of Obama were presented by the "media terror" as "attacks" or "darts, and questioned the president on the Cuban policies of his predecessors, as well as his own domestic policies, ending: "thus he squanders the credit that voters granted him". Next day he asserted that chief of staff Rahm Emanuel's statements, albeit not mentioning Fidel's "modest Reflections," were an answer to them and that Obama is interested in the Cuban-American community instead of the 12 million Cuban inhabitants, hence his "policy is loosing its virginity" (F. Castro 2008, 2009).

Raúl's Stand. In 2006, Raúl declared that he was willing to negotiate with the USA under equal conditions. In an interview with actor Sean Penn (2008) he added: "The U.S. president should take the first step on his own but with no threat to our sovereignty. That is not negotiable. We can make demands without telling each other what to do within our

borders.” Raúl offered to meet Obama in a neutral place such as Guantanamo “to begin to solve our problems” having as priorities “normalize trade... let Cubans come to visit their families and the Americans come to Cuba.” From Brazil, Raúl reiterated his disposition to the dialogue with Obama but “without stick or carrot”; he reported that had not received any message from Obama’s team and said “we are not worried... if it is not now we will wait for other 50 years... If Obama wishes to discuss, we will discuss” but Cuba won’t make concessions, “the time of unilateral gestures is finished”. In a bold step Raúl offered to free imprisoned Cuban political dissidents and send them to the USA with their families in exchange for the release of the five Cuban “heroes” condemned as spies by U.S. courts and in prison²⁸ (*Nuevo Herald* 12-17 and 12-18-2008). In his speech in the 50 anniversary of the revolution, he warned the people not to have illusions, because the dangers have not diminished, “do not soften with the siren songs of the enemy who... never will stop being aggressive, dominant and traitorous,” and foretold that “the next 50 years will be also of permanent struggle.” In a later interview he paraphrased Fidel: “... a man alone [Obama] cannot change the destinies of a country [the USA]” (R. Castro 2009; Havana TV 1-2-2009)

The President of the National Assembly Ricardo Alarcón declared he didn’t expect “a great turn” in the U.S. policy towards Cuba except for the promised elimination of the restrictions imposed by Bush, which “is neither the end of the blockade nor of the aggressive policy.” Answering a question on how Cuba would respond to a significant gesture from Obama geared to relax the embargo, Alarcón responded: “Thanking him to recognize an error of half century” (*Nuevo Herald*, 12-17-2008).

Obama’s Measures and Cuba’s Reaction. During the electoral campaign, Obama promised to abolish by executive resolution the restrictions to travel and remittances to Cuba imposed by Bush (from an annual trip under Clinton to one every three years for no more than 14 days, and from \$3,000 in annual remittances to \$900 and only to immediate relatives). In a TV program Obama answered affirmatively to a question on whether he would meet without preconditions with the leaders of Cuba, Iran and Venezuela. But reacting to Hilary Clinton’s criticism of naïveté, Obama specified regarding Cuba that he would speak “under certain conditions,” using “direct diplomacy” that he would display “at the moment and place” of his election, to advance the cause of the freedom of the Cuban people and U.S. interests. His message would be: “If you take steps towards democracy, beginning with the liberation of political prisoners, we will take measures to normalize relations” (cited by Cohen 2008). Obama first decision as president was to suspend the trials of those accused of war crimes and the torture in the Guantanamo base prison, which should be closed in one year. In March the Treasury Department authorized annual trips—additional visits in emergency cases—instead of every three years, abolished the 14-day limit to trips, and expanded the reception of remittances to non-immediate relatives. In turn, Congress eased sales of U.S. agricultural and medicine

²⁸ On the feasibility of such exchange says a Cuban observer: “The judicial power in the EEUU, differently from Cuba, is independent from the Executive Power and it’s not clear whether all political prisoners in Cuba want to move to the USA. [However] the U.S. President has the constitutional power to suspend judicial sanctions and grant indults” (Márquez 2009).

goods to Cuba, allowing payment at their arrival in Cuba (instead of before export) and closed the funds previously assigned to enforce travel restrictions.²⁹

On April 13, Obama abolished all restrictions on trips and remittances, extended the goods sent in packages, authorized U.S. companies to provide telephone services, radio and TV by satellite, and the sending of cellular phones to Cuba. These measures, said Obama, are a first step in the way of normalizing relations, “others can be taken when Cuba responds.” Presidential adviser Dan Restrepo added that the new policies extend “a hand to the Cuban people to support their desire to live with respect to human rights and the power to determine their own destiny and that of their country,” allow the free flow of information between Cubans and the world, foment citizen economic independence from the state and open spaces to facilitate democratic changes. Obama exhorted the Cuban government to eliminate the current surcharge on dollar remittances that reduces the amount received by the people and generates gains for the state. The new policies were received with joy in Cuba and some dissidents asked Raúl that, in reciprocity, he eliminates the imposed restrictions on Cubans to travel abroad (*Nuevo Herald* 4-14-2009), but the official mass media barely reported the measures. It was Fidel in two Reflections (April 13 and 14) who disclosed part of the measures labeling them as “positive, although minimal.” Albeit assuring that he didn’t wish “to hurt Obama in the least,” Fidel criticized the president’s omission of the blockade, “the cruelest of the measures,” and for not ending the ban on Americans to travel to the Island, then said: “Cuba has resisted and will resist. It will never extend its hands asking for charity... Many other measures [from Obama] are needed” (F. Castro 2009).

Raul reacted to Obama’s opening in a more positive and pragmatic way than his brother. On April 16 he stated from the ALBA Summit in Venezuela: “I have communicated to the U.S. government, in private and public that we are open to discuss everything they want: human rights, freedom of the press, political prisoners... but in equality of conditions, without any shadow to our sovereignty and the right of self-determination of the Cuban people.” Hilary Clinton acknowledged that “the U.S. policy towards Cuba has failed” and praised Raul’s offer: “We welcome his declarations and are considering an answer. The dialogue is useful to advance.” In the Summit of the Americas in Trinidad all member countries asked Obama to improve relations with Cuba and lift the embargo. On April 17 the president declared in the Summit opening: “The United States looks for a new beginning with Cuba. I know there is a long way ahead to end decades of distrust but there are steps we can take towards that goal... my administration is prepared to become involved with the Cuban government in an ample range of issues, from human rights to freedom of expression, democratic reforms, drugs and economic themes.” He added that all the leaders in the Summit had been democratically elected hence should help to obtain that Cuba adopts democratic changes. White House spokesman Robert Gibbs added that any future improvement of relations between the two countries “will depend on the actions of the Cuban government” (*El País* 4-18-2009).

²⁹ *Granma* (3-11-2009) silenced these changes and accused Obama of “ratifying the blockade” against Cuba due to the sanctioning of a U.S. enterprise than infringing the embargo law.

In his Reflection of April 22, Fidel struck a blow to the opening process and interpreted Raúl's offer. Firstly he cited Obama in an interview during the Summit: "The fact that Raúl Castro has said that his government is willing to converse with ours not only on lifting the embargo, but on other subjects like human rights, political prisoners, is a sign of progress... There are some things that the Cuban government could do: release political prisoners, reduce [the enormous] surcharge [and gains] to the remittances in reciprocity to the policies that we have applied... That would be an example of cooperation where both governments would be working to help the Cuban family and raise the standard of living in Cuba." Fidel responded: "Without doubt the president badly interpreted Raúl's declaration... The statement that Cuba imposes 'an enormous surcharge' and 'obtains enormous gains' is an attempt... to divide the Cubans." Fidel then argued that Cuba does not have to change, but it's the USA that should do so, criticized the U.S. president for being "self-sufficient," affirmed that although Obama didn't invent the embargo "endorsed it, just as the other ten U.S. presidents," and predicted "a sure failure if he follows the same path of his predecessors" (F. Castro 2009).

The above Reflection suggests that not only Fidel keeps power to correct his brother, but that he will obstruct the negotiations and oppose an improvement in human rights and civil and political freedoms in response to the White House measures. Obama has resumed the migratory conversations with Cuba suspended by Bush and could take other calibrated steps to put pressure on Cuba, and hopefully help Raúl and neutralize Fidel: reestablish academic, religious, artistic and sport exchanges; sign agreements to collaborate in the fight against drug traffic and violation of aerial space; authorize the operation of fiber optic cable companies in Cuba; suspend TV Martí that is anyway blocked by Cuba and, since Libya and North Korea has been removed from the list of terrorist countries, do the same with Cuba. Obama could also promise that he won't seek regime change in Cuba, as this is an internal matter of Cuban citizens, but that he would be willing to collaborate in improving socioeconomic conditions and human rights of the people. But it is obvious that Cuba has to take some steps to keep the process going.

Feasibility of Lifting the Embargo. The embargo has been repudiated by the United Nations through many years, is currently opposed by most Cuban-Americans, it failed to change the regime for 47 years, is presented by the Cuban government as an external threat that forces domestic authoritarianism and used to justify the failures of its economic policies.³⁰ Cuba estimates the losses caused by the embargo as \$100 billion in 1961-2008, but such calculations are debatable as they include opportunities lost. There is no doubt that the embargo creates serious difficulties, like the prohibition imposed on third countries to sell Cuba products that have more than 10% of U.S. components and to merchant ships to berth in U.S. ports for six months after touching Cuban ports. However, the embargo no longer constitutes the fundamental economic problem, since Cuba have trade with and receives investment from many countries.³¹ Furthermore, the

³⁰ According to Hernández (2009), the perception as an external threat of the embargo and other U.S. measures against Cuba, goes against those Cubans who want an open debate, plurality and more space for action therefore its elimination would facilitate internal changes.

³¹ Spadoni (2009) shows that there is significant U.S. indirect investment in Cuba through international corporations.

embargo became more flexible since 2001 with the approval of U.S. food exports that total \$2.7 billions until the end of 2008 (UCTEC 2009), turning the USA into Cuba's fifth trade partner and main food supplier. The fundamental problem is the incapacity of the Cuban economic system to increase production in order to satisfy its domestic needs and generate exports to finance its imports.

Lifting the embargo, however, requires the derogation or amendment of the Helms-Burton Act that prohibits it while Raul or Fidel are in power, and the need to hold free elections. Although the Democrats won ample majority in congress, Obama faces numerous and urgent domestic and foreign problems inherited from the Bush administration: the worse economic crisis since the Great Depression, reforms of health care and social security, the external energy dependency, a gigantic and increasing fiscal deficit, the regulation of immigration, the wars in Iraq and Afghanistan, the explosive situation in Pakistan, the nuclear threat from North Korea and Iran, the endless conflict between Israel and Palestine, growing hostile regimes in Latin America and the deteriorated image of the USA in the world, therefore it is improbable that he spends his initial political capital trying to terminate the embargo.

When the most urgent problems faced by the USA have been solved or alleviated, and hoping that Cuba has taken positive steps answering Obama's, several factors could facilitate the lifting of the embargo. Many big U.S. companies want to make businesses with Cuba and have allies in congress both Democrats and Republicans. Several commercial groups (National Foreign Trade Council, American Farm Bureau Federation and National Retail Federation) plead for the elimination of all the restrictions on commerce and travel to Cuba. Obama won 55% of the Hispanic vote in Florida giving him more space for its policy on Cuba; 35% of the Cuban-Americans also voted for Obama and 55% among young people. A survey taken at the end of 2008 among Cuban-Americans living in Miami-Dade County show that 65-67% of them favored ending the restrictions to remittances and trips from Cuban-Americans and North Americans to Cuba, as well as to restore diplomatic relations with the Island, 56% considered that the embargo has not worked and 55% were in favor of lifting it (FIU et al 2008). Influential groups of Cuban-Americans have moderated their positions, like the Cuban American National Foundation that supported Obama's election and the Cuban Study Group (2008) that endorsed the elimination of Bush's restrictions.

In case of an impasse in the process, an internationalization of the embargo negotiation would remove the problem from Obama's hands and exhort Cuba to effectively implement the U.N. human rights chart that has recently signed. A Commission of Nobel Peace Laureates, like Kofi Annan, Oscar Arias, Jimmy Carter, Frederik de Klerk and Nelson Mandela, could serve as mediator between the two countries, preserve Cuba's sovereignty, assure that human rights are not sacrificed for politico-economic interests, and guarantee seriousness of purpose to the world. This proposal faces some problems: the Cuban government may not be interested in negotiating with a Commission that cannot guarantee lifting the embargo because it would have to be sanctioned by the U.S. congress, while potential members of the commission might decline to participate if they are not given guarantees in that respect. But if Obama and Raúl accept the Commission

and it obtains beneficial agreements for both countries, the probability of annulling the Helms-Burton Act would be greater, as well as easier for Cuba to accept the liberation of political prisoners and improvement in human rights, because these would not be concessions to the USA but a result of negotiations with the Commission.

Positive Effects of the Elimination of Restrictions and Lifting of the Embargo.³² The elimination of the restrictions on Cuban-Americans travel and remittances should eventually lead to an increase in both albeit limited by the severe economic crisis in Florida. Remittances from 1.2 million Cuban-Americans (equivalent to 11% of Cuba's population) would be even higher if the Cuban government abolishes the surcharge, as requested by Obama, fixes a more realistic exchange rate of the CUC to the dollar and allows the investment of part of said remittances in small businesses.³³ In Central America and Mexico external remittances constitute a crucial source of income, have had a multiplying effect in promoting small and medium enterprises and elevating consumption and living standards of the population, and the same would happen in Cuba.

The elimination of the embargo would bring greater benefits: (1) allow free trade between the two countries, attract investment and credit (tied to conditions analyzed later), and lift the barriers imposed on third countries to import Cuban goods that contain U.S. components; (2) reduce the value of imports because the fall in the dollar makes U.S. product prices lower than their European or Asian counterparts, demonstrated by the current significant U.S. food imports by Cuba, and the same would be true of transport equipment, deep water oil exploration-extraction, agricultural machinery, electric and electronic appliances, etc.; (4) substantial savings in freight because U.S. ports (Florida, New Orleans, Texas) are much more near Cuba than those in China and Russia, and also cuts in the cost of ship rentals and storage in Cuba; (5) avoid the commission or profit by third countries for the sale of U.S. spare parts destined to original U.S. made plants such as many sugar mills and two nickel plants; (6) lifting the ban on U.S. tourists would bring at least one million visitors in the first year (many more in the long term) and substantial investment in hotels, arrivals of U.S. cruises in Cuban ports, and profitable connections with U.S. tourist agencies, publicity and packages; (7) Cuba could become an exporter of high tech services to the USA, earning sizeable hard-currency, without the adverse effects for the population caused by export of doctors; (8) the disappearance of the threat of U.S. military intervention would allow the transfer of resources from the defense budget towards domestic social expenses, food and other consumer-good imports, and to meet other urgent needs of the population; and (9) contribute to further diversify commercial partners and reduce dependency on Venezuela.

Potential Disadvantages of the Relationship for Cuba. Armando Hart anticipates that as a result of the alleviation on restrictions to North Americans to travel to Cuba “a new stage would be born in the ideological combat between the revolution and imperialism...” In that case “to achieve the ideological invulnerability that we aspire it

³² A brief summary of this section and the next was published in Cuba (Mesa-Lago 2008b).

³³ In a survey taken in 2008 among recipients of remittances in Cuba and senders in Florida, 72% gave as a main obstacle the very high exchange rate of the CUC, whereas 34% said that their savings (partly from remittances) were invested in small businesses (Orozco 2009)

will be necessary to design a new theoretical and propagandistic conception” because “an avalanche of visitors will come with different objectives” and the consequent “immense challenge of how to confront the cultural fight with the enemy” (cited by García 2008). Carlos Alzugaray (2009) sees “few costs” in lifting the embargo: “Some are worried for so many American tourists coming; I am not... tourism will bring some drugs, certain disorder... but the economic part will benefit us enormously.”³⁴ Before the revolution, the USA granted Cuba a sugar quota at subsidized prices but such quotas have been discontinued (furthermore, sugar exports now are only 5% of total Cuban exports) and Cuba cannot expect U.S. subsidies to prices of its exports and imports, as it happened with USSR and now with Venezuela.

Some Cuban leaders worry that renewed economic ties with the USA could lead to the pre-revolutionary economic dependency, influence on Cuban domestic politics and reduce the nation sovereignty. But the degree of the relationship will be to a great extent a decision of the Cuban authorities. The history of 30 years of Cuban relations and economic dependency on the USSR showed that there were serious conflicts between both nations and in several opportunities Cuba reaffirmed its sovereignty and independence. It is true that in some stages the Soviets exerted influence, for instance after the failure of the 10 million-ton sugar harvest of 1970, from 1971 to 1985, but when Boris Gorbachov began *perestroika* and *glasnot* Cuba took the opposite direction with the Rectification Process. One wonders if Cuba current high economic dependency on Venezuela and the Bolivarian project of integration of both nations do not worry the Cuban leadership.

Before opening credit lines, U.S. private banks and the Export-Import Bank will evaluate the Cuban credit rating, the record paying credits granted by other nations and the Island future capacity of payment. It is probable that U.S companies ask for an irrevocable letter of credit guaranteed by the Central Bank of Cuba and/or solicit that the operation is financed by the Export-Import Bank. These cautions are not exclusive of the USA but usually practiced by other nations. The reestablishment of relations would bring up the payment of properties of U.S. citizens nationalized by the revolution, whereas Cuba would request indemnification for the adverse effects of the embargo estimated by the government as \$100 billions. This could become a thorny subject in the way of the economic normalization between both countries and require mutual concessions.

V. Conclusions

Most Cuban economic indicators deteriorated in 2008: GDP growth and capital formation slowdown, the fiscal deficit doubled, inflation and monetary liquidity expanded, production declined in most lines, the merchandise trade deficit reached a historical record, the foreign debt escalated, the number of foreign enterprises fell, Canadian direct investment decreased or didn't materialize, real wages and pensions declined, and the housing deficit doubled. Positive outcomes were a moderate increase in tourist numbers and gross revenue, growing Venezuela's hard-currency payments for Cuban professionals that partly compensated the trade-good deficit, expanded commerce, credit and

³⁴ Hernández (2009) agrees on this point.

investment with China, Russia and Brazil, and continued decline in the infant mortality rate. The net result of the positive vis-à-vis adverse factors was negative.

The Cuban government attributed the economic deterioration in the second half of 2008 to external events: four hurricanes that caused damages tantamount to 20% of GDP, and the world economic crisis that led to a sharp decline in the prices of nickel and sugar (but also helped with falling prices of food and oil); the crisis may also reduce Venezuela's capacity to continue providing crucial aid to Cuba. And yet, before such external calamities, Cuban economists had predicted a deceleration of growth in 2008. The GDP growth rate for 2009 has been downsized from 6% to about 2%; in the first quarter agricultural production decreased 7%, tourist revenue 14% and the trade deficit worsened; the 2009 sugar harvest was 15-20% lower than in 2008; some rationing quotas were halved and electricity consumption cut 12% while the blackouts returned.

The large majority of the important recommendations for economic reform that emerged from the 2007 vibrant debate have not been implemented, and few of Raúl's positive measures qualify as the structural changes he promised, furthermore the reforms stagnated since mid 2008. Raúl substitution of one third of his Cabinet, including the entire economic team, by high militarymen and party officials who are strict disciplinarians, favor control measures and don't have any record of being pro-reform, combined with the apparent PCC document circulating in Cuba, ratify the halting of the reform and probably its reversal. Raúl's argument that the reform stagnation was due to the damages caused by the hurricanes and the world economic crisis hence appears as an excuse, actually such problems make the reforms more urgent. Cuba could have followed the successful Chinese or Vietnamese paths in state land redistribution, instead of the restricted usufruct approach, and get faster results in food output and productivity, to meet domestic needs, cut imports, expand exports and cope with the hurricanes and the world crisis. The authorization of small and medium enterprises, as well as cooperatives in manufacture and services, and the increase in self-employment would have led to similar positive outcomes, without state investment or expenditures and contributing to fiscal revenue through income taxes. Furthermore, the increase in production and productivity would have helped to gradually introduce more complex policies such as the elimination of the dual currency and rationing.

Obama's Presidency provides a window of opportunity to improve Cuba's current economic deterioration: he abolished Bush's restrictions on travel and remittances of Cuban-Americans, resumed migratory talks with Cuba, and could lift the embargo. But Obama has tied the latter to Cuba's release of political prisoners and improving of human and political rights; lifting the embargo also requires annulment or amendment of the Helms-Burton Act, and Obama faces numerous and grave domestic and external problems that demand priority vis-à-vis the embargo. Nevertheless the president could take additional calibrated policies to encourage Havana to respond with its own steps generating a more propitious climate.

Fidel's position on Obama has changed many times but has become increasingly critical and demanding; he also refuses to tie the embargo lifting to improvement in human

rights, deemed as intervention in Cuba's internal affairs. Conversely Raúl has been more steady and pragmatic in his position, has offered several times to negotiate with the USA, including an exchange of political prisoners for the Cubans condemned by U.S. courts as spies, human and political rights, everything, but on equal terms and without diminishing Cuba's sovereignty. If an impasse occurs, a Commission integrated by Nobel Peace Laureates could help to advance negotiations between the two countries.

The lifting of the embargo would accrue significant economic benefits for Cuba and few disadvantages, but for such benefits to materialize it's essential that Cuba advances in the economic reforms, because without an increase in production it is impossible to generate a surplus for exports to pay for U.S. imports, and the USA won't grant subsidies to Cuba as the former USSR did and Venezuela does. The idea that lifting the embargo will result in an immediate jump of trade and economic boom is illusory if Cuba current production system and incentives are not radically transformed.

Finally it is desirable that the economic reforms are accompanied by respect to human and civil rights, that more space and freedom are given to institutions such as churches, trade unions, NGOs and peaceful dissidents, and political prisoners are released. This would not only facilitate the rapprochement between the two nations after almost half a century of antagonism but would also help to annul/amend the Helms-Burton Act and, most importantly, improve human welfare in Cuba.

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