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What does the future hold for Cuba?

By Francisco Sagasti
Jun 1 2015

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The long and difficult journey towards normalizing US-Cuban relations began in December 2014 with the relaxation of economic sanctions by President Obama. What does this mean for the future of Cuba? Will normalization bring transition towards a market economy and political pluralism, or merely relieve economic hardship and strengthen an authoritarian regime?

Cuba and its population of 12 million will not be able to follow the route of Eastern Europe in the 1990s. It has neither a West Germany willing to pay a high price for reunification, nor a European Union ready to embrace the reformed economy. It is not a large resource-rich country that can sustain an oligarchy of privatized-enterprise tycoons, nor a cohort of high-level bureaucrats in exporting state monopolies. Vietnam might be a more plausible model, but its experience with export-oriented industrial parks and returning émigrés tells cautionary tales.

Cuba is likely to chart its own course. The country's resilience and capacity to adapt make sudden regime collapse unlikely. Gradual, market-oriented reforms and slow political liberalization are more probable, though judicious external support could speed the pace of change.

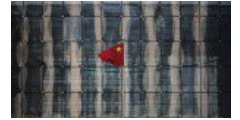
Cuba's achievements in social services are real and undeniable. Since the 1961 nationalization of education, health and other services, all Cubans have enjoyed free access to education, health care and social protection. Social development has always been a priority, even in times of severe economic crisis: up to one-third of the national budget has been systematically allocated to the social sectors. Cuba is one of the three Latin American countries in the UNDP "very high Human Development" Index, just

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below Chile and above Argentina, surpassing Uruguay, Costa Rica and Panama. But Cuba's per capita income is about half of what it is in those countries.

Cuba's hard-won social gains are threatened by economic stagnation, low productivity, high levels of unpaid external debt, demographic transition and youth disillusionment. During most of the last five decades, support from the former Soviet Union, the socialist Council for Mutual Economic Assistance (COMECON), Venezuela and, to a lesser extent, China, helped to overcome economic difficulties. This support is no more; Cuba is on its own, facing challenging trade-offs to harmonize social and economic objectives. Maintaining progress in education, health, life expectancy and other social indicators while providing incentives for personal advance, entrepreneurial initiatives and improvements in productivity calls for an extremely difficult political balancing act.

Future developments in Cuba will dash the hopes of eager investors dreaming of quick rewards in a tropical Las Vegas or a real-size Disneyworld; they will confound die-hard right-wing ideologues that abhor everything the Castro brothers have done, and left-wing stalwarts who see any deviation from old revolutionary ideals as treason. Raul Castro's initial response to Obama's initiative has been warm and welcoming, but he has clearly stated that Cuba will not abandon socialism.

In time, economic reforms could lead to a reasonably well-functioning mixed economy, with clear and fairly enforced rules for state-owned corporations, domestic private firms, private-public partnerships, joint ventures, cooperatives and not-for-profit enterprises. Decisions will be needed on the extent to which planning or the market will guide resource allocation in economic activity, and on how command-and-control policy instruments will coexist with market-based incentives. Developments in tourism, agriculture and energy – including biofuels – will be early testing ground for progress towards a mixed economy.

Independent regulatory agencies with consumer participation will need to be created for market-oriented reforms, backed by clear rules to prevent regulatory capture and state interference. Telecommunications infrastructure and services will test the willingness of Cuban authorities and foreign investors to reach agreement on regulations to guide their expansion and upgrading.

There is potential for the local biotech industry to develop, building on advanced Cuban R&D capabilities. Cuba produces an array of vaccines, pharmaceuticals and diagnostic tools; has a robust pipeline of new drugs in development; and also produces animal, fish and plant protection products. According to a recent [Wharton School report](#): "For an island that struggles to produce its own food and consumer goods, Cuba nevertheless punches above its weight in the production and export of biotechnology and pharmaceutical products, which have become a significant foreign currency earner along with the sale overseas of professional medical services."

Cuba could also capitalize on its successes with the provision of basic social services, expanding personnel exchange, advising on organization and training and helping other countries improve their health, education and social protection programmes. Local artistic talent could benefit the creative industries, particularly music, which could become a leading economic and export activity when leveraged by access to information technologies.

Harmonizing social and economic development objectives in the post- sanction period will require a new generation of business savvy, socially minded Cuban managers.

Beyond internalizing social and environmentally responsibility principles, they should explore creative ways of preserving social gains and taking advantage of new business opportunities. Selective engagement with international financial institutions, in particular Latin American regional development banks, could help to obtain financing, gain access to expertise and support management training.

It is possible to improve social development indicators without high levels of material consumption or income per capita, as Cuba has demonstrated in the last 50 years. By rejecting the premise of growth at any price, Cuba may well chart new paths towards equitable, sustainable and personally empowering development.

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Image: A man stands near the national flags of the U.S. and Cuba (R) on the balcony of a hotel being used by the first U.S. congressional delegation to Cuba since the change of policy announced by U.S. President Barack Obama REUTERS/Stringer

Posted by [Francisco Sagasti](#) - 16:46

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