



# Reflections from a December 2022 week in Havana

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As we begin 2023 Cuba is confronting multiple crises. Some of these are long term and structural in nature – such as an extraordinary aging of the population that exacerbates deep-seated low productivity traps, and monumental failure to invest in basic infrastructure needed to support a modern society. Others are at least in principle amenable to immediate policy interventions. Examples would include economic measures that would rationalize state enterprises and create more space for a private sector whose dynamism is critical to future economic prospects, and also political steps, particularly relaxing the severe criminal penalties leveled against hundreds of participants in 2021 protests and subsequent expressions of discontent.

Yet conversations with dozens of people during a December 2022 visit to Havana revealed widespread loss of confidence in the capacity of the country's political and economic systems to address either the long or short term challenges facing Cuba, and thus to meet popular aspirations. Strikingly, over a weeklong visit during December 2022

pessimism about the future seemed greater to me than it was during the Special Period following the collapse of the Soviet Union. Even Cubans sympathetic to the revolutionary project use the term *hartazgo* to describe the prevailing mood on the island

The sentiment of being “fed-up” is not exclusive to those who are voting with their feet – more than 300,000 Cubans left the island during 2022 – and is reflected in occasional outbursts of protest over every-day hardships, including periodic electricity blackouts, long lines for scarce and ever pricier foodstuffs, and a steady decline in the quality of basic public services. Popular frustration is no secret, and indeed is more visible in the public arena than at any time over the more than sixty-year history of the revolutionary government. Crucial here has been the rapid expansion of digital connectivity, which has opened a proliferation of arenas for debate about social, cultural, and indeed political matters. Alternative media of various sorts have virtually entirely replaced official media as channels for information about Cuba and the broader world. This is because they are widely accessible and enjoy credibility that mainstream organs do not.

Taking stock of the *coyuntura*, and the likely trajectory of the next several years, it is important to emphasize that the Cuban political system remains remarkably stable. Surely many observers are correct to conclude that there are competing factions within the elite, with different visions of how the economy should be structured, but the political monopoly of the Communist Party is not contested, there is no organized opposition, and the state has the capacity to constrain the emergence or organization of any movement aspiring to occupy state power. The unprecedented uprisings of July 2021 reflected the depths of popular discontent and, predictably, were harshly repressed. However, dissident calls for follow-up mobilizations bore little fruit, again predictably. Some voices from the international diplomatic community, most emblematically the United States, imagine public discontent somehow producing a “tipping point,” channeling into a process of democratization, a notion that in my view has little prospect of playing out during the coming years.

Having said that, while nobody should be anticipating a “transition from authoritarian rule” it is undeniable that public opinion is taking

on growing importance in shaping public policy. In recent times this has been most evident in consultative processes around constitutional reform and recent approval of a remarkably progressive reform to family law. We witnessed this as well toward the very end of 2022, with the government announcing an end to unpopular state investments in ever more tourism hotels and emergency interventions to reinforce decaying infrastructure that was causing frequent electricity blackouts in the capital.

The remainder of these brief reflections address features of the economy and implications of the dramatic increase in outward migration, as well as ways in which the international context may shape prospects for addressing both short and long term challenges.

- *Economic reforms advance but only at a snail's pace*

It has now been more than a decade since Raul Castro announced the roadmap for transforming the economy. Only a fraction of what was needed or promised has happened, and persistently low productivity continues to plague much of the economy. Obviously, draconian US sanctions – intensified during the Trump administration and largely kept in place so far by the Biden government – together with the pandemic-provoked interruption of tourism revenues during 2021-22 -- are a big part of the story, but the severity and prolongation of economic decline also reflects delays or outright failures in enacting reforms.

A particularly costly instance of delay is provided by the experience with currency reform. A unification of exchange rates had been promised as imminent for many years, but the long awaited measure was postponed repeatedly before finally being announced in January 2021, at which point the pandemic was already profoundly impacting the economy. In practice, the government action proved too little too late, and the result has been to further distort incentives across much of the economy. At the end of 2022, we encountered a cacophony of exchange rates:

- International agencies in transactions with the state are exchanging dollars for pesos at 24-1

- Some cab drivers and restaurants were angling for a rate of around 100-1
- Official rates reflected in the MLC (akin to the former CUCs) seem to be around 120-1
- We exchanged dollars to pesos on the black market at 175-1

This is the reality on the ground a year after the supposed move to a unified exchange rate, and the result has been to exacerbate uncertainties buffeting economic actors and a citizenry that is also feeling increasingly impacted by runaway inflation. Both inflation and chronically low productivity are reinforced by the exchange rate issue: if in some instances state firms are selling in dollars and transferring that to pesos at 24-1, they can at times in turn be spending in the Cuban economy getting 175 pesos for each dollar, implying a massive commission. Surely one reason that some state enterprises that are grossly unproductive are managing to remain operational is through maneuvering the exchange rate labyrinth.

To be sure, private businesses are operating more ubiquitously and freely than ever before. Whereas until recently the question was whether people could engage in *cuentapropismo* in a broader array of economic activities, that's now resolved. The landscape for entrepreneurship is more or less entirely open and there here has been a remarkable expansion in the number of formally recognized private businesses [Small and medium-sized enterprises (SMEs)]. Despite constraints of US sanctions that ironically hurt the private sector more than state enterprises, private firms are importing, massively, albeit with transaction costs resulting from their sanctions-created difficulties accessing financial and banking services.

The situation isn't ideal, but entrepreneurs can deal with it. Many business persons acknowledge expanded opportunities but complain that reforms always seem to involve one and a half steps forward and then one back. High on the agenda of grievances at the end of 2022 was the government elimination of the one-year tax holiday (for start-ups) and six-month holiday from taxation for existing firms) from taxation. Yet when pushed about their distress over policies that appear to undermine the business climate, entrepreneurs acknowledge privately

that the tax holiday is not a game changer. Indeed, everywhere in Latin America and the rest of the planet business complains about being overtaxed. In the Cuban case, as elsewhere in LA, states are desperate for revenue, and get it where they can.

Perhaps more important than the question of how private enterprises are evolving is the prospect of closure or radical reform of state enterprises, which are bleeding resources and part of the explanation for why the government has no money. What is clear here, more than anything else, is that the long-anticipated reforms to rationalize state enterprise are lagging. Nobody knows how much of GDP is being drained here, but it is a lot.

What accounts for the frequent delays and partial reversals? Some observers in Havana conclude that the leadership is divided regarding the degree to which the private sector must be the protagonist of efforts to overcome Cuba's woeful productivity. According to this line of thinking, state, party and/or military elites protected or enriched by the status quo push back against measures that would introduce more rational incentives. Others speculate that the country's rulers are simply out of touch with reality, failing to comprehend the depths of the crisis. Yet President Diaz-Canel himself has been vocal in condemning as unacceptable both poor economic performance and sluggish implementation of reforms. If pleas from the President seem insufficient to overcome obstacles, this is perhaps a reflection of changes in modes or governance since Raul Castro assumed the Presidency: Raul went to great lengths to set up collegial decision-making, striving to overcome Fidel's lone ranger mode of governing. Arguably, the determination to govern through institutions rather than charismatic or decisive leadership may have empowered an obstructionist old guard that is hindering Diaz Canel's efforts to take daring measures.

## The population exodus

The combination of pandemic shutdowns, intensified US sanctions, and poor economic policy has had devastating social consequences. People are experiencing great hardships. Food supply is irregular, accessing basic goods requires waiting in agonizing lines, transportation is a disaster, much of the housing infrastructure is collapsing, and a long

etcetera. There are growing signs of a real erosion in social achievements of the Cuban system. In this regard, we understand from imperfect data that infant mortality has increased by at least a third over the past decade, that malnutrition (though not outright hunger) appears widespread, and that indicators of school enrollments are worrisome.

With regard to the latter, while internet connectivity has increased extraordinarily over the past few years, it is by no means universal, and thus, understandably, the pandemic response to school shutdowns was not to move education on-line. Instead, classes were imparted by television. Of course, we know from many studies around the world that this is hardly a substitute for in person instruction. Anecdotes we heard suggest that basic literacy and numeracy achievements of the Revolution are being undermined. This has long term implications for Cuba's prospects of participating fruitfully in knowledge-intensive, high value-added economic niches.

Amidst the immediate hardships and disenchantment with the prospects for the future, migration has reached levels not witnessed for nearly half a century. Perhaps three per cent of the population abandoned the country during 2022, with more than 200,000 of them walking across the Mexico-US border that year alone. Of course, these are mostly young people, and as Cuba already had the most disadvantageous demographic profile of any country in Latin America, it is falling into a deeper demographic hole.

Critical here in my view has been Nicaragua's removing the requirement for Cubans to have an entry visa. This policy, presumably Ortega's payback to Washington for increasing pressure on his authoritarian regime, enables Cubans to land in Managua and then walk a journey through Mexico to their destination at the US border. It was surprising to me that Cuban interlocutors were not contemplating what would happen when a visa free entry for Cubans into Nicaragua could be interrupted. Accordingly, I heard no suggestion that people are migrating now because the Nicaraguan option could close in the foreseeable future.

The increasing expansion of US consular services in Havana, and Washington's January announcement of changes in visa policies will

almost certainly diminish the volume or irregular migration to the US from the island. Offered a share of 30,000 visas to be granted monthly to residents of Cuba, Nicaragua, Haiti, and Venezuela, many Cubans who would have taken the risky route overland may opt to arrange legal passage. Initial US government reports, at the end of January, suggest that during the initial weeks of the new policy the flow of arrivals at the Texas border with Mexico has slowed, but it is too early to determine how enduring this might be.

### **International context**

The intensification of sanctions under Trump – reversing all of the progress and hopes associated with the Obama-Raul agenda of “normalization” – has obviously been devastating, to the population as a whole and ironically in particular the private sector. Strikingly, we encountered no one in Havana – including political dissidents – who did not consider the American measures to be contemptible. Our interlocutors saw value in the lifting of constraints on sending remittances and on expansion of consular services, but frustration with the continued financial sanctions under Biden seems universal, as does the continued inclusion of Cuba on Washington’s list of state sponsors of terrorism. Notably, that status triggers a decline in tourism from citizens of the European Union, whose visa waivers for entry to the US are removed if they have traveled to a country deemed a state sponsor of terrorism. This is one area, then, where US sanctions are extraordinarily deleterious for the supposedly favored Cuban private sector.

Even if the cynical labeling of Cuba as state sponsor of terrorism is removed, as is rumored to be in the works, we’ve seen in the past that banks are reluctant to do business with Cuban entities even when it’s legal to do so: Cuban business and its potential partners abroad know that US regulations can change on a dime, and given that there’s little money to be made in Cuba, many of those potential partners will conclude that it is best to steer clear of the island even for legal transactions. This presents a real limit on the impact of any modest (or more than modest?) relaxation of sanctions by the Americans.

What are the prospects for diminishing hostility from Washington? Biden administration statements about Cuba have emphasized the

country's woeful human rights situation, made all the worse by the harsh repression and draconian prison sentences leveled against participants in the July 2021 uprising. But the sanctions that impact the Cuban private sector were being left intact by the administration even before those events, so the claim that they become justified by intensified human rights violations rings rather hollow.

There is an extraordinary disjuncture between how Cuba's experts on US relations approach the bilateral relationship and the way that their American counterparts do so. In part this may be because the Cuban officials who lead the conversation have had this portfolio for decades, affording them detailed, nuanced understanding of the US and the history of its ties to Cuba and its enduring hostility to the Revolution. They have and are motivated by a deep sense of history. American officials, by contrast, rotate onto the Cuba desk every few years, and from one administration to another.

Thus, one hears messages along the lines of "if we lift the state sponsor of terrorism designation, what will the Cubans give us in return?" Yet history is clear that the Cuban government will never accept that sort of transaction. Cubans and Latin Americans seem clear about that, but diplomats representing developed countries perhaps do not grasp it. Some European diplomats articulate similar notions of exchanging steps favorable to Cuba based on Havana's doing something to "reciprocate." This comes up most frequently with regard to human rights and political prisoners. While we also heard this as a priority for many Cubans of varying political orientations – there was speculation that proved unfounded that some imprisoned July protesters might be released as a Christmas gesture or on the occasion of the Pope's birthday; it is mistaken to think it will happen as a "condition" for easing one or another Western sanction on the Cuban government.

The international context is evolving in other respects, however. At the end of November Diaz Canel traveled to seek support from Turkey, Algeria, Russia and China. It was a trip motivated by desperation, but it met with some success. It seems that the fuel and electrical infrastructure matters were addressed in part by deals with Algiers and Istanbul. Both Moscow and Beijing made meaningful contributions, as well, but few if any observers imagine a circumstance where either



would step in with the level of resources needed for Cuba to prosper amidst continued hostilities from the United States. Once again, then, a greater than expected thaw between Washington and Havana would be impactful. That is not inconceivable, with the Biden administration realizing that strangling the economy provokes emigration, that the Cuban government is perhaps more stable than it would have imagined, and that the Democrats' electoral prospects in Florida are dim for the foreseeable future.