

Friendly Prodding and Other Sources of Change in Cuba*

By Mauricio A. Font

Queens College and Graduate School, CUNY

The post-1989 collapse of communism in Eastern Europe led many observers to believe that a comparably rapid transition to democracy and economic liberalization was imminent in Cuba. After the onset of a crisis brought the Cuban economy down by at least 35-40 percent in 1990-1993, it seemed that the need for reinsertion into the capitalist international economy would induce reformist responses leading to a fundamental transformation of the island's traditional state socialism. This movement would gain force, it was believed, by the lifting of the United States embargo on Cuba after the elections of November 1996. But events in early 1996 belied expectations and predictions in both regards. It did seem in early 1996 that pressures from dissidents and reformers aided or encouraged by external institutions and the strategy of constructive engagement then pursued by the Clinton administration would prove substantial. But this expectation did not last long. Against the backdrop of growing government concern about internal opposition and outside pressure, on February 24, 1996, the Castro government downed two small aircraft flown by Cuban-American opponents. In rapid and predictable response, on March 12 the Clinton administration signed into law the Helms-Burton bill, a legislation that hardened the already tough United States embargo.

Meanwhile, the Cuban government reaffirmed adherence to its brand of socialism and rejection of any notion about a transition to a more market-friendly economic model. The hardening of the United States embargo via the signing of the Helms-Burton law brought the very gradual re-approximation between the two countries to a halt. It also turned into a rationale for repression and the virtual cessation of the economic reform process. While Cuban state socialism had survived with relatively mild economic reforms and no major political change, by mid-1996 democracy and transition seemed less likely than in the recent past.

Is this a permanent reversal, a temporary setback, or the predictable expression of a stop-go pattern of reform? From the standpoint of the dynamics of Cuban society, a full answer to this question would need to take into account the institutional traits of Cuban socialism and its interplay with emergent actors.⁽¹⁾ Through at least 1990, Cuba's brand of state socialism was one of the most centralized, collectivized, and least market-reliant in the world (Font, 1996). Massive Soviet support encouraged and made possible this institutional form, providing resources for the economy to expand substantially even during much of the 1980s, a decade of crisis in the rest of Latin America. The apparent strength of this institutional perspective leads to an essentially pessimistic view of the prospect of reform. In this framework, the standard response to crisis is for the state to seek even more control over resources, a pattern that has shaped economic and structural policy in the 1990s (Eckstein, 1994). A more optimistic view about sources of change would need to focus on the agents and processes, particularly outside the state system, that gained force in Cuba as a result of the post 1989 reforms.

This essay explores in this context how Cuba's changing international insertion shapes its process of transition and economic reforms. The first part identifies how the recent reforms have created new agents pushing for the intensification of change, even if they left untouched the institutional model and regime type. The overview of

Cuba's emergent process of global re-insertion in the second part probes how it is shaping economic strategy, actors, and institutions in the island. It also assesses in this regard the likelihood that current United States policy toward Cuba and other external actors may induce political change and democratization in the near future.

Given the similarities in the forms of state socialism, the Eastern European transformations away from communism provide a key set of experiences against which to compare transition dynamics in Cuba. Democratizing transitions there took place in the 1980s and early 1990s as part of a global or international wave that also included parts of Latin America. The literature inspired by the postcommunist and other democratizing transitions points to the importance of international and global factors (Held, 1991; Di Palma, 1991; Remmer, 1995). The initial condition leading to rapid change in Eastern Europe was the liberalization of control by the Soviet hegemon, starting with the perestroika-cum-glasnost policies of the Gorbachev era. The deep crises surrounding the collapse of the former Soviet Union led to a search for market-based solutions and models, new international partners and roles, and new institutional and political forms (for example, Hauser, Jessop, and Nielsen, 1993; Jessop, 1995; Desai, 1995). The need for new international partners exposed these economies to the direct influence of globalized production and new production forms, trade liberalization under GATT and regional trading zones, new financial institutions, sharp competition, and other trends in the capitalist world economy.

Insertion into Western capitalism also helped shape a series of institutional changes central to democracy. Forms of representation and intermediation, the organization of the state, forms of state intervention in the economy as well as the choice of discourses of reform surrounding them changed in response to international forces (Campbell, 1993). The new international context exposed local actors to pressures to harmonize local institutions and the models of the new economic partners. Modes of governance of specific industries or sectors are also getting redefined by the same forces. Within this framework of often rapid and broad shift toward liberalization, Cuba's timid response is most puzzling. Will it unlike Eastern Europe-succeed in resisting the tide of transition?

Reluctant Reforms, Eager New Actors

The onset of a phenomenal crisis in 1991 led the Cuban economy to contractions of 25 percent, 14 percent, and 10 percent of GDP in three consecutive years, forcing the question of reform into the national agenda.(2) Since the main cause was the demise of the Soviet Union and East European state socialism, many observers in fact expected radical change to the pre-established model. But the reformist impetus was sharply resisted. Market-oriented reforms have been slow, partial, and delayed. While Cuba had traditionally developed one of the most centralized and least market-friendly forms of socialism in history, its "Rectification" policies of 1986, adopted just as the Soviet Union entered a period of experimentation with glasnost and perestroika, had ended Cuba's own process of liberalization initiated in the early 1970s. Cuba was thus ill-disposed to adopt major reforms to respond to the crisis opening in 1990. The pivotal years of 1989-90 had in fact found Cuba busily reaffirming with vigor and absence of internal debate the strongly collectivistic, centralized, and essentially authoritarian form of socialism.

It should thus have come as no surprise that the government's actual answer to the structural crisis was the approach known as "special period in times of peace"-a call for austerity and sacrifice justified as the functional equivalent of total or wartime national mobilization. The government appealed to patriotism and moral incentives to face the new round of sacrifices, and it equated the struggle as an epic to save the achievements of the revolutionary regime, socialism, and the nation itself.

The net outcome might have been autarky. But the island's small size and economic underdevelopment would have clearly doomed such an attempt. Belatedly and reluctantly, the government pursued a strategy that combined new forms of incorporation into the global economy with mild forms of capitalism. Nevertheless, mainly in 1993 and 1994 Cuba adopted a series of reforms with important medium and long-term consequences in creating conditions for the emergence of new actors and issues. Winners in this process, in particular, help alter the dynamics of economic and political change.(3)

One set of reforms allowed direct foreign investment in tourism, mining, and other sectors. While a law of 1982 had authorized foreign investment, it was only in 1992 that a rapidly increasing number of joint-ventures were organized. Over 200 of these said to represent more than US\$ 2 billion were reported to be in operation or close to it in early 1995-though the actual figure invested was considerably lower. The government felt the need that year to adopt a new law enhancing the legal framework governing the development of the private sector in the context of the still highly centralized socialist economy.(4) This form of enclave capitalism is still relatively small and retains a concessionary and highly restricted character. But what is important is that a private entrepreneurial sector now operates in Cuba, together with a growing number of workers outside the socialist economy.

Cuban policy-makers responded to the crisis with an essentially outward strategy to mobilize investment and other resources. Parallel to the surge in foreign investment, they began a frantic drive to develop economic relationships with capitalist countries, in what the authorities called a campaign for Cuba's "re-insertion" into the international economy. Dozens of economic missions were sent abroad to seek buyers for sugar and other exports, suppliers of consumer and capital goods, and sources of investment, aid, and credits.

Particularly in 1993, when the crisis deepened and seemed most out of control, a series of internal reforms were also adopted. The decriminalization of dollar holdings allowed Cubans to hold dollars and use them in commercial transactions for the first time since the start of the revolution. Prior to this law, possession of even a small amount in dollars would have called for a substantial prison term (Klugman, 1995). Because of the wide differential between the official exchange rate and the black-market rate (still 25-30 pesos to 1 dollar, but as high as 120 to 1 in late 1994), this measure encouraged the inflow of dollars (particularly from remittances). The government set up dollar stores and currency exchange offices to capture the bulk of incoming hard currency. This was a powerful mechanism to mop up excess local currency in circulation, as holders of pesos had to exchange them for hard currency to buy necessities at the dollar stores. But these measures also made it possible for holders of dollars to engage in a wide range of commercial though still largely illegal or frowned upon transactions-particularly buying in dollar stores to resell in the peso economy at a substantial profit. As the number of goods and services transacted in dollar increased, a growing number of Cubans felt the need to obtain and use

them, thus fueling the emergent market in dollars. By 1995, the government acknowledged that one-fourth of Cubans received dollars from abroad and at least half the population had access to dollars. Again, what is crucial to notice here is that a new, fairly aggressive private sector was taking root.

Two other sets of reforms aided the expansion of this sector. Direct cultivators gained a higher degree of control over crops when the authorities converted the highly centralized Soviet-style state farms into cooperatives after they proved utterly ineffective under post-1990 conditions. Farmers sell their growing "surpluses" (production above the levels demanded by the state) through market mechanisms. The re-legalization of farmers' markets in 1993 facilitated this process and created additional opportunities for private transportation and commercial activities not infrequently of dubious legal status. The dearth of reliable statistics impedes the full assessment of this sector, but it is no doubt substantial and reportedly expanding rapidly around the hundreds of small towns and cities dotting the Cuban countryside.

In 1994, another law legalizing and regulating self employment contributed to the emergence and expansion of family-run urban businesses, particularly in Havana. Very soon, over 200,000 permits had been issued, affecting 3 to 5 times as many individuals out of the total labor force of 3.5-4.5 million workers. The list of petitions kept increasing and was thought to be much higher in early 1996, though no current official statistics are available. By then, approximately 2,000 paladares (family establishments serving meals in private homes) were reported in existence in Havana alone. In fact, since the fiscal adjustment program calls for releasing up to a million workers from the state payroll, as well as limiting welfare expenditures, the state will have to further liberalize the laws constraining small-scale private entrepreneurship. Acknowledging that much, in 1996 the government adopted tax codes and collection procedures to regulate this sector and increase tax revenues. Cuba entered the second half of the 1990s with important nuclei of new economic actors (occupying no less than a third of the labor force in 1996) outside the previously monolithic statist economy. The constant official misgivings about its existence confirm that the impetus behind the eager, fledgling private sector comes from the margins of society.

Still, a reformist sector was meanwhile also gaining ground within the state apparatus itself after 1992. A significant number of university professors, journalists, and other intellectuals voiced the need for alternative policy frameworks and intensified reforms. A number of research centers including some traditionally linked to the Central Committee of the Communist party, such as the Centro de Estudios de America developed rationales and plans for heightened economic liberalization. Foreign advisers and consultants, together with visiting intellectuals and policy makers from Latin American and Western countries, often argued along the same lines and provided support for this group.

Lastly, in the context of socio-economic differentiation and debate about economic policy, advocates of political reform and democratization also rallied. Increasingly after 1994 and throughout 1995, dissidents advocating democracy began to organize themselves in the interstices of the highly controlled polity. By 1995, more than a hundred dissident groups came together under the umbrella of Concilio Cubano, a platform calling for a peaceful transition to democracy and national reconciliation. Against existing law and the wishes of the state, Concilio Cubano called for a national meeting on February 24, 1996. But the government did not authorize the gathering,

and the shooting of the two civilian aircraft from Miami the same day tilted the internal balance in favor of repression. The constraints on free speech and political association were effective in circumscribing this process to still relatively small numbers of individuals. But this movement is the germ of a new factor in the Cuban revolutionary polity poised to grow in importance over time.

By early 1996 Cuban socialism was experiencing unusual strains linked to the new economic and political actors the "winners" from three years or so of mild though sustained reform. Government leaders consistently declared their abhorrence of capitalism and their commitment to socialism. But most Cubans apparently viewed the process of reform as irreversible, even if they also feared the government's traditional stance and capacity to impose its view of what model of social organization Cuba should have. Official pronouncements and the slowing down of the pace of reforms in 1994 through at least mid-1996 frustrated expectations of accelerating change. Above all, the much-debated bill to permit the expansion of entrepreneurship via the right to hire workers outside one's family was not passed during this period.

Since late 1994, authorities have concentrated on the consolidation of changes started before that year, particularly on fiscal adjustment calling for higher taxes and lower expenditures as well as monetary policies to reduce pressure on the peso and accommodate the new economic sectors. They have achieved considerable success in this regard. The budget deficit was reduced and the value of the dollar in the open market was brought to pre-1993 black-market levels, following a period in 1994 when it seemed to be skyrocketing. Food production and distribution with the decentralization of agriculture and the farmers' markets further pushed prices down. The free-fall of the economy appeared to have been arrested in 1994-95, with government statistics proclaiming very small but positive growth rates for both years (.7 percent and 2.5 percent) and projecting an even higher rate (5 percent) for 1996.

Official statements interpret these modest successes as indicators that the traditional socialist model is sound, denying evidence about the effectiveness of the new economic actors and blaming capitalism for prostitution, inequality, the formation of an independent middle class, and a host of new problems. By late 1995 there were signs that the very mild recovery would endanger the fledgling liberalization program. Spokesmen for the government repeatedly argued that the crisis had passed and the economy was now on the path to sustained recovery. The tone of public discourse shifted from issues of reforms to the need to preserve the extant socialist system. Threats and acts of intimidation addressed to the national private sector increased in the last months of 1995, accompanied by frequent denunciations of profiteering and inequality. The government dismissed signs of the structural crisis of the traditional model of state socialism.

The most dramatic evidence that the reform process might be in trouble came in the form of a report from the Politburo and Raul Castro in the aftermath of the February 24, 1996 airplane shoot-down and the passage of the Helms-Burton bill (Cuban Communist Party, 1996). The April speech contained strong attacks and threats directed at reformers, intellectuals, dissidents, and independent economic actors. The Centro de Estudios de America was explicitly mentioned in a list of research centers said to have succumbed to United States- driven subversion. The Politburo report was extensively circulated in the government-controlled media.

A Dynamic Stalemate

Confusion was growing in mid-1996 as to Cuba's response to what is arguably still the most formidable structural challenge and crisis of its history. Statements from the government reiterate a firm rejection of democratization and the intention to rein in economic liberalization. However, Cuban society is no longer as homogeneous and easily controlled as before. While the fledgling economic sector independent of the state is poised for further growth, various forces claim more open political and economic spaces. The state is probably not able anymore to eradicate the new private economy and, as important, may not want to do so. But the private economy remains too fragmented and unorganized relative to the state to radically alter the statist regime.

The slowdown of the Cuban reform process, the crackdown on dissidents, the threats against those advocating economic liberalization, and the events surrounding the airplanes incident do not augur well for the prospects of political change in the near future. They reassert the principle that reforms should not threaten the integrity of the constituted polity and reaffirm the institutional pattern of responding with centralization and control when politics threaten to get out of hand. In this context, democratization depends in part on the ability of the forces of economic liberalization to break the structural monopoly of the state.

Internal dynamics suggest a stalemate of uncertain duration between the two sectors and policy orientations. This is a dynamic stalemate, since pressures for change are building up inside Cuba and will continue to do so regardless of the specific transition scenario. The logic of this situation is a period of increasing tension and potential conflict, partial policy reversals and contradictory policies, and yet growing uncertainty and potential for more decisive forms of change. Eventually, this situation should lead to a turning point, either in the direction of accelerated reforms or the reaffirmation of a totalitarian form of state socialism. How long this dynamic stalemate will last and how it will be resolved depends in large part on other factors shaping policy making. The international context is of central significance in this regard since it determines the possibilities and limits of Cuba's outward strategy and helps shape the role of internal actors and institutions.

International Context: Deus Ex Machina?

The importance of other states and international institutions in this regard is especially strong in the case of Cuba, considering its long-standing dependence on the external context. The intensification of this dependence owing to the post-1989 crisis and the outward strategy to deal with it mean that Cuba is today at a high historical point with regard to vulnerability to the external context. However, the diversity, complexity, and frequently opposing directions of the external forces converging on the island makes their net effect difficult to assess.

As defined by the regime, the challenge is to carve out a form of incorporation into the international economy that minimizes the need for change. Alzugaray (1995) maintains that the goals of Cuba's reinsertion into the international system are national security (defined as preventing the United States from isolating the island) and economic development (finding trade partners, investors, and the like). The

collapse of Soviet and East European socialism meant that large subsidies ended and foreign trade contracted by nearly three-fourths. Trade and economic alliances in the 1990s have had to focus primarily on the international capitalist economy in the Americas and Europe, though relations with China and Vietnam are significant.

The biggest obstacle to Cuba's goals is the United States embargo, as codified and enhanced in the 1996 Helms-Burton law. This law exposes to litigation under United States courts any firm found to be "trafficking" with properties confiscated by the Castro regime in the 1960s and denies entry into the United States of the operators (and their families) of such properties. The avowed goal of the law is to create conditions for the democratization of the island via the overthrow of the Castro regime. Introduced by conservative Republicans, versions of the Helms-Burton bill were approved by the Senate and House in 1995, but the expectation before March 1996 had been that President Clinton would veto or substantially weaken it. The shooting of the two small aircraft from Miami forced President Clinton to sign it claim a great many observers, often pointing to political pressure from Cuban Americans.

Canada and Mexico

Cuba's emergent pattern of international relations shows an increasing role for Canada and Mexico. Both are top investors and trade partners for the island. Canada is the most important single source of tourism, now the leading growth sector in the economy. Hard currency trade statistics for 1994 show Mexico and Canada as the third and fourth top exporters to Cuba, while Canada was the top importer of Cuban products and Mexico was twelfth (The Economist . . . , 1996b, p. 47).(5) Cuba has thus chosen as main allies the two countries in the hemisphere with the closest relations to the United States. Both Canada and Mexico share long and active borders with the United States, and are top trade allies as well as partners in massive flows of people and capital as expressed in NAFTA. That Cuba has oriented itself to trade and economic circuits having the United States as its center only intensifies its long-term vulnerability to pressures from the United States, the main country demanding drastic reforms in the island.

The attempt to internationalize a tighter United States embargo and compel a democratic transition in Cuba hence faces a decisive test in terms of the relations of Mexico and Canada with Cuba. But responses from both raise doubts about the extent to which this law will succeed in its main purposes. Mexico's traditional defense of sovereignty and non-intervention served in the past as substantial support for the Cuban government. Unlike most other Latin American countries, it did not break diplomatic relations with revolutionary Cuba in the 1960s. This historical relationship explains that Mexico would be one of the first countries to make use of investment opportunities once the island's economy opened to foreign investment in recent years. Its actual investment in Cuba may have reached \$200-250 million, with commitments and advanced negotiations for projects worth \$2 billion. Grupo Domos' 1994 investment in the telephone system-\$750 million to buy 49 percent of this system, with a comparable figure to be invested later for its modernization-was in fact the largest single investment announced through mid-1996.(6) With those interests and legacy, the Mexican government has no option but to oppose the tighter United States embargo.

The interests of its entrepreneurs and the legacy of revolutionary nationalism are too strong for Mexico to acquiesce to the Helms-Burton law. The fight against it is taking various forms—challenge or litigation under the arbitration panels of NAFTA, pronouncements at the Organization of American States and other international gatherings, consideration and adoption of "antidote" legislation to impede direct United States pressure on Mexican firms and other bills, and legal and other support for affected businesses. More than 200 Mexican companies have commercial relations with Cuba with 20 to 30 having significant investments or interests (Rice 1996). Mexican business leaders including the presidents of National Council of Foreign Commerce and of Employers Confederation of the Mexican Republic, two very influential business groups have weighed in the fight against the United States law. Mexico's ample grounds to reject the extraterritorial clauses in the Helms-Burton legislation will force it to keep challenging the legislation. The very financial crisis of 1994 that showed the subordination of the Mexican economy to that of the United States also rekindled Mexican sensitivity about other appearances and forms of subordination to United States interests. Pressure from the left and other groups reacting to enhanced United States influence seems to be pushing Mexican rulers toward reliance on the traditionally strong relations with Cuba as public reassurance, even if symbolic, of their autonomy from Washington.

On the other hand, there is no denying that the Helms-Burton bill is having significant effects on Mexican entrepreneurs. CEMEX, the large Mexican cement company, dropped plans to invest heavily in Cuba due to the new law. Meanwhile, doubts have escalated about Grupo Domos' ability to carry through with this project. These and other cases reflect the vulnerability of Mexican firms and the Mexican economy in the aftermath of the 1994 financial crisis.

Mexico's opposition to current United States policy on Cuba has limits in this regard. Mexican entrepreneurs are outraged at the Helms-Burton law but not necessarily at the embargo as such. They actually benefit from the embargo, since by prohibiting United States companies from investing or trading with Cuba it gives them opportunities that otherwise might be claimed by the typically larger and more powerful United States firms. So, for the foreseeable future Mexico is unlikely to alter its traditional relationship with Cuba, seeking instead to ward off the negative effects of the extraterritorial provisions of the Helms-Burton law but not necessarily mobilizing against the United States trade embargo itself.

Regardless of the fate of specific business ventures, Mexico is emerging as a key player in the international context shaping the prospects for the island's democratization and economic liberalization on a medium and long-term basis. This role may not be limited to the traditional support for Cuban self-determination. Ongoing changes in Mexican society due to NAFTA and gradual democratization mean that Mexico itself is changing and no longer provides a compelling model of a post-revolutionary society that retains political stability via authoritarian imposition. Mexico progressively abandoned economic nationalism in the 1980s and, with membership in NAFTA, effectively opened itself to economic liberalization and the more massive and direct presence of United States capital and interests. The more Mexico changes with regard to liberalization and democratization, the more it may be expected to influence Cuba to move in the same direction.

Canada too has become one of Cuba's leading economic partners in the 1990s. Twenty to thirty Canadian companies invested or committed approximately US \$150

million largely in mining and tourism with a much higher amount said to be under discussion in early 1996. Delta Hotels and Resorts operates five resorts and a hotel in Cuba that hosted many of the 125,000 Canadian tourists visiting the island in 1995, with a considerably larger number of Canadian tourists expected in 1996 and beyond. The Canadian government encourages investment in Cuba, providing advice, diplomatic support, and financing. (7)

Canada has developed a major presence in mining Cuba's third largest economic sector after sugar and tourism. This stake grew dramatically after 1993, when Canada's Sherritt, Inc., developed a joint venture with a Cuban state enterprise to revitalize the nickel and cobalt mining in eastern Cuba. The joint venture formally launched in 1994 modernized the Moa Bay plant initially built in the late 1950s by United States firm Freeport-McMoRan and runs it as part of a vertically- integrated production complex that includes Saskatchewan based processing, refining, and marketing. While the machinery installed by the Americans at the Moa plant in the 1950s still works, the new company plans to invest \$165 million in the next few years to bring production to 24,000 tons a year by 1999 and an additional \$175 million to double production in the following decade. The joint venture raised production dramatically between 1994 and 1995 and now accounts for half of Cuba's nickel production. With respect to the entire nickel sector, the idea is first to restore Cuba's 1989 total production levels of 46,000 tons and then to increase them to 70,000 tons shortly after. (8)

Arguing that Canada has not done its part to compel Cuba to democratize, the director of Freedom House's program on Cuba and some other Cuban exiles recently launched public attacks against Canada's business dealings with Cuba. Since Canada had just called upon Cuba to halt civil and political repression and allow the special United Nations human rights observer to monitor the human rights situation in Cuba, the charge may not have been very accurate. What is true is that Canada's interests in Cuba are primarily economic. And these interests no doubt compel Canada to fight the extraterritorial provisions of the United States embargo and protect its already very substantial investments and plans in the island. Claiming that the new embargo law contradicts NAFTA, the Canadian government is launching a series of challenges within the framework of the free trade agreement and bilateral arrangements (Stewart, 1996).

As in the Mexican case, the feud with the United States needs to be put in perspective. Canada is the main trade partner with the United States, with trade between the nations at roughly \$1 billion per day more than an entire year's worth of Canada-Cuba trade. Of course, Canada has a vital interest in maintaining its relationship with the United States. Canada's chief objections pertain to the extra-territoriality provisions of the Helms-Burton law that is, the clauses making Canadian executives who operate in Cuba liable to suits in United States courts and sanctions from the United States government. The embargo itself is not the main issue, since it has protected Canadian investors from United States-based competition. (In fact, precisely for the same reason, the hardening of the United States embargo may encourage some Canadian capitalists not liable under the Helms-Burton provisions into investing in the island.) For Cuba, Canada is a very important economic and political partner. Precisely how Canada chooses to exercise this leverage with respect to further change in the island has considerable internal implications.

The European Union

Members of the European Union (EU) have also emerged as important economic partners to Cuba and will resist United States pressures to divest. Together, West European countries accounted in 1994 for 45 percent of trade, 48.7 percent of all tourists, and a considerable share of total foreign investments.(9) In terms of hard currency trade partners, Spain and France were the two main exporters to Cuba in 1994, while Spain and the Netherlands were the second and third importers from Cuba (The Economist . . . , 1996b, p. 47). Italy, France, Britain, and Germany have also developed significant relations with Cuba.(10) By and large, the interests of the EU countries parallel those of Canada and Mexico, though they may differ in intensity.

European banks, importers, and trading companies have supplied critical credits to the Cuban agricultural sectors since 1994, after shortages in fertilizers, pesticides, fuel, and other supplies led to a sharp drop in commercial agriculture between 1989 and 1993. Tobacco fell to a third of its pre-1990 levels of 900,000 quintales. In 1994-95 and after, European credits of \$40 million per year from Spain's Tabacalera, France's Seita, and London's Hunters & Frankau brought up the 1995-96 tobacco crop to 750,000 quintales, a level considerably closer to those of the pre-1990 era (Fletcher, 1996c). Sugarcane production also fell to between a third and a half of the pre-1989 levels in the same period. Again, European credits of \$200-300 million financed the purchase of inputs for the harvest and made possible a harvest of close to 4.5 million tons in 1995-96 still much below the pre-1990 level but considerably higher than the 1993 low of 3.3 million tons.

With strong historical and cultural links to Cuba, Spain has a particularly strong relationship to the island. Spanish entrepreneurs have invested approximately \$125 million and plan to invest an additional \$350 million, mainly in hotels and tourist facilities. Prior to 1996, the Socialist government of Felipe Gonzalez cultivated contact with Cuba and facilitated Cuba's access to the EU, while applying some pressure for democratization and liberalization. The election of a more conservative prime minister that year (Jose Maria Aznar of the Popular Party) altered the tone of Spain-Cuba relations. The Spanish government now adheres to a line of increased public and diplomatic pressure for substantial democratization and liberalization. In late May 1996, the European Union suspended negotiations with the Cuban government on a key economic cooperation agreement, with the EU thereby protesting Cuba's "inflexibility" over economic and political reforms. While the EU and Spain will not divest, and their entrepreneurs are unlikely to endanger their substantial investments and other ties for the sake of democratization and liberalization, these governments are using their leverage somewhat more assertively than most other countries to press for liberalization and political change in the island.

One of the EU's chief concerns is that the United States will extend the concept of a forced internationalized embargo which it calls extraterritorial secondary boycott to include the much larger commercial relations Europe has with Iran and Libya. Again, extraterritoriality is the key issue. The United States embargo itself creates economic opportunities from which European businessmen can benefit. In fact, just as the EU suspended negotiations for the cooperation agreement, Germany signed a bilateral investment protection treaty with Cuba, as other European countries had done earlier. And even Spanish Prime Minister Aznar was compelled to emphasize commitments made by Spain to Cuba and the special relationship between the two. Britain also opposes the internationalized United States embargo but has called

attention to the "element of discretion" in the legislation and has sought to influence the implementation phase.

Latin America and the Caribbean

The rest of Latin America outside Mexico echoes the widespread rejection of current United States policies, even if it provides modest levels of economic partnership to the island. No country in the region appears in the list of the top twelve exporters or importers to Cuba (The Economist . . ., 1996b, p. 47). Still, Argentina, Colombia, and Chile sent more than 60,000 tourists in the first eleven months of 1995-30,808, 18,195, and 13,088 respectively. Most other countries, including Brazil, have enhanced their commercial and diplomatic relations with the island. In April 1996, Chile resumed full diplomatic relations, interrupted since 1973. Cuba has developed bilateral relations with most of the small countries of the Caribbean as well as through the region's multilateral mechanism for economic integration and cooperation.

A gathering of the Organization of American States in early June turned into a strong reaction against the Helms-Burton law. Previously, the fourteen nations in the Rio Group had rejected it, as had selective governments in Central America and the Caribbean. Governments in the Latin American and Caribbean region have complex motivations that resemble those of Mexico. The Helms-Burton law is a symbolic and emotional issue in the region, with its tradition of resentment against United States interventionism. Many of these governments are often politically vulnerable to internal pressure. Opposition to the Helms-Burton law actually allows Latin American politicians to show their own people at a rather low political cost both independence from the United States and responsiveness to internal pressure from the left.

Above all, Latin American and Caribbean governments and society can play a significant role in helping Cuba find a path toward democracy and intensified liberalization. Geographic and cultural proximity, as well as the recent experiences with democratization and economic liberalization, make them natural partners for Cuba. Mexico and possibly Brazil are the only countries with the economic leverage to emerge as key conditional supporters of more vigorous reform policies. But many countries in the region have transition experiences to take into account.(11)

To summarize, the Helms-Burton law is having a chilling effect on foreign investment. But it will not by itself stop foreign investment or the outward development strategy in Cuba. Most other governments perceive the Helms-Burton law as an arbitrary and offensive imposition from the United States government. They are seeking ways to neutralize it and will hardly obey it. The Helms-Burton law is so unpopular in most countries that it actually gives incumbent governments strong incentives to oppose it just to show independence from Washington. The legislation will block important forms of investment, particularly by large firms. But evolving conditions in the island should provide a sufficiently adequate framework to attract venture capital to the island.

Cuba's strategy of reliance on foreign investment as well as its implications can only intensify. The nickel and mining, tourism, and banking sectors show that the Castro regime has succeeded in promoting the expansion of a foreign capitalist enclave in the island and has no choice but to continue this policy. The state will need to

intensify the reform process to attract substantially higher levels of external investment.

Private foreign investment and entrepreneurship is already a major beachhead for the development of a market economy. By its nature, this sector presses for the gradual liberalization of labor relations, commercial contracts, and stable moderate policies more generally. The tourist sector in particular stimulates the further expansion of a private service sector. However, the impact of private foreign investors on internal political change is likely to remain indirect or even unintended, as their diversification by national origin and dependence on particularistic arrangements with the government blocks the new investors from acting as an assertive, cohesive class.

Discussion and Conclusion

In contrast with changes in Eastern Europe and the Soviet Union, the Cuban transition scenario has been characterized by limited reforms as well as institutional and regime survival. But the post-1989 crises and the responses to it have created new interests and actors. They have also increased the vulnerability of the economy and regime to external and internal pressure. The experiences of East European socialism show that attracting foreign investment opens state socialism to pressures and inducements for deeper change, including the acceptance of external policy and organizational models. Cuba has already begun to adopt new forms of property, such as various types of joint ventures, "sociedades anónimas," and the like. Further change in this direction does indeed appear inevitable.

However, the events of early 1996 tend to confirm that the Cuban transition may not be close to a decisive breakthrough or turning point. The Castro regime is disinclined to institute a new approach to development and political organization and reacts to increasing social differentiation and complexity by reiterating the traditional institutional framework seeking to maximize political control. What worked in the past will continue to do so in the future seems to be the reasoning. But this institutional framework was constructed under unusual global circumstances that no longer exist and are unlikely to be replicated. This implies that the impetus for intensified liberalization and democratization in Cuba will come from a combination of internal and external sources. (12)

The country's dependence on foreign capital and entrepreneurship, goods, inputs, technology, tourists, and markets can only increase in contrast with the rhetoric of radical self-determination and sovereignty reflected and reinforced by the regime's strategy. As the Cuban government feels compelled to attract external capital, foreign countries and firms increase their potential leverage as sources of change. This adds to the potential influence of countries and international financiers to which Cuba owes over US\$ 9 billion. The Cuban government defaulted on this debt and must seek to renegotiate it in the near future if they can hope for medium and long-term credits and loans rather than the expensive short-term credits (at 12-18 percent) that were required to finance recent sugar and tobacco harvests. (13)

Meanwhile, if Cuba's new economic partners and other international actors can exercise considerable influence on internal conditions in the island, their impact can only be maximized as part of broad international cooperative collective action. But it

is not yet totally clear how and to what ends Cuba's new partners will exercise their influence.

The looming battles over the Helms-Burton law will help settle this question. The Helms-Burton law's extra territorial provisions are unacceptable to most societies in the hemisphere and Europe and complicate the development of such a collective framework. This law confirms the traditional United States tendency to unilateral coercive action with respect to the promotion of democracy (Di Palma, 1990). But by itself it is unlikely to bring about the democratization of Cuba. Rejection from most other countries tends to confirm the Cuban claim that this is an unacceptable form of outside intervention. Hardliners in the island will justify their position by pointing to the aggressive intent of the legislation. Penalized by the tightened embargo and with no clear sense of when conditions will change, islanders are unlikely to support it, even if they oppose the Castro regime and neither will their concerned relatives in Miami. The association of United States policy toward Cuba with right-wing ideology further restricts its legitimacy. Easily identified as foreign meddling, the law exposes internal supporters to the charge of guilt by association.

Ironically, the attempt to force a unilateral expanded embargo with virtually no support by the rest of the world entails increasingly visible costs to the United States which will eventually lead to a reaction within the United States. Since it clashes with agreements and plans to enhance free trade in the Americas and under GATT, the new embargo law is a source of irritation and strain in relations with key economic partners. It blocks interested United States investors in the island. The truculence in this law endangers the moral credibility of the United States as a promoter of democracy. As affected business organizations, interest groups, government officials, and other concerned sectors in the United States focus on these costs, their interest in Cuban affairs and United States-Cuba relations will probably make many of them actively oppose the Helms-Burton law (Ritter, 1996).

One of the key lessons of successful political transitions in Eastern Europe and Latin America is that reforms require the participation of current decision makers. Individuals representing the old regime make decisions to adopt and maintain the new policies. The Cuban case is characterized by a marked proclivity to authoritarianism by the Cuban leaders, as well as the vulnerability and weakness of internal pro-democracy currents. For that reason, some form of sustained pressure from the outside will probably be required to persuade powerholders of the desirability and feasibility of liberalization and democratization that the best long-term interests of the Cuban nation, as well as their own, are best served by an orderly transition. This is surely a tough sell. The indications are that the Castro regime shot down the two small planes in February 1996 fully aware that it would lead to a renewed period of isolation from United States pressure. Whatever the intention, that action now makes a rapprochement between the United States and Cuba considerably more difficult. One of the first tasks is to accurately diagnose the disposition of the Cuban authorities.

The broader task ahead is the reconstruction, partly from within and partly from the outside, of a broad and realistic framework of negotiations. The new situation highlights the potential role of emergent partners with a democratic or democratizing trajectory such as Canada, Spain, Brazil, Chile, and possibly Mexico. Four factors put these nations in a pivotal position to facilitate the emergence of a new hemispheric approach to the Cuban crisis and transition-direct experience with transitions,

international standing, constructive contacts with key actors in both Cuba and the United States, and (especially after passage of the Helms-Burton bill) material interests in a resolution of United States-Cuba differences and the potentially worsening Cuban crisis. If it is true that democracy centers on a process of negotiation and settlement among contending parts, the task for advocates of democracy includes the creation of incentives and structures so that all parties, including Cubans in the United States, the main organized opposition to the Castro regime, are able and willing to negotiate their differences and begin to lay the basis for national reconciliation. Of course, the prior question is the real readiness for peace and democracy among key contenders on both sides of the Florida straits. But, there again, friendly prodding may be the best way to find out.

Social Research 63 (2, Summer):573-602