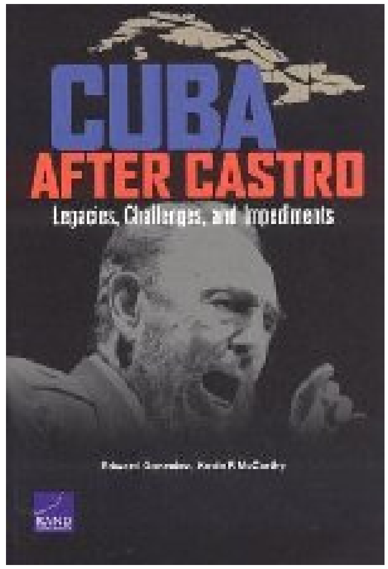

CHAPTER SIX

The Institutional Legacy of a Centralized Economy

As we have just discussed, perhaps the key structural imperative for both the current and future Cuban governments is to develop policies that will generate rapid economic growth. However, just as Cuba must overcome the obstacles to achieving that objective, which arise from its changing demographic structure, so too the government will have to overcome two major economic challenges. First, it will need to overcome the institutional legacy of economic practices and institutions that have developed during the four-and-a-half decades during which the Castro government pursued a series of policies based on the Soviet model of a socialist, centrally planned economy (CPE). Second, it will need to revamp an industrial structure spawned by Cuba's relations with the Soviet Union that has left it ill-prepared to integrate into an increasingly global economy. As the experience of the former Soviet bloc countries demonstrates, overcoming these challenges is not a straightforward task, and the required transition typically takes longer than reformers envision.

The central features of Cuba's economic model are state ownership of productive resources, concentration of economic decisionmaking in the hands of central government planners, and a planning model in which the allocation of resources, wages, and most prices is determined by political decisions rather than by the market.

With the exception of the railroads, most of Cuba's productive resources were privately owned prior to the Revolution. As a result of the aggressive nationalization program that Castro pursued in the years following his ascension to power, private ownership was essentially eliminated in Cuba by 1968, with the exception of the agricultural sector—30 percent of which was still in private hands. However, state seizure of agricultural land was aggressively pursued and, by 1988, the state controlled 92 percent of agricultural land as well (Rodríguez, 1990).

Since the onset of the Special Period, the Cuban government has experimented with various forms of privatization—e.g. the breakup of state farms into Basic Units of Cooperative Production (*Unidades Basicas de Produción Cooperativa*), the establishment of joint ventures with foreign investors, privatized state enterprises (*sociedades anonimas*), and small businesses owned by self-employed workers. However, close to 80 percent of total employment remained in the state sector by the turn of the century (Oficina Nacional de Estadísticas [ONE], 2001).

In addition to its program of nationalizing economic resources, the Castro regime also began a program of centralized economic planning shortly after the Revolution. By the mid-1960s, it had become a full-scope command economy (Pérez-López, 2003). In a centrally planned command economy, such as Cuba's, all resourceallocation decisions are made administratively and incorporated in the central plan. The central plan lays out input and output targets for each ministry and geographic division. Prices and wages are also set by fiat, as are targets for foreign trade. In addition to its administrative complexity, this form of planning makes it extremely difficult to respond quickly to changes in economic circumstances; thus, chronic shortages of goods and services typically result. These shortages, in turn, lead to rationing and the emergence of black markets. Both rationing and black markets are characteristic of the Cuban economy.

The problems of central planning are particularly problematic for labor allocation. Cuban central planning is designed to provide full employment, with all workers guaranteed a job. State-owned enterprises are told the number of workers they must hire in order to meet full-employment goals. Once hired, workers are almost impossible to terminate. Workers, in turn, are paid according to a national pay schedule rather than their contribution to output. This system has produced a combination of low wages, a low level of work effort, and generalized job dissatisfaction (Pérez-López, 2003).

The problems that such politically driven economic policies have produced are typified by the government's decision to raise sugar output to 10 million tons in 1970. Resources were diverted from other sectors and reallocated to the sugar campaign. Despite this massive effort, Cuba failed to meet the harvest goal and the disruptions caused to other sectors of the economy were severe.

Given these problems, the Cuban government under Castro has considered a variety of modifications to the CPE model. Perhaps the most notable was the *Sistema de Dirección y Planificación de la Economía* (SDPE), which promoted some decentralization of economic decisionmaking and introduced various forms of profit and cost indicators. Cuba has also experimented with other marketoriented reforms, such as the Free Peasant Markets in the 1980s. However, the Castro regime, most particularly Castro himself, has been reluctant to cede control over key economic decisions (Espinosa and Harding, 2000), and these reforms have subsequently either been abandoned or cut back. These policies, together with the economic crisis of the Special Period, have wrecked havoc with Cuba's central planning system.

After four-and-a-half decades, the Cuban economic model has left a profound and dysfunctional legacy for the economy that will need to be dealt with by Castro's successors if they are to revitalize the economy. The most notable of these legacies are a highly educated but low-productivity labor force, a small and deformed private sector, and rampant corruption. Each of these legacies will now be discussed in turn.

Cuba's Highly Educated but Low-Productivity Labor Force

As we discussed above, Cuba is certain to face problems meeting its labor needs in the future, as the size of its workforce stabilizes and eventually begins to decline. As a result, Cuba's future economic growth will increasingly depend upon the quality and productivity of its workers. And, in light of the high levels of education among its population, Cuba would appear to be well positioned to meet this challenge. Indeed, it is axiomatic in the human capital literature that education enhances worker productivity. However, one of the central paradoxes of Cuba's socialist legacy is that, despite its highly educated workforce, it has abysmally low levels of worker productivity.

Mesa-Lago (2000), for example, concludes that labor productivity growth during the period 1971 to 1985—arguably the period of strongest growth of the Cuban economy—was low and well below planned targets. In fact, he argues that if 1981 data are excluded, average productivity growth during this period was negative, consistent with other information on the underutilization of labor across several sectors of the economy (Pérez-López, 2004, Appendix D).

Madrid-Aris (2000), for example, concludes that the effects of Cuba's aggressive expansion of free education were small and mostly associated with eliminating illiteracy among agricultural workers. Mesa-Lago also notes that productivity declined at an average annual rate of 2.6 percent during the second half of the 1980s instead of achieving a planned annual increase of 3.5 percent. Although Cuba publishes no data on productivity, the weak relationship between productivity and education has probably become even more pronounced during the Special Period, which began in 1990 with the widely reported movement of professionally trained workers into lowskilled jobs in the tourist and private sectors.

Cuba's low productivity levels have no doubt been exacerbated by the declining state of its capital stock, the shortage of investment capital with which to improve that stock, and the lack of raw materials for its industries. However, the Castro government's policies with regard to full employment and wages have also played a major role. Indeed, Cuba's policy of full employment appears to have transformed open unemployment into rampant underemployment:

In 1963, employees of state farms worked an average of 4.5 to 5 hours per day but were paid for 8. Industrial mergers and shutdowns should have generated unemployment, but unneeded workers remained on the enterprise payroll. The tertiary sector became hypertrophied with the expansion of the bureaucracy, social services, the armed forces, and internal security (Mesa-Lago, 2000).

As Pérez-López (2004, Appendix D) notes, “this policy decision had the effect of alleviating the short-term unemployment problem, but it spread the economic costs to the entire population and negatively affected long-term labor productivity and economic growth.”

Indeed, the Castro government has continued to pursue this politically driven policy during the Special Period. For example, despite chronic problems within the sugar industry that prompted temporary shutdowns of sugar mills and the eventual closure of more than 45 percent of those mills, the Castro government has kept the displaced workers on the payroll (Pérez-López, 2004, Appendix D). PérezLópez, citing the Economic Commission for Latin America and the Caribbean (2001) report, has noted:

Cuba's open unemployment rate hovered in the 6 to 7 percent range between 1960 and 1996, while “equivalent unemployment” —an estimate of underemployment—climbed as high as 35.2 percent in 1993; taking open unemployment and underemployment together, over 40 percent of the labor force was not fully employed.

Cuba's policy of setting wages according to a national schedule has compounded this low-productivity problem by divorcing workers' wages from their productivity. As Pérez-López notes, average wages in the state sector have failed to keep up with inflation during that period. Conversely, as Mesa-Lago (2002) notes, wages of workers in the private sector, employees in the tourist sector, and speculators in the black market have risen dramatically. This rise, of course, is one of the major reasons that highly skilled professionals have been leaving their jobs in the state sector and taking low-skilled jobs in the private sector, a situation that has been compounded by the cutback in social services and the fact that many consumer goods are available only in dollar-denominated stores at prices approximating those paid in the world market. Indeed, as Pérez-López notes, the severe shortage of consumer goods and the possibility of being able to obtain such goods in dollar stores means "that time will be taken off from a job that pays in pesos to engage in wheeling and dealing that results in earning dollars."

In combination, these policies have produced poor work habits, lack of on-the-job efforts, and a low-productivity labor force. As the Soviets used to say, "We pretend to work and they pretend to pay us." Overcoming this legacy and motivating the labor force to respond to market incentives is likely to take time, as the experience in Eastern Europe has demonstrated.

A Small and Deformed Private Sector

A variety of analysts have drawn parallels between Cuba and the economic challenges it is facing and the experience of the former communist states of Eastern Europe. Gayoso, (2000), for example, emphasizes the important role small and medium-sized private enterprises (SMEs) have played in facilitating the transition between centrally planned and market economies. As Gayoso notes, SMEs have been a major source of employment growth; they have also promoted efficiency, helped to instill an entrepreneurial spirit, and promoted experience with market mechanisms. The robust response of Cubans to the Castro regime's liberalization of policies with regard to self-employment in 1993 would seem to support Gayoso's points. As both Mesa-Lago (2001) and Hernandez-Cata (2000) make clear, the modest recovery from the trough of economic decline in 1993 appears to be due primarily to growth in employment and productivity in the self-employed sector. Hernandez-Cata, for example, estimates that while employment in the state sector declined by nearly 750,000 between 1990 and 1998, employment in the private sector increased by almost 600,000—mostly on small private farms and in self-employed enterprises. Pérez-López notes that within six months of the legalization of self-employment, 70,000 individuals had registered for self-employment—a total that grew to more than 200,000 by the end of 1995.

However, as Gayoso also notes, the expansion of the SME sector typically requires major changes in the institutions, practices, and be haviors that have developed during the decades of centralized control, and that the more dominant the state sector is, the more difficult changing these practices can be. By this standard, the problems Cuba will face in the transition to the development of a market economy will be substantial.

Even by the standards of Eastern Europe, Cuba's private sector is very small. All of the major industries in Cuba are owned by the state. In 2000, workers in the private sector amounted to only 13.4 percent of employment. Most of these workers were small agricultural operators (ONE, 2000). Indeed, despite the enthusiastic response to the liberalization of self-employment, the Cuban government's subsequent actions to limit this option by increasing taxes and fees and imposing stricter regulations and government oversight had reduced the number of self-employed workers to 150,000 by 2001.[1]

In addition to government policies discouraging private-sector employment, a variety of other institutional and behavioral obstacles have been put in the way of private employment. As Pérez-López (2004, Appendix D) puts it, Cuba's private sector is not only small, it is precarious and deformed. Institutionally, Cuba lacks any wholesale distribution system from which the private sector can obtain raw materials and equipment, forcing workers and entrepreneurs to resort to the black market or other illegal sources of goods and services. As Jatar-Hausman (1999) notes,

> Cuba has no wholesale distributors. The Cuban government has not opened supply markets. Intermediaries are not only illegal, but unwanted.… (Private sector workers) either take supplies from their workplace (in other words, steal them) or they buy them in the black market. Where do the products in the black market come from? From other workers who do the same thing. Everyone has to steal in Cuba for survival.

Moreover, 40-plus years of communism have wiped out the market-oriented skills that are critical to the operation of a market economy. These include such skills as those of managers, accountants, auditors, bankers, and insurers. As Pérez-López puts it, the several generations of Cubans who have grown up under socialism have meager market-oriented skills. Overcoming these institutional and behavioral obstacles will be a difficult task, even if future Cuban governments adopt market-oriented policies. And Castro has so far proved unwilling to aggressively pursue policies to accomplish these changes.

Corruption

As we have just described, one of the major obstacles to the development of a market economy is the extensive reliance that Cubans have developed on the black market and other illegal practices. The institutional counterpart to such behavior at the individual level is the widespread practice of corruption and the lack of institutional safeguards to limit and address corrupt practices. As Pérez-López and others have noted, the widespread reliance on corruption is a familiar feature of centrally directed and socialist economies.

Corrupt practices take several forms in Cuba. The pervasive presence of black markets not only for food and consumer goods, which are ostensibly covered by the official rationing system, but also in virtually all areas of the economy, fuel corruption, because most of the materials sold on the black market are stolen or misappropriated from government property. In addition to direct theft of government materials, corruption in the form of bribes, influence-peddling, and reliance on insider contacts to influence government decisions or gain priority for such services as installing telephones and exchanging homes abounds. Indeed, Cubans have coined the word "*sociolismo*" (a corruption of buddy, "*socio*," and *socialismo*) to refer to the use of government contacts for personal gain.

Corruption is also manifest in the numerous special privileges that members of the regime (the *nomenklatura,* referred to as *pinchos* There are a wide variety of ways in which corruption can impede growth. Bribes extracted by government officials, for example, represent a tax on economic activity, but that tax is appropriated by private individuals (the officials) rather than placed in the public coffers. Moreover, to the extent that these implicit taxes must be compensated for by higher taxes on those who comply with the law rather than bribing officials, then those who play by the rules pay a penalty in the form of higher taxes. Rewarding those who offer bribes for government contracts, the allocation of licenses and positions, etc., will often result in the misallocation of talent and resources and may reduce the quality of goods and services provided, all of which involve economic costs to society. Moreover, to the extent that donor countries become aware of corrupt practices, they may reduce the level of aid they provide. Finally, widespread corruption undermines the legitimacy of the state and can provoke widespread public cynicism about the government and its programs—a phenomenon that appears to be increasingly apparent in Cuba.

Although corruption no doubt existed in Cuba before the Revolution, it has been endemic since then and appears to have increased during the Special Period. The reasons for this phenomenon are suggested by Klitgaard (1988), who identifies corruption as a product of the degree of monopoly exercised by the state over economic resources, the discretion government agencies have in allocating those resources, and the degree of accountability to which the government is subject. Cuba's rating on each of these dimensions promotes high levels of corruption. As we have already noted, the state exercises a monopoly on major enterprises and, with the exception of a small private sector, controls the whole economy, which, of course, magnifies the potential for corruption. Second, the extensive economic planning in which the government sets output targets, allocates inputs, and sets prices requires an enormous bureaucracy and cedes considerable discretion to that bureaucracy. Finally, the overwhelming power of the government and its ruling party limit the public accountability to which the government is subject. In sum, the Cuban governmental arrangement seems particularly well suited toward promoting corruption. Even after Castro is no longer on the scene, this potential for corruption will remain unless the underlying CPE model is changed.

Reducing the central government's role in the economy alone, however, deals only with the opportunities for corruption. It is also important to increase the degree to which government officials are accountable to the public. Cuba's current policies limit governmental accountability is several major ways. First, there are no free elections; instead, the electorate is limited to endorsing a slate of Party candidates. Second, key governmental decisions are made in secret, by Fidel and his inner circle. Third, the government controls key institutions, such as the press and the judiciary, which in open societies act to expose governmental actions to public scrutiny and punish government wrongdoers. Finally, as we discussed above, the government has actively suppressed independent civil organizations, despite the Law of Associations, which purportedly guarantees the right of Cuban citizens to associate freely. However, as the recent crackdown by the government once again demonstrates, the Castro regime has repeatedly thwarted the development of the organizations that are key to a robust civil society.

CHAPTER SEVEN
The Need for Industrial Restructuring

In addition to the institutional legacy of a centrally planned economy, Cuba's economy has also been harmed by development policies that have left it ill prepared to compete in the world economy. Unlike countries that have pursued development policies designed to enable them to compete in an increasingly global economy, Cuba's development policies, up until the Special Period, went in an entirely different direction. Rather than develop an industrial structure that would enable Cuba to compete in world markets, it relied, instead, on its special economic relationship with the Soviet Union and the other states of the Council for Mutual Economic Assistance to insulate it from global market forces. The collapses of the Soviet Union and the CMEA have subsequently left Cuba's economy and its industrial structure ill suited to competing effectively in world markets.

Although the Castro regime has adopted policies designed to remedy some of the adjustment problems it faces, it has not fully committed to these policies. In this chapter, we first discuss the nature of Cuba's special economic relationship with the Soviet Union and the effect that relationship has had on Cuba's industrial structure. We then discuss the policies Cuba has adopted in response to its changing circumstances. Finally, we conclude by discussing Cuba's intermediate economic prospects. **The Effects of Soviet Assistance on the Cuban Economy**

Prior to the Revolution, Cuba's economic fortunes were closely tied to the sugar industry. As Pérez-López (2004, Appendix E) puts it,

Sugar was the engine that powered the Cuban economy. Sugar production was the main industrial activity, the main generator of foreign exchange, and the largest single employer in the nation. …When the international market price was high, the island experienced a period of economic prosperity referred to as *vacas gordas*; this was invariably followed by prolonged periods of low sugar prices and *vacas flacas*.

By the end of the 1950s, Cuba had begun the process of industrialization and the development of its tourist industry. Most of Cuba's trade, both in sugar and industrial inputs, was focused on the United States, which was also the primary source of investment capital (Economic Commission for Latin America and the Caribbean, 2001).

Cuba's development process after the Revolution became dependent instead on the Soviet Union and the other CMEA states. These ties to the CMEA, which insulated Cuba from the international market, also shaped its industrial development in ways that left it particularly unprepared for integrating into the world economy after the CMEA collapsed. The central feature of the Cuban-CMEA relationship was the exchange of Cuban sugar for CMEA investment, equipment, and technology.

This exchange transformed the Cuban economy in a variety of ways. First, in response to the extremely favorable prices the CMEA states paid for Cuban sugar,[1] the Castro regime, rather than diversifying its industrial base, concentrated its resources on sugar production and sugar by-products. Indeed, for sugar production during the 1980s, Cuba devoted a third of its investment, about half of its total cultivated land, nearly half of its stock of agricultural tractors, about three-quarters of its railway system, and close to a third of its labor (Pérez-López, 2004, Appendix E).

Second, after a disastrous effort to reach a record harvest in 1970 by mobilizing a vast array of temporary labor, Cuba's sugar industry, as well as its agricultural sector more generally, became heavily dependent upon imported inputs (fertilizers, machinery, and energy). As a result of this concentration of resources in sugarcane production and related industries, Cuba has failed to diversify its agricultural production enough to reach self-sufficiency in agriculture. In turn, it has had to rely on imports to fill about half of the country's nutritional requirements—a proportion that appears to have risen during the Special Period (Economic Commission for Latin America and the Caribbean, 2001).

Third, investment in Cuba's incipient industrial sector was concentrated on domestic production of inputs into the sugar industry, including fertilizers, pesticides, animal feeds, packaging, and machinery, and into the development of industries based on sugarcane byproducts. Thus, Cuba failed to reach the diversification of its industrial base needed to meet domestic needs, much less to begin to develop foreign markets in higher-value industrial goods.

Fourth, Cuba imported its machinery from the CMEA. This practice not only produced a problem of compatibility with existing equipment that had been imported from the West, it also resulted in a reliance on technologically inferior equipment that further limited efficiency and productivity. Moreover, this equipment was designed for conditions in the Soviet Union, which were often vastly different than conditions in Cuba: Soviet equipment was designed for very large and highly specialized plants and was energy intensive (Economic Commission for Latin America and the Caribbean, 2001). This practice promoted extensive vertical integration of production and thus impeded the development of the industrial linkages necessary for the development of smaller-scale domestic suppliers.

The United Nation's Economic Commission on Latin America and the Caribbean (2001) has summarized the consequences of Cuba's interdependence with the CMEA for Cuba's economic structure, as follows:

- Considerable dependence on external sources of raw materials and components for products earmarked for the domestic market and imports of inputs tied to exports.
- Industrial plants and equipment that were largely characterized by technological obsolescence, oversized facilities, and difficulties in acquiring spare parts and other hurdles to their normal use.
- An industrial structure with few domestic linkages, dominated by large-scale companies that displayed an excessive degree of vertical integration, thus leaving little room in which smaller enterprises could function.
- Diminished plant efficiencies and flexibilities as a result of technological reasons, excessive machinery, a lack of inputs, and other restrictions.
- Low development of complementary services, which existing plants were largely left to provide—a

practice that led to additional inefficiencies.

- Distortions in the characteristics and breakdown of managementlevel personnel and an excessive number of professional and technically skilled workers, combined with a shortage of employees with experience in marketing, finances, and business administration and management.
- Highly differentiated priorities in allocating foreign currencies and energy inputs, which arose from the stranglehold stemming from the breakdown in economic relations with the CMEA countries.
- Industrial specialization that was a vestige of relations with the CMEA countries, which had often been detrimental to Cuban interests.

Nonetheless, the favorable prices the CMEA was willing to pay for Cuban sugar, the generous credits and grants the CMEA provided, and the Cuban government's political affiliation with the Soviets resulted in close to 80 percent of Cuba's trade being concentrated with CMEA. The net result, however, was a distorted and inefficient industrial structure that not only triggered the economic crisis of the Special Period when the CMEA collapsed but also left the Cuban economy ill prepared to reintegrate itself into the world economy.

Cuba's Development Policies During the Special Period

Given Cuba's dependence on the CMEA and the Soviets in particular, it is not surprising that the collapse of the Soviet Union and the CMEA trade bloc triggered a profound crisis for the Cuban economy. Overnight, Cuba lost the dominant market for its exports,[2] the major supplier of the many inputs for its agriculture and industries, and the principal source of its investment capital. Correspondingly, the economic fallout from the loss of Cuba's special relationship with the CMEA bloc was felt not only in its exports of sugar—its source of foreign earnings—but throughout the Cuban economy. Production collapsed, imports and exports plunged, and Cuba's foreign debt rose sharply.[3]

After an initial attempt at “readjustment by brute force” (Hernández-Cata, 2000), the Cuban regime was forced to adopt a development strategy that focused on obtaining much-needed hard currency by promoting its exports at the same time that it reduced its expenditures for imports through a policy of import substitution—a course change that it was ill prepared to make due to the legacy of overwhelming dependence on trade with the CMEA. Production of its principal export, sugar, had become inefficient and too dependent upon on imported inputs, with the result that its productive capacity far exceeded its ability to find export markets.[4] As a result, Cuba was forced to cut back its sugar production dramatically (from an annual average of about 8 million tons in 1989 to less than 4 million tons in 2000). This cutback was initially accomplished by temporarily shutting mills; more recently, about one-third of Cuba's mills have been closed permanently (Pérez-López, 2004, Appendix E).

However, this simple downsizing of the sugar industry, in which the worst-performing mills were closed and 60 percent of the lowestyielding plantations were idled, has not resolved the problems with the industry. Hence, the 2003 harvest plummeted to around 2 million metric tons, almost half the 3.6 million metric tons harvested in 2002, and well below even the industry's own reduced-production goal. Indeed, the 2003 harvest is Cuba's poorest harvest in 70 years. Although on a smaller scale, similar problems of inefficiency and overdependence on imported inputs and lack of the hard currency to purchase those inputs exist throughout Cuba's industrial and agricultural sectors. As a result, production levels in almost all industries have fallen—often dramatically—during the Special Period.

Although sugar remains Cuba's major export, the Cuban government appears to have focused its development efforts on a limited set of products that appear to offer the best prospects for securing hard currency in the international market. Principal among these has been the Cuban government's efforts to develop its tourist industry and expand its nickel and tobacco exports. These efforts have met with some considerable success. In the tourist industry, for example, the number of foreign tourists visiting the island climbed sixfold between 1989 and 2000, accounting for 40 percent of Cuba's hardcurrency earnings by 2001, thereby overtaking sugar, rum, tobacco, and even foreign remittances. By mid-2003, one million tourists had already visited the island, and the goal of two million for the year seemed to be on track, even though industry analysts note that service is shoddy and some foreigners complain of being accosted by peddlers and beggars (Williams, 2003, p. A-3). A favorable world price for nickel and increased output has also made this industry a key export sector for the Cuban economy. World demand for Cuban tobacco has remained strong until recently.[5]

Cuba's new development focus on exporting to international markets and reducing its need for imported goods, in combination with the dollarization of its economy, its policy of encouraging dollar remittances from Cubans in the United States, and limited domestic liberalization, appears to have enabled Cuba to recover somewhat from the massive economic decline during the first three years of the Special Period. Between 1994 and 2000, for example, Cuba's recovery averaged 3.8 percent per annum, its GDP per capita increased by one-quarter, and its exports by more than 50 percent. Still, for the entire 1990–2000 period, the growth rate was –1.2 percent, and Cuba's per-capita GDP remained 25 percent below its level before the Special Period began (Mesa-Lago, 2001). Moreover, Mesa-Lago (2003b) suggests that, after growth rates exceeding 5 percent in 1999 and 2000, the rate of economic growth has slowed once again. Indeed, Cuba's own Ministry of Economy and Planning reported that the GDP expanded by only 1.1 percent in 2002, while forecasting a modest 1.5-percent gain for 2003 (*Cuba News*, February 2003, p. 5).

The Cuban government, at least under Castro's leadership, appears unwilling to fully commit to integration into the world economy —particularly when these efforts appear to challenge its tight political control over its citizens or its underlying Marxist ideology. The regime's unwillingness to let Cuba's economic needs take precedence or interfere with the regime's political dominance is perhaps most apparent in its dealing with the countries of the European Union, the principal source of foreign investment in Cuba and its major trading partners.

Despite the willingness of the EU to pursue a policy of engaging Cuba by promoting trade and investment (in contrast to the policies of the United States), Cuba has repeatedly posed institutional obstacles to European investors. Moreover, Cuba has responded to pressures from the EU and its individual countries to relax its humanrights policy by refusing to accept aid with any political conditions. Most recently, Fidel himself has personally criticized Spanish president Jóse María Aznar and derided the EU itself for its criticism and reduction of humanitarian aid in response to Castro's recent crackdown on dissidents in Cuba.