

**CUBA'S FORGOTTEN
EASTERN PROVINCES:
TESTING REGIME
RESILIENCY**

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EXECUTIVE SUMMARY

The five provinces of eastern Cuba (Oriente) have played central roles in the forging of the island's history. In the 19th and early 20th centuries, sugarcane plantations generated fabulous wealth and Santiago de Cuba boasted a thriving middle class, even as most of the peasantry were relegated to grinding poverty and social neglect. Further to the west, Havana became the center of national prosperity and political power. In response, the 1959 Cuban revolution forcefully redirected resources toward the previously ignored social classes and rural provinces, providing universal access to health care and education and spreading new industries around the island. The eastern provincial capitals of Santiago and Holguin grew rapidly.

More recently, however, trends have again turned against the eastern provinces. The sugarcane industry retrenched to a shadow of its former self, Soviet-supported industry collapsed, and the centripetal power of Havana reasserted itself. Other economic trends, including expanding international tourism, remittances from the prosperous Cuban diaspora, and the emergence of a small-business private sector have re-concentrated opportunity and wealth in Havana and its environs. Compounding regional inequalities, authorities have directed the lion's share of investment to Havana and surrounding areas. Despite some bright spots, Oriente has become a development backwater, its inhabitants migrating to Havana in search of better economic prospects. So far, occasional attempts to counter these trends and to strengthen regional institutions have fallen short of expectations. Fundamentally, Oriente's destiny will depend upon the fate of system-wide national economic reform and on the central government's future allocations of resources across regions, as well as on the government's ability to respond to diminishing assistance from Venezuela and renewed U.S. hostilities. While judgments regarding the potential political impacts of these adverse trends is inevitably speculative, the weakening of two foundational pillars of the revolution—regional equality and social betterment—will test regime resiliency.

CUBA'S FORGOTTEN EASTERN PROVINCES: TESTING REGIME RESILIENCY



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INTRODUCTION: A DIVISIVE HISTORY

Egalitarianism has been a central tenet of the Cuban revolution and an important foundation for regime authority. In its early years, the revolution reordered the distribution of wealth and property to reduce socio-economic inequalities and to narrow regional divides that had favored the capital Havana at the expense of the disadvantaged eastern provinces. However, today the regional divides have re-emerged as the eastern provinces have again fallen behind amidst a prolonged national economic malaise, placing at risk a source of official legitimacy. Diminishing assistance from Venezuela and renewed U.S. hostilities are further clouding the island's economic prospects.¹

Other economic trends are re-concentrating opportunity and wealth in Havana and its environs. New growth drivers, including international tourism, remittances from the prosperous Cuban diaspora, and the emergence of a small-business private sector, are less intense in Oriente. Compounding regional inequalities, authorities have directed public investment toward Havana and surrounding areas.

Yet remarkably few social scientists, whether Cuban or international, have paid adequate attention to the profound differences among regions on the island.² Exceptionally, anthropologists and musicologists have been fascinated by Afro-Cuban culture, particularly vibrant in eastern Cuba. Otherwise, observers have focused heavily on Havana and national trends. Scholarly resources concentrate at the University of Havana and national research centers. The Oriente provinces are remarkably distant from the nation's center of wealth and power: Even though the distance from Havana to Santiago is only 500 miles, the island's deteriorated infrastructure makes the voyage a tedious undertaking. Furthermore, few Cuban scholars study inequalities among regions or, for that matter, across social classes or ethnic divides. Uniquely, the Cuban government does not publish quantitative indices of distributions of income and wealth, nor does it encourage scholars to undertake their own field surveys.³

Cuban centralism is historically rooted in the autocratic centralism of the Hapsburg and Bourbon dynasties and since the early 19th century in the Napoleonic Codes. Havana is to Cuba what Paris is to France, London to Great Britain, Buenos Aires to Argentina. Nevertheless, the five eastern provinces possess their own glorious histories

and cultures, contain the two largest cities behind Havana, Santiago de Cuba and Holguin, and account for both one-third of the island's population and land mass. In the administrative reform of 1976, the proud Oriente was subdivided into five provinces (in addition to Santiago and Holguin, Las Tunas, Granma, and Guantánamo), accounting now for one-third of the 15 provinces. Oriente itself is dominated by the provinces of Santiago and Holguin, whose capital cities bear the same designation (Table 1).

TABLE 1. SOCIAL INDICATORS IN CUBA

	Cuba	Havana	El Oriente	Santiago	Holguin	Granma	Las Tunas	Guantánamo
Population (millions, 2017)	11.2	2.1	3.9	1.1	1	0.8	0.5	0.5
Life Expectancy	78.5	77.4	79.2	78.1	79.8	79	79.8	79.1
Maternal Mortality (per 1000 births)	38.3	48.6	44.5	57.1	38.4	32.9	33.8	60.5
Infant Mortality (per 1000 births)	4	4.4	4.18	4	3.3	4.7	4.2	4.7
Low Birth Rates (per 1000 births)	5.1	5.8	5.5	5.7	4.9	5.2	6.3	5.4
Access to potable water (%)	96	100	-	90	92	72	-	-
HDI (2015)	-	0.89	-	0.74	0.76	0.7	0.7	0.75

Source: "Anuario Estadístico de Cuba 2017," (Havana: ONEI, 2018).

Throughout the centuries, occurrences in Oriente have powerfully impacted the island's history. On the region's northern Caribbean littoral, European explorer Cristóbal Colón encountered the indigenous Taino.⁴ Attracted by its well-protected natural harbor on the southern coast, the Spanish conquistadores declared Santiago as the colony's capital from 1522 to 1589; from there, governor Diego Velázquez launched deeper conquests of the Americas. His imposing headquarters still overlook the main city square.

Prolonged Spanish colonial rule bred deep discontent and spirited rebellion among the subject populations, no more so than in Oriente. Eastern Cuba witnessed an early insurrection against slavery (1731) and the protracted independence wars of the 19th century. (In 1898, Theodore Roosevelt staged his celebrated charge against Spanish troops up San Juan Hill in the suburbs of Santiago). Local patriots of these independence struggles, Manuel Céspedes, Antonio Maceo, and Calixto García, remain national heroes. On July 26, 1953, another generation of native sons of the Oriente, Fidel and Raúl Castro, braved the nearly suicidal attack against the military of Fulgenio Batista and Santiago's fortified Moncada barracks. A few years later, the Castro brothers

and their 26th of July Movement would return on the Granma yacht to the region's southeastern beaches and take refuge in the heavily wooded Sierra Maestra mountain ranges. Against all odds and in just two years, the bearded guerrilla fighters descended in triumph. On New Year's Day 1959, addressing a jubilant crowd from the balcony of Santiago's city hall, Fidel Castro proclaimed the victory of the Cuban revolution. Today, Raúl Castro, while still leader of the Communist Party of Cuba, is making his retirement in Santiago.

Oriente also concentrates the island's Afro-Cuban culture, renowned for its hybrid Santería religions and complex percussive rhythms that have deeply influenced Caribbean dance including bolero, mambo, son, and salsa in the Latin jazz clubs in the United States and beyond.⁵ Music virtuosos Compay Segundo (Buena Vista Social Club) and Miguel Matamoros are native sons. "El Septeto Santiaguero" won a Latin Grammy in 2018. U.S. performers Desi Arnaz (pioneering TV producer and husband of comedic great Lucille Ball) and Emilio Estefan (Gloria's husband) hail from Oriente. Santiago's central cemetery is the sacred final resting grounds of national hero José Martí, and since 2016, of Fidel Castro (his remains encased in a stark, modest-sized granite rock). Santiago is also the birthplace of the Bacardi rum brand, even as the firm located its iconic art deco headquarters in Havana.

Geographically, Oriente offers vast stretches of coastlines, sandy beaches, coral reefs, and numerous natural harbors including the U.S. Naval Base at Guantánamo Bay. The region is covered in forests and protected national parks and reserves, while reasonably fertile soils (even taking into account extensive arid and mountainous zones) support a wide variety of tropical products and extensive animal husbandry. Holguin province is rich in mineral deposits, notably nickel and cobalt. Outside of the provincial capitals of Santiago and Holguin, a rural population is scattered around sugar plantations, state-run farms, and small towns. Fierce hurricanes and destructive earthquakes plague Oriente, as do sweltering summers and outbreaks of tropical diseases resistant to government health campaigns.

REVOLUTIONARY JUSTICE

The Cuban revolution asserted that "there was no hope" in Oriente before the 1959 revolution.⁶ Fidel Castro famously referred to Guantánamo province as having been "The Third World within a Third World country."⁷ In fact, pre-revolutionary Santiago boasted comfortable professional classes whose villas and social clubs survive in the stylish suburban Vista Alegre neighborhood (equivalent to Havana's Vedado and Miramar districts). Wealthy landowners, including Fidel and Raúl's father, sent their sons to study at elite schools in Santiago and Havana. Nevertheless, the revolution's advocates correctly argued that wealth and power were concentrated in the capital to the west and that there were high levels of inequality, rural poverty, and social neglect throughout the country, especially in Oriente.

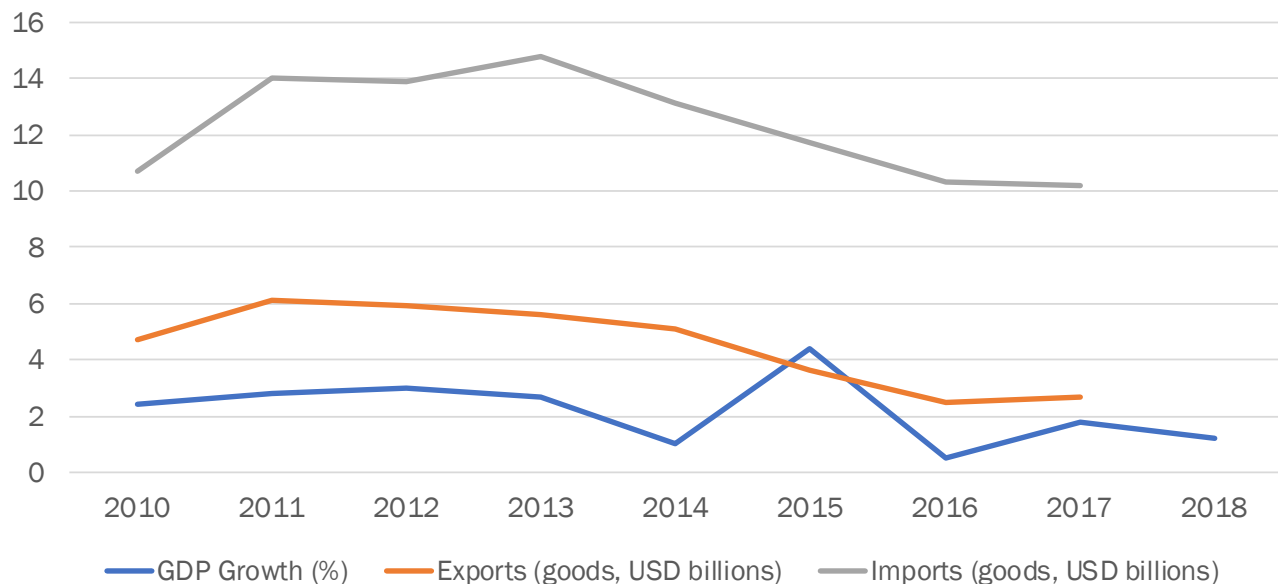
A major ideological thrust of the young Cuban revolution was egalitarianism.⁸ Many of the impoverished peasants and plantation workers from Oriente had fought in the revolution and made up the core of the new Revolutionary Armed Forces (FAR). Suddenly empowered, the triumphant rebels pressed for a radical redistribution of wealth across regions and social classes. In its early years, the revolution delivered, as resources were reallocated from Havana to the provinces. Within the executive branch, the Instituto de Planificación Física (IPF, Institute for Territorial Planning) worked hard

to inject considerations of provincial equity into investment decisions.⁹ As part of an industrialization push assisted by the Soviet Union and Eastern Europe, new factories appeared throughout the countryside, including agro-processing plants but also mining, metallurgy, energy, and construction materials. These economic impulses mingled with a post-revolution demographic explosion and rural-urban migration. The cities of Santiago and Holguin were transformed, their populations growing, respectively, from 160,000 and 60,000 in 1953 (as measured by a national census), to 347,000 and 187,000 in 1981, to 510,000 and 355,000 today.¹⁰

Most importantly, the national ministries of health and education delivered free, universal access to their services, constructing health clinics and public schools throughout the island. The dramatic improvements in the quality of life of the average Cuban remain the pride of the revolution. As a proportion of the national budget, the country continues to invest heavily in social services.

Today, government statistics confirm these social gains, with the five eastern provinces performing at or just below national averages (Table 1). By one calculation of the Human Development Index, Havana falls within the index's "very high" classification, while four of the provinces are "high" performers, and Las Tunas falls into the "medium" category.¹¹ Life expectancy in the five provinces stands at 79.2 years, slightly superior to the national average of 78.5 years. Infant mortality (per 1,000 births) is 4.2, just slightly worse than the 4.0 national average. Maternal mortality (per 100,000 births) for the five provinces is 44.5, again only slightly inferior to the 38.3 national average. However, these regional averages obscure the less favorable performance in some indicators in the two provinces generally considered to be the most economically depressed: Granma and Guantánamo. In one indicator, the entire eastern region still lags, namely access to potable water, especially to interior household connections, reflecting Oriente's sizeable rural populations.

The situation worsened after the fall of the Soviet Union. The prolonged post-1990 economic stagnation has pinched budgetary outlays for health and education. Many clinics and schools are in disrepair and vital materials are in short supply. Talented professionals are departing for better paying opportunities in the private sector and in tourism, or are emigrating entirely. Some experts believe that these shortcomings will eventually make themselves felt in a deterioration of the output indicators.

FIGURE 1. NATIONAL ECONOMIC INDICATORS IN CUBA, 2010-18

Source: “Anuario Estadístico de Cuba,” (Havana: ONEI, various years).

REVERSAL OF FORTUNE

The sudden withdrawal of Soviet subsidies hit Oriente especially hard, erasing some of the pre-1990 gains. Deprived of access to raw materials including petroleum and spare parts, and not competitive on international markets, industries collapsed. Currently, the national index of industrial production is still only two-thirds of its 1989 level.¹² Especially detrimental to Oriente and its many towns arrayed around sugarcane refineries, the government shuttered two-thirds of the sugar mills (from 156 operating mills in 1990). Today, sugarcane production has declined to one-fifth of its 1989 levels.¹³ The government blamed the collapse of the fabled national industry on low international sugar prices and the prohibitively high costs of modernization. The government promised compensatory investments to replace the mills, but few materialized. Sugarcane-dependent villages became ghost towns as workers exited in search of better opportunities.

Despite some recovery from the post-Soviet depression, the Cuban economy remains anemic, with growth averaging under 2% in the last five years (Figure 1). Nevertheless, new growth drivers have emerged—unfortunately, not very propitious ones for Oriente:

- **International tourism** development has concentrated heavily around the Havana/Varadero growth pole. Of the nation’s 65,000 rooms, only 10,000 are located in Oriente (Table 2). Santiago municipality attracted only 102,000 foreign tourists in 2015, barely up from 96,000 in 2010, and a single hotel (Hotel Meliá Santiago) accounted for 53,000 or over half. In Santiago, the number of hotel rooms actually declined, from 2206 (2010) to 1304 (2015).¹⁴
- **The surge in remittances**—from the diaspora living in the United States and to a lesser degree in Spain—flows disproportionately to family and friends in the central and western provinces. Remittances can go a long way toward allowing families to meet basic needs, beyond what meager government wages and subsidies would allow.

- A vibrant **small-business private sector** emerged in the 2000s, with official government sanction. These firms have congregated in Havana, whose inhabitants had more access to investment capital (including from remittances), and where tourists and the Havana middle class had more pesos in their pockets. Among the more lucrative private businesses were bed-and-breakfasts (*casas particulares*), 40% of which were located in Havana (Table 2). Of the 439 non-farm cooperatives authorized by the government, 264 were in Havana.¹⁵

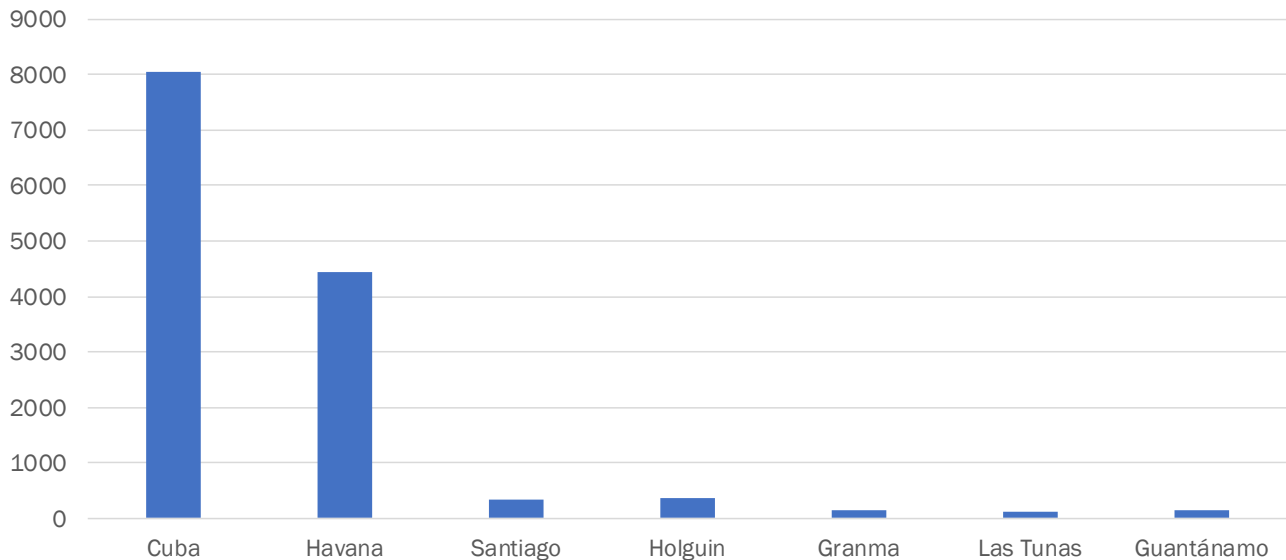
TABLE 2. DISTRIBUTION OF ROOM CAPACITY IN CUBA, BY PROVINCE

	Cuba	Havana	Varadero	Santiago	Holguin	Granma	Las Tunas	Guantánamo
Rooms (2017)	65,462	10,943	18,133	1,215	7,538	786	363	423
Rooms (2013)	61,232	12,072	20,067	1,803	5,323	-	-	-
Rooms in <i>casas particulares</i> (2014) ¹	17,890	7,134	-	1,467	1,020	358	358	537

Source: “Anuario Estadístico de Cuba 2017,” (Havana, ONEI, 2018), Table 15.13; Jose Luis Perello, “Desafíos territoriales del sector turístico cubano en el contexto del proceso de actualización del modelo económico,” in *Miradas a la Economía Cubana: Desde una perspectiva territorial*, eds., Omar Everleny Perez Villanueva and Ricardo Torres Perez (Havana: Editorial Caminos, 2014).

Rather than countering these trends, government investment policies have accentuated the re-emerging regional inequalities. In recent years, over 50% of government investment has been allocated to Havana (Figure 2). National investments channeled to the five eastern provinces declined from 23% in 2010 to only 15% by 2017. These adverse investment trends explain the visible deterioration of Oriente’s infrastructure, deepening its separation from the more dynamic central provinces and Havana. Cross-country trains run interminably late, if at all, bus terminals are rundown, and road repairs lag badly.¹⁶ Internal air travel is infrequent and unreliable (A commercial Havana-Holguin flight operated by Cubana de Aviación crashed in 2018, killing 112.).

In Santiago, investment has been heavily concentrated in construction (53%), while only 12% targets industry (including sugar) and 10% in agriculture.¹⁷ Interestingly, the concentration of national investment in Havana is reproduced at the provincial level: 90% of the investment in Santiago province is concentrated in the municipality of Santiago.¹⁸

FIGURE 2. GOVERNMENT INVESTMENTS IN CUBA, 2017 (MILLIONS OF PESOS)

Source: “Anuario Estadístico de Cuba 2017,” (Havana: ONEI, 2018), Table 12.II, “Volumen de inversiones por provincias.”

SIGNS OF DECLINE

There is a paucity of quantitative studies of poverty in Oriente.¹⁹ As planned, the government-guaranteed social safety net prevents the extremes of starvation or homelessness. But in Oriente, there are neighborhoods in provincial capitals and depressed small rural towns that manifest the general attributes of poverty including faulty, unsanitary infrastructure, relatively low educational attainment, very low wages and low social mobility, and a generalized psychological passivity and hopelessness (Box 1). Local institutions in those neighborhoods tend to be unresponsive and very short of resources.²⁰

Discouraged by lack of economic opportunity, many Orientales migrate to the more prosperous central and western provinces, especially Havana. Eastern fertility rates, while declining, remain above the national average, adding to the stream of migrants (Table 3). Averaging net internal migration of about five persons per year per 1000 inhabitants, over a decade the region is losing some 5% of its inhabitants.²¹ Moreover, the actual outflows exceed these official statistics, as many internal migrants lacking proper authorization to relocate retain their former residential addresses.

TABLE 3. INTERNAL MIGRATION AND FERTILITY RATES IN CUBA, BY PROVINCE

	Cuba	Havana	Santiago	Holguin	Granma	Las Tunas	Guantánamo
Net migration (per 1000 inhabitants)	-	+7.0	-4.8	-4.2	-7.2	-3.1	-8.5
Fertility (children per woman)	1.6	1.3	1.8	1.7	1.8	1.7	1.9
Divorce rates (per 1000 inhabitants)	2.8	4.6	1.4	2.3	1.2	2.2	2.0

Source: “Anuario Demográfico de Cuba 2017,” (Havana: ONEI, 2018), Capítulo II: “Nacimientos,” Table 2.8; Capítulo VI: “Migraciones,” Table 6.1; “Panorama Territorial 2016,” (Havana: 2017), Table 18.



Photo: Open air barber salon, Santiago de Cuba. Photo by Richard E. Feinberg.

Nominal wages in the state sector in Oriente are significantly lower than those available in Havana (Table 4), especially in Guantánamo. True, the cost of living in Havana is higher and migrating Orientales encounter various prejudices (ethnic because of their Afro-Cuban appearances, locational snobbism because of their provincial upbringings and accents). But Havana also offers opportunities in tourism, the emerging private sector, gray-area hustling, and even in illegal activities.

TABLE 4. LABOR FORCE PARTICIPATION AND WAGES IN CUBA, 2017

	Cuba	Havana	Santiago	Holguin	Granma	Las Tunas	Guantánamo
Monthly wages (pesos)	767	848	659	731	677	688	624
Labor force participation (%) 2017	63	-	63	62	61	56	53
Labor force participation (%) 2012	74	-	70	66	70	68	72

Source: “Anuarios Estadísticos de Cuba 2017,” (Havana: ONEI, 2018); “Anuarios Estadísticos Provinciales 2017,” (Havana: ONEI, 2018), Table 6.1 , 7.1 “Poblacion economicamente activa.”

Throughout the island, labor force participation rates have declined sharply during this decade, even taking into account those authorized to work in the non-state (private) sector (Table 4). Official unemployment rates (although of questionable validity) for Santiago and Holguin exceed the national average. These numbers help to explain the clusters of mostly young men loitering on urban street corners during working hours. They also suggest a growing informal sector of unauthorized private activities, sometimes gray area or illegal in nature.

BOX 1: DEEPENING SOCIAL PROBLEMS

Sectoral studies suggest institutional deterioration affecting various aspects of life in Oriente, from environmental degradation to rundown public transportation, deteriorating residential structures, under-resourced care for the mentally ill, ineffectual protection of women, and faulty family planning.

- Two environmental assessments of the Bay of Santiago from 2009-10 found that many industries surveyed had **inadequate waste treatment facilities** due to shortages of financial resources and failure to set priorities. Researchers found little progress since a study five years earlier. As a result of the dumping of untreated wastes, the historic bay is not suitable for many nautical activities or fishing.²²
- **The deterioration in the volume and quality of public omnibus transportation** is a cause of the proliferation of motorbikes in Santiago.²³ Operating in the hilly city, the under-regulated bikes have caused accidents and add to air and noise pollution. A research article calls for stricter regulation of this informal mode of personal transportation.²⁴
- Architects based at the Universidad de Oriente in Santiago lamented the **decay in the once grand well-planned neighborhood of Reparto Vista Alegre**. Their study condemned provincial planners: “The document shows a markedly negative character, a lack of strategic direction. ... [T]he neighborhood is evaluated in overly general terms failing to differentiate among distinct sectors and zones.”²⁵
- A study of **adolescent suicides** in Santiago, more prevalent in girls than boys, expressed concern at the excessive workload facing clinical workers, overly crowded workplaces, and inadequate engagement of the families of the adolescents at risk. The study noted the gap between a national plan for the prevention of and attention to suicide, and local implementation.²⁶
- Survey research in two rural and three urban neighborhoods in Holguin province uncovered shocking degrees of **physical abuse of women** by men enforcing patriarchal rules regarding adultery, coerced incest, and forced prostitution.²⁷ A culture of silence by the authorities—including the police, the national Federation of Cuban Women (FMC), and the local Committees for the Defense of the Revolution (CDR)—tolerated extreme chauvinistic behavior. The violence against women was often linked to alcohol consumption and the local occupations of mining and fishing.
- The rates of **adolescent pregnancy** in Oriente exceed the national average, deepening cycles of household poverty. However, families appear more durable: Divorce rates are much lower than in Havana.²⁸

OPPORTUNITIES FOR RECOVERY AND GROWTH

There is no inherent reason that Oriente should be so poor. The eastern provinces harbor numerous potential drivers of sustainable economic growth. Prospective growth sectors include many varieties of international tourism, a well-diversified agriculture, sugarcane as biofuel, other renewable energy sources including wind and solar, proven nickel and other mineral deposits, homeopathic pharmaceuticals, and other light manufacturing. Each of these could also contribute to a healthier national balance

of external payments, alleviating a major development bottleneck causing shortages throughout the economy. As will be discussed below, however, comprehensive reforms in public policies will be required to unlock the region's economic potential.

- **International tourism** has been the brightest beacon in the national economy and is likely to remain so, notwithstanding renewed U.S. travel restrictions. The northern coastal beaches of Holguin are a major growth pole, the blue skies now framed with construction cranes. Some of the all-inclusive resorts seem to be incorporating principles of sustainable tourism, others less so.²⁹ In Santiago, Communist Party of Cuba Provincial First Secretary Lázaro Expósito has encouraged pedestrian shopping malls and farmers' markets and tolerated private sector retail, lifting some of the depressive grayness from the city's boulevards.
 - Oriente can develop its extraordinary potential for cultural tourism. Outstanding attractions include: the many historical sites and architectural masterpieces marking turning points in Cuban history; the deep Afro-Cuban heritage and associated creative arts;³⁰ the annual festivals, including Santiago's Carnival, Festival del Caribe, Festival de la Trova, and the international film festival in Gibara, Holguin, a charming seaside village; eco-tourism in the biodiverse national parks and reserves;³¹ and agro-tourism around historic sugarcane mills, operating cigar-rolling factories, and family-run coffee farms. But for this regional tourism to flourish, massive improvements in transportation and communications infrastructures will be required.³²
- **The productive soils and varied climates** of Oriente support a variety of agricultural crops and animal husbandry. The long stretches of Caribbean and Atlantic littorals and many protected harbors once sustained a prosperous fishing fleet. But yields in many of these products are well below pre-1959 levels. Investments in irrigation are prerequisites to countering droughts and dry seasons in some locations. The government has also recognized the need to allocate more resources to the remote mountainous regions (Plan Turquino). More generally, complete overhauls of the policies governing the agricultural and seafood sectors are in order.
- Endowed with wind-driven coastlines, rolling mountain ranges, and tropical sunshine, Oriente is a natural location for **alternative energy, including hydropower, wind turbines, and solar panels**. Cuba's national plans call for 24% renewable energy by 2030 but will fall far short at current investment rates. To date, only about 1% of power generation is driven by wind and solar and just 3% by sugarcane-fed biogas. A strong biogas industry could also help to revive the sugarcane fields and associated communities.
- The poorest province of Guantánamo has one hidden resource: **the sprawling U.S. naval base**. Ultimately, when relations between the United States and Cuba are fully normalized and the base is turned over to Cuba, it could become an economic development asset. One option: Drawing on the region's low-cost yet educated labor and the natural harbor, Guantánamo could attract foreign investment into an export-oriented free trade zone of light manufacturers. As a start, the region's emerging pharmaceutical industry (Laboratorio Farmacéutico Oriente), some of which is based on natural plant ingredients, could relocate there.

- Recent advances in **infrastructure development** include the refurbished airport in Holguin and the current expansion of the container facilities in Santiago Bay (by a Chinese construction firm). Internet and cellphone usage is also spreading nationwide. But so much more investment will be necessary to build better networks within the five provinces and to better connect the region to the rest of Cuba. Improvements in infrastructure are also necessary to lower business costs and to open the region to the outside world. As throughout Cuba, another huge undertaking will be to overcome the growing deficit in residential housing.

Cuban authorities are aware of these development opportunities and challenges. They also recognize that Cuba cannot succeed alone, that the island will have to import capital, technology, management, and marketing skills to realize its national objectives. In the latest edition of its biennial publication, “Portfolio of Opportunities for Foreign Investment 2018-2019,” the Ministry of Foreign Trade and Investment lists 525 projects of interest, as identified by the Havana-based ministries.³³ For the first time, this edition includes a section cataloging the projects not only by economic sector, but now also by province. Although only 15% of the 525 projects are allocated to the five eastern provinces, the proposed projects do recognize the region’s potential strengths.³⁴ For example, Santiago is considered apt for gourmet coffee processing, sugar-infused candies, soybean processing, and pasta noodle production. Holguin would profit from further investments in mining, bioelectrical (sugarcane biomass) generation plants, additional wind farms, fresh vegetables for export, and most prominently, various major seaside hotel installations. Bays in both provinces would benefit from expansion of recreational shipyards and solid waste management.



Photo: Holguin, Cuba. Photo by Richard E. Feinberg.

STALLED NATIONAL ECONOMIC REFORMS AND REGIONAL PROSPERITY

The Cuban government has been promoting this catalogue of investment opportunities for many years, yet few of the projects outside of the tourism sector have attracted foreign investors. Why?

Foreign investors who visit the island often depart in frustration. They cite meetings with senior officials who present more bureaucratic obstacles than business assurances. They become aware of the ideological divisions within the regime, that not all vice ministers are hospitable to foreign investment. Each economic sector presents its own additional issues: In agriculture, the government distribution system represses prices to the farmers without providing sufficient material inputs, timely transportation, or efficient marketing;³⁵ in energy, the monopoly state energy company, Unión Eléctrica (UNE), is a questionable partner;³⁶ and in pharmaceuticals, Cuban state enterprises have shied away from forming joint ventures with global giants for fear of losing control of patents.

In Holguin, the story is told that Aroldis Chapman, the super-star fastball pitcher for the New York Yankees, offered a \$1 million gift to his native town to modernize the local baseball stadium. Perhaps for reasons of national pride or unfamiliarity with foreign philanthropy, the donation was rejected.

Cuban authorities press their firms to boost export performance, struggling to alleviate a deepening balance of payments crisis that is crippling the economy. Yet in recent years, merchandise exports have been declining (Figure 1). In 2017, all of Santiago province managed merchandise exports of only 115 million pesos (\$4.8 million at the official exchange rate of 24:1).³⁷ Why? Part of the problem is the complex dual exchange rate system, where some transactions are measured in hard-currency convertible pesos (CUC) and others in national Cuban pesos (CUP), that discourages exports. Further, the price incentives facing firms and firm managers do not encourage export-mindedness. Nor does the multilayered bureaucratic approval process animate firms to consider new export products.

In my 2016 book, *Open for Business: Building the New Cuban Economy*, I described distinct scenarios for Cuba's future.³⁸ At the time of publication, under Raúl Castro's leadership, the economy looked as though it might be headed toward an optimistic "soft landing" of greater openness and efficiency, with a dynamic local private sector and enthusiastic foreign investment partners. However, in his last year in office, Castro began to backtrack on reform, reinstating price controls in agriculture and imposing new restrictions on the emerging private sector. His successor, President Miguel Díaz-Canel Bermúdez, so far has not shown the vision or leadership to confront the system's powerful vested interests. Compounding adverse trends, U.S. policy has reverted to a deepening antagonism. So at least for the moment, my more downbeat "inertia" scenario, "where the imperatives of security and stability trump the evident need for renewal," appears to dominate Cuban policymaking.³⁹

Oriente has had a glorious past and in its early years, the Cuban revolution raised up the region's economy and social welfare. Today, while maintaining some of the social gains, the economies of the eastern provinces are suffering adverse winds. The centripetal powers of Havana are re-concentrating financial resources, and the new motors of economic expansion—tourism, remittances, private business—have not favored Oriente. The revitalization of the region's agriculture and industry will be a function of badly needed systemic reforms, which seem to have been placed on the backburner by a regime focused more narrowly on its own political survival.

Over time, however, Oriente's natural advantages could shift fortune in its favor. Vibrant cultures and diversified natural resources, a well-educated work force, and the strategic location in the Caribbean Basin so accessible to major markets, allow for a brighter future. But Havana will have to release its outsized grip on power to the benefit of local authorities (see Box 2). At the same time, the central government could recall one of the principal drivers of the early Cuban revolution and actively seek to disperse resources more equitably across the island.

Finally, judgments regarding the potential political impacts on regime stability of reemerging regional inequalities and chronic economic stagnation if not decline in Oriente are inevitably speculative. One could postulate that migrants leaving Oriente provinces are voting against the regime with their feet, suggesting widespread discontent. In the February 2019 plebiscite on the new constitution, voters in Holguin province registered higher levels of dissatisfaction (abstentions and no votes) although outcomes in other eastern provinces fell within national norms. As noted earlier, Oriente has a deep history of rebellion against perceived abuses of central authority, yet at least some among the older generation retain a pride in being the birthplace of the 1959 revolutionary triumph. The surveillance state seems particularly pervasive in Oriente, even as organized political opposition, such as it is, is reportedly stronger there. In any case, the weakening of two foundational pillars of the revolution—regional equality and social betterment—will test regime resiliency.

BOX 2: THE ELUSIVE PROMISE OF ADMINISTRATIVE DECENTRALIZATION

Cuba is divided into 15 provinces and 168 municipalities, each with its own governing bodies under the authority of the central one-party state. Yet as many studies have demonstrated, these local entities have lacked the authority, instruments, and resources to meet the needs of their constituents.⁴⁰

The new national constitution, approved by plebiscite in early 2019, creates the post of provincial governor, to be nominated by the national president and responsible to the national assembly.⁴¹ Governors will preside over provincial assemblies composed of the presidents of municipal assemblies. The one level of governance that is directly elected, the municipal assemblies appoint their own administrative councils presided over by the mayor (*intendente*). The powers of the new governors and mayors remain to be tested, but the 2019 reforms, while billed as fostering decentralization, might actually strengthen national power at the expense of local autonomy.

In recent years, various initiatives, some supported by international agencies, have sought to increase the capacities of municipalities to implement development projects. Two such initiatives are PRODEL (Fortalecimiento de Capacidades Municipales para el Desarrollo Local) and IMDL (Iniciativa Municipal para el Desarrollo Local). Scholarly evaluations point to these reasons for disappointing results: excessive interventions from central authorities, slow approval processes, silos separating ministries and state enterprise holding companies, absence of overall strategic visions, no clear process for setting priorities, and inadequate channels for citizen inputs. Unaccustomed to planning or executing initiatives, municipalities are found to lack capacities to design, execute, and evaluate projects.

Where pilot projects succeed, often funds are lacking to take them to scale. Local governments lack powers to raise new taxes or issue debt instruments. Indeed, proposed municipal and provincial expenditures must fit into the national budget and annual economic plan, and be approved by the Ministry of Finance and Prices and the national legislature. As one leading Cuban expert on decentralization concluded: “The level of municipality is still low, and the heavy influence of national, provincial, and sectoral decisions inhibits the leadership roles of local actors.”⁴²

This marked weakness of local institutions is rooted in the hyper-centralism of the Cuban system. System advocates argue that strong national institutions enable national economic planning and the protection of national security in a hostile world. Centralization of resource allocation is seen as an egalitarian tool to harmonize policies and arrive at a fair geographic distribution of resources. Devolution of powers is attacked as a “neoliberal” plot to undermine state institutions and ultimately to overturn the regime.⁴³

Often left unstated in studies by Cuban scholars is the heavy weight of the Communist Party of Cuba (PCC) and its central committee and supreme political bureau. The hierarchical PCC permeates all institutions, political and economic, on the island. The PCC’s nationwide mass organizations, including the Federation of Cuban Women (FMC), the workers’ union (CTC), the association of small farmers (ANAP), youth and student organizations, and the national police (PNR), have their headquarters in Havana and descending layers of bureaucracy at the provincial and municipal levels. Often the most powerful local figure is not the city mayor but the party first secretary: The current president, Miguel Díaz-Canel, made his reputation as provincial party first secretary of Villa Clara and Holguin provinces. In Santiago, the most visible political figure today is Provincial Party First Secretary Lázaro Expósito.

Recently, advocates of decentralization point to several reasons for cautious optimism. A new internationally-backed initiative, PADIT (Plataforma Articulada para el Desarrollo Integral Territorial, Platform for Integrated Regional Development), has been assisting some 30 municipalities to upgrade their strategic planning capacities, reportedly with some promising results that could encourage wider adaptation.⁴⁴ The new national constitution promises “autonomy” to various decentralized authorities, which might eventually be interpreted to include more control by provincial and municipal authorities over expenditures and other local matters. And as Cubans gain access to the internet, President Díaz-Canel has been urging local authorities to advance transparency and accountability by uploading more information onto their websites.

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