

# CUBA TRANSFORMACIÓN

**EDITION 1**

## **CUBA'S STRUCTURAL CRISIS AND THE PATH TO TRANSFORMATION**

This article examines the Cuban crisis as the result of decades of accumulated structural deterioration rather than a temporary or isolated difficulty. Drawing on economic and social indicators as well as regional comparisons, it analyzes the weakening of the country's productive base, the impact of the energy crisis, institutional decline, and the growing demographic and social pressures shaping any potential recovery process.

The paper also explores what the priorities of a future transformation in Cuba should be, ranging from economic stabilization and the recovery of strategic sectors to social protection and institutional reconstruction. In addition, it reviews lessons from comparable international experiences and assesses the advantages Cuba still retains –human capital, its diaspora, and geographic position– as potential foundations for a long-term recovery.

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## ***A CRISIS BEYOND QUICK FIXES***

This opening installment of our series on Cuba's transformation examines Cuba's crisis in comparative perspective to clarify both its nature and the scale of transformation required to reverse it. Using regional benchmarks and straightforward indicators, we identify structural patterns rather than short-term fluctuations. The analysis proceeds cautiously, given limitations in Cuban statistics and the absence of broadly accepted estimates for some variables. Even so, the conclusion is clear: Cuba's current difficulties are structural, cumulative, and far beyond the reach of incremental fixes.

## ***A LONG DECLINE, NOT A TEMPORAL SHOCK***

The available evidence suggests a prolonged and persistent decline rather than a short-term disruption. Cuba's economic standing in the Caribbean has diminished, and this decline has persisted for many years (see table below). Even during periods of significant external aid—from the Soviet Union and later Venezuela—there was no lasting or productive renewal to rebuild the nation's physical capital. The current crisis should not be viewed as the result of a single policy failure, an external shock, or a particularly tough year. Instead, it reflects deeper structural weaknesses that have accumulated over decades and remain unaddressed.

## **CUBA'S ECONOMY IN REGIONAL PERSPECTIVE**

(averages 2022-2024)

	<b>Cuba</b>	<b>Costa Rica</b>	<b>Dominican Republic</b>	<b>Guatemala</b>	<b>Haiti</b>
Nominal GDP (USD millions)	21 920	85 066	119 406	104 403	21 302
GDP Per Capita (USD)	2 177	16 661	10 539	5 760	1 830
GDP Per Capital PPP (USD)	6 300	28 747	26 002	13 709	3 254
Total Population (MM)	10,1	5,1	11,3	18,1	11,6
Working Age Population (MM)	6,6	3,5	7,4	11,4	7,4
Inflation (%)	31,8	2,3	4,9	5,0	32,6
Budget balance (% of GDP)	-9,4	-3,1	-3,3	-1,3	2,0
Gross Fixed Investment (% of GDP)	12,2	16,8	28,4	16,4	13,0
FDI (USD millions)	976	4 553	4 426	1 649	25
IFDI (% of GDP)	4,5	5,3	3,7	1,6	0,1
Cement consumption (kg per capita)	75	195	484	282	194
Steel consumption (kg per capita)	10	116	49	61	na
Electricity consumption (kwh per capita)	1 384	2 115	2 162	688	76
Final energy consumption (toe per capita)	0,48	0,83	0,73	0,84	0,25

**Source:** Economist Intelligence Unit, World Development Indicators (World Bank), Latin American and Caribbean Energy Organization (OLACDE), World Steel Association, Interamerican Cement Federation (FICEM). GDP per capita at PPP comes from calculations based on Vidal (2017). Haiti's electricity consumption corresponds to 2022.

## ***THE MACROECONOMIC DOOM LOOP***

The macroeconomic picture reinforces this diagnosis. Cuba faces:

- High inflation
- Large fiscal imbalances
- Heavy debt burdens
- Severely limited access to external financing

These conditions leave extremely narrow room for policy maneuver. At the same time, much of the painful adjustment has already taken place—not through deliberate policy but through crisis itself—through steep compression of real incomes, reduced demand, and forced contraction of economic activity. This matters because it suggests the first phase of any serious transformation cannot be a conventional stabilization program. Stabilization remains essential, but it must be embedded in a broader effort to restore the minimum conditions for economic functioning, rather than extracting further sacrifices from a population that has already borne catastrophic losses.

## ***A DETERIORATING PRODUCTIVE BASE***

Investment and production indicators show that Cuba lacks the essential material infrastructure for sustained development. The issue is not just prolonged low investment but also that capital replacement consistently lags depreciation in key sectors. This accounts for the noticeable decline in:

- Housing
- Infrastructure
- Transport
- Construction capacity
- Industrial performance

Cuba is not merely growing too slowly, if at all. It is operating with an increasingly weakened productive platform.

## ***PRIORITY SECTORS FOR EARLY RECOVERY***

Energy exemplifies this broader decline. What was once a fragile electricity grid has now become a bottleneck for activity across nearly all sectors. Present energy shortages are simultaneously disrupting production, trade, transportation, and essential services.

This is why recovering enabling sectors must be among the earliest priorities of any viable reform effort. A similar logic applies to agriculture, logistics, and tourism. Although not equally important for the same reasons, all four are essential to the first stage of recovery.

Why each sector matters:

- **Energy:** Without meaningful improvement in energy availability, the rest of the economy will remain trapped in a cycle of low productivity, uncertainty, and recurrent disruption
- **Agriculture:** Food insecurity, import dependence, and weak domestic supply drive both inflation and social distress
- **Logistics:** No economy can function when transport, fuel availability, distribution systems, and port operations remain impaired
- **Tourism:** Despite past policy distortions, it remains one of the few sectors with installed capacity to generate foreign exchange relatively quickly under improved conditions

The immediate challenge is not development in the full sense but restoring a basic platform from which development can again become possible.

## ***THE HUMAN TOLL: DEMOGRAPHICS AND SOCIAL BREAKDOWN***

Demographic and social trends increase the urgency. Cuba still possesses significant human capital accumulated over the years, but this resource is declining as many highly educated working-age adults emigrate. The shrinking workforce is combined with reduced institutional capacity and deteriorating public services. This situation is particularly damaging because it affects current productivity and the country's ability to implement and sustain reforms moving forward.

Social consequences are now fundamental aspects of the crisis, not just side effects. Inequality has grown, poverty has risen, and the systems that once mitigated economic shocks for vulnerable households have significantly weakened.

The decline in health outcomes and shrinking medical workforce reflect a broader trend: the crisis has extended beyond the productive economy and now impacts institutions that were once considered among Cuba's key strengths.

This is why protecting the most vulnerable population groups must be a priority alongside stabilization and sectoral recovery from the outset. Social protection cannot be treated as a later-stage correction. It is essential to the process's viability.

## ***AN EMERGING CONSENSUS ON THE NEED FOR CHANGE***

If one constructive conclusion can be drawn from the current crisis, it is that a meaningful consensus has emerged around several basic points. The crisis is structural and multidimensional. The authorities, and the prevailing model itself, have shown a sustained inability to conceive and implement effective responses to the scale of the challenges now facing the country. And the required changes go beyond administrative adjustments, tactical relaxations, or partial openings.

Important disagreements remain, including whether far-reaching change must also encompass the political model and what broader political, economic, and social reference framework should guide a future transformation. But the terms of the debate have shifted. Today, it is impossible to deny that Cuba needs profound change at multiple levels.

## ***LESSONS FROM COMPARATIVE EXPERIENCE***

The transformation Cuba needs is also, in some measure, an exercise in confidence on the part of its most committed sons and daughters, and hopefully of responsible international actors as well. That confidence should not rest on illusion. It should rest on a sober recognition that, despite the severity of the deterioration, successful transformation remains possible. Comparative experience from other large-scale processes of economic reorganization offers several especially relevant lessons:

**First**, strengthen the state rather than weaken it prematurely. Cuba would need to preserve and expand fiscal and administrative capacity as change advances. When governments lose revenue, enforcement capacity, and bureaucratic coherence too early, they often struggle to uphold rules, deliver public services, and maintain social confidence. This point is especially important for decentralization. Greater local autonomy can improve responsiveness and experimentation, but only when paired with clear fiscal responsibilities, transparent procurement, auditing capacity, and effective accountability. Otherwise, decentralization can simply reproduce inefficiency and rent extraction at the local level.

**Second**, establish strong governance frameworks before initiating ownership changes. Experience shows that large asset transfers conducted without proper institutions often lead to problems. Without effective regulation, transparent valuation, solid corporate governance, and competition protections, rapid ownership shifts can undermine restructuring efforts, weaken the fiscal foundation, and centralize benefits among a few. This doesn't imply keeping inefficient structures forever but highlights that governance reform must precede successful restructuring, not be improvised as a later step.

**Third**, cultivate social legitimacy through fairness. For lasting change, gaining social legitimacy is essential. This involves integrating macroeconomic stabilization with targeted social protections and demonstrating clear improvements in legality, predictability, and fairness. Citizens tend to back major reforms when these bring order, protection, and opportunity, rather than dispossession, uncertainty, or favoritism for a small elite. In the case of Cuba, this issue may prove crucial, given the already strained social fabric and the significantly high costs of additional disorder.

## ***CUBA'S REMAINING ADVANTAGES***

Cuba also maintains key advantages compared to its Caribbean neighbors. Its human capital, still notably strong for its income level, remains a vital strength. High literacy, numeracy, and educational attainment can facilitate a more knowledge-driven recovery if appropriate institutional conditions are in place. Additionally, the country's healthcare and biotechnology sectors could become significant assets within a framework that offers more secure rights, improved incentives, and access to external markets.

The Cuban diaspora presents both challenges and opportunities. Challenges include brain drain, polarization, and contentious debates over rights, assets, and political representation. However, it also comprises a significant external community with capital, networks, and expertise, all invested in Cuba's future. If managed properly—balancing fairness and legal credibility without overly restricting recovery—this diaspora could serve as a vital source of investment, knowledge exchange, and external support.

Geography provides another key advantage. Being close to the United States could lead to significant changes if normalization occurs. Sectors such as tourism, remittances, foreign direct investment, logistics, and trade could grow considerably in a more cooperative environment. However, this potential is not guaranteed and depends on external factors beyond Cuba's complete control. Nonetheless, it remains one of the nation's most important latent strengths.

### ***CONCLUSION: FIRST STEPS ON A LONG PATH***

From a regional perspective, the main takeaway is not just that Cuba has fallen behind. Instead, it faces a crisis that is too severe, widespread, and enduring to be resolved under current policies. The indicators reveal a weakened macroeconomic position, a declining productive sector, a decline in public services, and a loss of demographic and human resources. Moreover, they indicate that Cuba currently lacks the essential material foundation needed to pursue normal development.

That is why the priorities must be more basic and more urgent: stabilize the economy under realistic assumptions, recover enabling sectors such as energy, agriculture, tourism, and logistics, and protect the population groups least able to absorb further deterioration. Only from that starting point can a broader strategy of sustained transformation begin to take shape.