

## **UNDERSTANDING CUBA'S ECONOMIC CRISIS: Internal Challenges, External Pressures and the Need for Structural Transformation**

### **Una explicación sobre la crisis económica cubana: Desafíos internos, presiones externas y necesidad de una transformación estructural**

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#### **Abstract**

This paper provides a comprehensive analysis of the multifaceted nature of Cuba's economic crisis, exploring the interplay of endogenous and exogenous factors that sustain and exacerbate it. Special emphasis is placed on the role of U.S. sanctions in shaping Cuba's economic landscape and the importance of accelerating Cuba's internal structural transformations to achieve greater economic resilience. Ultimately, this paper argues that despite significant challenges, advancing these reforms is essential for Cuba's future stability and growth.

**Keywords:** Macroeconomics, Consumption, Saving, Investment, International Trade, Conflicts, Negotiations, International Sanctions

#### **Resumen**

Este artículo proporciona un análisis de la crisis económica cubana de naturaleza multifactorial, explorando la interrelación entre factores externos e internos que explican dicha crisis y la exacerban. Un énfasis especial tiene en el análisis el rol de las sanciones estadounidenses sobre la economía y la importancia de acelerar las transformaciones estructurales internas para lograr una mayor resiliencia económica. En última instancia, este trabajo concluye que, a pesar de retos muy significativos, el avance en el proceso de reformas es esencial para la estabilidad y el crecimiento futuro de Cuba.

**Palabras clave:** Macroeconomía, Consumo, Ahorro, Inversión, Comercio Internacional, Conflictos, Negociaciones, Sanciones Internacionales

**JEL Codes:** E2, F1, F51

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## Introduction

In recent years, Cuba has encountered one of the most challenging economic periods in its modern history, marked by an acute crisis manifesting as prolonged stagflation, simultaneous stagnation and inflation, intensified by escalating social and economic pressures. This crisis arises from both internal inefficiencies and external factors deeply rooted in the country's unique political and economic model. Internally, Cuba's centrally planned economy has struggled to adapt to evolving global conditions, hindered by delays in structural reforms and rigidities in state-run sectors. Externally, ongoing U.S. sanctions and limited access to international financial institutions restrict Cuba's economic development, heightening its vulnerabilities.

This paper provides a comprehensive analysis of the multifaceted nature of Cuba's economic crisis, exploring the interplay of endogenous and exogenous factors that sustain and exacerbate it. Special emphasis is placed on the role of U.S. sanctions in shaping Cuba's economic landscape and the importance of accelerating Cuba's internal structural transformations to achieve greater economic resilience. Ultimately, this paper argues that despite significant challenges, advancing these reforms is essential for Cuba's future stability and growth.

### 1. Overview of the Cuban Economy

As a distinctive model within a predominantly market-driven global landscape, the Cuban economy has long navigated the intersection of ideological commitment and economic necessity. While this system has achieved notable milestones in social welfare, it now faces a profound crisis. Current economic indicators reveal that Cuba's centralized model struggles to generate growth, stability, and resilience in the face of internal inefficiencies and external pressures. Challenges such as inflation, stagnating GDP, and dependency on a limited range of export sectors underscore the need for deep structural reform. This section examines these issues in detail, illustrating why a shift toward a more flexible, market-inclusive economy is essential for Cuba's future.

## **Economic Indicators: The Erosion of Stability**

Cuba's recent economic indicators underscore an urgent need for reform. Data from the Economic Commission for Latin America and the Caribbean (ECLAC) and the Centro de Investigaciones de Economía Internacional reveal a decade of stagnation, with Cuba's GDP growth rate oscillating between minor gains and sharp contractions. For instance, while Cuba recorded modest GDP growth of 1.2% in 2021 following the pandemic, it slipped back into recession in 2023. This recurrent downturn signals the structural weaknesses within Cuba's economic framework, which relies heavily on a few key sectors and lacks the diversification needed for resilience (ECLAC, 2023).

This stagnation is further illustrated by Cuba's inflation trajectory. Between 2014 and 2023, inflation escalated significantly, reaching over 30% in 2023, a historic high reflecting severe economic instability. According to Carmelo Mesa-Lago (2020), inflation at this scale not only undermines the purchasing power of Cuban citizens but also jeopardizes the stability of the economy itself. Traditional mechanisms used by the Cuban government to control inflation, such as price controls and rationing, have proven inadequate, often exacerbating shortages and encouraging black-market activities. Unlike other economies that can leverage monetary policies to control inflation, Cuba's centrally planned system lacks these tools, leaving it vulnerable to external shocks and internal supply chain disruptions. Matthias Maas (2017) argues that this rigidity is a direct consequence of Cuba's resistance to market reforms. Without adopting more flexible policies that incorporate market mechanisms, Cuba will continue to face cyclical crises that erode its economic base. This context provides strong support for the argument that structural transformation is essential, not merely to curb inflation but to establish an adaptable framework capable of withstanding economic fluctuations.

## **Structural Features and the Inflexibility of Cuba's Economic Model**

Cuba's economic structure, defined by a high degree of state ownership and control, serves as both a hallmark and a constraint. The country's reliance on a narrow array of industries (primarily tourism, nickel production, and medical services exports) has created a system that is both constrained and overly dependent on external demand. This structural rigidity contrasts sharply with the diversification seen in other developing economies, where multiple sectors contribute to GDP growth and provide resilience against specific shocks.

Tourism, historically a key pillar of Cuba's economic model, has been essential in generating both foreign currency inflows and employment opportunities. Yet, as the COVID-19 pandemic illustrated, dependence on tourism renders the economy vulnerable to global disruptions. While some countries mitigated the pandemic's impact on tourism by stimulating domestic consumption or diversifying into new markets, Cuba's closed economy and

restrictive policies limited its capacity to do so. By the end of 2023, post-pandemic recovery in tourism remained slow, with visitor numbers still significantly below pre-pandemic levels. This sluggish recovery highlights inefficiencies within state-run tourism operations and underscores the missed opportunities of a more liberalized tourism market.

The situation in Cuba's nickel industry further exemplifies the limitations of a state-controlled economic model. As a major export commodity, nickel historically provided substantial revenue; however, fluctuations in global commodity prices disproportionately affect Cuba. Given that the government controls both production and export activities, the sector has limited capacity to respond to market signals or innovate in production practices. Studies by Hoffman and Whitehead (2022) emphasize the drawbacks of this approach, noting that Cuba's reluctance to introduce private-sector participation restricts the potential for technological advancement and operational efficiency within these critical sectors.

Medical services, another significant export, face similar constraints. Although Cuba's healthcare system and medical expertise have earned international recognition, the export of medical services remains exclusively under state control, restricting individual initiatives and partnerships that could expand this sector's reach and profitability. Feinberg (2018) argues that while Cuba's medical diplomacy bolsters its soft power and generates revenue, the restrictive model limits the sector's potential for scalability and adaptability to new global healthcare demands. Introducing more autonomy and market flexibility into these export sectors would not only diversify revenue streams but also reduce the inherent vulnerabilities in Cuba's economy.

In sum, Cuba's economic structure, though ideologically aligned with socialist principles, has become an obstacle to growth and diversification. The high degree of state control restricts innovation and diminishes the economy's resilience to external shocks. The call for structural transformation reflects not a departure from socialist ideals but rather a strategic adaptation aimed at preserving these principles through a more sustainable economic foundation. A deeper commitment to reform encompassing market incentives, reduced bureaucratic barriers, and expanded private-sector involvement appears essential to reinvigorate Cuba's economy and secure its long-term viability.

## **2. Internal Nature of the Crisis**

Understanding Cuba's economic crisis requires examining not only the external pressures it faces but also the internal inefficiencies deeply rooted in its economic framework. The centrally planned, state-controlled model that has defined Cuba's economy for decades now presents significant obstacles to sustainable growth and adaptability. This section delves into these internal factors, including the limitations of the state-run model, the slow pace of reform, and the inefficiencies in the state enterprise sector, to highlight how these challenges

perpetuate economic stagnation. Ultimately, this analysis underscores why accelerating structural transformation is crucial to address these systemic issues.

### **The State-Controlled Economic Model: A Double-Edged Sword**

At the heart of Cuba's internal economic challenges is its state-controlled economic model, which has sought to achieve equity and social welfare through centralized planning. While this model once allowed Cuba to achieve impressive social milestones, it has become increasingly restrictive in today's economic landscape. Mesa-Lago (2020) contends that the rigidity of a state-led system inhibits the responsiveness and innovation essential for success in a rapidly evolving global economy. In contrast to other socialist nations that have incorporated market elements to foster dynamism, Cuba maintains a high degree of state control, which limits economic growth and discourages private initiative.

In the current context, Cuba's centralized model constraints productivity and growth. Sectors such as tourism and agriculture, primarily managed by the state with minimal private-sector involvement, illustrate this issue. This centralized control restricts adaptability, as state-run enterprises often lack the flexibility and competitiveness of privately managed businesses. Consequently, these sectors struggle to capitalize on market opportunities or improve service quality, which, in turn, limits their contributions to the broader economy. The inability to integrate private initiatives further isolates Cuba from potential growth avenues, reinforcing the argument that structural reforms involving private sector participation are essential for sustainable development.

The inefficiencies embedded within the state-led model extend to resource allocation. Centralized planning creates a bureaucratic structure that often results in resource mismanagement and waste. For instance, industries critical to domestic consumption, such as food production, suffer from chronic underinvestment and outdated practices. Meanwhile, resources are frequently diverted to export-oriented sectors like tourism, resulting in imbalances in domestic supply and demand. This misallocation not only contributes to scarcity but also hampers the government's ability to meet the basic needs of its population. Without significant reform, these structural inefficiencies will continue to destabilize Cuba's economy, hindering efforts to achieve sustained growth and stability.

### **The Pace of Reform: Hesitancy and Half-Measures**

While Cuba has acknowledged the necessity of economic reform, the pace has been notably slow, and changes have often been limited in scope. This reluctance to implement comprehensive reforms reflects a deep-seated tension between ideological commitments and practical necessities. Hoffman and Whitehead (2022) observe that the Cuban government's incremental approach to reform has resulted in half-measures that fail to address underlying issues. For example, small-scale market-oriented reforms, such as

allowing certain self-employment activities and limited private business operations, remain heavily regulated and restricted to non-strategic sectors, diminishing their economic impact.

Additionally, labor market and production reforms have been limited, further restricting economic growth. Many Cuban professionals face limited advancement opportunities within state-controlled sectors, resulting in low motivation and, in many cases, emigration.

This talent drain exacerbates workforce shortages in key industries, reducing Cuba's productive capacity. The absence of incentives for innovation and productivity within the state-run system implies that even modest reforms are unlikely to yield significant improvements in economic output. A more decisive approach to reform is required, one that encompasses comprehensive labor policy changes, broader allowances for private enterprise, and incentives for foreign investment.

### **The State Enterprise Sector: Structural Inefficiencies and Economic Stagnation**

The inefficiency of the state enterprise sector is among the most pressing internal factors contributing to Cuba's economic crisis. State enterprises dominate sectors such as tourism, agriculture, and manufacturing, serving as the primary drivers of the economy. However, performance within these enterprises is often marred by bureaucracy, lack of accountability, and limited competition. Scholars like Mesa-Lago (2020) argue that the inefficiency of these enterprises results from a lack of market-oriented incentives and the absence of performance-driven management. Without competition, state enterprises lack motivation to optimize operations or innovate, leading to subpar performance and limited contributions to the national economy.

Agriculture exemplifies the inefficiencies within the state enterprise sector. Despite favorable conditions for agricultural production, Cuba imports a significant portion of its food, as state-run agricultural enterprises cannot meet domestic demand. State control over agricultural production and distribution has led to resource mismanagement, waste, and low productivity.

Attempts to boost production through state-sponsored programs have largely failed to address the systemic issues that prevent efficient resource utilization. Allowing private investment and market incentives in agriculture could significantly enhance production and reduce dependence on food imports, alleviating some fiscal pressures Cuba faces due to high import costs.

Similarly, inefficiencies extend to infrastructure, where outdated facilities and equipment constrain production capacity and quality. Manufacturing, for instance, relies on obsolete machinery and suffers from inadequate maintenance, resulting in low output and poor product quality. Given Cuba's dependence on these industries for domestic supply and export revenue, these inefficiencies substantially hinder economic growth. Budget constraints and

ideological reluctance to embrace private-sector methods contribute to the lack of modernization. Hoffmann and Whitehead (2022) argue that public-private partnerships could be a viable solution, enabling state enterprises to attract capital, technology, and expertise essential for enhancing productivity and modernization.

### **Social Implications of Internal Constraints**

The internal constraints within Cuba's economy not only impede growth but also have profound social implications. The inefficiencies in state-run industries, coupled with limited reform efforts, contribute to shortages of essential goods and services, creating hardship for the population. High inflation, coupled with scarcity, has eroded living standards, leading to widespread social discontent and frustration. Feinberg (2018) suggests that the persistence of these issues threatens the social stability that Cuba's government has long prioritized. Without effective reforms, the government risks eroding public support, further destabilizing the economy as social pressures mount.

Additionally, the limited scope of current reforms fails to address the needs of younger generations, many of whom seek greater economic freedom and opportunities for personal advancement. This disconnect between state policy and public expectations has led to a growing sense of disillusionment, particularly among Cuba's youth. Hoffman and Whitehead (2022) note that Cuba's younger population increasingly questions the efficacy of the existing economic model, advocating for a more open and diversified economy that can offer the prospect of a better future. Accelerating reforms that create meaningful economic opportunities is essential to prevent a further erosion of social cohesion and to ensure that Cuba's human capital is fully utilized.

To sum, the internal factors driving Cuba's economic crisis highlight the limitations of its centralized, state-controlled model, particularly in resisting market integration and limiting private sector involvement. Inefficiencies within the state enterprise sector, a slow reform pace, and misaligned resource allocation signal an urgent need for transformation. A decisive shift toward market-oriented policies, public-private partnerships, and a restructured state enterprise sector could unlock growth and strengthen economic resilience. Beyond economic efficiency, these reforms are crucial for social stability and aligning with the aspirations of a changing population. The following section explores how external pressures, including U.S. sanctions, reinforce the urgency for these internal changes.

## **3. Exogenous Factors and U.S. Sanctions**

Cuba's economic crisis cannot be fully understood without examining the significant impact of external pressures, particularly the U.S. sanctions that have shaped its economic landscape for decades. Although internal limitations contribute substantially to Cuba's challenges, these external constraints exacerbate the situation, leaving the country increasingly vulnerable to economic shocks and global market fluctuations. This section assesses how U.S. sanctions, Cuba's limited access to international financial resources, and other external factors intensify the urgency of internal structural reforms. In this context, transforming Cuba's economic model is not merely an internal necessity but also a strategic response to withstand and adapt to persistent external pressures.

### **The Impact of U.S. Sanctions: Economic Isolation and Restricted Trade**

The U.S. embargo, first imposed in 1960, is among the most defining and enduring external pressures on the Cuban economy. Over the years, sanctions have expanded to restrict Cuba's trade, financial transactions, and access to international markets. These restrictions have forced Cuba into economic isolation, severely limiting its ability to integrate with global economic systems and blocking access to critical resources. For a country with a high dependency on imports for essential goods, such as food, fuel, and medical supplies, the embargo's impact on economic stability and public welfare is profound (Feinberg, 2018).

Sanctions have disrupted Cuba's trade relationships, restricting its access to U.S. markets and, by extension, limiting the diversity of its trading partners. Although some nations, including allies in Latin America and Europe, continue to trade with Cuba, the embargo deters many international corporations from engaging with the island for fear of secondary sanctions from the U.S. As a result, Cuba relies heavily on a small group of sympathetic countries, such as Venezuela, Russia, and China, which offer limited and often unstable partnerships. The volatility of these alliances underscores Cuba's need for a more adaptable and self-reliant economic system that could better withstand instability in international relations.

From a strategic perspective, accelerating internal reforms could help Cuba mitigate some adverse effects of the embargo. Encouraging domestic production in sectors like agriculture and energy could reduce Cuba's reliance on imports, strengthening its resilience against trade restrictions. Similarly, diversifying the economy to include a broader range of exportable goods and services would lessen its dependency on a narrow set of trading partners. Thus, structural transformation becomes a pathway for Cuba to navigate the restrictive conditions imposed by U.S. sanctions, as internal reforms could foster a more robust and independent economy.

### **Limited Access to International Financial Institutions and Capital**

Beyond the embargo, Cuba's exclusion from international financial institutions (IFIs) like the World Bank and the International Monetary Fund further constraints its economic

development. Membership in these institutions would grant Cuba access to loans, financial support, and technical assistance that could aid in economic stabilization and development projects. However, U.S. influence within these organizations, coupled with the embargo, has effectively barred Cuba from these essential financial resources. This exclusion limits Cuba's ability to finance infrastructure projects, support industry modernization, or provide a cushion against economic downturns.

The absence of IFI support has left Cuba reliant on bilateral arrangements, often with countries facing their own economic challenges. For example, Cuba's economic alliance with Venezuela, particularly in the form of subsidized oil, has been crucial in maintaining its energy supplies. Yet, as Venezuela's economic crisis deepened, this arrangement became increasingly unreliable, exposing Cuba to energy shortages and compounding fiscal pressures. Similarly, partnerships with countries like China and Russia provide some financial relief but do not offer the same level of support or stability that IFIs could. This dependency on unstable bilateral alliances reflects a broader vulnerability that could be alleviated through structural reforms designed to attract diverse foreign investments and promote economic self-reliance.

With limited access to global capital, Cuba's economic transformation becomes even more critical. By reforming its economic model to allow for greater private enterprise, Cuba could attract foreign direct investment (FDI) from non-U.S. sources, thereby reducing its dependency on volatile alliances. For instance, liberalizing sectors such as tourism, agriculture, and technology could attract international partners and investors interested in joint ventures or development projects. Such partnerships would provide Cuba with alternative financing channels and technological advancements essential for modernization and productivity improvements. Thus, internal reforms could position Cuba to benefit from global economic opportunities, even without IFI support.

### **Global Market Pressures and Economic Vulnerabilities**

In addition to sanctions and financial exclusion, Cuba's integration with the global market is hindered by its limited export base and susceptibility to global price fluctuations. As a "price-taker" economy, Cuba lacks the capacity to influence prices of its main exports, such as nickel and medical services, which leaves it vulnerable to international market volatility. For instance, shifts in global nickel prices directly impact Cuba's export revenues, affecting its ability to fund essential imports and maintain fiscal stability. Similarly, the COVID-19 pandemic severely disrupted Cuba's tourism sector, a critical source of foreign exchange, highlighting the economy's dependence on a small set of income streams.

Cuba's exposure to global market pressures further emphasizes the need for economic diversification. Currently, Cuba's limited range of exports and its reliance on external markets

for essential goods create a cyclical vulnerability: when global conditions shift, the country has few economic buffers. Accelerating structural transformation to diversify export sectors could reduce Cuba's susceptibility to market volatility. By developing other exportable services or high-value products, Cuba could establish a more resilient revenue base that is less affected by global price fluctuations or sector-specific crises. For example, expanding into technology, manufacturing, or renewable energy could create new avenues for growth, decreasing reliance on traditional exports and enhancing economic stability.

Additionally, reforms that promote domestic industries, particularly agriculture and manufacturing, could enable Cuba to achieve greater self-sufficiency, reducing its dependence on imports and mitigating the impact of global supply chain disruptions. As global economic conditions grow increasingly unpredictable, developing a diversified and resilient domestic economy would provide Cuba with greater control over its resources, reducing its vulnerability to external shocks. In this sense, structural transformation is not only an internal reform agenda but also a necessary adaptation to the global economic environment.

### **The Strategic Necessity of Economic Resilience**

In light of these external pressures, the argument for accelerating Cuba's internal transformation becomes strategically compelling. While sanctions and financial exclusion are beyond Cuba's direct control, the country has an opportunity to build resilience by reforming its economic structure. A diversified economy with robust domestic production capabilities would not only mitigate the effects of sanctions but also strengthen Cuba's bargaining position in international relations. By reducing reliance on a small number of trade partners, Cuba could cultivate a more independent economic model that provides greater flexibility in navigating geopolitical tensions.

Furthermore, reforms that encourage foreign investment and private sector growth could help Cuba attract partners willing to invest in long-term projects, such as renewable energy infrastructure, technological upgrades, and industry modernization. These projects would provide Cuba with the means to develop a self-sustaining economy better equipped to withstand external pressures. In the face of a global economic order that often isolates Cuba, internal transformation becomes a strategic pathway for resilience and sustainability.

To sum, external pressures (including U.S. sanctions, exclusion from IFIs, and global market volatility) intensify the weaknesses of Cuba's current economic model and underscore the need for comprehensive structural reforms to build resilience and autonomy. Diversifying the economy, strengthening domestic industries, and fostering foreign partnerships could reduce Cuba's susceptibility to external shocks and provide a foundation for sustainable growth. Thus, accelerated reform is not only a response to internal challenges but a strategic

imperative in a volatile global landscape. Without it, Cuba risks ongoing isolation and dependency; with it, the country could achieve greater stability and self-sufficiency.

#### **4. The Case for Accelerated Structural Transformation**

An examination of both internal inefficiencies and external pressures reveals an unavoidable conclusion: for Cuba to navigate its current economic crisis and build a resilient future, it must undertake profound structural transformation. This transformation must go beyond isolated reforms; it requires a cohesive strategy that addresses the roots of Cuba's economic challenges. From diversifying the economy to restructuring the state enterprise sector and integrating market mechanisms, accelerated reform offers Cuba a pathway not only to stabilize its economy but also to unlock new growth opportunities and reduce its vulnerability to external pressures. This section articulates the strategic imperatives and potential benefits of a comprehensive transformation agenda for Cuba.

##### **Economic Diversification: Building a Resilient Revenue Base**

A primary objective of structural transformation in Cuba is economic diversification. Currently, the economy is overly dependent on a limited set of export sectors, most notably tourism, nickel, and medical services. This narrow focus has made Cuba especially vulnerable to sector-specific crises, such as the sharp decline in tourism due to the COVID-19 pandemic and fluctuations in global commodity prices that affect nickel exports. Developing a diversified economy would provide Cuba with a more stable revenue base capable of withstanding shocks in individual sectors.

Economic diversification would also involve developing new industries that align with Cuba's comparative advantages. For instance, Cuba has significant potential in renewable energy production, particularly solar and wind power, due to its geographic location and climate.

Investing in renewable energy infrastructure could reduce Cuba's dependency on imported oil, enhance energy security, and position the country as a regional leader in sustainable development. Additionally, renewable energy projects could attract foreign investors interested in long-term partnerships, providing Cuba with both capital and technology to modernize its energy sector.

Further, expanding sectors like technology and manufacturing would create opportunities for high-value exports, reducing reliance on traditional industries. By fostering growth in these areas, Cuba could create a more balanced economic structure that does not hinge on a few key industries. Achieving this level of diversification requires policy shifts that encourage

private enterprise, foreign investment, and innovation. Accelerated reforms in these areas would enable Cuba to build a resilient economic base that can support sustainable growth and act as a buffer against global market fluctuations.

### **Restructuring the State Enterprise Sector: Enhancing Efficiency and Productivity**

A critical component of Cuba's structural transformation involves restructuring its state enterprise sector, which dominates the economy but suffers from inefficiencies. State enterprises drive key sectors such as tourism, agriculture, and manufacturing. However, performance within these enterprises is often hindered by bureaucracy, lack of accountability, and limited competition. Mesa-Lago (2020) argues that these inefficiencies result from the absence of market-oriented incentives and the lack of performance-driven management structures. Without competition, state enterprises lack the motivation to optimize operations or innovate, leading to subpar performance and limited contributions to the national economy.

To address these issues, restructuring the state enterprise sector would require a combination of decentralization, public-private partnerships, and performance-based management.

Decentralization would grant state enterprises greater autonomy, enabling managers to make decisions based on market conditions rather than bureaucratic directives. This flexibility could improve responsiveness to domestic demand and export opportunities. Public-private partnerships, particularly in industries like tourism and agriculture, could also bring in needed capital and expertise, facilitating technological upgrades and operational improvements.

Furthermore, introducing performance-based management practices within state enterprises would create incentives for efficiency and productivity. By linking management decisions to measurable outcomes, such as profit margins or productivity targets, state enterprises would be encouraged to operate with a focus on results. This approach aligns with successful reform models observed in other post-socialist economies, where state-owned enterprises have been revitalized through the adoption of market-oriented management principles. Accelerating such reforms within Cuba's state enterprise sector could not only enhance efficiency but also foster a more dynamic and competitive economy.

### **Integrating Market Mechanisms: Fostering Innovation and Economic Growth**

Integrating market mechanisms within Cuba's centrally planned system is another essential aspect of structural transformation. Although the Cuban government has historically resisted market liberalization, there is a growing recognition that certain market-based reforms could stimulate economic growth without compromising socialist principles. For instance, allowing

greater freedom for private businesses and self-employment could spur innovation, improve service quality, and increase employment opportunities.

Market mechanisms would also incentivize productivity by fostering competition within certain sectors, encouraging enterprises to optimize operations and reduce waste. In the agricultural sector, for example, allowing private farms to operate more independently and introducing competitive markets for their goods could enhance productivity and food security. This approach would reduce the need for food imports, alleviating some of the fiscal pressures related to foreign currency shortages. A more efficient and self-sufficient agricultural sector could thus make substantial progress toward economic independence while meeting the population's basic needs.

Moreover, a market-driven approach to pricing and distribution could address Cuba's inflationary challenges. The Cuban government's price controls and rationing systems have proven ineffective at curbing inflation, often leading to shortages and black-market activity.

Implementing market-oriented pricing mechanisms, particularly for non-essential goods and services, would allow supply and demand to naturally stabilize prices, reducing the distortions created by artificial controls. Such reforms would create a more adaptable economy, capable of adjusting to both domestic and international pressures.

### **Encouraging Foreign Investment: Accessing Capital and Technology**

Foreign investment is crucial for Cuba's transformation strategy, as it provides both the capital and technology needed to modernize key sectors. Currently, foreign investment in Cuba is limited, largely due to regulatory restrictions and concerns over political risk. By streamlining investment regulations, offering tax incentives, and guaranteeing property rights, Cuba could create a more attractive environment for foreign investors.

Encouraging foreign investment in sectors such as tourism, energy, and technology would yield multiple benefits. In tourism, foreign partners could help upgrade infrastructure, diversify service offerings, and improve international marketing efforts, thereby enhancing Cuba's competitiveness in a highly globalized industry. In the energy sector, foreign companies specializing in renewable technologies could help Cuba transition to a more sustainable energy system, reducing its dependence on oil imports and addressing environmental concerns.

Meanwhile, investments in technology could facilitate Cuba's entry into high-value industries like information technology and biotechnology, creating new export opportunities.

Moreover, foreign investment can act as a conduit for knowledge transfer, allowing Cuban enterprises to adopt advanced practices and technologies from their international

counterparts. This exposure would accelerate Cuba's modernization efforts and improve the quality of domestic products and services. By prioritizing structural reforms that promote foreign investment, Cuba can leverage global expertise to enhance its economic capabilities, fostering long-term growth and resilience.

### **Reducing Dependency on Imports: Developing Self-Sufficiency**

A major benefit of accelerated structural transformation would be a reduction in Cuba's dependency on imports, especially for essential goods like food and fuel. As discussed, Cuba's reliance on imported goods strains its fiscal resources and makes the economy vulnerable to global price fluctuations and supply chain disruptions. Structural transformation that prioritizes domestic production could help mitigate these risks, strengthening Cuba's self-sufficiency and economic stability.

For instance, investing in agricultural innovation and modern farming techniques could significantly boost domestic food production. With improved efficiency and higher yields, Cuba could reduce its reliance on food imports, freeing up foreign exchange for other critical needs. Similarly, expanding renewable energy capacity would decrease Cuba's dependency on imported oil, providing a more sustainable energy solution that aligns with environmental priorities. These efforts to enhance domestic production align with structural transformation goals, as they create a more resilient economy capable of meeting the population's needs without excessive reliance on foreign resources.

### **The Socioeconomic Impact of Structural Transformation**

Beyond economic stabilization, structural transformation has the potential to deliver substantial social benefits. A reformed economy that encourages private initiative, enhances productivity, and diversifies employment opportunities would improve living standards for many Cubans. Increased access to employment in the private sector, for instance, could provide workers with higher wages and greater job security, reducing poverty levels and enhancing economic equality.

Additionally, structural reforms could help address the aspirations of younger generations who seek greater opportunities for personal and professional growth. By opening the economy to a wider range of industries and professions, Cuba could retain its talented workforce, many of whom currently emigrate in search of better opportunities abroad. This shift would strengthen Cuba's human capital base, ensuring that the country's skilled workforce contributes to national development rather than to the economies of other nations.

Further, structural transformation would reduce the need for restrictive economic measures, such as price controls and rationing, which often lead to resentment and dissatisfaction among citizens. By establishing a more flexible and responsive economic model, Cuba could

foster a more inclusive and participatory economy, where citizens feel empowered and invested in the country's progress. This socioeconomic impact underscores the broader value of structural transformation as a means not only to address economic challenges but also to build a more equitable and cohesive society.

To sum, accelerated structural transformation offers a comprehensive path to address Cuba's economic challenges. Through revenue diversification, state enterprise reform, market integration, foreign investment, and reduced import dependency, Cuba can build a resilient, adaptable economy. This transformation is crucial not only for stability but also for fulfilling citizens' aspirations and fostering equity. Given both internal and external pressures, reform is now a necessity. Embracing modernization and resilience can establish a sustainable, self-sufficient future that meets the needs of Cuba's people and adapts to global demands.

## Conclusion

This analysis of Cuba's economic challenges reveals that a combination of internal inefficiencies and external pressures has led to a crisis that cannot be resolved by piecemeal adjustments. As discussed throughout this paper, the Cuban economy faces structural limitations due to its rigid state-controlled model, an over-reliance on a narrow range of exports, and chronic dependency on imports for essential goods. These constraints make it highly vulnerable to both domestic and international shocks. In addition, U.S. sanctions, exclusion from international financial systems, and global market dynamics compound these vulnerabilities, underscoring the need for a resilient and adaptable economic framework.

The paper has argued that Cuba's economic crisis serves as a clear signal that the country must undertake comprehensive structural transformation. Internal reforms that incorporate market mechanisms, foster private enterprise, and diversify the economy are essential steps for revitalizing growth and ensuring stability. A restructured state enterprise sector, combined with policies that incentivize efficiency and competition, would enable Cuba to fully leverage its domestic resources. Moreover, establishing greater integration with global markets through foreign investment and reducing dependency on imports would enhance Cuba's economic resilience, better equipping it to navigate external constraints.

Structural transformation also holds significant potential for social benefits. A reformed economy that encourages private initiative, productivity, and diverse employment opportunities would elevate living standards, providing Cuban citizens with a more stable foundation for economic security and social equity. By expanding employment opportunities, particularly in the private sector, structural transformation could improve wages and job security, reducing poverty and promoting economic equality. Addressing the aspirations of younger generations seeking greater economic freedom and opportunities for advancement is also crucial to retaining Cuba's talented workforce and reducing emigration.

Ultimately, the accelerated and deepened structural transformation advocated here does not signify a departure from socialist principles but an adaptation of those principles to meet the demands of a changing global environment. This vision for Cuba's future reflects a strategic adaptation, where socialist ideals are preserved through modernization and resilience. By embracing a diversified, self-sufficient economic model grounded in market-responsive reforms, Cuba can lay the groundwork for a sustainable economy that serves the needs of its people and withstands external pressures.

In conclusion, accelerating and deepening Cuba's structural transformation is essential for the country's economic survival and future prosperity. A strategic vision of resilience, diversification, and modernization can provide Cuba with a sustainable path forward, enabling it to build a self-sufficient economy that not only supports social welfare but also positions the nation for a more stable, autonomous, and prosperous future.

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## Declaración de intereses

El autor declara que no existe conflicto de intereses.