





Sometimes the inevitable doesn't happen: Ten years after the collapse of the socialist bloc, Fidel Castro still governs Cuba. Indeed, Cuba reported a 6.2 percent growth rate in 1999 – one of the highest in Latin America. And though the official figures do not provide a full picture of the island's economy, it seems unlikely that economic troubles will force a sea change in policy as long as Fidel remains at the helm.

While the rest of the socialist world (save North Korea) has hedged its bets by making some sort of peace with capitalism, Fidel remains firmly in the opposition – a dogmatic dissident who rejects the “neoliberal” doctrine of competition, deregulation and privatization as the path to growth. In central Europe, economic reform came to

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The Cuban Economy at the End of History

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Photographs by Vern Evans*

symbolize a reassertion of national sovereignty after decades of externally imposed communism. But in Cuba, where the revolution was homegrown, socialism and nationalism have become thoroughly fused. Thus, adopting IMF and World Bank prescriptions, à la Poland or Argentina, is seen as tantamount to ceding national sovereignty to the empire to the north.

Washington tends to take this defiance personally, forgetting that Fidel Castro has always been most comfort-

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able in the opposition. Indeed, there is a remarkable continuity between the survival strategies he relied on before the revolution, and the formula he uses today to keep the ship of state on course. The six key resources that buttressed the insurgency almost half a century ago were:

- **Cuban Émigrés.** The Cuban diaspora ranged from New York to Caracas to Madrid. And Castro's 26th of July Movement relied heavily on émigrés' financial contributions to purchase weapons, and their enthusiasm for jettisoning Batista to gain American sympathy.
- **Diverse Supply Networks.** At the beginning of the insurgency, the revolutionaries depended almost exclusively on Cuban allies for material resources. By 1958, Castro had diversified by bringing in weapons from Venezuela, Costa Rica, Mexico and the United States.
- **Alliances at Home.** Castro cultivated tactical alliances with everyone from Cuba's white-collar elite to the military to the Catholic Church – and eventually with the local Communist Party.
- **International Sympathy.** The revolutionaries astutely appealed to the international community, whether at the United Nations in New York, or the International Red Cross in Geneva, for support against Batista.
- **The United States.** Castro's allies managed a clever, indirect dialogue with Washington. Cubans regularly visited the State Department and the U.S. Congress, lobbying for an embargo on weapons to Batista.
- **The Press.** Castro and his underground comrades benefited enormously from a calculated use of the media to promote their

cause both in Cuba and the United States.

These strategies remain a cornerstone of Cuba's resiliency. Today, remittances from Cuban-Americans rank second to tourism as Cuba's top source of revenue. Since the collapse of the Soviet bloc, Castro has diversified Cuba's trade and investment partners to include Canada, Latin America, Europe and Asia. And as the post-Soviet financial crisis deepened in the first half of the 1990s, Castro sowed important domestic alliances with Catholics, Protestants, Santeros and Jews. With help from brother Raul, Fidel has consolidated control over the military, which, not by chance, now has a hand in the most profitable corners of the Cuban economy.

Meanwhile, the international community has wrapped the island in a blanket of sympathy in reaction to the extraterritorial aspects of two embargo-tightening American laws, the 1992 Cuban Democracy Act and the 1996 Helms-Burton Act. And with the limited openings that do exist, Castro manages considerable leverage on how and when to engage with America. Finally, Castro retains his flare for what makes good international press, while tightly controlling the mass media at home.

WILL THE TORTOISE OUTLAST THE HARE?

Between 1991 and 1993, Cuba's economy contracted by a whopping 35 percent following the withdrawal of the multibillion dollar Soviet subsidy. With neither sugar-for-oil barter arrangements, nor profits from re-exporting refined Soviet crude, Cuba's energy supply plummeted. Blackouts of several hours per day became the norm. Cubans lost hope – and weight.

In response to the euphemistically dubbed "Special Period in Times of Peace," Cuba undertook reforms aimed at balancing

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between the obvious need for adjustment, and the risk that a rapid economic opening would undermine the regime.

Dollarization

Among the most significant was the 1993 decision to legalize the use of United States dollars. Cuban émigrés now send an estimated \$500 million to \$800 million annually to family members. Indeed, Cuban economists have begun to characterize Cuban-Americans

not as the counterrevolutionary “scum” of days past, but as a part of the Cuban labor force that happens to live outside of Cuba’s borders.

To capture the hard currency, Cuba created dollar stores and even dollar-denominated, interest-earning savings accounts. Early in the crisis, the black-market exchange rate reached 130 pesos to the dollar. Today, however, it hovers at a more realistic 20 to one.

At the now-ubiquitous dollar stores, any-

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one with American cash, known as *fula* on the streets, can buy goods unavailable for pesos. At first, people spent their precious dollars on the basics – cooking oil, soap, toothpaste, shoes, deodorant, etc. Today, the billion-dollar demand has spawned a domestic industry of Cuban products available only for dollars. In addition to the stuff once only imported, Cuba now produces its own processed juices, canned vegetables, detergent and soap – but only in exchange for greenbacks.

Retail consumers make up about half of the dollar demand. In the other half of the market, comprising what one Cuban economist calls “exports within borders,” local businesses purchase inputs from local producers, also in dollars.

At the same time, Cuba legalized self-employment in some 150 occupations including car and appliance repair, plumbing, painting, shoemaking and hair styling, while applying a progressive tax system to all non-state incomes. By 1996, over 200,000 people had registered their businesses. Artisan and crafts markets popped up alongside the farmers’ markets. Services previously limited to the underground economy began to surface and prosper. But since then, a combination of heavy taxation and rigid regulation pushed the number of private entrepreneurs below 150,000. The most visible victims: dollar-only family-owned restaurants.

Other reform efforts have been problematic. The idea of a universal progressive tax system, briefly floated, proved wildly unpopular

and was soon tabled. A draft bill to legalize small businesses for the first time since Cuba’s own “great leap forward” to socialism in 1968 was circulated, but never enacted. True believers apparently feared the independent power of a shopkeeper class, both in the market and in politics.

Agriculture

By 1994, Cuba had converted approximately 75 percent of its state-run farms to cooperatives, which today control almost half of all cultivated land. Co-op members hold title to their land in perpetuity, and are required to sell three-quarters of their crop to the state at



below-market prices. The remaining yields, though, are sold at market rates and profits go back into the cooperatives.

While far from enacting a China-style agricultural reform, the state is loosening controls on production and distribution. Last year saw the elimination of the cumbersome

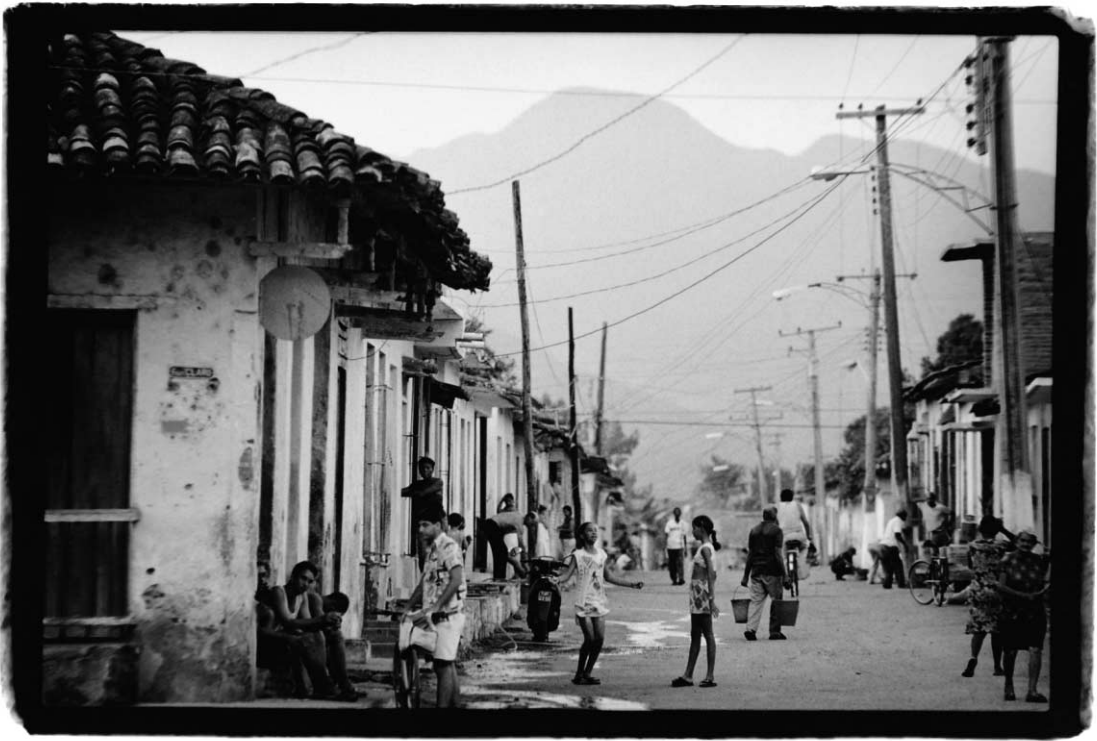


process of *acopio*, or collection, that had often resulted in horror stories of food rotting before it reached the market. Roadside stands and private distribution networks are emerging. So, too, is organic farming for both the internal and export market.

In 1994, Cuba reopened farmers' markets, where private farmers and cooperatives sell a variety of fruits, vegetables, meat, poultry and grains at prices far above state-rationed fami-

ly allotments. This opening was more a political than an economic decision – one designed to avert a food crisis that could have shaken the regime's legitimacy. But prices in the farmers' markets have steadily decreased so that ever-larger numbers of Cubans can occasionally patronize them.

Beyond these steps, however, Cuban agriculture remains mired in the island's rich soils. King Sugar, Cuba's number one source



of foreign currency for more than a century, has experienced severe declines in annual production and revenue. Obsolete machinery, adverse weather conditions and a declining labor supply contributed to a collapse of sugar yields from 7 tons in 1990 to 3.7 tons in 1999. Also, the rising costs of fuel and fertilizer, imported on credit, have driven up the cost of sugar production.

Shutting down most of the island's 125 sugar mills and converting the land to food-stuff production might seem the obvious solution. However, with 400,000 workers employed in sugar and a majority of Cuban municipalities dependent on the sweetener as a major source of revenue, that step is apparently too painful for Havana to contemplate. Instead, the regime has chosen to muddle through. Home and community gardens are becoming commonplace. Barter arrangements for sugar still provide some food, such

as wheat from France and powdered milk from New Zealand.

Oil, Sugar and Debt

Over the last eight years, Cuba has quadrupled domestic output of sulfur-heavy oil, producing nearly 50,000 barrels per year. Plans are underway to modernize its 50-year-old electricity system with foreign capital, work that will revitalize 70 percent of the island's electricity capacity. Yet, in spite of Cubans' obvious relief at the end of the rolling black-outs used to conserve fuel, the island is not quite out of the dark.

That's because the combination of high imported oil prices and low sugar export prices are costing the island dearly. In the beginning of 1998, Cuba sold sugar for approximately 8 cents per pound. In 1999, sugar fell to a nickel a pound in the world market, making only a modest comeback to



6.1 cents early this year. At the same time, world oil prices nearly tripled between January 1999 and March 2000, costing the little economy an extra \$38 million dollars in just the first two months of this year.

Commercial debt casts another cloud over Cuba's economic recovery. During the global debt crisis of the 1980s, the ever-defiant Fidel halted all payments on foreign debt. In the wake of this default, Cuba must pay 15 to 20 percent interest on short-term loans for the sugar trade. But a chastened Castro is now attempting to recover his international credit standing: Havana recently negotiated a deal with Japan to restructure and begin paying off its bilateral debt of \$125 million.

Tourism

Having eschewed radical agricultural reform, Cuba has poured resources into a dramatic expansion of its long-dormant tourism

industry. Once legendary for sex, drugs and gambling – all seen as the scourges of capitalism and excised from Cuban society after the Revolution – tourism is again the island's second largest source of foreign exchange. In 1999, nearly 1.6 million tourists visited the island, completing a decade during which the number of visitors increased at an average annual rate of 20 percent. This year, Cuba expects to receive two million visitors and to gross \$2 billion on the tourist trade. It is rapidly expanding capacity, not only at more well-known resorts like Varadero Beach – home to the old duPont family estate – but also on the remote and pristine barrier islands that dot the extensive coastline.

Though tourism has helped to stabilize the economy, it can't productively employ much of Cuba's 700,000-strong technically and professionally trained work force. And the lack of opportunity for these elite workers has had a

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corrosive effect on Cuban society. Doctors and engineers have been known to leave their professions for jobs as bellhops and maids in the dollar economy, earning more every few days than they would otherwise bring home in a month. Indeed, tourism has exposed parts of this rather conservative culture to the seedier side of prerevolutionary days, with young women and men becoming prostitutes to the horror of their elders, and the beginnings of a domestic drug-use problem.

Foreign Investment

Since 1992, foreign investment has increased four-fold, and Cuba currently boasts of 370 foreign-investment deals in the works – largely in tourism, minerals, citrus, biotechnology, tobacco, real estate and energy. A 1995 joint venture law that permits, at least in theory, 100 percent repatriation of profits has opened the door to new capital, particularly in the energy sector. While Americans are barred from investing in Cuba by American law, investors based in Canada, Mexico, Spain, the United Kingdom, Venezuela and Brazil have no such restrictions. Estimates of total foreign investment in Cuba from 1992 to 1998 range from \$1 billion to the official government figure of \$2 billion.

One serious obstacle to larger scale investment may be Cuban labor laws, which exact taxes as high as 90 percent. Under current rules, foreign companies must contract workers through a state agency. The state is paid about \$400 per month per employee, but pays workers in pesos salaries that are drastically less than dollar equivalents.

Joint ventures find many ways to get around the requirement. Most pay workers dollar bonuses and monthly *jabas* – baskets of basic supplies – well beyond their peso salaries. At the Sherritt mines in Oriente



province, for example, workers earn production-based dollar bonuses paid by direct deposit into bank accounts that are accessible through ATMs.

Cuban trade unions, still an instrument of the state and Party, are known to drive a hard bargain in contract negotiations. Indeed, there is a prospect that unions will use their



leverage over foreign investment to become more autonomous.

Other adaptations to the Special Period include the elimination of several state ministries, the decentralization of the management of foreign trade, the development of a commercial banking system, and a push to train enterprise managers through business

schools in Europe and Canada. More state enterprises – including many run by the military – are now required to meet accounting, cost control and production standards on the pain of losing their government subsidies.

This new business-like attitude has paid off in a reduction of the government budget deficit from 34 percent of GDP in 1993 to just



3 percent in 1999. But while deficits have decreased, Cuba's trade deficit continues to grow. Moreover, strong growth rates reported over the last few years do not take account of the rapid aging of Cuba's capital stock – this, after all, is the land of the 1953 Chevrolet taxi.

WHY THE HODGE-PODGE APPROACH?

Between 1898 and 1959, Cuba grew utterly dependent upon the United States for trade and investment. Though they squirmed

under the shadow of American political hegemony, Cubans made many of our popular- and mass-culture icons their own. After the revolution, economic dependence switched to the Soviet Union, accompanied by all the usual ideological window dressing.

Many of Cuba's early radical reformers – U.S.-educated, anti-communist, New Deal Democrat types – tolerated those three decades as a necessary price for throwing off the shackles of imperialism. And they fully

embraced the egalitarian ethos and international activism of the new society. Today, with neither the Americans nor the Soviets pulling the strings, Cuba's governing and intellectual elite is breathing a collective sigh of relief and relishing the opportunity to develop in its own "third" way.

The growth of the dollar economy, like tourism, both nourishes and undercuts these aspirations. Individual access to dollars, whether through remittances, the black market, the legal private sector or from a job in a joint venture, has pulled Cuba out of a truly dire economic crisis. In 1994, no more than 25 to 30 percent of the population could hope to pocket hard currency. Today, more than twice that number participate in one way or another in the Cuban-style new economy.

On the other hand, Cubans' revolutionary sensibilities are under attack. Before 1991, the highest-paid minister or world-class heart surgeon earned no more than four times as much as the lowest-paid construction worker. Today, the yawning gap between the poor and the dollar-minded middle-class is a fact of economic life.

The inequality associated with this "dual" economy has produced deep tensions in a society that has internalized the Cuban revolution's embrace of egalitarian ideology in word and deed. Who travels abroad, drives a car, goes to a disco or eats pork – as opposed to processed soy – is now more a function of who has access to dollars than who has talent, training or ideological commitment. Cubans must waste hours each day on dispiriting tasks – hustling to find spare parts for dying Soviet-era Lada cars, standing in lines for basic foodstuffs, waiting for overcrowded public transportation, or searching from pharmacy to pharmacy for prescription medications.

Fidel Castro's own political calculations

are not the only obstacle to a more rapid transformation. Drove of Cubans, from the most conservative Communist to the most independent-minded intellectual, are still debating whether Cuba can hew to a hybrid path, or whether the country must finally learn to love capitalism.

Of course, it has become a cliché to explain Cuba's defiance by noting that Cuba's 20th century history of thwarted nationhood has made the population uniquely independent – as if Croats, Poles, Vietnamese and Nicaraguans somehow cared less about national identity. But among Cuba's political elite, which now spans two generations, this consciousness does indeed function as a sort of safety catch that so far has prevented yet another great leap forward.

There is no better example of the consequences of moving too quickly than Cuba's former patron, Russia. Many in Cuba believe that following a Russian path might open the island to rapid social deterioration and exposure to the darkest aspects of capitalism, from overt corruption to organized crime, unemployment and hyperinflation. Moreover, this nightmare scenario would unfold without a state apparatus to cushion the fall for those who would bear the most painful shock of a rapid transition to capitalism – the very people whose well being provides the basis for the regime's legitimacy.

AMERICAN POLICY AND THE POST-HELMS-BURTON ERA

However much legitimacy Castro has lost over the last 10 years has been amply compensated for by American policy, which has a remarkable capacity to reinvigorate Cuban nationalism at critical moments. After three decades of economic sanctions maintained largely at the will of the White House, Congress took it upon itself to tighten the

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embargo – and thereby draw U.S. allies into the conflict.

The 1992 Cuban Democracy Act (CDA) bans trade with the island by third-country U.S. subsidiaries. In the first year the law was in force, Cuban imports from American companies – mainly of food and medicine – dropped by some \$700 million. The law also raised Cuba's costs of doing business with a shipping ban that prevents vessels heading in or out of Cuba from docking in American ports. Canada and the United Kingdom passed nullifying legislation in response. And since 1992, it has become an annual ritual for the United Nations General Assembly to pass a resolution condemning the American embargo.

But no American initiative against Castro is without irony. While tightening sanctions on the one hand, the CDA also legislated an opening in telecommunications markets. Today, most of the top American telcos provide direct phone service between the two countries, bringing several hundred million dollars in revenue to the regime. The law also opened the door for increased non-tourist travel by Americans to Cuba, known as “people-to-people exchanges” in the current policy vernacular.

Then in 1996, Cuban MiGs shot down two private American planes and killed their four passengers. Until the incident, the Clinton administration had indicated it would oppose further embargo-tightening legislation. But the threat of a veto evaporated after the attack, and President Clinton signed the Cuban Liberty and Democratic Solidarity Act – known as the Helms-Burton Law for its sponsors, Senator Jesse Helms and Representative Dan Burton.

The law represents an unprecedented encroachment on the executive's powers to

conduct foreign policy, as well as a serious deterrent to investment in Cuba. But it is the extraterritorial elements of the law that have drawn the United States into a simmering trade row with Europe.

Helms-Burton, Titles III and IV

Title III of the law gives former Cuban citizens whose property was nationalized the right to file suit in American courts against individuals and companies currently using the confiscated property. Creating a right of action for this class of claimants broke new ground in foreign claims settlement law.

Before Helms-Burton, some 6,000 American companies and American residents had already registered claims with the Justice Department's Foreign Claims Settlement Commission – claims valued today at \$6 billion including interest. Fearing clogged courts and demands for equity from exile communities in other countries, the White House negotiated the authority to deny rights under Title III. Though no litigation has moved forward to date, the threat of a lawsuit has prompted at least one company, the Italian telephone utility, to negotiate an out-of-court settlement.

It is highly unlikely that the present Cuban government will ever consider compensating former Cuban citizens, many of whom, like the affected American companies, have already received tax deductions and insurance payments to compensate for their losses. Cuba asserts that its 1960s program of nationalizing utilities, refineries, urban real estate, farm land, factories – and later, small businesses – was legal under both Cuban and international law. Indeed, Cuba negotiated lump-sum settlements with Spain, France, Switzerland and Canada for compensation to those countries' nationals. It also offered 20-year bonds at 4.5 percent interest to American

companies whose property was taken, and otherwise compensated Cuban citizens who stayed in the country.

The regime might, however, consider a compensation deal for the registered claimants in return for American trade and investment concessions. As post-Sandinista Nicaragua suggests, the issue won't go away even after Fidel. Cuban planners today would do well to consider compensation, if only to eliminate what may prove a nasty obstacle to foreign investment tomorrow.

Title IV of Helms-Burton threatens visa denials to officers (and their families) of companies investing in confiscated Cuban properties. From the perspective of some congressional hardliners, lobbyists and lawyers, the State Department has done precious little to enforce this part of the law. To date, only a few companies have been sanctioned, including the Canadian mineral company Sherritt, and an Israeli company with a joint venture in citrus fruit. The State Department has hinted that it will sanction the Spanish Sol Melía group, but has also signaled that it would prefer a private settlement between the company and the family that claims title to the land lying under some of the hotel chain's five-star Cuban operations. If the United States applies the Title IV sanction, Spain has threatened to bring a complaint to the World Trade Organization's dispute settlement panel, where the United States would surely lose.

The United States and Europe negotiated an "understanding" in May of 1998 on Helms-Burton in order to avert both a trade war and significant damage to American credibility. The EU committed to certain "disciplines" to dissuade companies from investing in confiscated property listed on a still

nonexistent international registry, in exchange for the Clinton administration seeking a waiver of Title IV from Congress. Subsequent negotiations between Congress and the State Department are at a stalemate. With Title III now waived on eight consecutive occasions and Title IV neither enforced nor waived, we have apparently entered a post-Helms-Burton era and, therefore, a period of slow erosion of the embargo.

PLAY BALL

President Clinton's policies over the last two years have laid the groundwork for this erosion. Without lifting the travel ban, the administration has deregulated travel for many Americans, made it somewhat easier for the pharmaceutical industry to sell its



wares, and raised the possibility of agricultural exports to Cuba – a market with projected initial sales in the range of \$500 million to \$1 billion.

Almost 200,000 Americans went to Cuba in 1999 – many returning with calls for a change in policy. The Baltimore Orioles played the Cuban national baseball team in both Havana and Baltimore. Some 130 universities now have the green light for student exchanges. The pharmaceutical industry held

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the first American trade show in Havana since 1960. Republicans and Democrats from Congress, and local government officials from around the country, went to Cuba, and returned calling for Washington and Havana to open up cooperation in travel, trade, culture, counter-narcotics initiatives, public health and environmental-protection policies.

Congress responded to these shifting currents last year, with a bipartisan majority in the Senate supporting an end to sanctions on agricultural sales to Cuba, and nearly half that chamber voting to lift the travel ban. And this year, bowing to pressure from North Carolina farming constituencies, Chairman Helms

even portions of it. Rather, its strategy has been to create new domestic constituencies for a change in policy, by giving the American people some basic tools that will permit public opinion to drive Congress to change the law.

WAGGING THE DOG

Without a congressional mandate, it is hard to imagine that any U.S. president, Republican or Democrat, would exercise leadership to advance a more dramatic, practical or effective bilateral policy agenda. The reason? The widely held belief that winning campaign contributions and votes from Cuban-Americans in Florida and New Jersey is more rewarding than developing a policy

that reflects United States interests after the end of the cold war.

While the perception of exiled Cuban political and financial power continues to weigh on U.S. policy – Al Gore's split with the administration over Elián González is but the most recent example – it has been several years since Cuban-Americans spoke with a consistent voice. They have voted with



allowed his Senate Foreign Relations Committee to vote in favor of allowing American food and drug companies to sell their wares directly to the Cuban government. That's a step beyond the administration's limited and impractical move last year to allow sales only to non-governmental entities.

Still, the Clinton administration is by no means committed to lifting the embargo, or

their pocketbooks and feet, sending remittances to family members and traveling to the island well in excess of legal limits, even as they denounced any softening of Washington's policy toward Castro.

Cuba's own laws, which explicitly permit the Cuban diaspora to invest on the island, have drawn a bit of under-the-table capital from Cuban-Americans, young and old. And

the capital also flows south to north, with owners of family restaurants sending remittances or interest payments back to relatives and others in Miami. Just as Cuban exiles helped finance the transition in Cuba 40 years ago, it's a safe bet that, as the embargo further recedes, Cuban-Americans will drive Cuba's economic recovery.

Over Chinese food in Old Havana a couple of years ago, a retired Cuban intelligence official told me that the heart of Cuba's policy toward the United States is to keep us "not too close, and not too far." Though officials today might argue otherwise, the relatively slow pace of change in U.S. policy suits a similarly slow pace of change in Cuba. Indeed, there is an unspoken and unintentional complicity at work between the two governments, each of which must contend with domestic constituencies that resist more accelerated transformations. Of course, Cuba's political elite knows it is in Cuba's long-term interest to reach *détente* with the colossus of the north. And, to a lesser extent, it is in Cuba's short-term interest as well: If Congress were to loosen restrictions on trade, Cuba would obviously save some money.

But, for the time being, Cuba holds a veto over what openings do exist. Despite the explicit subversive intent behind promoting contact, Cuba now welcomes Cuban-Americans, students, artists, businesspeople, movie stars, musicians, journalists, academics, elected officials, and anyone else who will leave behind their dollars and might return home with a fresh view of the island.

At their current levels, travel and remittances don't sow dissent in Cuba. Indeed, these lifelines help stabilize the island as it slowly joins the world economy. And Cuba can hardly keep up with the pace of the opening in travel. A more accelerated *apertura* would probably have a destabilizing impact

on the island, a prospect that (for different reasons) neither Cuban nor American national security planners are likely to welcome.

BACK TO THE BEGINNING – PROSPECTS FOR ORDERLY TRANSITION

In April 1959, a 33-year-old Prime Minister Fidel Castro came to Washington with many of the revolution's braintrust. On the plane, he instructed them not to accept offers of U.S. assistance, and not to entertain the prospect of aid from international financial institutions. The reasons for his nose-thumbing directive persist. When and if Cuba sits down for formal talks – it has already done so informally – to discuss the prospect of World Bank, IDB or IMF loans, whoever represents the island will pick and choose only from those offers that allow Cuba to maintain some control in shaping development.

To the naked American eye, there has been very little political change in Cuba to accompany the economic awakening. And yet a new generation – call them "post-communist" Cubans – now operates at every level of the Cuban economy and state. Cuban music, dance, theater, literature, film and fine art are sophisticated, vividly expressive and highly marketable. Cubans living on the island, whether devout fidelistas or long-time dissidents, and world leaders such as Pope John Paul II, King Juan Carlos of Spain, and a long line of heads of state, have implored Castro to preside over a democratic opening.

One can only speculate that his resistance has as much to do with his vision that loosening the political reins will bring chaos to Cuba as it does to with his own self-interest. For joining the political mainstream would force him to finally abandon the now well-honed exceptionalism that has become the hallmark of modern Cuba. **M**