

How Business Can Change Cuba

By Tim Padgett

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Raúl Castro's slow-motion reform of the island's sclerotic economy may be the surest way to democratize the nation

Yamina Vicente has lived in communist Cuba her whole life. But it didn't take her long to learn one of capitalism's handier skills: creating market demand.

Baby showers were practically unheard of in Cuba until last year, when Vicente started an event planning company called Decorazón. She learned about the gift-giving parties from American women visiting Cuba, then persuaded some of her clients in Havana to throw their own.

Now, arranging baby showers—albeit on the shoestring budgets of a country where the average monthly salary is \$20—is one of Vicente's most popular services. Another is planning Halloween bashes.

Recently, at the invitation of think tanks including Washington-based Cuba Study Group, Vicente and other Cuban entrepreneurs made unusual visits to Miami for tutoring from U.S. small business owners. During a break at a downtown restaurant, Vicente shifted her high-velocity Cuban Spanish into power-lunch gear. "I've got to do more than birthdays and weddings," said Vicente, 31, a former Marxist economics teacher who wears the smart attire and determined attitude of a rookie real estate agent. "I've got to diversify."

Such ambitions are a far cry from "socialism or death," which Cuba's former dictator, 88-year-old Fidel Castro, once plastered on billboards. Cuban socialism is a miserable failure, so instead of choosing economic death, Castro's younger brother and successor, Raúl Castro, has decided he's got to do more than statism and collectivism can accomplish.

He's got to diversify.

If the U.S. really wants to help bring down the island's repressive communist regime, it should chip away at it in Cuba, not just scream at it from Miami. That is, Washington should help Raúl by helping novice entrepreneurs like Vicente. "Their success will ultimately be our success," says Tomas Bilbao, executive director of the Cuba Study Group, which insists that engaging Cuba instead of isolating it is the best means of eventually democratizing it.

Although Raúl is no democrat, he's opened the door—just a crack, but wide enough to exploit. Four years ago he broadened the list of permissible private enterprises, which once consisted of little more than living-room restaurants known as *paladares*, to include licensing more substantive businesses such as furniture making and bookkeeping. Last year he said Cubans could travel freely abroad—on flights instead of rafts. Earlier this year he approved tax breaks to attract more foreign investment. And he's letting the Roman Catholic Church run business classes and even offer MBA degrees.

But perhaps the most important move

could happen this fall: scrapping Cuba's dual currency system, the combo of a near-worthless peso for ordinary Cubans and the "convertible" peso, pegged to the U.S. dollar and used mainly for the tourism transactions that keep the economy afloat. The scheme was created in the 1990s, when Cuba lost the Soviet Union's largesse. But it's produced fiscal chaos.

Once the government develops counterfeit-proof bills and a new exchange system, a unified currency could give regular Cubans more buying power. Small business owners would have more cash for the capital goods they need, from spark plugs for mechanic shops to sodium hydroxide for soapmakers.

Still, it won't be enough, especially for entrepreneurs who don't have family in the U.S. Those relatives sent almost \$3 billion back to Cuba last year, and much of it helped capitalize the almost 500,000 microbusinesses now licensed there. More is needed, be it venture capital, hardware like iPhones, or just consulting.

Which is why a powerhouse group of four dozen U.S. political, business, and military leaders advised President Obama in May to relax Washington's 52-year-old trade embargo against Cuba. Even career conservatives such as John Negroponte, President George W. Bush's intelligence chief, signed the letter urging Obama to use executive powers and "help Cubans increase their self-reliance." Among its recommendations: Lift the ban on U.S. travel to Cuba, allow U.S. investors and NGOs to fund Cuban micro-enterprises, and let private U.S. and Cuban businesses import and export goods to each other.

Hard-line Cuban exile leaders are furious at this approach—or the suggestion that anything short of an exile-led *reconquista* will change Cuba. Cuban American Representative Ileana Ros-Lehtinen of Miami called it a "pathetic" trend that would "give the communist thugs more money with which to repress." Florida Senator Marco Rubio, another Cuban American hard-liner, accused U.S. Chamber of Commerce boss Tom Donohue of handing the Castros a "propaganda coup" by making a "misguided" visit to Cuba as the letter was sent to Obama.

Exile die-hards still hold considerable clout on Capitol Hill, a reason Obama isn't likely to follow the letter's advice. But they're increasingly in the minority. A Florida International University poll this summer has most Miami Cubans in favor of ditching the embargo. "We'll never effect positive change in Cuba if we stay on the sidelines, head in the sand," says attorney Ric Herrero, who this year founded the pro-engagement group #CubaNow.

#CubaNow represents a younger, more

U.S. money has helped capitalize almost half a million new micro-businesses in Cuba

in Cuba,” says Vicente. Small business taxes are onerous, as are arbitrary regulations, such as inspectors canceling licenses if they decide an entrepreneur is getting too rich. Says Marcell Felipe, a director of the hard-line Cuban Liberty Council in Miami: “Relying on small business as a way to confront the regime is a big miscalculation.”

Not so, says Emilio Morales, a former executive at Cimex, a state-controlled corporation involved in banking, retailing, and shipping, among other businesses. He emigrated to Miami in 2006 and started the Havana Consulting Group. “Raúl has to take his reforms much further,” Morales says, but he thinks the Cuban president “is playing a game that gets harder to control the longer you play it.”

On laptops at his home office on Miami’s west side, Morales’s firm is building a detailed commercial map of Cuba. It’s an economic GPS device pinpointing thousands of licensed microbusinesses and the financial profiles of neighborhoods. The potential is robust, and the miscalculation, Morales says, is Raúl’s. Because his reforms let foreign investors link up with private and not just state enterprises, “we could reach a moment soon when venture capitalism takes off in Cuba.”

Those entrepreneurs who don’t have relatives abroad sending money, Morales notes, could finally get decent seed money. A big reason Florida is seeing a spike in rafters leaving Cuba this year is that the lack of resources, made more apparent by Raúl’s reforms, has led many to despair.

With the embargo still in place, analysts such as Juan Antonio Blanco, head of Miami Dade College’s Center for Latin American and Caribbean Initiatives, say it’s time to get creative. “We need some sort of funding system, perhaps through churches,” he says, “that allows people here to ‘adopt’ a microbusiness in Cuba.”

Such ideas got another boost in August, when the *Tampa Bay Times* reported top aides to Ros-Lehtinen and Rubio traveled to China on Beijing’s tab to discuss foreign policy and trade. That double standard—it’s OK to engage China’s abusive communist regime but not Cuba’s—eroded hard-liner credibility. And it gave more currency to the argument that U.S. policy on Cuba is also in need of diversification. **■**

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moderate generation of Cuban Americans who realize the half-century-old embargo policy has failed to dislodge the Castros—and in fact aided them politically. Such organizations are betting that Cuban entrepreneurs will play a sort of soft dissident role as their growing independence loosens the government’s grip, especially after the Castros finally die.

Granted, the Castros are still alive and ceding control as grudgingly as octogenarian communists do. On Sept. 1, as if spooked by how seriously Cubans are taking his call to free enterprise, Raúl slashed the amount of goods travelers can bring to the island, curtailing the business supply chain. “Finding steady suppliers is the common, fundamental frustration