Business Unusual in Cuba

Letter from Havana

By Anne Nelson and Debi Spindelman

Last month, U.S. President Barack Obama used his visit to Havana, Cuba to showcase the promise of enterprise: He met with prominent business leaders and held a special panel for entrepreneurs. A small army of other U.S. executives and business school students flooded into Havana over the course of the month, prospecting for deals. But many of them left disappointed. The opening of political relations between the two countries is long overdue, and the coming months will bring many critical discussions about human rights and other pressing issues. But the conversation opened with economic policy, and what these entrepreneurs have discovered is that normalized trade relations will require them to find a common language, and even a common currency in which to do business.

Like the antique American cars whose worn-out engines have been replaced by ones from Soviet Ladas, the new Cuban economy will remain inefficient even if it acquires a shiny chassis. At the heart of the matter is “La Lucha.” This is the Cuban term for the vast economic system that hovers between the broken official economy and the criminalized black market economy. Any foreign enterprise seeking to do business in Cuba will be affected by its workings.

The official economy is the product of the Cuban Communist system, offering free healthcare and education. A city bus ride costs a few cents, and basic foodstuffs are sold for a pittance. But the
system suffers from a lack of supplies and dire distribution problems. Rural clinics are often missing basic medications, buses are scarce and crowded, and it can be difficult for the average Cuban to locate even locally produced foodstuffs. For example, chasing down the elements of a basic Cuban diet—rice, beans, cooking oil, eggs, cabbage, sugar, and salt—can require visits to four different markets and half a day in line.

In Cuba, the black market is illegal and carries severe penalties. This has led to La Lucha, an “illegal” channel for procuring goods. It is hard to imagine the country functioning without it. We got a good sense of how La Lucha worked when visiting a bustling open-air market in Havana offering fresh produce, meat, and eggs. The line to purchase eggs at the low official price snaked around the block. But near the entrance of the market, a slight woman named Ana offered the same product, but with no wait and at a 20 percent mark-up. She didn’t come close to supporting herself and her child on her nurse’s salary of $25 a month, she explained, so she bought eggs from a farmer to sell at a profit. Her modest enterprise allows Cubans who live above the subsistence level to choose convenience over economy, even if it violates state norms.

This gray market is generally tolerated, if not approved, by the government. It has been a natural adaptation to the distortions of the Cuban economy, generated by over a half century of the gross inefficiencies of communism, which were exacerbated by the brutal constraints of the U.S. embargo. One issue driving Cuba’s alegal economy is the lack of information, which results in chaotic market conditions. Producers struggle to get their goods to market, and consumers have little means of knowing what’s in stock where. There are shortages of specific goods due to limitations on imports or production, but Cuban products like sugar and coffee may also be unavailable in a grocery store, even in an upscale neighborhood because of distribution bottlenecks. Cuban law does not permit commercial advertising in the state broadcast and print
media, and all of the major news outlets function under state control, which includes broadcast media. Some advertising is beginning to emerge on digital platforms, but it is still too new and too limited to resolve the issue.

Another aspect of Cuba’s economy that may be frustrating for U.S. businesses is the dual currency system. Most Cubans are paid in the national currency, the Cuban peso or CUP, which is only useful for purchasing goods distributed by the state. State employees, including doctors and lawyers, receive miserable salaries in CUP amounting to $15 to $30 a month. Granted, most Cubans do not pay for housing and other necessities, but they still find it impossible to support a family without a second job or some form of assistance. On the other hand, consumer, imported, and luxury goods—in Cuba these “luxuries” include standard items of clothing, automotive parts, and basic household appliances—are priced in Cuba’s convertible peso or CUC. The convertible peso was created in 2004 as a way to harvest hard currency without using the U.S. dollar. In 2013 the Cuban government decided to phase out the CUC, but it is still in all evidence pegged close to the U.S. dollar. Once again, the U.S. embargo has made a difficult situation for ordinary Cubans far more painful. A simple t-shirt costs $8 to $10 and a pair of sneakers $50—daunting sums on a state salary.

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As a result, a complex elite class, made up of three sectors, has emerged. First, there are those who receive money in dollars and euros that can be converted into CUCs, such as the Cuban political elite and their relations, whose travel privileges allow them to acquire goods from Ecuador, Mexico, and the United States, and sell them at a profit. It’s not unknown for them to return with a suitcase full of cell phones for resale. Another section of the elite class consists of those who receive gifts and remittances from exiled relatives or reap the benefits of their family visits. The third group is made up of those who work for foreign companies and are paid in foreign currency, and those who work for foreign visitors who must pay in CUCs. Thus, in the funhouse mirror of the Cuban economy, a taxi driver can earn more in a day than a surgeon makes in a month. The CUC elite are a minority, far outnumbered by the CUP wage slaves in the lower strata of La Lucha.
U.S. businesses might also keep in mind that although this new chapter in U.S.–Cuban relations will undoubtedly benefit the Cuban people in the long run, in the short term, it may exacerbate social tensions. The emphasis on e-commerce, for example, is likely to widen social inequality by benefiting those in this elite class. Take, for example, Airbnb, the first major U.S. entrant to e-commerce in Cuba. The dysfunction of the Cuban economy has led to the collapse of much of Havana’s housing market and a severe housing shortage. In 1997 the Cuban government began allowing Cuban families to rent out rooms to foreigners for around $30 a night as a means of generating additional income, provided they received state authorization. This program is known as casa particular. Airbnb states that since it began operations in Cuba in April 2015, about 4,000 of these casa particular owners have joined its network, creating “an important source of income for thousands of Cuban families” who receive “an average of $250 per booking.”

But there are major differences between the average casa particular and the Airbnb rental today. Casas particulares book guests by telephone, email, or word of mouth, but it is near impossible for a Cuban to participate in Airbnb without access to the privileges of the CUC elite. First, a listing requires access to the Internet. Only a tiny percentage of Cuban homes have connectivity (roughly five percent, although this number is disputed), and the usual monthly fee of $40 exceeds the standard government salaries. Some Airbnb hosts try to manage their rentals through the new WiFi hot spots that have rolled out across the country. But these connections are also prohibitively expensive and too slow to effectively manage Airbnb listings and photo displays. Cuba’s 21,000 casas particulares already represent one elite in Cuba, given the country’s severe
housing shortage. Still, these family homes are more likely to offer modest rooms, while the Airbnb customer may expect espresso machines, microwave ovens, and functional showerheads—all imports—and prefer private dwellings.

The new CUC elite is well-positioned to take advantage of Cuba’s inefficiencies. Take, for example, the case of “Isabel,” an Airbnb hostess in Havana (who asked that her real name not be used). Isabel is able to participate in e-commerce because she is a member of the CUC elite, and has the connections and the sophistication to navigate the upper reaches of La Lucha. She owns several homes (a rarity in Cuba) and belongs to a family with close ties to the Communist Party. Her clan owns a dozen rental properties, which have been fully renovated and outfitted with imported appliances, and some members drive new cars imported from China. She listed a comfortable Havana apartment on Airbnb through a broker who represents a number of properties on the site. But difficulties in bank transfers due to the U.S. embargo (only recently amended) have required yet another intermediary to move the payment into her Cuban account. The apartment is rented for $130 a night, but after covering Airbnb’s host and guest fees (ten to 15 percent), Cuban taxes, and payments to intermediaries, Isabel nets a little over half that. Nonetheless, in one night she nets double the monthly salary of a state employee. The modest home owners of the casas particulares are getting by, but Isabel is getting rich. There is nothing wrong with this, but U.S. businesses should not delude themselves into thinking that “peer-to-peer” operations will translate into benefits for the broader Cuban population.

In fact, many Cubans have been voting with their feet. Almost half a million Cubans have obtained residency in the United States since 2000. There are almost two million Cuban-Americans in the United States (with more in other countries), compared to an island population of 11.2 million. Increasing numbers of the CUC elite have turned down the chance to emigrate, believing the opportunities will be greater at home, but the situation looks different for Cubans on CUP wages. The 1966 Cuban Adjustment Act offered preferential immigration requirements to Cubans, and the 1995 “wet foot, dry foot” policy created an incentive for Cubans to reach U.S. soil.

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With the renewal of diplomatic relations between Cuba and the United States last year, there have been calls to end the preferential immigration status. This has led to a sense of panic among some Cubans. Republican Congressman Blake Farenthold from Texas reported that his state is already seeing a 60 percent increase in migrants attempting to enter from Cuba following the December 2014 announcement by Obama that he would be turning a new leaf in U.S.–Cuba relations. It
would be a tragedy if the shift in policy resulted in an upsurge of Cubans fleeing under perilous conditions. There is also the risk of a massive brain drain, in which Cuba loses educators and medical personnel working for state salaries to jobs in the United States as babysitters and cab drivers.

Indeed, with the opening, there promises to be a headlong rush to find, or construct, a Cuba that resembles the United States. But that should not come at the expense of the other Cuba, mysterious and complex, that’s well worth exploring. To start with, there’s Cuba’s often overlooked success in indicators of human development. The World Bank reported that in 2013, Cuba’s life expectancy, at roughly 79 years, exceeded that of the United States for the first time. The Cubans are proud of their security, a product of banning guns and severely limiting narcotics trafficking and drug abuse. The country’s system of preventive medicine has been highly effective. Every week, teams of medical students make weekly door-to-door check-ups, effectively curtailing many infectious diseases across the island. In recent weeks Cuba has mobilized its army reserves to fumigate every household in the country to limit the spread of the Zika virus.

Although the Cuban people live under a blanket of censorship that controls every aspect of national print and broadcast media, Cubans have found creative ways to enjoy a hearty media diet, thanks to a service known as “El Paquete” conveyed via the humble flash drive. The USB sticks are circulated on a subscription basis and offer everything from The Economist to complete seasons of “House of Cards,” at the modest price of $1−2 a week.

Our recent conversations with scores of Cubans in both Havana and the rural interior revealed
that while they’re eager to win greater freedoms, many of their material desires are surprisingly modest: better access to food, improved public transportation, and cheaper clothing and cell phone charges. They’re also aware of the advantages they stand to lose in a transition: cities in which drugs are rare and gun violence is unknown, a society that is committed to nourishing and educating all of its children.

Cubans are asking how to integrate the most constructive aspects of the U.S. system without inviting its attendant plagues. For its part, the United States, as well as U.S. entrepreneurs seeking to set up shop on the island, should approach Cuba in a spirit of discovery, with much to offer, much to gain, and much to learn. 😊
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