

CUBA
LIBRE

**HAVANA OLD AND
NEW:** Revolutionary
leader Camilo
Cienfuegos looks
down on Enrique
Nunez, owner of La
Guarida restaurant
and Cuba's best-
known and
wealthiest private
entrepreneur

SHOW US THE MONEY, COMRADE

Private enterprise used to be illegal in Cuba. Now the island's communist leaders want Cubans to be entrepreneurs. Is this the end of sunshine socialism? By **John Arlidge**. Photographs: **Mark Read**

Warning! This is the dulllest opening paragraph you will ever read. Guillermo Portero is buying a house. Gilberto Valladares is hiring an apprentice to work in his barber's shop. Luis Pelaez wants to take a business-studies course. Farmer Ernesto Lopez is selling broccoli, herbs and tomatoes door to door. Rachel Carvajal has opened a coffee shop. And Nelson Chamosa is turning the 1992 red Peugeot 309 he has just bought for \$10,000 into a taxi.

But what if these people were doing all these seemingly everyday things for the first time in their lives? What if these small acts were revolutionary and could hasten the demise of the only surviving communist country in the Americas, and pave the way for a new economic powerhouse stuck in America's gullet? Would such simple things be interesting then?

It's 9am on one of those Caribbean mornings that are so hot your brain feels like a conch fritter, but Guillermo Portero doesn't care. He's about to do something he has dreamt of for as long as he can remember: buy a place of his own. The 48-year-old is standing outside a four-bedroom apartment on Calle Paseo in Havana. Portero has offered just over \$100,000, 10% lower than the asking price. "It's all I have," he says, tugging at his pockets.

'SEX! WHAT'S HAPPENING IS SO EXCITING, IT'S LIKE SEX'

If his offer is accepted, he will live in the front rooms and turn the back bedrooms into an atelier and an office. "I want to design and sell clothes," he says.

What Portero is doing was impossible less than a year ago. No, make that illegal. Cubans could only swap homes, not buy and sell them, because, according to the country's hardline Marxist leaders, property was theft. Officials also took a dim view of independent retail businesses, so they banned them.

But Cuba is changing dramatically. For the first time since the glorious revolution/communist takeover* (*delete according to your politics), the country is flirting with real capitalism. Raul Castro, who took over from his ailing brother, Fidel, in 2006, and became formal president in 2008, has driven through new laws that allow entrepreneurs to set up small businesses and to trade goods, from condos to cabbages. *Actualizacion*, or update, the Communist party calls it. The jargon doesn't



even get close to summing up the significance of the reforms. "This is the most important thing to happen in Cuba since the revolution in 1959," says

Dr Juan Triana, 56, senior fellow at the Centre for the Study of the Cuban Economy at Havana University.

Joel Begue prefers a more earthy description. "Sex! What's happening is so exciting, it's like sex!" he laughs, sending a small torrent



that the capitalism Begue practises – and ministers now encourage – “is humiliating and degrading to human dignity”.

Those signs don't just look like quaint anachronisms any more. They are glaring monuments to a failed economic experiment. Everywhere you look in Havana, entrepreneurs are taking capitalist baby steps. A few blocks around the white dome of the imposing *Capitolio*, young men offer pirated DVDs, CDs and mobile phones. Car dealers exchange cash, papers and swap licence plates in car parks. Pinned to the trees on the Prado are flyers for such varied services as car valets and clowns for children's parties. Yes, being a freelance clown was illegal until last year. Mr Wormold,

anti-hero of Graham Greene's *Our Man in Havana* who could not sell a single vacuum cleaner, would find modern Cuba a retail paradise.

Some businesses are growing so fast that the first trade disputes are breaking out. Rachel Carvajal, a 27-year-old English teacher, runs the popular G Spot coffee bar in the back yard of her home near G Street. A few months ago she had a visit from a furious Armando Puentes. He has set up a rival cafe, also called G Spot, around the corner. "He was shouting that he has the right to the name because he lives on G Street," says Carvajal. "I wish I could trademark it but there is no trademark law in Cuba. But it's my idea and



SELL, SELL, SELL Far left: Cubans can now buy and sell homes and cars. Left: Cafe G Spot owner Rachel Carvajal. Below: Ivan Rodriguez, in the Habana Chef restaurant. Cuba (above) is 90 miles from the world's largest economy, but still can't trade with it



thinks human beings should prosper and be autonomous," he says. "Just a few years ago, an entrepreneur was viewed as a criminal, a delinquent. Today, businessmen are viewed as contributing to society and the economy. But with what tools? We want to teach them business leadership."

Pope Benedict XVI gave his blessing to the joint venture between God and Mammon when he visited Havana last month and declared communism a failure. "Today it is evident that Marxist ideology, in the way it was conceived, no longer corresponds to reality," he said.

Iconic capitalist qualifications? Property rights? Free enterprise? Whatever happened to the benevolent, socialist state that Che Guevara insisted would forge a “new man” motivated by “moral incentives, not material concerns”?

Two decades after the fall of the Berlin wall, the old Cuba is still there, all right. The government controls the big stuff — oil, mining, banking, telecommunications, medical services, tobacco — but Cubans can now apply for a small pink card bearing their name, photo and the words: *Autorizacion Para Ejercer el Trabajo por Cuenta Propria* — “Permit to work for your own account”. This entitles them to set up a business, appoint any staff they choose and pay them what they like.

This being Cuba, the new rules and regulations that govern who can set up shop, where and how, are long, fiendishly complicated and occasionally bizarre. Havana's finest can earn a living as a "professional fancy-dress dancer" but only, the *Gaceta Oficial* solemnly decrees, if they wear the costume of a 1940s Cuban crooner, Benny Moré. But forget the silly outfits. Raul's message is clear. Plan A, pure socialism, has failed. It's time to dabble in the market.

Some are doing more than dabble. Briton Andrew Macdonald, 48, walks around Havana with half a billion dollars in his back pocket. He's scouting for investment opportunities for Esencia, an Anglo-Cuban firm that is restoring hotels and building Cuba's first purpose-built 550-acre golf resort, with 900 homes, at Carbonera, 100 kilometres outside the capital. Under the government's reforms, foreigners may soon be able to buy villas for the first time since the revolution. Macdonald has signed up some big names — Aman resorts, Sir Terence Conran — and can't wait to start marketing to wealthy Canadians, Europeans and Latin Americans. "Cuba is the top emerging tourism market in the Caribbean by a mile, and it's in the top five emerging markets globally," he says. "It's a long slog ➤➤➤➤➤"

MARXIST MAKEOVER: 'Capitalist with feeling' Gilberto Valladares in his hair salon. Below: Jorge Fonseca, Cuba's leading personal trainer, works out with Letitia Lopez

getting stuff done, but the potential is huge.” Why are Cuba’s leaders suddenly breaking bread with capitalists red in tooth and claw like Macdonald? Cuba isn’t working. Following the collapse of its paymaster the Soviet Union in 1991, which deprived it of net subsidies of about \$2 billion a year and saw exports collapse, reducing the size of its economy by a third, Cuba has found the going tough. The Castros have partnered with overseas firms and friendly governments to boost the energy and mining sectors. Thanks to changes in US laws, Cuba has attracted large remittances from Cuban-Americans. Tourism is booming. A record 2.7m visitors arrived in 2011, generating revenues of \$2.3 billion, and local operators say bookings will rise again this year. Virgin Atlantic recently increased the number of direct flights from London to up to three a week.

But it's not enough. Cubans are poorer than they've been for years. Wages are still less than 50% of their 1989 level in real terms. The meagre state salary of \$20 a month, according to official exchange rates, does not cover basics. Fishing on the Malecon, Havana's seafront promenade, is more than recreational. Officially, unemployment is still about 2%, but the number of people hawking on the streets implies otherwise. A shortage of 1.6m new homes has turned the century-old houses of central Havana into overcrowded slums. In January four young people died after a house collapsed.

The problem is that the state sector, which accounts for over 80% of the economy and almost all services, is chronically inefficient and woefully unprofitable. Corruption and theft are rife. Take the most basic product of all: food. A fertile country roughly the size of England but with a population of only 11m should be able to feed itself fit to burst and have plenty left to sell overseas. Fifty years ago Cuba grew one-third of all the world's sugar. Today production is so low, and so much of what is grown is stolen before it even gets to market, that Cuba imports more than half of its food. When you're a banana republic that can't even grow bananas, you know you've got to change.

And it's not just Cuba's internal problems that are giving Raul a headache. Cuba depends on oil-rich Venezuela. In a deal signed by Fidel and the populist Venezuelan president,



Hugo Chavez, Havana supplies 40,000 doctors, intelligence and security experts and other workers to Caracas. In return, Caracas provides cheap oil — 115,000 barrels a day, around two-thirds of Cuba's consumption, worth around \$3.5 billion a year. Additional investment takes Venezuela's overall support for Cuba to about \$5 billion.

But Chavez, 57, is gravely ill. Cuban doctors recently removed a baseball-sized tumour from his abdomen in three operations; he has received chemotherapy and is currently undergoing radiotherapy. A tearful Chavez prayed to God to spare his life at a pre-Easter mass in Caracas. The Cuban government is concerned that if Chavez were to lose his battle with cancer, its peachy deal could collapse or be renegotiated, plunging Cuba deeper into hardship.

Small wonder Raul is moving so fast. He is laying off 1m state workers — 20% — over the next few years. The hope is that they will find jobs in the newly liberalised private sector and that growing tax revenue from all the new private firms will swell state coffers. Ministers are also lifting the heavy hand of the state off farmers' shoulders and giving them incentives to grow and sell more food. Smallholders now have the right to lease 165 acres of land (up from the present 33),

they can leave the land to their children, rather than the state, and sell their produce directly to private customers and hotels. The Communist party leadership has even pledged to give workers the chance to take over running state factories. They will be free to keep any profits, but, if they fail, the enterprise will be wound up.

“To make Cuba more efficient and grow faster, Raul is slimming down and reforming the public sector, increasing opportunity in the private sector and creating competition between the two,” explains Dr Triana.

The Cuban reforms may be financial but, like everything in Cuba, they are all about politics. It's been clear for years that the revolution has failed — literally — to deliver the goods, but the Castros have refused to acknowledge it. Now that has changed.

“The accounts don’t square. We either rectify things or we run out of time to carry on skirting the abyss and we sink,” says Raul. Fidel himself recently let slip to a visiting American journalist that the Cuban economic model “doesn’t even work for us any more”. (He later claimed he was misquoted.)

But political observers say the brothers' change of heart is more about shoring up their position and protecting their legacy than generating new wealth. Raul is 80 and

Fidel is 85 and frail. No successor to Raul has been identified. "In the twilight of their political careers, the Castros are facing the terrible prospect that they might die with their country impoverished and inefficient, and that history will judge the revolution a failure," says one local political analyst. "Dumping pure socialism and indulging in a little light capitalism is a last desperate effort to show that there is life left in the Cuban model."

Will it succeed? That's the 64,000-peso question. After years under the communist



yoke, are Cubans any good at capitalism? Will the private sector expand and spur efficiencies in the public sector? And if Cubans do prove rather good at making money, will the state get cold feet and reverse its market reforms? Twice before, in the 1980s and 1990s, ministers liberalised the private sector to stimulate growth, only to reverse the decision and tax and regulate entrepreneurs out of business when Cubans developed a taste for dirty cash and started “sowing inequality”, as Fidel put it.

Enrique Nunez, 43, was a victim. He was forced to close La Guarida, the best-known *paladar* (home-based restaurant) in Cuba, in 2009 “because the regulations were too much to bear”. Now Nunez is back in business. Photographs of his most famous guests — Jack Nicholson, Matt Dillon, Naomi Campbell — are back on the walls of the crumbling block he calls home. But he worries that the government will take fright again and row back. “They say they want us to set up businesses but they hate the words ‘capitalist’ and even ‘private sector’ so much, they can’t even say it. They only

THE CASTROS MIGHT DIE WITH THEIR COUNTRY IMPOVERISHED

speak of the 'non-state sector'. I and the other new Cuban entrepreneurs can live with them. The question is: can they live with us?"

Rafael Hernandez, 64, editor of the leading social-science journal *Temas*, insists that Cuba has crossed a (red) line.

“The economic changes implemented before now were just emergency measures to get us through tough times, such as after the fall of the Soviet Union,” he explains. “But now Raul Castro says business people should be treated without any discrimination. The changes are not just practical but ideological.”

Jorge Fonseca agrees that “it’s the start of a new era for Cuba and there’s no going back”. For 30 years, he trained Cuban weightlifters for international competitions, supplementing his meagre \$20-a-month state salary by doing odd jobs in the grey economy. Now he has reinvented himself as Cuba’s leading personal trainer. He is up at dawn to put Letitia Lopez, 42, and many other Cubans, through their paces in a gym in Vedado where the air is so humid it’s like breathing porridge. His monthly income is growing faster than Lopez’s biceps, nudging \$200 a month. Instead of taking money from the state, he now pays 20% tax every month. “When you work for yourself, you care more. You do things better. You earn more. It’s your money but you also pay tax. Everyone

benefits. It's the only way forward," he grins. The number of men such as Fonseca who work in the private sector has risen from less than 150,000 at the beginning of 2011 to 358,000 at the end of last year, according to the *Oficina Nacional de Estadísticas*. Over the next five years, ministers hope that number will rise sharply. One local economist, Omar Everleny, estimates that some 35-40% of the workforce could end up self-employed by 2015.

That's possible, but only if Cuba develops the basic tools any consumer market needs. Talk to any new entrepreneur in Havana and they complain that getting a loan from local banks is tough. Those who cannot obtain credit are taking advantage of changes in the property laws to sell their homes to raise cash — a risky move. Businesses also lack basic services, such as a wholesale sector where they can buy goods cheaply. "I have to buy my supplies in supermarkets at top price," complains Cafe G Spot owner Carvajal. Communications, vital to a thriving consumer

society, are lousy. Only 1 in 10 Cubans has a mobile phone, far fewer than in most Caribbean and Latin American countries. At 14 cents a minute for a call, they are too expensive. There's no 3G or 4G mobile internet anywhere. For the lucky 500,000 who can get online at home or at work, speeds are so sluggish that Yondainer Gutierrez, 24, a local tech entrepreneur who has just set up AlaMesa — “On the table” the local Time Out-style guide to Havana — jokes that the service is “more rubber band than broadband”.

Then, of course, there's the biggest constraint of all. The world's largest economy lies 90 miles away from Havana. But free trade with the US is off limits, thanks to the trade embargo imposed by Congress at the height of the cold war to punish Havana for its support of the Soviet Union, and in the forlorn hope it would bring down Fidel. The trade ban costs Cuba billions of dollars a year. Its biggest brands — Havana Club rum and Cohiba, Montecristo, Partagas and any other cigar brand you might care to light up — cannot become the world-beaters they deserve to be when they are kept out of a market that accounts for 40% of global sales. "The embargo affects us as a country and as a business," frowns Jorge Luis Fernandez Maique, co-president of Habanos, the Cuban-British ►►►

joint venture that distributes Cuban cigars in a trade worth \$400m a year. President Obama has relaxed restrictions on Americans travelling to Cuba. There are now 50 flights a week from New York, Tampa, Los Angeles, Atlanta and, soon, Washington. Among those now arriving at Jose Marti airport are the influential American art dealers and collectors. Prices for Cuban art have almost doubled in the past few years, says Luis Miret, 53, the director of *Galeria Habana* who also runs the leading local art auctioneers *Subasta Habana*. But with the Pope's recent visit to Cuba highlighting the issue of political prisoners held in Cuban jails and Florida — home to 1m hardline anti-Castro Cuban *émigrés*, and a key swing state in the forthcoming presidential election — helping tourists and artists is about as far as America is going to go for now.

Maybe Cubans will make good entrepreneurs. Maybe Raul means what he says. Perhaps credit will flow. Perhaps 1,000 Facebook pages will bloom. Perhaps President Obama might further loosen trade restrictions if he wins a second term in the White House. But even if everything goes well, there's still a big problem.

Cuba is trying to pull off a trick that few, if any, countries have managed. It is trying partially to deregulate the private sector while retaining a heavily controlled state sector. Three-quarters of the economy remains in state hands, despite recent reforms. Marino Murillo, the country's economic reform czar, insists Cuba is "updating the model and making our socialism sustainable", not scrapping it. But those former communist states that are now thriving, notably China and Vietnam, have become almost full market economies. Critics say that unless deregulation goes further, Cuba will end up with an unworkable mix of communism without subsidies and capitalism without capital.

"You can't be half-pregnant," says Nunez. "You're either a market economy or you're not."

Dr Triana disagrees. Thanks to its remarkable history, Cuba is a special case, he argues. Despite all its problems, it has succeeded in providing high-quality free education and healthcare, heavily subsidised housing



HANDS UP IF YOU WANT TO MAKE MONEY Fidel Castro (left) and his brother Raul are driving the market reforms. Bottom: Father Yosvany Carvajal runs Cuba's first MBA course. He says God wants Cubans to get rich

and transport, and something approaching a living wage for most of its people. The weather isn't too bad, either. At just the time when the failings of the pure market economy are all too apparent in Europe and the US, now is not the time to cast aside the benefits of the Cuban system, he says.

Over weak tea and ancient UHT milk at the elegant Santa Isabel hotel in old Havana, he explains: "Three-quarters of Cubans were born after 1959. They only know the Cuban system and share its values. Most feel that they

still does offer, notably a pension. So what would Dr Triana's uniquely Cuban "third way" between capitalism and communism look like? To find out, it's a good idea to take a walk through old Havana to Aguiario Street. Halfway up on the left, there's a dark-brown door. Up three flights of cracked marble stairs is *Artecorte Estilista* — Art, Cut and Style, a hair-and-beauty salon run by a man with no hair.

Gilberto Valladares, 42, left his job at the Havana Libre hotel, where he earned "not much" to set up the business. He makes good money, but it's not all for him. He uses a portion of the thousands of pesos he pulls in each month to train and employ local street children from the *barrio*. Think Jamie Oliver's Fifteen but with scissors, instead of Sabatiers.

'I'M CALLED A YUMMY — A YOUNG UPWARDLY MOBILE MARXIST'

are socialists, even though the definition of Cuban socialism is changing. They want to be free to work as they please but they don't want to give up everything Cuba has created. If the state and the market sectors can work together anywhere, they can work together in Cuba."

For now, the Cuban on the *calle* seems to agree with Dr Triana. New businesses may be springing up like the date palms on the Playas del Este but there is little clamour for the complete scrapping of sunshine socialism and its replacement with the free-market system seen in Costa Rica or Brazil. Nor is there much agitation for political liberalisation to accompany the new economic

freedoms. Opposition to communism is muted. That, say critics, is because Cuba remains one of the most repressive states in the world. Dissidents are harassed and imprisoned.

But talk to ordinary Cubans about politics and you sense little appetite for a Cuban spring. Most are too worried about losing the benefits the state

He also helps to fund and run a local school, sponsors artists, and has opened a coffee shop called Figaro. He has applied to set up a bakery and wants to open a guesthouse.

Valladares says Cuba's new market reforms are "justified, important and necessary". But he argues that successful Cuban businesses should be morally good. "Cuban life is rich socially, rich culturally. We cannot lose that to extreme, ferocious capitalism. I've been to Miami. I don't want that kind of life. People there live to work. They think about work all the time. But life is not all about work, not all about money. What I do here is good business and good living."

In a planned economy, even one loosening the reins as Cuba is, everyone, every business, every sector needs a name. Bureaucrats demand it. What would a man like Valladares, an entrepreneur running his first business for profit and a purpose, call himself? He puts down his scissors, pauses and smiles.

"I'm a CWF — Capitalist with Feeling. But others call me a Yummy — a young upwardly mobile Marxist," he laughs. Then, in a flash of silver, he grabs his blades and gets straight back to cutting hair, running schools, launching cafes, opening bakeries, starting hotels and sponsoring painters. The post-Castro era is beckoning and Cuba's new money *marketistas* have work to do ■

