

Overcoming Cuba's Internal Embargo

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In scores of interviews conducted over the past 15 years with Cuban entrepreneurs, we often heard the following sayings: “*El ojo del amo engorda el caballo*” (The eye of the owner fattens the horse) and “*El que tenga tienda que la atienda, o si no que la venda*” (Whoever has a store should tend to it, and if not, then sell it). The first adage suggests that the quality of a good or service improves when the person providing it enjoys autonomy and has a financial stake in the outcome. The second hints that if the Cuban government is unable to “tend its own stores,” it should let others take them over. In essence, this popular wisdom demands that the state turn over to the private sector the economic activities it cannot operate effectively itself—many of which are widely practiced in Cuba’s ubiquitous underground economy.

As the US embargo begins to crumble following December 2014’s historic agreement between Presidents Barack Obama and Raúl Castro to restore diplomatic relations, we should remember that the external embargo is hardly the principal blockade standing in the way of Cuba’s economic revitalization. Although both the Cuban government and the editorial page of the *New York Times* constantly (and we believe rightly) condemn the still-existing American *bloqueo*, Cuban citizens are much more likely to criticize the so-called *auto-bloqueo* (internal embargo) imposed by the Cuban government itself on their entrepreneurial ingenuity and access to uncensored information and communications.

Obama has opened a door to potential US investment in Cuba’s entrepreneurial and telecommunications sectors. But is Raúl Castro willing to allow US companies to enter and operate on the

island? More important still, is his government ready to open up to the Cuban people by beginning to relinquish its tight control over private enterprise and the Internet?

UNLEASHING ENTREPRENEURS

Between 1996 and 2006, President Fidel Castro pursued an economic policy retrenchment that gradually phased out the pro-market reforms of the early 1990s, indicating that he was more aware of the political risks that popular entrepreneurship would pose to his centralized control than of the economic benefits it could provide. Therefore, he was unwilling to transfer more than a token portion of the state “store” to private entrepreneurs. His brother Raúl Castro, whose presidency began in 2006, has eased this resistance to a degree. While the underlying goal of economic reform is still to “preserve and perfect socialism,” he has started to deliberately shrink the state store and transfer the production of many goods and services to more than half a million new small enterprises, including both private and cooperative ventures.

However, much more remains to be done in reforming policies for microenterprise so that it can fully contribute to productive employment, innovation, and economic growth. For example, 70 percent of the newly self-employed were previously unemployed, meaning that they likely converted existing underground enterprises into legal ones, doing little to absorb the 1.8 million workers slated for state-sector layoffs. Moreover, only 7 percent of the self-employed are university graduates, and most of them work in low-tech activities because almost all professional self-employment is prohibited. This acts as a blockade on the effective use of Cuba’s well-educated labor force, obstructing innovation and productivity.

A further goal of the tentative reforms to date has been to facilitate the emergence of cooperative and small-enterprise sectors so that they can generate sustained improvements in material stan-

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dards of living. This can only be achieved with deeper reforms that effectively end the embargo against Cuban entrepreneurs. Among the necessary changes would be opening the professions to private enterprise; implementing affordable wholesale markets; providing access to foreign exchange and imports (a fiercely guarded state monopoly); establishing effective credit facilities; permitting the establishment of retailing enterprises; and easing the tax burden on small enterprise, which now discriminates against domestic entrepreneurs in favor of foreign investors. Progress in all these areas would be greatly facilitated by access to US investors and markets, which will soon become possible when Obama's historic policy changes are implemented during 2015.

However, it remains to be seen whether Raúl has the political will to intensify the internal reform process. The outright prohibition of activities that the government prefers to keep under state monopoly allows it to exercise control over Cuban citizens, but pushes all this targeted economic activity (along with potential tax revenue) back into the black market—where much of it existed prior to 2010. The legalization and regulation of the many private activities dreamed up and market-tested by Cuba's inventive entrepreneurial sector would create more jobs and greater quality and variety of goods and services at lower prices, while also increasing tax revenue. However, these benefits come at the political cost of allowing greater citizen autonomy, as well as wealth and property in private hands and open competition against state monopolies.

The viability of the reforms also depends both on the recently announced changes in US policy toward Cuba and on Cuba's changing policy toward its émigrés, who already play a major role in the economy as suppliers of start-up capital via the billions of dollars they provide annually in remittances. Such investment could be expanded if the Cuban government would deepen its recent migration reforms by granting greater economic rights to the large émigré community.

Obama's relaxation of US policy will inevitably shift the political calculus that underlies economic reform on the island. As external obstacles to economic revitalization are removed, the onus will fall with increased pressure on the Cuban government to broaden and deepen its initial reforms, since it alone will be to blame for poor performance. For example, organizations like the Catholic Church-affiliated Cuba Empeñe have

already begun to offer entrepreneurship workshops to small-business owners with the financial backing of Cuban-Americans. Now that they needn't worry about the threat of US sanctions, will this and other similar projects be granted the legal and institutional space to flourish by the Cuban government?

OPENING CYBERSPACE

Despite a continued state monopoly on the mass media and one of the Western Hemisphere's lowest Internet penetration rates, in recent years Cuba has seen a number of significant developments in information and communication technology (ICT) capabilities, access to uncensored news, and the availability of new dissemination channels for digital data. These developments include the spread of the worldwide blogging and citizen journalism phenomenon to Cuba; the connection of a fiber-optic cable to the island from Venezuela in 2013, followed by the opening of 118 Internet cafés in June 2013 and access to e-mail via cell phones for the first time in 2014; the appearance of a small number of independent, island-based news outlets—including the news and opinion websites Havana Times, On Cuba, and 14ymedio (launched by the pioneering blogger Yoani Sánchez in May 2014); the creation of a number of unauthorized "mesh" networks that use private Wi-Fi networks to communicate and share information; and the emergence of an underground digital data distribution system known as *el paquete* (the package). Each of these developments could be accelerated by the new US policy that allows American telecom providers to do business in Cuba, but only if the Cuban government is willing to allow diversification and freer competition in its centralized, monopolistic ICT system.

For example, the *paquete* phenomenon currently acts as an alternate, offline Internet on the island, making huge amounts of electronic data (CDs, DVDs, video games, books, applications, computer programs, news, and so forth) readily available for purchase in Cuba's digital black market. While much data continues to circulate via thumb drives, there is also a market for entire external hard drives of data bought and sold not in megabytes or gigabytes, but in terabytes—and all outside the rigid control of the state media production and distribution system. University of Havana journalism professor Elaine Díaz Rodríguez recently confirmed that this package distribution system had become quite formal-

ized as a key part of Cuba's underground economy by 2014.

This digital black market arises from the fact that many products—especially the latest electronic gadgets—are priced far out of reach for most Cubans in state stores, not for sale, or even banned outright. More recently, the small but rapidly growing number of Cubans who have joined the smartphone revolution (often purchasing their Androids or iPhones via the blocked site Revolico.com, a Cuban version of Craigslist) have benefited from the proliferation of apps especially configured for Cuba's peculiar offline environment. Undoubtedly, this digital media environment will be fundamentally transformed if American data, service, and hardware providers are given access to the Cuban market. At the very least, prices are bound to fall while connection speed increases, access expands, and the quality and quantity of digital ICT equipment improves.

A key recent development was a June 2014 visit by top Google executives to the island, including chairman Eric Schmidt, with the purpose of “promoting a free and open Internet.” To that end, they met both with the leading cyber activist Sánchez and with government officials, while also interacting with students at the University of Computer Science. Upon returning to the United States, Schmidt declared that Cuba was trapped in the Internet of the 1990s and heavily censored, with American-engineered hardware and software losing out to Chinese ICT infrastructure. He also reasoned that the US embargo “makes absolutely no sense” if Washington's aim is to open the island up to a freer flow of information. “If you wish the country to modernize,” Schmidt argued, “the best way to do this is to empower the citizens with smartphones and encourage freedom of expression and put information tools into the hands of Cubans directly.” The greatly expanded telecom opportunities for US companies and the decision to review the designation of Cuba as a state sponsor of terrorism, both included in December's announcement of plans to normalize relations, indicate that the Obama administration was convinced by Schmidt's logic.

BELIEVABLE CHANGE?

The slow pace and (so far) only marginally successful results of Cuba's economic reforms have

put the government under rising pressure to expand Internet services to meet the needs of the new foreign investors it hopes to attract. This eventuality—now with the help of US investment and technology—could increase the population's access to the web. At the same time, the government is clearly looking to the Chinese example as it contemplates ramping up its own Internet capabilities, hoping to remake the web in its authoritarian image and forestall any democratizing effects. Still, in the months following Schmidt's visit, Google announced that it was unblocking island access to its free cloud-based Chrome search engine as well as popular applications such as Google Play and Google Analytics—a decision that could not have been made without tacit approval from the Obama administration. Events in 2015 will reveal how much further the Cuban government is willing to allow Google and other Internet and telecom companies to go.

While these digital developments are significant, it remains difficult to determine to what extent they will affect ordinary Cubans, given that the government itself estimates the Internet access rate at an extremely low 26 percent. Even this figure conflates access to the Internet with the island's limited internal “intranet,” and counts sporadic access to e-mail in the same category as full access to the World Wide Web. Although new cybercafés opened across the island in June 2013, this service is a state monopoly available only to those able to pay in hard currency. Full access for one hour costs the equivalent of the average weekly salary.

Expanded access to ICT in Cuba takes place in a context of connectivity that can be described as slow, expensive, and censored, with certain sites—such as 14ymedio—blocked outright. Devices such as computers, tablets, and smartphones are scarce and costly; the purchase and importation of key equipment such as routers and other Wi-Fi technology are highly controlled. Indeed, it is still not legal for the vast majority of Cuban citizens to obtain a household Internet connection, and there is virtually no legal access on the island to wireless networks and fully functional mobile technology or smartphones with data plans, outside of international hotels, certain government institutions, and select educational facilities. The government has recognized these limitations and

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made commitments to remedy them, but there is no clear timeline or way of holding the state or its telecom monopoly Etecsa accountable to citizens and consumers.

Cuban citizens of all stripes are working to overcome the very substantial obstacles to entrepreneurship and free expression. This effort, however, takes place in an asphyxiating climate of political polarization, where Cubans have been doubly blockaded by the US embargo on one side and by the ongoing internal embargo on the other. This is why the recent growth of domestic entrepreneurship and innovative engagement by Internet companies like Google is so significant.

The new approach seeks to engage and empower the Cuban people directly while accepting some collateral benefit for the Cuban government, instead of aiming to undermine the government with a ham-handed embargo while accepting the collateral damage that such a policy inevitably inflicts on the people. Now that this approach has been reinforced by the Obama administration's momentous decision to diplomatically engage Cuba as a way to further empower its people, the ball is clearly in Raúl Castro's court. Will he transform his hesitant economic reforms and marginal expansion of Internet access into change Cubans can believe (and invest) in? ■

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"...Cuba is no longer of great strategic importance and the cold war is over. Castro may never win a popularity contest in the United States, but he just may be the key to a peaceful transitional process in Cuba and that, in the final analysis, should be America's overriding concern. Good foreign policy does not flow from psychological obstacles and historical obsessions; rather, it must be geared, on the basis of dispassionate analysis, to the achievement of rational United States objectives and interests. That is not a description of current United States policy toward Cuba."

Wayne S. Smith "Shackled to the Past: The United States and Cuba," February 1996

