

C U B A

To Have and Have Not

Foreign investors—and ordinary Cubans—can just keep dreaming of making easy money

BY PETER KATEL

FILIP HOFFMANN SPEAKS OF HIS Cuban “partner” with more than a hint of sarcasm. The Belgian businessman, an employee of the Spanish tourism firm Iberostar, manages the Hotel Neptuno in Havana—but practically every important decision is made by the international hotel’s owner, the Cuban government. The government built the place only four years ago, but Hoffmann says it’s already falling apart. The government hired the staff, including a bartender who didn’t know what a martini is and chambermaids who emphatically don’t care where they’re supposed to place the toiletry kits. Anything Hoffmann buys, including food, has to be obtained from the government, which often means either doing without or paying more than one third extra in duties for imported goods. “My partner is doing very well, thank you,” says Hoffmann, “maximum income for minimum effort.”

Foreign investors can just keep dreaming of making easy money in Cuba. The potential is certainly there: the finest beaches in the Caribbean, at least one third of the world’s known nickel reserves, a literate work force that never goes on strike. And the government clearly wants to attract foreign money. On his visit to New York last month, Fidel Castro even wore a banker’s pinstripe suit instead of his trademark military fatigues and talked up Cuban investment at every opportunity. Since 1988 Havana has allowed some 250 foreign companies to invest an estimated \$737 million in the country, and deals worth an additional



How can I serve you? Saleswoman in a virtually barren, pesos-only clothing store

\$4.3 billion are under negotiation. But Cuba is no China; it’s not even Vietnam. The government’s commitment to a state-planned, centrally controlled economy remains as inflexible as ever.

Sign here: Every detail of doing business in Cuba is minutely regulated. One leading Western businessman was obliged to cool his heels two months before the Cuban government granted him permission to buy a company car. His application slowly climbed the bureaucratic ladder all the way to Carlos Lage, vice president of the Council of Ministers and operational director of the economy, who finally affixed his signature. Now the foreign executive is seeking permission to buy a dish antenna. He wants to watch soccer games and news from

home. “This is a communist country that doesn’t want to stop being one,” he grumbles. As Castro himself confidently declared in September, “we will not only save socialism, but we will perfect it.” The president was hailing the National Assembly’s passage of a bill that supposedly liberalized Cuba’s foreign-investment laws.

The most galling restrictions on overseas businesses may be Cuba’s labor laws. Havana makes sure foreign bosses don’t reward Cuban workers too generously. Almost all hiring is done by the state, and the law says employees must be paid in pesos, not dollars. The government, in its capacity as partner and paymaster, reserves any hard-currency earnings for its own use. Companies are allowed to offer *estimulos*

(bonuses)—subject to government approval on a case-by-case basis. But the government bars joint ventures from paying any Cuban worker a bonus of more than \$50 a month in convertible pesos. “This is to avoid the introduction of privileged classes, privileged groups of workers,” explains Octavio Castilla, vice minister of foreign investment. A bonus of \$50 can still be good money in a country where the average wage is the equivalent of \$7.20 a month. Yet many workers resent the government for exploiting them. “I got tired of knowing that my salary was being paid to the state in dollars,” says an engineer who quit a relatively high-



Wait till the next century: Kids play ball in crumbling Havana

salaried job in order to sell handicrafts on the street.

Few ordinary Cubans appear to share their government's disdain for bourgeois comforts. If their incomes allow it, they flock to *paladares*, the newly legal restaurants run out of private homes. Such places routinely serve better food than state restaurants at half the price. Some restaurateurs even distribute advertising handbills, a practice unheard of until recently in communist Cuba. "The pleasure of home cooking," says a leaflet for a place called Eddy's, the converted living room of a former villa in central Havana. "For special service, call for a reservation." And thousands of private citizens journeyed by bus, car and bicycle to Havana's recent annual

trade fair. They gazed covetously at the displays of foreign-made light industrial machinery and the kind of consumer items that many non-Cubans would take for granted. Among the exhibitors was Alberto Sato Hirata of Mexico City's Goba Internacional, which hopes to sell \$200,000 worth of staplers, paper-punches and scissors in Cuba (via a state-run import house, of course) over the coming 12 months. Mexicans can buy such wares at any local stationery shop, but the Cubans were dazzled. "They keep asking where they can buy scissors like these," Sato said.

No bread: Aside from a few highly publicized deals, most investments in Cuba are still petty cash. The Mexican firm Grupo Domos paid \$1.5 billion (half of it a non-cash debt swap) for a 49 percent interest in the island's telephone system in 1994, but most foreign companies are keeping no more than a toehold in Cuba for now. "There isn't as much investment in Cuba as people believe," an official in Spain's Trade Ministry says from Madrid. "By definition, it is risk capital. If I were a company, I wouldn't put money there for anything." Other financial analysts agree. "Foreign capital can't take root where people don't have bread, don't have jobs, are confronted with the urge to leave," says Thomas Trebat, emerging-markets research director for New York's Chemical Bank. "Cuba to me is a place basically for the next century." Yet many foreigners in Cuba say they're sure the boom will come. "The future has very big possibilities," asserts Hoffmann. Perhaps so. But Havana is trying to postpone that day as long as possible. ■

ALGERIA

Ballots, Not Bullets

War-torn voters signal that they're eager to resume the national experiment with democracy

THE ALGERIAN ELECTIONS LAST week held several surprises, but the name of the winner wasn't one of them. Retired Army Gen. Liamine Zéroual, who was appointed president by his colleagues in the military and intelligence services in 1994, handily defeated three other candidates. After 75 percent of eligible Algerians cast their ballots, he had 61 percent of the vote.

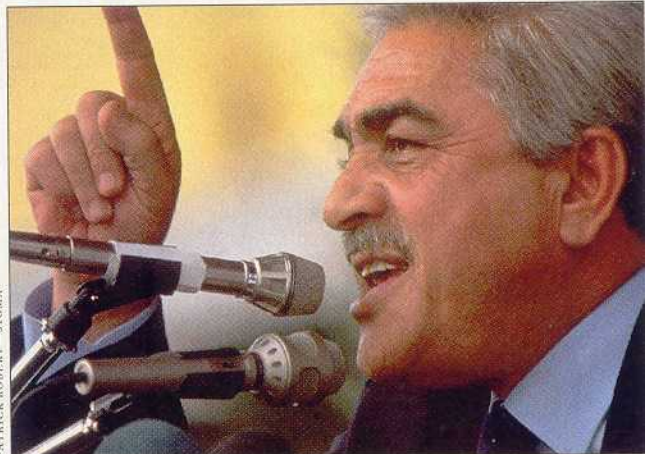
That there were elections at all in war-torn Algeria was the main surprise. That they took place in relative peace was another. The major opposition parties boycotted. The extremist Armed Islamic Group threatened to kill the voters. Army reserves were called up; 300,000 troops patrolled the streets of the country. Yet polling stations were crowded. And the fact that there wasn't an overwhelming landslide made the results plausible: 25 percent of the people *didn't* vote; and, of those who did, 39 percent didn't vote for Zéroual. In recent memory the presidents of Egypt, Syria and Iraq have run unopposed. None won with less than 97 percent of the vote, and no one thought those elections had much to do with the popular will.

In Algeria, they may. After more than three years of civil war and perhaps 50,000 deaths, the people are clearly weary of violence and ready to restart an experiment with democracy that was aborted at the end of 1991. Then, the Muslim fundamentalists of the Islamic Salvation Front (FIS) were on the verge of an overwhelming victory in legislative elections. To prevent that, the clique of senior military officers known as *le pouvoir*; the powers that be, ousted President Chadli Bendjedid, canceled the second round of voting and outlawed the FIS. The war followed. And the peace of North Africa and much of southern Europe has been menaced ever since.

Spillover: Algerian violence already has spread to France, where a string of terrorist attacks has killed seven and wounded more than 100. Washington is concerned enough about the region to shore up the military in neighboring Tunisia and Morocco, if need

be, "to ensure that the Algerian problem does not spill over," according to Deputy Secretary of Defense Bruce Reidel. The Pentagon is even "preparing for eventualities like an emergency evacuation" of U.S. citizens in Algeria, he told NEWSWEEK.

The Algerian government has been hard for many in the West to support. It is often difficult to tell who is in charge, who is responsible and what *le pouvoir's* long-term strategy may be, apart from eradicating all the country's Muslim militants. After the ouster of Bendjedid, the generals put



Winner Zéroual: A good turnout, an ample majority

forward a series of front men. Zéroual got the job after others had failed, been assassinated or declined to take it.

The question now is whether he can or will distance himself from the men who put him in power. Can Zéroual take his electoral mandate, such as it is, and start a credible dialogue with the opposition? What brought many Algerians to the polling stations last week, braving all the threats, was the hope that some path might be found toward civil peace. The mainstream leaders of the FIS and the other large opposition groups have been feeling their way toward negotiations for more than a year. Now "it's important that the conduct of the Algerian government be worthy of the Algerian people," said U.S. Ambassador Ronald Neumann as the election results came in. And what people want is an end to the war.

CHRISTOPHER DICKEY in Paris with
JAN ELLIS in Algiers