

INTERNATIONAL TOURISM

The New Engine of the Cuban Economy

by Philip Peters

Vice President, Lexington Institute

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Introduction

Cuba's budding tourism industry, built during the 1990's, has replaced sugar as the island's top foreign exchange earner. In contrast to sugar, tourism is based on sound competitive advantages, and it has the potential to generate additional growth, income, and employment in the decades ahead.

The sector is still relatively small – it employs 100,000 workers directly, about the same number laid off from sugar industry jobs this year alone. But its significance is large. Tourism development is national in scope. It draws foreign investment and know-how. It forces officials and state enterprise executives to cope with international market realities, and it is bringing managers and workers to learn the art of customer service.

Tourism also benefits other parts of the Cuban economy, creating demand for goods and services provided by state enterprises and, in spite of the economy's clear socialist orientation, by Cuba's small private sector as well.

This paper examines the growth and composition of Cuba's tourism industry and its impact on the Cuban economy and workers, and considers the industry's competitive future in the international tourism market. It is based on field research conducted in Cuba, including visits to tourism businesses and interviews with officials, executives, workers, and tourists themselves.

The evolution of Cuba's tourism industry

Until the 1990's, Cuba was alone among Caribbean economies in its lack of a strong tourism sector or even an aggressive tourism promotion policy.

The decision not to promote tourism in the early decades of Cuba's socialist revolution stemmed from authorities' revulsion at the ills associated with tourism in the 1950's: gambling, drugs, prostitution, and the presence of American organized crime in hotels and casinos, working in league with the Batista government. To this day, Cuban officials are adamant that gambling will play no part in their tourism industry.



By the 1970's, Cuba decided to diversify its economy by promoting tourism, and the National Tourism Institute was created in 1976. In 1987, a decree-law was promulgated to allow for joint ventures in the tourism sector in partnership with foreign capitalist investors. The tourism institute became a government ministry and a new state corporation, Cubanacan, was created to develop the industry and to enter into partnerships. The first tourism joint venture was created in 1989 with the Hotel Sol Palmeras.

When the end of the Soviet bloc plunged Cuba into an economic crisis in the 1990's, efforts to promote tourism were redoubled. Tourism was viewed as a use of scarce investment capital that had a good prospect of producing high and rapid returns. One fifth of investment in the 1990's went to the tourism sector.

In 1957, 275,000 tourists visited Cuba, a peak that was not reached again until 1987. By 1990, that record was surpassed with 340,000 visitors, and now more than 1.7 million visitors enter Cuba each year, six times the 1987 level, with an average stay of seven days. The impact on Cuba's economy has been significant:

- The tourism sector employs 100,000 workers, and officials calculate that another 200,000 jobs in agriculture, light industry, communications, energy, and other sectors have been created by tourism.
- In 2000, tourism alone accounted for 41 percent of foreign exchange earnings, ten times the level of a decade earlier. Sugar's contribution fell from 80 percent to 33 percent.
- A decade ago, an official says, Cuba had "the typical Caribbean tourism development – fruit, drinks, uniforms, meats were all imported." Only 12 percent of the sector's purchases were made from Cuban

suppliers. Today, official data indicate that 68 percent of purchases are from Cuban sources.

- Cuba's hotel capacity tripled in the 1990's; today there are 37,225 rooms in 240 hotels.

If tourism is socialist Cuba's first major brush with globalization, the results have not all been positive. The economic downturn of 2001 and the travel scare that followed the September 11 terrorist attacks combined to stop the growth of Cuban tourism in 2001 and 2002, preventing Cuba from reaching its projected



Old Havana and the southern coastal city of Trinidad are two centers of colonial architecture that are undergoing restoration and attracting tourists.

Tourists to Cuba: how many...

	Visitors (thousands)	Gross revenues (\$ million)
1978	97	-
1989	275	-
1990	340	243
1991	424	402
1992	461	550
1993	546	720
1994	619	850
1995	746	1,100
1996	1,004	1,333
1997	1,170	1,515
1998	1,416	1,759
1999	1,603	1,901
2000	1,774	2,034
2001	1,774	1.85

...and where from**Thousands of visitors in 2001**

Canada	350
Germany	172
Italy	159
Spain	140
France	139
Mexico	98

level of 2 million visitors. Initially, the impact was severe: 10,000 hotel rooms were put out of service, and many support services such as taxis and restaurants were idled. Like the rest of the Caribbean, Cuba recovered slowly, and October 2002 brought the first possible sign of renewed growth, as a ten percent increase in visitors was recorded that month over October 2001.

Industry strategy

Cuba's tourism promotion strategy is built around three main attractions: beach resorts, history and colonial architecture, and nature and ecotourism. The tourism ministry has targeted eight regions around the island for tourism development; initially, Havana and the Varadero beach resort received the lion's share of investment, and now the emphasis has shifted to other regions.

Beach resorts. The pristine beaches of Varadero, a 22-kilometer peninsula two hours' drive from Havana, have long been a refuge for Cubans and foreigners alike. Much of the peninsula was once owned by the Dupont family; in 1931, Irene Dupont de Nemours completed construction of a mansion, with Cuban mahogany and Italian marble throughout, where she spent a few winter months each year. The mansion serves today as a restaurant and guest house, and its servant quarters now house the pro shop of Varadero's golf course.

Except for longstanding residential areas and a nature reserve on the peninsula's south side, Varadero's geography is dominated by tourism development. Club Med, Barcelo, Sol Melia, Sandals, Superclubs, and other international resort brands are present. One third of Cuba's hotel capacity and nearly one fourth of tourism jobs are here. The peninsula consumes up to 50 megawatts of energy per day, all supplied by Energas, a Canadian-Cuban joint venture that captures, cleans, and burns the highly sulfurous natural gas that is a by-product of local crude oil production.

750,000 visitors came to Varadero in 2001, most arriving at the nearby international airport. Random interviews with tourists indicate that a large number split their time between Varadero and destinations such as Trinidad, Pinar del Rio, and Havana.

According to Lester Felipe Oliva, the tourism ministry's top official in Varadero, plans call for the construction of about 9,000 more hotel rooms, two new golf courses (both slightly inland), and the quadrupling in capacity of Varadero's 150-slip marina to prepare for the day when Americans travel without restriction to Cuba. Oliva and local tourism executives are also keen on expanding the area's shopping, restaurant, and recreational offerings so they can market Varadero, in one executive's words, "not just as a beach, but as a complete destination."

Even as Varadero continues to grow, Cuba's investment emphasis is being placed today on new beach resorts, especially in the keys off Cuba's north coast between Villa Clara and Holguin provinces.

Colonial architecture. Cuba was settled and colonized by the Spanish in the 16th century, and the island today holds some of the most extensive areas of colonial

architecture in the Americas. Cuban officials are working to preserve and restore this architecture, fully aware that they are enhancing Cuba as a tourism destination as they safeguard their national heritage.

Havana's colonial center is the most extensive and varied in Cuba, and its restoration effort is unique. Under the direction of the city's historian, Eusebio Leal, every dollar of Old Havana's tourism income is spent on restoration of buildings, monuments, housing, and other neighborhood assets. A government decree puts Leal's office in charge of every zoning, land use, construction, and design decision in its two-square-kilometer area. A specialized workforce and a network of enterprises under Leal's direction is executing dozens of renovation projects at a time. (See the study "Rescuing Old Havana" at www.lexingtoninstitute.org/cuba.)

Trinidad, a city on Cuba's southern shore, is a smaller, quieter place with cobblestone streets and a large area of historic buildings, mainly housing. Some local tourism revenue is recycled into local restoration, but not in such a complete way as in Havana. Because there are almost no large buildings that could, if restored, serve as hotels, Trinidad has many private entrepreneurs who rent rooms in their homes to tourists.



Las Terrazas, a mountain resort about 40 minutes' drive from Havana, is an example of nature tourism. Its hotel, shown here, is built into a mountaintop forest. A mainly European clientele mixes with Cubans to enjoy hiking, swimming in waterfalls, cycling, and exploring the ruins of a 19th century French coffee plantation.

Ecotourism. Cuba's natural environment offers many opportunities for ecotourism development: the mountains, caves, and geological formations of the Vinales valley in western Cuba; the forests and wildlife of the Rosario, Escambray, and Sierra Maestra mountain ranges; the wetlands of the Zapata peninsula.

The island's waters apparently boast spectacular environments as well. Writing in the February 2002 *National Geographic*, author Peter Benchley describes a dive he made off southwestern Cuba that revealed "an underwater realm that had not existed, so far as I knew, since the 1950's...animals in numbers and diversity I hadn't seen in decades."

Ecotourism development is only in its incipient stages in Cuba, but its evolution will have an important bearing on environmental protection. While Cuba has environmental protection policies, it is also true that many of Cuba's pristine areas, such as those described by Benchley, are undisturbed simply because Cuba has lacked resources to exploit them. A future flow of tourists attracted by these assets can give the country an opportunity to earn profits by protecting nature.

Other attractions. In addition, Cuba is developing attractions to bring new visitors to Cuba or to give current ones greater reason to spend money, or to return.

Cuba is beginning to make appeals to Canada's long-term tourists, the "snowbirds" who spend up to six months in Florida each year. In Tarara (just east of Havana) and elsewhere, Cuba is tailoring beach cottage sites to provide the

lodging, amenities, health services, and pricing that these travelers require. New American immigration restrictions that limit the issuance of long-term U.S. tourist visas may aid Cuba in wresting part of this market from Florida.

Golf courses are expensive to build, but Cuban officials are finding that they might profit by building new ones to complement the island's single professional-grade course at Varadero. The Caribbean has an average of one golf course per 2,000 hotel rooms; Cuba's ratio is 1:40,000. According to tourism ministry economist and adviser Miguel Figueras, golf is one of many services that can attract higher-spending visitors. He notes that compared to per-tourist spending at the beach resorts in the Cuban keys, spending is 40 percent higher per tourist in Varadero, and 70 percent higher in Havana.



Tourists conquer uninhabited isles

Northeast of the town of Caibarien in Villa Clara province, across a 46-kilometer causeway that spans open sea, salt marshes, and small islands, lies Cayo Santa Maria, one of hundreds of keys off Cuba's north coast.

Cayo Santa Maria, formerly uninhabited, is now home to the 300-room Hotel Sol Cayo Santa Maria, opened in March 2002, the first of three hotels to be built on the island. The hotel is owned by Cuba's Gaviota tourism chain and is operated by Spanish executives under a management contract. It operates under an all-inclusive pricing plan. Similar projects have been built on keys along the northern coast.

Like other Caribbean beach resorts, the Sol Cayo Santa Maria has plenty to keep its guests busy on site, including swimming, boating, tennis, a gym, shops, restaurants, child care, and live entertainment. Inland excursions are available for guests, but this is clearly a place where visitors satisfied by beaches and relaxation can stay without ever venturing into Cuba itself.

The resort appears to be built with minimal environmental impact: its buildings are only one or two stories tall, guest rooms are spread out in a vast area of bungalows, and the buildings are barely visible from the beach. Raised wooden walkways traverse the dunes, protecting them from foot traffic and erosion.

One Sunday last April, the new staff was getting a workout as 290 Canadians, Britons, and Germans were checking out, and 263 more visitors were on their way to check in.



Industry structure and foreign participation

In business terms, there are two pillars to Cuba's tourism industry: a network of state enterprises, and the participation of foreign capitalist corporations that bring investments and know-how.



In the tourism sector, several conglomerates dominate the market. These include Cubanacan, founded in 1987, which has 15 separate companies and 33,000 employees and earns one third of Cuba's tourism income. Gran Caribe owns 45 hotels, accounting for one fourth of the island's hotel capacity. Others include Gaviota, a tourism business owned by the armed forces, and Habaguanex, a company that is operated by the Office of the Historian in Old Havana and whose profits are used for that area's restoration.

Twenty Cuban hotels are joint ventures with foreign corporations, where the foreign partner contributes capital at the beginning of the project, owns up to half the business, participates in management and marketing, and receives distributions of profits. The partners – from Spain, Canada, Britain, Netherlands, Italy, Germany, France, and Mexico – operate hotels with a total number of 4,000 rooms. Joint ventures were the predominant form of foreign participation in the early 1990's, when domestic capital was scarce.

Nearly half Cuba's hotel capacity (17,420 rooms) is operated under a second form of foreign participation: hotel management contracts. This arrangement has been used more frequently in recent years as Cuba recovered from the depths of its 1992-1993 economic

crisis and had domestic capital to invest in hotels.

The Ministry of Tourism has a 19-page standard management contract form that is the basis for negotiations with foreign partners. Under this sample contract:

- the foreign managing company assumes responsibility for all operations, training, and international marketing, and its "internal audit and quality control teams" are expected to visit;
- accounts are kept according to "the 1986 uniform accounting system of the Hotel Association of New York City;" and
- the foreign partner's compensation consists of a) a percentage of the hotel's gross revenues, and b) a share of profits distributed on a sliding scale, where higher volumes of profits result in a higher percentage share for the foreign partner.

Management contracts offer advantages to Cuba: the foreign partner contributes know-how, management services, and marketing but does not receive a share of

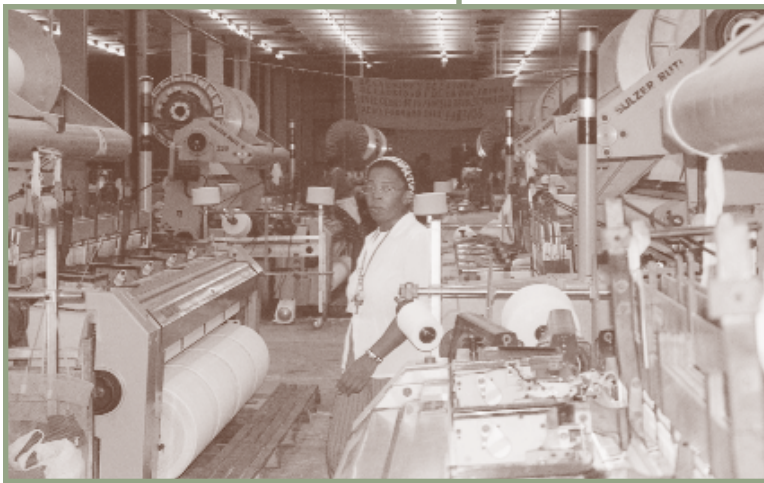
ownership; and higher shares of profits remain in Cuba. One disadvantage is that the entire initial capital expenditure is made by Cuba.

Cuban officials say that they are again favoring joint ventures to finance new tourism projects precisely because they allow Cuba to conserve its own capital – and to use it to build the golf courses, restaurants, and marinas that make the industry more profitable. Current plans call for 12,000 new hotel rooms to be built under joint ventures.

Tourism's impact on the Cuban economy: stimulating domestic production

Tourism is valued in Cuba's economic strategy not only because it earns hard currency from abroad, but because it creates a market for diverse goods and services supplied by Cuba's domestic industry.

Vice Minister of Tourism Eduardo Rodriguez de la Vega sees three benefits to the tourism sector: direct employment, the stimulation of domestic production, and a push for greater quality. "We are working under the pressure of very demanding customers, our foreign tourists," he says. "This puts our producers on the field of international competition."



A worker monitors automated, imported equipment that produces towels for the tourism industry in the Hilatex company outside Havana.

Officials say that Cuba buys domestic supplies for the tourism industry only when they meet quality standards and are more competitively priced than imports. "We support but we do not protect domestic industry that sells to tourism," according to the tourism ministry's Miguel Figueras. Rodriguez de la Vega describes a monthly meeting where the supply situation is reviewed region by region to identify products that Cuban producers are not delivering. "The hotel chains are the ones that interest me – they are the client," he says. "We're interested in producers having relationships with each hotel for the product and delivery that the hotel requires. That allows us to move toward zero inventory."

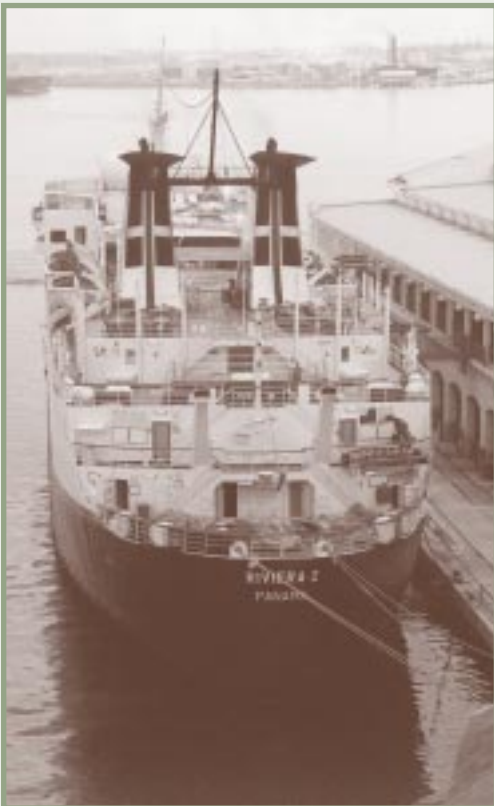
According to official data, Cuban producers provided 12 percent of the tourism industry's supplies in 1990

(when there were 340,000 visitors) and now provides 68 percent to an industry that is serving nearly two million visitors per year.

It is impossible to make an independent evaluation of these figures, but observations and official accounts make it clear that the share of domestic sales to the tourism sector has increased significantly.

- A purchasing manager for a major hotel chain used to buy his dairy products from Holland and New Zealand and his vegetables from Mexico, Chile, and Canada. "Now, I buy almost all those products from Cuban sources," he says.

- Officials say that 500 greenhouse operations are producing vegetables and flowers for tourism, 95 percent of the tourism sector's beer is of domestic production, tour buses are produced in a Cuban-Hungarian joint venture, Ikarus, and increases have been registered in domestic production of construction materials, soft drinks, and other products.
- A report to the Council of Ministers records that of \$41 million in tourism purchases in February 2001, \$27 million was bought from Cuban suppliers, and in February 2002 \$24 million of a total \$36 million in purchases was spent in Cuba.
- An executive at the Solymar hotel in Varadero says that while he still imports wine, beef, chicken, apples, pears, silverware, paint, and other products, he relies on Cuban sources for juices, water, vegetables, many fruits, beverages, dairy products, cereals, sheets, towels, mattresses, floor tiles, and paintings.
- Vice minister of light industry Isaac Alayon Gonzalez says his ministry has concluded more than 50 "cooperative production agreements" where a foreign partner brings know-how and equipment to a factory and is compensated with a negotiated share of the factory's revenues. Under these agreements furniture, soap, perfume, textiles, and other items are produced and sold to Cuban hotels.
- Air conditioners for the tourism industry are produced in a Cuban-Spanish joint venture, Frioclima.



The return of cruise ships

Cuba receives about 80,000 cruise ship passengers per year – a market that, officials say, is small and not highly profitable, but welcome nonetheless. Cuba tries to expand the economic benefits by negotiating contracts with cruise lines to employ Cuban hotel staff on the ships. Here, a ship berthed at the renovated passenger ship terminal in Old Havana. The city's long-term master plan calls for all cargo shipping to be moved from the Bay of Havana to the port of Mariel so that only cruise lines, and perhaps a cleaner bay, will be left behind. 220 kilometers to the southeast, a beach in the nature reserve at Punta Frances on the Isle of Youth is reserved for day visits by cruise ship passengers who arrive by launch while their ship remains well offshore.

- Bottled water is produced by the Ciego Montero joint venture with Switzerland's Nestle corporation.
- Soaps, shampoos, and other items in hotel rooms are produced by the Cuban company Suchel.
- Cuban software is used for hotel management, accounting, and building controls systems.

Near Havana's airport, the Primero de Mayo Towel Factory, founded in 1984, provides an example of the impact of tourism on domestic industry. The factory is part of the Hilatex company, and formerly used Soviet equipment to make thread, yarn, towels, and fabric for work clothes.

The company was hit hard by the economic crisis of the early 1990's. The Soviet equipment consumed large amounts of energy and often had to be idled. Many of the company's 4,000 workers went to agriculture or to new businesses developed by Hilatex, such as a bicycle assembly operation and a service company that meets other companies' transportation, food, maintenance, cleaning, and security outsourcing needs.

Hilatex attempted to expand its production of towels for tourist hotels, but encountered difficulties. In particular, one executive recalls "a terrible girl," a Spanish purchasing executive from a major hotel who had very exacting standards of quality. "She could not be satisfied," the Hilatex manager says. "She made us sweat blood, but it was good. Now she is satisfied and she buys from us."

With the help of an \$8 million investment in European machinery, Hilatex now sells to that "terrible" customer and to dozens of others. A showroom displays Hilatex towels used in all major Cuban hotels – an array of colors, textures, sizes, borders, patterns, and means of placing the logo on the towel that was impossible to achieve with the company's old tools and techniques.

With the old Soviet machines mothballed in a corner of the factory floor, with new technology and one fifth the workforce it had a decade ago, Hilatex is moving toward annual production of six million towels, twelve times its 1994 production. It is also within sight of profitability; when it reaches that goal, the company will provide production bonuses, in dollars, to its workers.

Impact on the Cuban workforce

As part of a global industry that exposes its participants to constant international competition, Cuba's tourism sector could not be more different from the centrally planned industries in which many of its people formerly worked.

One example is Miguel Figueras of the Ministry of Tourism. He once worked as a senior official in the Cuban government's state planning board, coordinating internal economic plans and Cuba's participation in the planned trade and investment flows of the socialist bloc. Today his duties include analysis of foreign markets to determine how Cuba can increase tourist visits from particular countries. He pays particular attention to

Canada, Cuba's top market. "Every day I get to the office," he jokes, "I have coffee with the minister, and we watch CNN to see what the temperature is in Toronto."

In the industry itself, thousands of other workers have a similar outward focus as they market Cuban destinations to tour operators, adopt international management and accounting systems, and receive training in customer service.

An American tourism executive who has examined Cuba's tourism industry notes that as the industry develops, it will continue to create demand for high-skill jobs. "There's a misconception that the jobs are just making beds in hotels. But tourism demands more than that, a whole network of ancillary services such as managers, suppliers, chefs, specialized multilingual guides, domestic air and land transportation and all the service jobs associated with them."

Foreign executives generally have a high opinion of Cuban personnel. "Cubans are given to service – the biggest challenge is learning foreign languages," one executive says.

A Spanish executive says Cuban workers have "a high level of professionalism and culture; what's needed is time to train them to give excellent service in a relaxed way, because their tendency is toward formality." He manages a hotel with 492 employees, only two of which are Spaniards, "a sign that we believe in the Cubans' capacity," he says.

A Canadian consultant, David McMillan, says Cuban tourism workers are "very well educated" if not "overqualified." They are "eager to learn, disciplined, and responsive to guidance," he says, but they "have not been exposed to quality service as a customer, and respond slowly to the delegation of responsibility." He views these as "systemic" problems, not personal traits.

Foreign executives do echo domestic Cuban criticisms of the system of employment agencies through which Cuban workers are hired. Some executives say the system generally works well and delivers pools of qualified candidates for particular jobs. But a European Union critique of Cuba's foreign investment system, issued in July 2002, complained that the agencies are one of many rigid features of the Cuban system: "The system of staff selection is controlled by the employment agencies who try to impose their candidates (frequently not suitable professionally) and make it difficult to hire candidates identified by the foreign partner."

The employment agency system also makes payroll costs high. An employer may pay the agency \$450 per month for an employee's salary and benefits, while the worker in turn may only receive a salary of \$15 in Cuban pesos from the agency.

However, through a variety of means, tourism workers fare far better than the average Cuban whose salary is the equivalent of \$10 per month. Examples:

- Entertainers in a Spanish-operated Varadero hotel are paid a small peso salary plus a monthly cash supplement of \$80.
- A maid in another Varadero hotel earns a salary of 288 pesos each month (\$11) plus about \$30 in tips.
- A waiter in a Varadero hotel earns \$5-\$25 daily in tips, from which he contributes a few dollars each day for the benefit of other hotel workers who earn no tips.



Bed and breakfast

Visitors seeking lodging in a private home can make advance reservations through word of mouth or the Internet, or once in Cuba they can locate rooms by spotting this "Licensed Renter" logo on a renter's front door. Above, the interior courtyard of a home in Trinidad that offers two rooms for rent to tourists.



- A supply manager for a hotel chain receives \$15-\$20 per month from the pool of tips earned by other workers.
- A bartender on a cruise ship that calls on Havana weekly and is staffed by a Cuban personnel agency earns \$5 in pesos plus \$380 per month, plus tips.

Tourism supports Cuban entrepreneurs

To see how tourism affects Cuba's small private sector, type "*Cuba casa particular*" (Cuba private home) into an Internet search engine. The results show how some of Cuba's licensed entrepreneurs – the 6,000 who rent rooms in their homes to tourists, business travelers, and other visitors – are marketing their services to the world.

Visitors who stay in private homes generally pay \$25-\$50 per night for a room, and according to one British tourist, they "form a connection with local people and a glimpse into some of the difficulties of living here, which you wouldn't see if you stuck to hotels." This tourist, Jeannette Hyde, wrote in London's *Observer* last February that she used local referrals to find private rooms in Havana and Trinidad; some were noisy, others in Trinidad were "spectacular, like stepping into a museum." A Canadian, David Howell, wrote of a trip with his son that started in a Varadero hotel and proceeded to private lodging, costing \$20 per night, in Havana and Trinidad.

According to a Havana retiree who works as a rental agent for more than 100 private home renters, the pattern of these two visitors is increasingly the norm – instead of staying in one place, his clients want to tour the country. For this reason, he has added dozens of private homes in Trinidad and Pinar del Rio to his portfolio, and he books his visitors' entire itinerary.

A September 2002 report from independent journalist Manuel David Orrio reported on the formation of renters' cooperatives, akin to associations of bed-and-breakfasts, in several Havana neighborhoods. "In fact, the home rental cooperatives are small private enterprises," he wrote. Members refer clients to each other and cooperate in marketing on the Internet. At

times, he reported, they pool their money and pay the tax bill of a member whose revenues don't cover a tax payment in a particular month. One leader of a 15-member cooperative said that her cooperative creates jobs for 50 independent entrepreneurs who provide laundry, plumbing, repair, electrical, and transportation services.



A private art market in Old Havana provides income for artists and vendors and tax revenues for the neighborhood's restoration.

In a quiet Havana neighborhood, a retired couple has been renting two rooms in their home since 1996. They get their clients from word-of-mouth and referrals from an informal neighborhood network of renters. They also have substantial return business.

The couple pays \$500 in monthly tax to rent two rooms, plus \$7 for the parking space they offer to clients. They have always paid their tax bill, and in an average month they have a net profit of about \$1,500.

They are occasionally visited by inspectors who check to see if they are renting the space they have registered, and to check their log of visitors where dates of stay and passport numbers are recorded.

They employ one maid, one laundry assistant, and a night guard. Their profits have enabled them to install new interior doorways and new windows, to paint the house's interior, to convert their garage into a bedroom

with bath, and to buy a stereo and kitchen equipment.

"This is the situation of those of us who rent our homes – it's not to get rich," the husband says. "You can't get rich anyway," his wife interjects. "It's to have better furniture," he continues, "better food, better conditions in your house, to save some money in case you need to buy medicine at the dollar pharmacy. It's to have a better standard of living, and I don't think the state is fundamentally opposed to that."

Other members of Cuba's community of 150,000 licensed entrepreneurs – artists, taxi drivers, private restaurateurs – also derive their income from tourism.

An artist who sells paintings in Old Havana's market sold 11 paintings, each priced at \$40-\$60, during a recent week. He easily meets his \$159 monthly tax bill, and his revenues allow him to employ four vendors (they alternate, working two at a time) and one studio assistant and to pay \$20 per month to a woman who stores his wares overnight in her nearby home. He and his associates are evangelical Christians, and he teaches Bible study classes on Sundays. "I do well because I put my trust in God," he says.

Nearby in the same market, a woman works as a vendor for three artists. She has worked in the market for nine years; she earns approximately 20 percent of the value of her sales, clearing \$50-\$60 in an average month.

On the streets of Trinidad, a retired woman whose monthly pension amounts to \$3.00 makes and sells straw hats; her monthly profit averages \$20. A retired couple sells clothing and souvenirs, earning \$30-\$40 per month. A woman who rents rooms in her home earns an average monthly profit of \$150 – "not enough to get rich," she says, but enough to provide well for her family.



The epicenter

The peninsula of Varadero, 140 kilometers east of Havana, is the center of the most intensive tourism development on the island. It has a golf club that has been featured on the European professional tour, 46 hotels in operation and others under construction, and the Xanadu mansion, a restaurant and guest house that was formerly a Dupont family property.

The outlook

What will be Cuba's future competitive position in the Caribbean tourism industry?

The economics of Cuban tourism involves two artificial restrictions on its growth: the Cuban government's own decision not to promote tourism strongly during the first three decades of the socialist government (a decision that has now been reversed), and Cuba's continued status as the only Caribbean destination that is cut off from its natural market, the United States.

Cuba has made a spectacular start in the 1990's, increasing annual tourist visits fivefold. Starting from a low base, it has become the world's fastest growing tourism market, moving from three percent of Caribbean tourism in 1990 to nine percent in 2000, and its tourism sector is still relatively small, in Caribbean terms, relative to the size of its economy.

With new infrastructure in place – hotels, resorts, and 11 international airports now served by 60 foreign airlines – Cuba is ready to receive greater numbers of visitors. And Cuba's uniqueness gives it strong reason to become an increasingly attractive destination. In contrast to regional competitors that offer primarily beach resorts, Cuba has colonial architecture, natural riches, cultural attractions, and Havana, the Caribbean's largest city, a place that intrigues many visitors in spite of its physical decay. In addition, Cuba has niche attractions such as the house where Ernest Hemingway spent a third of his life and the waters

where he fished, and a rail network built to serve the sugar industry, where railroad enthusiasts marvel at museum-piece steam locomotives, some more than a century old and still in operation.

When restrictions on American travelers are eliminated, Cuba will experience a second boom. American travel analysts predict that in the first year after travel restrictions are dropped, one million Americans will visit Cuba – a number that would cause a 58 percent increase over current visitation levels. "If Americans come, we have hotel capacity for the first million," an official says. This near-term shortage would benefit thousands of Cuban families that would be able to rent rooms in their homes to a segment of the new American market.

The terrorism scare that has dampened tourism worldwide may cause Cuba to lower its growth projections, which have anticipated five to seven million visitors by

Room to grow

Tourism revenue as percent
of gross domestic product

Cuba	8
Jamaica	17
Barbados	27
Dominican Republic	15
Grenada	17
Bahamas	38
St. Lucia	39

2010 without American tourism. However, it is safe to assume that Cuban tourism will continue to grow substantially even if American policy remains unchanged.

And tourism will in turn continue to drive the Cuban economy. "Any company making investment decisions looks at present and projected levels of tourism," a foreign investor with operations in Cuba notes. "It drives demand for domestic production, energy, imports, and everything else. We can't count on the embargo ending, so for now tourism is the key factor."

Cuba's tourism growth prospects – and the rate of return visits – will be further enhanced if Cuba continues to improve quality, know-how, and customer service. Competitors in the island Caribbean, Mexico, and even Florida have good reason to keep an eye on this emerging destination.





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Photos by Philip Peters

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Further reading

"The Impact on the U.S. Economy of Lifting Restrictions on Travel to Cuba," a study by Dorothy Robyn, James D. Reitzes, and Bryan Church, the Brattle Group, Washington, DC, July 2002.

A website that illustrates the Cuban government's approach to tourism promotion is found at www.gocuba.ca. An ample listing of Cuban websites with Cuban media, speeches, announcements, decrees, other official information, and news on Cuba's economy, is found at www.cubaweb.cu.

"Cuba Reefs – A Last Caribbean Refuge," by Peter Benchley, *National Geographic*, February 2002; a description of Cuba's marine environment and the impact of tourism. Other recent *National Geographic* coverage of Cuba: "Evolution in the Revolution," by John Putnam, June 1999; and "Cuba's Golden Past," by Thomas B. Allen, July 2001.

The Cuban Way: Capitalism, Communism and Confrontation, by Ana Julia Jatar-Hausmann, Kumarian Press, 1999.

The Georgetown University Cuba Briefing Paper Series covers economic, social, and political topics in depth. Papers are found at: www.georgetown.edu/sfs/programs/clas/Caribe/cbps.htm.

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