



The Political Economy of Change in Cuba

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“Cuban Tourism Industry: Barriers to Economic Growth”

Hilary Becker, Ph.D.
CGA Eric Sprott School of
Business
Carleton University, Ottawa,
Canada

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Sustainable Tourism

- “...Sustainable tourism constitutes an adequate response to the challenges of increasing rates of growth in employment and foreign exchange earnings, protecting and preserving the environment and natural resources, protecting cultural patrimony and values”
- Declaration on the Sustainable Tourism Zone of the Caribbean (STZC).

Santo Domingo, April 16-17, 1999.

History

- Tourism development in 40's/50's
 - Mafia in Las Vegas threatened to be shut down by U.S. Congress, looks for alternative and finds Havana
 - Thought of development for profit, not for sustainability or environment
- Development in 70s/80s
 - Growth, but still no thought to environment

History Continued

- Collapse of Soviet Union
 - Plan completed by MINTUR planning group 8 months prior to collapse.
 - Start of “Special Period”
 - Group disbanded and sent to different ministries, but took strategic development plan with them and continued to meet on periodic basis
- Governments need for hard currency focuses attention on tourism development
- Law 50 (1982) and 77 “Foreign Investment Act” - 1995
 - Joint Ventures, Economic Association & 100% foreign investment (on paper only)
- Major Trading Partners
 - Spain, Canada, Italy

Potential for Tourism

- Cuban Economic Resolution (1997)
 - Hard currency sectors other than Sugar, Tobacco
 - Decreasing world sugar prices and healthier lifestyle living/stock market collapse

- 25% of Total Government investment

– GDP	<u>1990</u>	<u>2000</u>	<u>2005</u>	<u>2007</u>
Tourism/service	6%	43%	68.4%	69.3%*
Agriculture	75%	---	5.5%	4.6%

* Services includes payments for medical services (5000+ doctors), greater than tourism.

Main development regions



Eight Development Regions at various stages of development.

Principle regions – Havana to Varadero corridor,
(70% of tourism revenues)

Tourism

- Cluster Formation
 - Some in gov't find this a problem, but is critical to gain economies "tourist traps" similar to Las Vegas or Niagara Falls
- Formatur
 - Established 1994 (Havana) with 22 teaching centers, Varadero (1978)
 - 16,000 graduates
- September 11
 - Decline in Cuba less than other major destinations
 - Gov't shut down 20 hotels and floors of other hotels. used time to remodel and upgrade.
- Special Situations
 - Habaguanex, S.A. - Restoration of Old Havana and Malecón.
 - Las Terrazas (system of taxation) -100%, now 30% retained.

Tourism – Other Opportunities

- Cruise Ship
 - Only 10% of 2 million visitors
 - Bahamas – 60% of 4.14 million tourists
 - Puerto Rico – 28.5% of 4.2 million tourists
 - 80% are US tourists
- Sport Fishing
 - Flats (Ciénaga de Zapata), Lake Hanabanilla, Zaza and Redonda
 - Pristine waters, underfished, History “Hemingway”
- Diving
 - Cayo Largo, Isle of Youth, Maria La Gorda, Ciénaga de Zapata
- Eco-tourism
 - Las Terrazas, Ciénaga de Zapata, Vinales, Varadero, Baracoa
- Health Tourism
 - \$40M per year with \$25M reinvested into hospitals.
- Golf
 - Provides opportunities but is very detrimental to the environment

Sustainable Tourism Project

- Partners
 - Fundación Antonio Núñez Jiménez de los Hombres, WWF, MINTUR
- Development of 4 poles
 - Viñales, Las Terrazas, Ciénaga de Zapata y Varadero
- 4 Pillars for Sustainable Tourism
 - Economical, Social, Environment
 - and Political (Cuba)

Project Focus

- i) Determination of problems in each of the 4 locations
- ii) Coordination and integration of actors involved in each zone and with Cdn. Tour operators
 - workshops, education program, video, website development, etc.
- iii) Determination of effective indicators for sustainability which can be used to measure the effectiveness of the current sustainability tourism strategy and provide future growth
- iv) Development of new tourism products (include video for airlines)
- v) Development of a methodology to expand the current process to other tourism zones within Cuba/Caribbean

Process for Sustainable Tourism

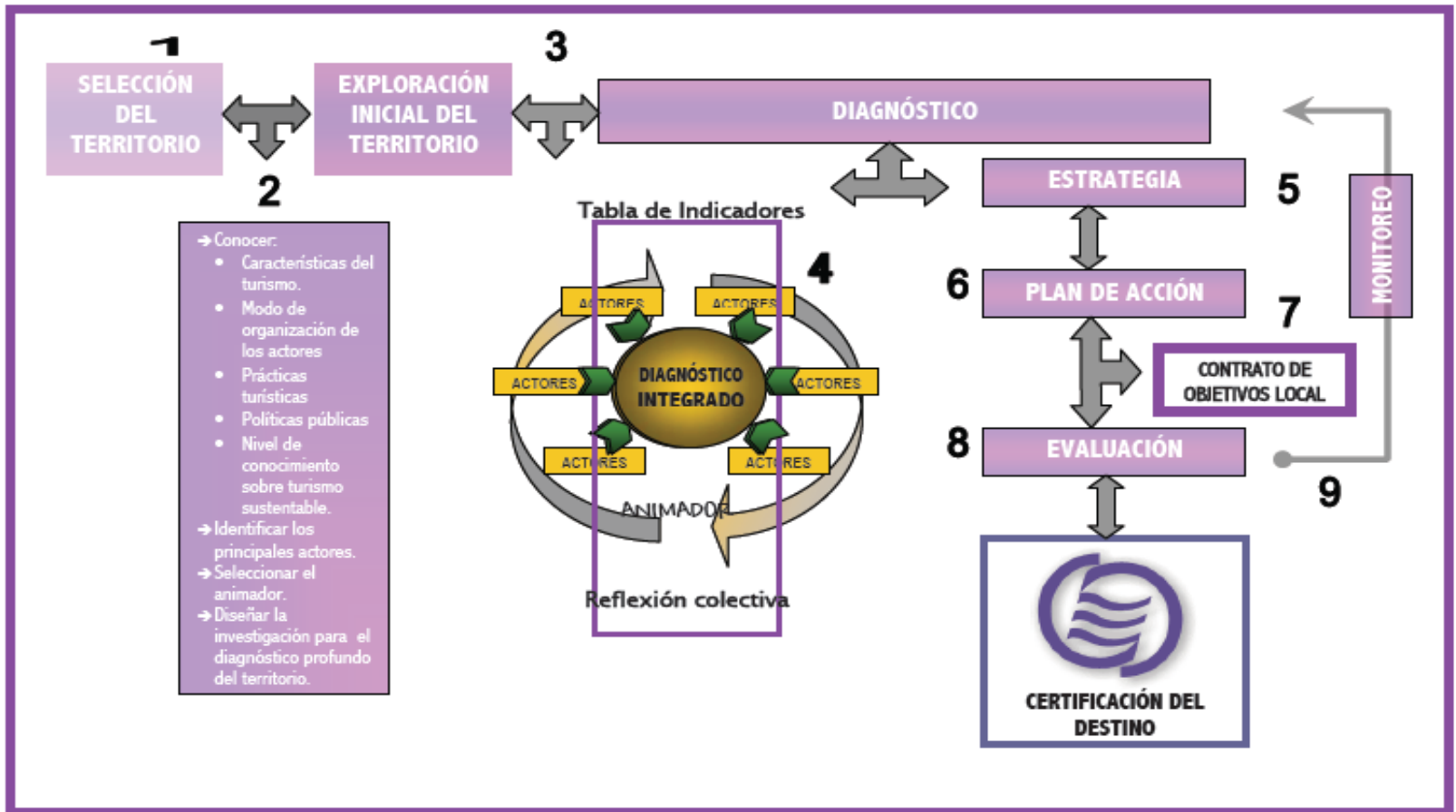
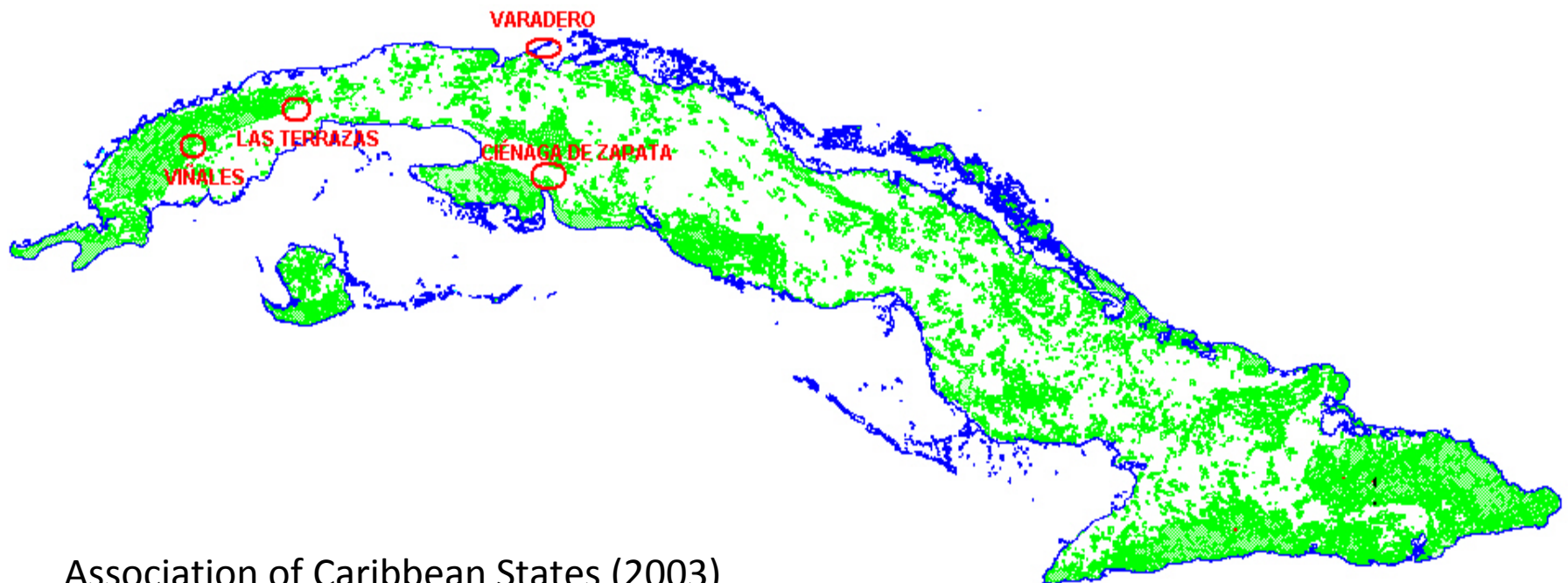


Figure 1: Process for Sustainable Tourism in Tourist Destinations (ACS)

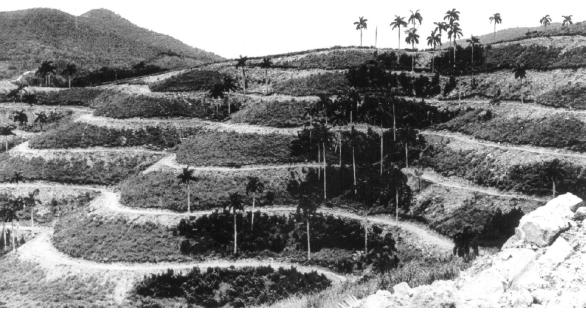
Polos Turísticos Seleccionados



Association of Caribbean States (2003)

Viñales





Las Terrazas

- Mix with Local Community



Hilary Becker (2011)
hilary_becker@carleton.ca

Ciénaga de Zapata



Varadero



Sector Oasis

AMERINDIAN POTENTIAL 1:00

Sector Kawama - Bellamar

AMERINDIAN POTENTIAL 1:400

Sector Varadero Histórico

AMERINDIAN POTENTIAL 0:500

Sector Internacional

AMERINDIAN POTENTIAL 1:300

Sector Las Américas

AMERINDIAN POTENTIAL 2:000



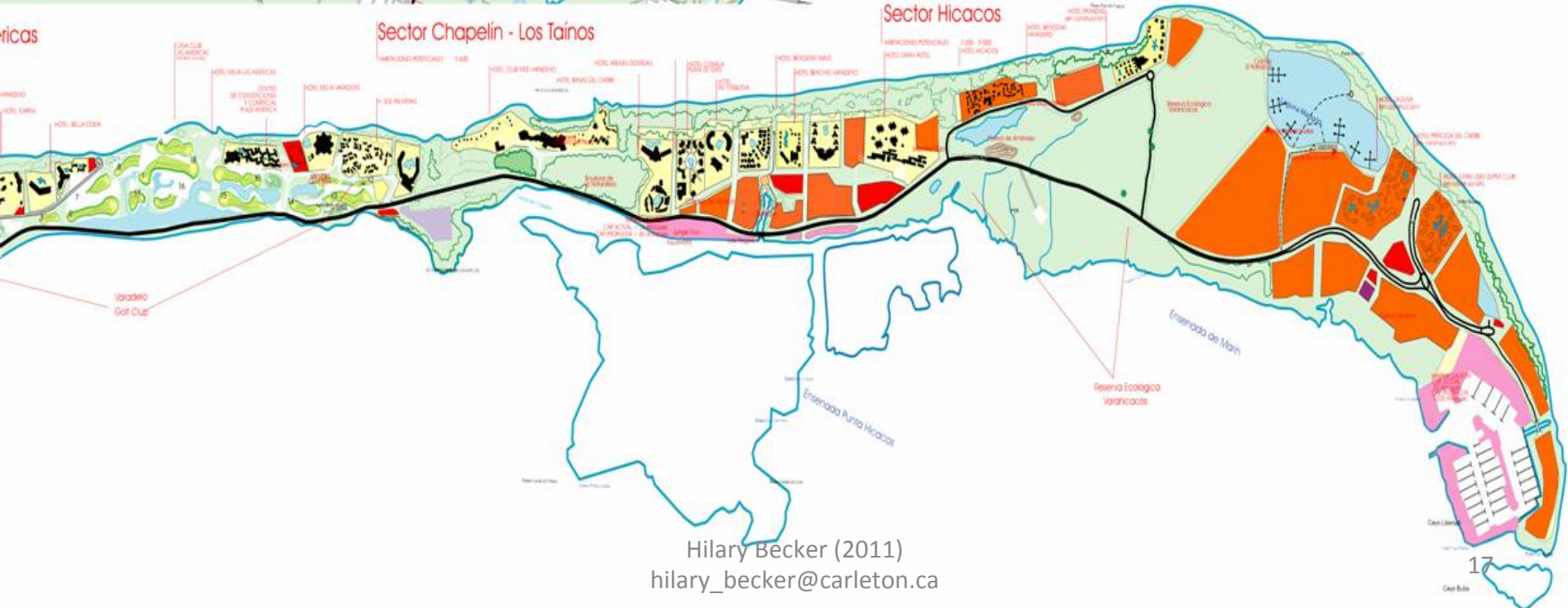
Varadero

Sector Chapelín - Los Tainos

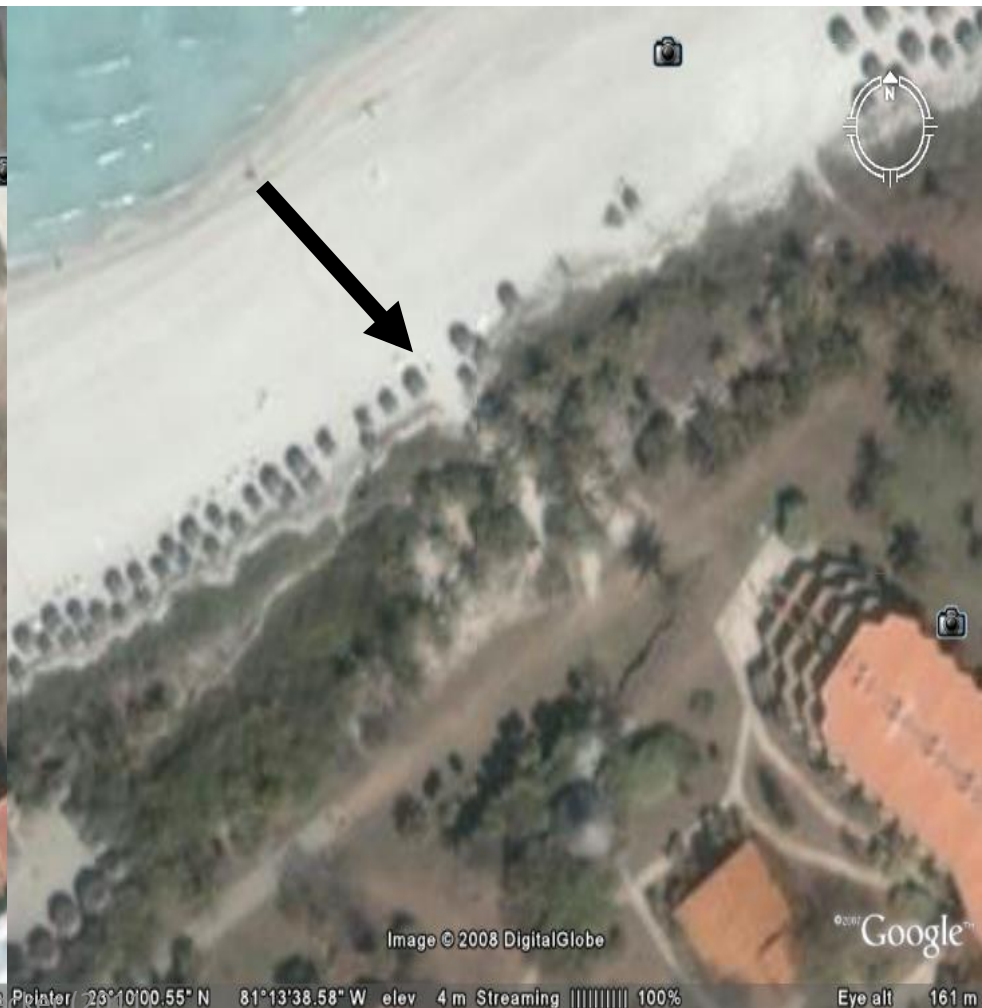
AMERINDIAN POTENTIAL 1:400

Sector Hicacos

AMERINDIAN POTENTIAL 1:500



Beach Destruction



Tourism

- Varadero
 - 20 kilometers of prime beachfront
 - Joint-Venture
 - First Mover Advantage
 - Land Valuation
- 53,000 rooms (2005), currently 70,000 (2007), expected growth to 90,000 (2010), all of Cuba
- Maximum rooms: 207,200
- Current levels of tourism: 2.3 million annually
- 3 Million US tourists expected (less than 200,000 currently)



Connections



Other Needs for Sustainable Development

- Increased small business enterprise and growth of Casa Particulars and Paladares
- Revision of Taxation system for development of tourism
 - Recommended head tax, reinvested for growth in each province for coordinated development.
- Marketing
- Link with eco-development
 - CITMA, Government, Education, Tourism (All actors)
- Coordinated projects – Currently no central bank of on-going projects

Changes

- Cuba's Monoculture
 - Sugar/tourism--- Russia/Venezuela
- 2002 – Cuba closes 50% of sugar mills
 - Focus on Efficiency
- Laying off up to 25% of labour force
 - Change in the Consitution
 - “El trabajo es un derecho inalienable del individuo”
- Allowing Small Business Enterprise
 - 178 Small business enterprises

Issues

1. Method of Layoffs

- a) No outside representation
- b) 25% of employees (considered non-essential)
- c) University Degree – not eligible to start small business (3 month waiting period)

2. Type of Businesses

- a) Non-professional industries (missed opportunity)
- b) Potential Brain-drain for future professional industries

Political/Economic/Regulatory

- Taxation
 - High level of taxation (45-65%)
 - Revenues in CUC but taxes must be remitted in Moneda nacional (additional transaction cost)
- Pension
 - Increased taxation as business must support pension fund for employees
- Red-tape
 - Hindrance to success of small business enterprises

Social Issues

- Displacement of 25% of workforce
- Younger workers could provide incentive to leave Cuba
- Older workers
 - Believer in Ideals of revolution now told they are no longer needed
 - Increased alcoholism, suicide
- Ideology
 - Views of employee become views of employer (previously was the state, now capitalism)

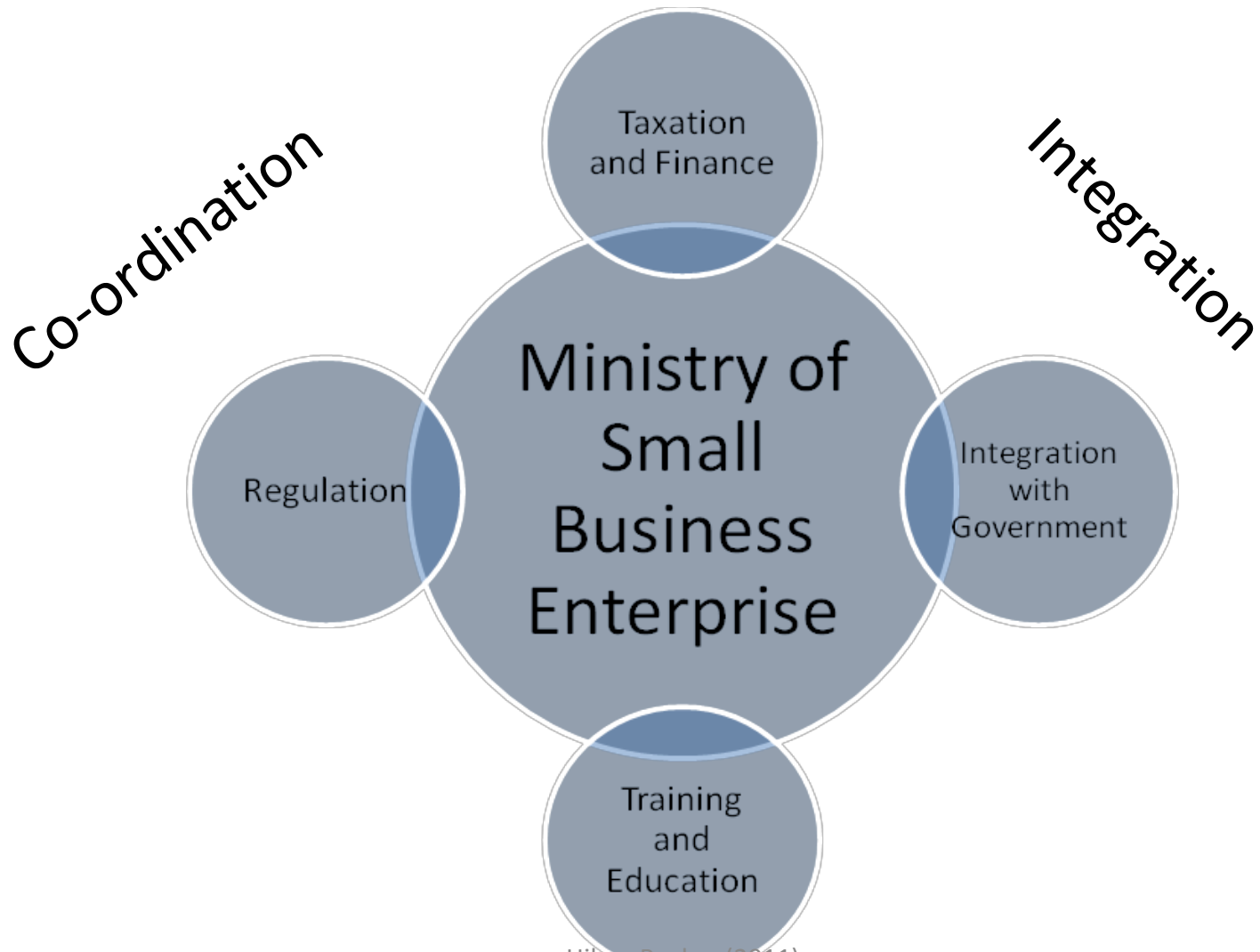
Education and Training

- No training for entrepreneurs
 - Potential opportunity for new businesses or those provided by organizations such as CEEC or Formatur to expand
- Government will need to increase education in areas such as inspections for small business, thus having additional spinoff industries

Implementation

- Research into eligible businesses and competition (30 gyms in Centro Habana)
- Inclusion of professional industries such as computer support to business/government (avoid brain-drain)
- Financing needs to be developed to support businesses
- Dispute management (businesses that have gone bankrupt)
- Continuation and Succession Planning (ability to generate and receive goodwill through sale of business, ex. Las Tres Chinitos)
- Purchasing all goods from government could lead to increase of black market

Recommendation



Muchas Gracias



Hilary Becker, Ph.D.,
Eric Sprott School of Business, Carleton University, Ottawa, Canada
E-mail: hilary_becker@carleton.ca

Hilary Becker (2011)
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