

CASE STUDY 17.2W

Economic aspects of tourism in Cuba

According to Jayawardena (2003) tourism developed in Cuba through three phases: the pre-revolution era (1945–58); the post-revolution era (1959–88) and the tourism revolution era (1989–2002) with a free tourism market emerging (Henthorne and Miller 2003). Tourism in Cuba suffered greatly as a result of the revolution in 1959, with numbers dropping from 350 000 in 1958 to a negligible number in 1962. Following political changes and the collapse of the Soviet Union, tourism expansion was identified as a mechanism for economic development. Tourism has been presented as the most successful sector of the Cuban economy and has been depicted as a ‘model industry’ because of its ability to generate foreign currency and investment. Government objectives for tourism in the tourism revolution era were to:

- 1 increase tourism revenue and profitability
- 2 increase tourist arrivals year on year.

The strategy taken by the government is that of ‘price leadership’— low price, low cost, high volume. For this to work effectively, costs must be lower than the price charged. In this respect, attempting to increase tourist volume has identified economies of scale. However, there are problems in trying to increase tourist numbers.

- *The problems of inelastic demand.* There is a high substitution elasticity, which means that aggressive marketing by one Caribbean country will affect the tourist volume to another. A price war could cripple the tourism industry in Cuba.
- *A limitation in infrastructure constrains tourism growth.* An increase in visitors will require improvements in supply of tourism facilities. The government cannot afford to undertake this work.
- *A high level of external competition from other Caribbean countries.* Low brand loyalty and increasing standards of quality means that the tourism industry has to continually improve if tourist volumes are to be retained. There is a low level of internal competition as government policy has stifled privatization.
- *Cuba is unable to tap into the American market* like other Caribbean countries because there is an embargo in place which prevents American citizens visiting the country.
- *There is high leakage* so economic benefits are not fully appreciated and it is impossible to be a low-cost producer due to the need to import many goods which tourists require. Repatriation of profits takes place due to a large number of international hotels and managers.
- *A lack of management skill* exists in Cuba, limited by Communist style of production. Management has to be sourced from overseas. While Cubans will gain the

necessary skills in time, the gap in the meantime will increase the costs of tourism to the country.

Cuba is in danger of developing a tourism industry with declining returns which does not benefit the economy or people of the country. Martin de Holan and Phillips (1997) question whether Cuba can make low-cost/high-volume tourism work: ‘increasing the number of tourists ... will increase costs due to infrastructure and internal supply limitations resulting in an increasing leakage curve and a decrease in the hard currency contribution of the tourism sector despite increasing revenues.’ (Martin de Holan and Phillips 1997: 791).

Recent tourism growth amid political change

Despite the constraints on tourism development, Cuban inbound tourism has grown from 1.17 million in 1997 to 1.6 million in 1999 and reached 2 million in 2004. The visitors are largely from Canada, spending around nine nights there, followed by Italy, the UK, Spain, Germany and France. These visitors generated gross revenues of US\$2 billion, a 16 per cent growth 2003–2004. Cuba now features as one of the top three Caribbean destinations, after Mexico and Jamaica. However, in July 2004 travel restrictions were imposed by the USA: Cuban-Americans can now only travel back once every three years compared to the once a year prior to 2004, to visit only close relatives. Ironically, this occurred after positive moves by Cuba to attract VFR and former migrants to visit, as 1.3 million people of Cuban origin live in the USA. US government restrictions have also made official US visits to Cuba more difficult although this has not deterred Cuba from forecasting 2.3 million visitor arrivals for 2005. One consequence of this increase in visitors is the investment programme in the island’s 41 000 bed spaces which have virtually doubled since 1995. To achieve this, the Cuban government has encouraged foreign investment, especially joint ventures.

Continued sanctions by the USA have led to reprisals by Cuba, which added a 10 per cent levy on payment of goods and services in US\$. US visitors do visit, however, albeit via an indirect route through Mexico or the Bahamas. In addition, the state-run Cubanacan (hotel, restaurant and travel agency business), experienced financial ruin and in consequence direct control of the travel group has been assumed by the Ministry of Tourism. This came after a period of decentralization in tourism administration. Many of the government-appointed executives from the tourism revolution era have been removed, as central control of the tourism economy is strengthened. The debates among analysts are whether Cuba will reassert its formal dominance as the top Caribbean destination, a position it enjoyed prior to 1959, and what are the implications of centrally planned development.