

International Tourism in Cuba: An Economic Development Strategy?

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Introduction

After registering impressive rates of growth during the first half of the 80s, the Cuban economy beginning in 1986 entered into a deep economic crisis, from which it has yet to emerge. The factors contributing to this crisis are many and complex in nature and can be attributed to both internal and external factors.

The present Cuban economic crisis has been the subject of numerous studies by economists both inside and outside Cuba.^[1] It is not the purpose of this paper to add to that body of work. Rather we will focus on the Cuban tourist industry, one sector of the Cuban economy which has maintained its positive performance throughout the decade. The tourist industry has been targeted as a key sector and prioritized during the "periodo especial en tiempo de paz", the Cuban economic readjustment program.

Tourism in Cuba

Tourism in pre-1959 Cuba was a major industry and a primary source of hard currency and employment for the nation. In 1957, 347,508 foreigners visited Cuba.^[2] Tourist expenditures amounted to 62.1 million pesos that same year. By 1957, hard currency earnings from tourism had surpassed those from the tobacco industry (see Table 1). Tourism had become the second largest earner of foreign currency in the Cuban economy.

In the early years of the revolution, international tourism all but disappeared from the island. Although the major reason for its demise can be attributed to the U.S. embargo, ideological concerns also contributed. Tourism was perceived as too closely associated with the capitalists evils of prostitution, drugs, gambling and organized crime. The revolutionary government discounted tourism as a vehicle for economic growth and development. During the 1960s and early 70s, no major investment in tourism was undertaken. The vast tourist infrastructure, remaining from the pre-revolutionary years, was left for the use of Cuban citizens, internationalist guest from socialist and other friendly countries, or simply abandoned. Some 16 hotels were closed down and hotel capacity was reduced by 50 percent.^[3]

By the mid 1970s visitors from capitalist nations started trickling back to Cuba. In 1974, 8.4 thousand visitors from the capitalist countries visited Cuba. By 1987, this figure had increased to 217.9 thousand.

In 1976, recognizing Cuba's comparative advantage as a vacation spot and realizing the potential economic benefits that would be derived from international tourism, the Cuban government created the Instituto Nacional de Turismo (INTUR). INTUR became the agency primarily responsible for developing policy for both national and international tourism, as well as for collecting data on tourist arrivals and tourist expenditures.

In recent years Cuba has started promoting tourism strongly in capitalist countries. In 1987 another tourist development agency, Cubanacan, S.A. was created in the island. Cubanacan shares responsibilities with INTUR for policy making in the international tourist industry. Cubanacan is also the major Cuban corporation which engages foreign capital for joint-venture investments in the Cuba tourist industry. A smaller corporation Gaviota, S.A. also operates in Cuba and engages in joint-ventures.

Indicators of International Tourist Activity

The best and most reliable statistics that can be used as indicators of international tourist activity is the number of foreign travelers arriving at a given country. The Cuban government collects two different and distinct series on

international visitors.^[4] One series includes only visitors which arrive at the country through travel agencies. This series is compiled by the Cuban tourist corporations (INTUR, Cubanacan, etc) and published in the Anuario Estadístico de Cuba. A second, much broader series is compiled by the Dirección de Inmigración y Extranjería and includes all foreign visitors arriving at the border. This series is published by the World Tourism Organization, in the Yearbook of Tourism Statistics and by the Banco Nacional de Cuba in its Informe Económico.

All sources corroborate that during the 1980's, Cuba experienced rapid growth in international tourism. (See Tables 2-6). International visits more than doubled from 132.9 thousand in 1981 to 340.3 thousand in 1990.

The bulk of international visitors to Cuba is from capitalist nations. In 1990, Western Europe, North America and Latin America accounted for almost 90 percent of all international visitors to Cuba. The country generating the highest number of tourists to Cuba is Canada with 74.4 thousand visitors, followed by Germany with 59.5 thousand, Mexico with 34.5 thousand and Spain with 33.9 thousand. Other major suppliers of tourism to Cuba, are the Soviet Union, Venezuela and Italy.

During the 1980s most visitors to Cuba were tourists, that is their stay in the island lasted for longer than 24 hours. Very few excursionists visited Cuba during that period. In 1988 only 4,746 excursionists were registered compared to 231,973 tourists. The tourist/excursionist breakdown of Cuba, in the 80s is quite different from that prevailing in pre-revolutionary Cuba, and from the current pattern in most of the Caribbean. During the 1950s a major portion of the tourist trade could be attributed to excursionists. In 1957, 75,200 and in 1958 90,000 excursionists visited the island. The low number of excursionists which presently visit Cuba can be attributed to the island's isolation from the sea-cruise circuit, which generates a significant number of visits for the rest of the Caribbean.

In terms of tourist arrivals, Cuba exhibited one of the strongest growth rates in the Caribbean (see table 7). From 1981 to 1987, tourist arrivals to Cuba more than doubled increasing at a rate of 133.1 percent. The rate of growth for the Caribbean as a whole, for the same period of time was of 42.0 percent. In spite of this strong growth, Cuba's share of total tourist arrivals to the region is still rather small and insignificant, especially when compared to the island's size. In 1987, Cuba accounted for only 2.9 percent of all tourist arrivals to the region. In comparison, the Dominican Republic's share for 1987 was of 9.5 percent.

In terms of tourist receipts, measured in U.S. dollars, Cuba's share of the region's tourist activity is even smaller, only 1.8 percent in 1987 (see Table 8).^[5] Cuba's tourist receipts from 1981 to 1987 grew by 159.3 percent compared to a 61.5 percent growth rate for the Caribbean as a whole.

The performance of Cuba's tourist industry is not as favorable in terms of tourist receipts as it is in terms of tourist arrivals. Hard currency tourist receipts have not grown as fast as tourist arrivals from capitalist countries, the generators of hard currency. As can be seen in Table 9, average receipts per visitor from capitalist countries have been declining.^[6] In 1982, average hard currency receipts per capitalist-nation visitor was \$501. In 1987 this figure had fallen to \$470.

Cuba's success in attracting visitors from capitalist countries might be due in part to the price advantage over other comparable sites that Cuba offers to visitors. In Table 10, average receipts per visitor night have been calculated for selected Caribbean nations.^[7] Cuba has the lowest average receipts per visitor night, of all major Caribbean countries. This is true, whether calculations are made using all visitors or

only capitalist countries visitor. Average receipts per visitor night in Cuba is \$42.59 for all visitors and \$50.54 when calculated for capitalist countries visitors only.[\[8\]](#) The highest figure in the area is the one estimated for Puerto Rico of \$117.67 per visitor night, more than twice the Cuban figure.

It is impossible from the data available to calculate receipts per tourist and receipts per tourist night, which gives a better picture of the comparative cost of alternative Caribbean vacation day. However, due to the insignificant percentage of visitors to Cuba, which fall in the excursionist category, the figures for tourist would be very closed to those calculated for visitor. This is not true of the rest of the Caribbean, where a great percentage of visitors are excursionist, staying less than a day in the country.[\[9\]](#) By definition, excursionists do not spend money on lodging within the country, and, therefore, receipts per day for excursionists tend to be less than that of tourists. Excluding excursionists from our calculations would have significantly increased the average receipts per day for most countries in the Caribbean but not for Cuba, further emphasizing Cuba's price advantage in the region.

In spite of the price advantage Cuba offers over alternative Caribbean vacation spots, annual growth rates of visitors to Cuba started to slow down in the late 80's. (Table 11) The average annual growth rate for total visitors during 1982-1986 was of 16.3 percent while, for 1987-1990 the annual average rate fell to 4.8 percent. While sharp decline in growth rates can be attributed to the almost total disappearance of visitor from the former Socialist block (excluding the Soviet Union), growth in visits from capitalist area has also slowed down. The average annual growth rate for European visitors has fallen from 36.81 percent during 1982-1986 to 11.0 percent during 1987-1990, and the average annual growth rate for visits from North America has decline from 15.2 percent to 11.2 percent in 1987-1990. Latin America is the only area which exhibits increased average annual growth rates in visitors to Cuba in the late 80's.

It is unlikely that Cuba's share of the Caribbean tourist market will increase significantly as long as the trade embargo imposed by the U.S. remains in effect. There are a number of reasons for this, first, the embargo prohibits travel for pleasure to Cuba by U.S. citizens to Cuba. This blocks Cuba's access to the U.S. travel market, its "natural partner." Its affluence and proximity to the region makes the U.S. the major supplier of tourist to the Caribbean. Over 60 percent of all visitors to the region originate in the U.S., Cuba has tried to overcome the handicap of U.S. travel restrictions to the island by catering to the Canadian and European market. Canada, however, does not have the depth of the U.S. market, and the distance between Europe and Cuba, significantly raises the cost of a Cuban vacation once international travel fares are included.

Secondly, as long as the embargo is in place, Cuba will continue to be left out of the lucrative sea-cruise industry. The industry is based in Miami and the embargo presently prohibits Cuba's ports to be included in the cruises.

Finally, the U.S. embargo prohibits U.S. citizens, corporations or U.S. affiliates overseas from investing in Cuba. This closes the door to important funding sources at a time when Cuba is seeking foreign investment to finance and build its tourist infrastructure. Failure to expand the existing infrastructure may place serious constraint on the growth of international visits to Cuba.

Investment in Cuba's Tourist Infrastructure

The Cuban government has targeted as a priority investment in the tourist infrastructure.

During the eighties tourist accommodations expanded across the island. New hotel and motels were built and others rehabilitated. In 1988, 321 hotels and motels were operating in the island.[\[10\]](#) Fifty four more than at the beginning of the decade. Available capacity in hotel and motels increased at an even faster pace, with 21,108 rooms available at the end of 1988 almost double the number available in 1980.[\[11\]](#)

Accommodations capacity in establishments other than hotels and motels (Villas, houses, apartments, cabanas, camps etc.) increased only minimally. In 1988, there were only 470 more beds available in these establishments than in 1980.[\[12\]](#)

In total, 30,697 rooms were available in the island at the end of 1988. Of this 43% were in Ciudad Habana and 9.3% in the traditional beach resort of Varadero.[\[13\]](#)

The Cuban tourist development plan calls for a step-up in the expansion of tourist accommodations and the development of new tourist centers throughout the island.

Of the rooms available in the island at the end of 1988, around 8,000 thousands were available for international tourist.[\[14\]](#) Of these, about 6,500 were managed by INTUR.[\[15\]](#) Through new construction and rehabilitation INTUR plans to increase its accommodation capacity by 60% by the end of 1991. The task of renovating and rehabilitating already built facilities in Havana and Varadero, falls mainly to INTUR.[\[16\]](#)

Since its creation in 1987, the bulk of new construction of tourist accommodations, has been undertaken by Cubanacan, S.A. Cubanacan's plans for 1988-1992 calls for an expansion of 16,800 more rooms throughout the island. Of these rooms 2,962 are planned for in Havana and 4,860 in Varadero.[\[17\]](#)

The development of new tourist resorts in the North-Eastern coast of Cuba and near Santiago and Sierra Maestra will primarily be under Cubanacan leadership. Cubanacan plans to expand room capacity in the Santa Lucia area by 2,614 rooms and in the Holguin area by 3,776 rooms. Plans for Santiago call for an additional 1,490 rooms, while 130 rooms are planned to be built in the Gramma province.[\[18\]](#)

In 1989 and 1990 capacity for international tourism stood as follows:[\[19\]](#)

	1989		1990	
	Installations	Rooms	Installations	Rooms
INTUR	91	10,815	92	10,551
Cubanacan	71	2,069	22	3,600
Gaviota	3	126	7	465
Other	6	536	6	536
Total	117	13,541	127	15,151

Cuba's success in accomplishing this ambitious investment plan hinges on a large extent in its ability to attract foreign investment to finance hotel and motel construction. In fact, one of the main tasks assigned to Cubanacan upon its creation in 1987, was that of attracting foreign capital for joint ventures in tourism.

Foreign investment in the form of joint-ventures have been allowed in Cuba since Law-decree No. 50, was enacted in 1982. Under Law-decree No. 50, mix corporations with up to 49 percent foreign ownership are allowed to operate in Cuba.[\[20\]](#)

It is clear that one of the objectives of the joint-venture law was to open the door of the tourist industry to foreign capital. The decree establishes especial provisions for foreign capital in tourism which are significantly more favorable than for other industries. In particular, joint-ventures in international tourism may be exempt from all taxes and licenses and subject to more favorable regulation. Additionally foreign managers of joint-ventures in international tourism are allowed to directly lease Cuban installations and to directly hire Cuban workers.[\[21\]](#) Finally it has been rumored for several years, and recently reported

by Cuban tourist officials, that the 1982 joint-venture law is being amended to allow majority foreign ownership in approved international tourism ventures.[\[22\]](#)

Cuba has been somewhat successful in attracting joint-ventures in the tourist industry. In 1990, two hotels constructed and operated under joint-venture agreements opened their doors in Varadero. The Las Palmas hotel is a joint-venture between Cuba and Spanish interests and the Tuxpan hotel is the product of a Cuban and German joint-venture.[\[23\]](#)

There is presently no way to accurately estimate the total amount of foreign investment that Cuba has been able to attract. Nor is it possible to ascertain the exact terms under which existing joint venture agreements have been negotiated. The terms, however, are reported to be quite favorable to foreign investor and to include: 1) free lease on the land where the project is constructed 2) exemption from tariffs on imported inputs 3) tax-free repatriation of profits and 4) guaranteed ownership rights for 25 year, renegotiable to up to 50 years.[\[24\]](#)

To date tourism is the only sector of the Cuban economy that has managed to attract any significant amount of foreign investment funds. This might be due to some extent to the special provisions granted to industry under Law decree No. 50, but is more likely attributed to the nature of the tourist industry itself. Tourism in Cuba does not have to depend on the internally depressed Cuban market for its viability. It is an export industry. In fact, it is the only major Cuban export industry which caters to, and depends on, primarily the capitalist countries. Under the status-quo foreign investors are assured a steady growth market, guarantees of ownership and favorable business terms. The future might even bring a windfall, better U.S.A.-Cuba relations, the lifting of the trade embargo and the opening up of the lucrative U.S. market.

The Economic Impact of International Tourism in Cuba

The real importance of international tourism lies in its ability to generate benefits for the host country. Economic benefits derived from tourism include the following:

- o improvements in the balance of payments
- o generation of government revenues
- o creation of income and employment and
- o promotion of economic growth and development

Tourist Exports and Cuba's Balance of Payments

International tourist receipts represent the consumption of domestic goods and services by foreigners and are therefore considered an exports activity. Cuba's tourist exports are accounted for in the service and invisible category of Cuba's balance of payment accounts. In 1987, tourist exports (receipts) were estimated at 111.7 million pesos hard currency, over one-third of the inflows in the service category of the balance of payments account.[\[25\]](#) All hard currency tourist receipts are attributed to tourist from capitalist countries.

Tourist exports are fast becoming a major source of hard-currency receipts for Cuba. The increasing importance of tourism as a export industry is best exemplified by comparing tourist receipts with hard currency receipts generated by other industries. In 1981, tourist receipts were 43.6 million pesos in hard currency, 3.1 percent as much as hard currency receipts from total merchandise trade. By 1987 tourist receipts had reached 111.7 million pesos, 11.6 percent as much as hard currency receipts from total

merchandise trade and 16.5 percent, if one include oil re-exports. (see Table 12)

By 1987, tourist receipts were the third largest earner of hard currency in Cuba, excluding oil re-exports. [26] Only sugar, and fish products exports generated more hard currency for the Cuban economy than did international tourism.

Tourist receipts are forecasted to reach the one billion dollar mark by the year 2000. Cuban government officials project that by the end of the century the international tourist industry will be the most significant generator of hard currency in the island's economy. [27]

Even if tourist receipts fall short of the one billion dollars forecasted by Cuban tourist officials, the relative importance of tourism as an export industry is sure to increase in the future due to the poor prognostic for Cuba's other major hard currency earning activities.

Notwithstanding the large weight of tourist receipts on total hard currency receipts, it must be stressed that at present Cuba's tourist receipt are small and insignificant. Particularly, if compared to total tourist receipts in the Caribbean area, or to Cuba imports needs.

Furthermore, gross receipts do not accurately reflect the true contribution of international tourism to the balance of payments. A better measure would be net receipt, that is gross receipts minus associated hard currency cost or import component. The input component of tourist receipts is affected by a number of factors:

- o The cost of imported goods and services used by tourist.
- o The foreign exchange cost of capital investment.
- o Payments abroad in the form of, profits, interest payments, royalties and management fees, payment due to foreign travel agents, etc.
- o Promotion and publicity abroad.
- o Overseas training of personnel.

Estimates of the import component of tourist receipts of Caribbean countries range between 25.2 percent to 44.8 percent. [28] Cuban sources, citing INTUR studies, report that the import component of Cuba's tourist receipts to be between 30 to 38 percent. [29] Though it falls within the range estimated for Caribbean countries, there is at present no way to corroborate this estimate.

International Tourism and Government Revenues

A major economic benefit associated with international tourism, is the sector's ability to generate government revenues. Government's direct and indirect tax revenues derived from tourism include:

- o airport departure taxes
- o hotel occupancy tax
- o aircraft landing fees
- o sales tax on tourist purchases

- o import duties on goods and services, used by tourists
- o corporate taxes and profit repatriation taxes
- o other licenses and fee's

Revenues generated by international tourism allows the host nation to export a portion of its tax burden. The portion of government revenue's exported via international tourism in countries in the Caribbean is estimated to be quite high ranging from 20 percent in St. Lucia to 62 percent in Bahamas.[\[30\]](#)

It is hard to ascertain the impact of international tourism on government revenues in Cuba. On the one hand Cuba does not have a comprehensive tax structure, but on the other hand the majority of Cuba's factor of production are government owned.

We will just point out here that present concessions to foreign capital on profits repatriations and import tariffs might seriously curtail Cuba's ability to maximize benefits from international tourism. As Cuba moves towards a mix economy, care should be taken to install a tax structure which enhances the exportability of government revenues via tourism.

International Tourism Impact on Income and Employment

Tourist expenditures represent a direct injection of outside money into the local economy. The direct impact of this expenditure is to create income and employment for those entities which sell their goods and services to tourist. The economic impact of tourist expenditures does not stop here, however. Recipients of tourist expenditures spend out of these funds. As expenditures circulate through the economy, a multiplier effect is created, generating more income and jobs.

The total impact of an original injection of tourist expenditures on the local economy is the combination of direct and induced effects. The total impact is captured by multiplying tourist expenditures by a tourist income and/or employment multiplier.

Tourist income multipliers have been estimated for a number of regions. Estimated values of the tourist income multiplier for small island economies range from .58 for the British Virgin Islands to 1.58 for Jamaica. (See Table 13)

The value of the multiplier depends on the portion of income that leaks out of the local economy at each round of circulation. This leakages include: payments for export of raw material and factors of production, rent and profits paid to non-residents and savings by residents. Leakages are minimized the larger and more self-sustained the economy in question, leading to a larger multiplier value.

The value of the multiplier is also affected by supply constraints. The multiplier concept rest on the premises that demand creates its own supply. The present structure of the Cuban economy does not facilitates induced supply creation. The multiplier effect of tourist expenditures is further curtailed by government policy that is designed to keep the tourist sector separated from the rest of the economy. The total impact of tourist expenditures on the Cuban economy is probably not much larger than the direct income and employment that these expenditures create.

Some partial estimates of the direct income and employment attributable to international tourism in Cuba have been calculated by INTUR. INTUR reports that during 1988, entities under its control contributed 455.9 million pesos to the national economy and employed 42,000 workers. The contribution to production and services is broken down by sectors as follows:[\[31\]](#)

	Million of Pesos
Alojamiento	319.0
Turismo y Descanso	37.6
Arte	8.0
Comercio Interior	5.2
Abastecimiento Tecnico-material	52.5
Construcion y Maquinarias	5.3
Construcción y Montaje	9.5
Transporte Automotor	13.3
Otras Actividades	4.4
Total	455.9

In, 1988 INTUR operated around 80 percent of all the rooms available for international tourists in Cuba. Assuming that its total share is also of 80 percent, the total direct impact of international tourism in Cuba can be estimated at 547.08 million pesos and 50,400 jobs. This represents only 2.08 percent of total Cuba's Social Global Product (SGP) and 1.35 of total employment. For purposes of comparison, tourism contribution to Jamaica's Gross Domestic Product has been estimated at 28 percent, in Bahamas at 33 percent, and in Antigua at 40 percent.[\[32\]](#)

Tourist Export-Led Growth:

In recent years many developing countries have turned towards international tourism to promote economic growth and development. Tourist exports offer several advantages over other Third World exports both traditional and non-traditional including:

- o international tourism is a growth industry. World wide tourist arrivals increased at an annual average rate of 6.5 percent during the eighties.
- o long-run prospects for international tourism growth are bright. Tourist demand is highly income elastic.
- o tourist exports exhibit more stability than export earning from traditional primary commodities.
- o unlike trade in manufactures, developed nations place very few restrictions and barriers to international travel.

Strong growth in an export sector, however, will not by itself promote economic growth and development in a nation. The ability of the sector to stimulate economic growth depends on the linkages between the sector and the rest of the economy.

A number of researchers have expressed serious doubts about the ability of the international tourist sector to establish inter- industry linkages.[\[33\]](#) Weak linkages are especially a problem when the international tourism sector is isolated in enclaves apart from the rest of the economy.

When an enclave mode is abandoned and mass tourism promoted the possibility for inter-industry linkages are enhanced. The experiences of the Mediterranean countries bodes well for mass tourism as a stimulus of economic growth and development.[\[34\]](#)

The ability to establish effective inter-industry linkages between the tourist sector and the rest of the economy depends also on other factors. Among these, the structure of the economy, capacity of the labor

force, internal demand and capability for income substitution.

At present the tourist enclave mode adopted by the Cuban government and the structure of the Cuban economy curtail the formation of inter-industry linkages.

Concluding Remarks:

In spite of the slow down in the rate of tourist arrivals in Cuba in the later part of the 80's, tourism to Cuba will probably increase in the next few years at rates above either the World's or Caribbean's averages. Travelers to Cuba will continue to be attracted by low-price packages.

Average expenditures by tourists decline throughout most of the 80's. This trend will probably continue. One indication of this is the increasing weight of Latin America's share of Cuba's tourist arrivals.

At present the primary economic benefit derived from tourism in Cuba, is its ability to generate hard-currency. The quest for hard currency seems to be the main motivation behind Cuba tourist policy. It has led the Cuban government to prioritize this sector in spite of potential social and political costs. Trying to minimize these costs, however, the Cuban government is pursuing an enclave mode, keeping the tourist sector separate from the rest of the economy. In doing so other potential economic benefits are being foregone.

The weight of the tourist sector in the Cuban economy is still very small, and its overall economic impact rather insignificant. It remains however, the one bright spot in an otherwise dismal economic performance.

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[4]. For the exact definition used, see Anuario Estadístico de Cuba, Comité Estatal de Estadísticas, Havana Cuba, 1986, 1987, 1988.

[5]. Tourist receipts cited here exclude fare's for international travel.

[6]. Due to the small percentage of visitors to Cuba which can be categories as excursionist, only 1.9 percent in 1988, what is true of the average visitor statistic also applies to average tourist.

[7]. Country selection was base on availability of data. For Cuba, 1984 data on average length of stay is the latest figure available.

[8]. Visitor's receipt reported for Cuba are hard currency receipts, so the correct calculation of both, receipts per visitor and receipts per visitor night should only include visitors from capitalist country, the only generators of hard currency.

[9]. For example excursionist make-up 24 percent of Puerto Rico's international visitors in 1987, 28 percent of Jamaica's and 16 percent of the Dominican Republic. In comparison in 1987 only 1.7 percent of all visitors to Cuba are excursionist.

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