

# CUBAN TOURISM, ECONOMIC GROWTH, AND THE WELFARE OF THE CUBAN WORKER

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The recent boom in Cuban tourism is a classic example of maximization under constraints. Hampered by the tightened U.S. embargo and by the disappearance of substantial economic aid from the former Communist Bloc countries, the Cuban government has exploited one of the few growth sectors open to it. Joint ventures with companies from foreign countries that are willing to ignore the Helms-Burton strictures have provided the capital for the continuing construction of hotels and tourist attractions in popular resort areas such as Varadero. The number of tourists visiting Cuba annually has just passed the million mark, including some U.S. citizens who enter the island illegally from other foreign countries.

The expansion of tourist facilities has been encouraged by the passage of Law Number 77, which liberalizes Cuban investment opportunities. Foreign investors may now totally own enterprises in Cuba, in addition to engaging in joint ventures with Cuban businesspersons. The Cuban government still exercises indirect influence over such ventures by controlling the provision and remuneration of the labor force that they employ. Its policies clearly affect the economic impact of the tourism industry.

## **TOURISM AND ITS ROLE IN ECONOMIC DEVELOPMENT**

Tourism is basically “an export industry that conveys domestic services and the experiences of domestic resources to foreign consumers in return for foreign currencies” (Woods, Perry and Steagall, 1991, p. 2). Instead of staying home and importing goods and services, however, tourists visit the exporting country

and enjoy the experiences and activities on site. Tourist expenditures therefore enter directly into the domestic economy, through the firms and activities that cater to tourist wants.

From the point of view of the country providing the tourism experience, these dollars (or other currencies) are new monies that provide an additional stimulus to the domestic economy. They can help to reduce deficits in the current account of the balance of payments, they can generate government revenues, and, through the multiplier process, they can increase sales volume, employment, and income.

## **Measuring Economic Impacts**

Measuring the impact of tourism on a given economy is conceptually a simple matter. Like a manufacturing plant or a dairy farm or a bank, a tourist attraction generates financial flows that move to other, interrelated sectors of the economy. These flows stimulate sales, output, employment, and income growth. There are additional induced increases that flow from the interaction. Spending in Sector A may affect economic activity in Sectors B and C. As Sectors B and C expand, they in turn stimulate the growth of Sector A, where the stimulus began. Interactions of this kind are probably best measured through input-output analysis, or through the use of multipliers derived from such tables.

Beyond this immediate level of impact, tourism can serve as an engine of longer-term economic development. If the tourism sector is closely interlinked with other sectors of the domestic economy, then its

growth can serve to support the continued expansion of those sectors. In addition, the expansion of tourism in a country will require a concomitant expansion in support industries, such as foreign exchange, transportation, lodging places, and security. Some developing countries have improved their domestic infrastructure by using foreign exchange generated by tourist inflows. Obviously, this is a two-way street, since tourism can only expand and succeed if an adequate infrastructure is in place, or grows with the industry.

### Multiplier Estimation and Analysis

As tourist dollars move into an economy, their direct spending generates additional indirect and induced spending, resulting in an increase in economic activity that is a multiple of the original amount. The relationship between initial and final expenditure is commonly expressed as a multiplier, normally an adaptation of the 1930's Keynesian formulation. The multipliers used by most growth analysts are either derived from input-output tables (such as the RIMS II model of the U. S. Department of Commerce), or are derived in an *ad hoc* manner from economic theory. The formula for most simple *ad hoc* multipliers in economics is a fraction, with the adjusted initial spending impact expressed in the numerator, and the effect of leakages from the respending stream shown in the denominator. The initial multiplier model taught to most college sophomores, for example, is simply the reciprocal of the marginal propensity to save.

Multipliers are typically computed for four types of impacts resulting from tourist expenditures: sales, output, income, and employment (Pearce, 1989, 206-207). Less frequently used is a capital or asset multiplier, that measures the increase in the value of an economy's assets or stock of capital (Bull, 1991, 141). The most frequently cited and most frequently used of these four measures is the tourist income multiplier.

The range of values for tourism income multipliers varies with the economic structure and the degree of self-sufficiency enjoyed by a country. Since multiplier values are in part determined by leakages out of a respending stream, those countries with substantial

import elements in their tourism sector (raw materials, services, absentee ownership of facilities) will find the tourist income multiplier depressed by those leakages. The higher the savings rate and the tax rates, the lower the multiplier. And the less integrated the economy (the weaker the sectoral linkages), the lower the multiplier. This last observation suggests that, from an input-output point of view, the tourist sector should ideally be heavily interrelated with other domestic economic sectors. If government policies inhibit the flow of tourist dollars, or reroute them to other sectors of the economy, the multiplier impact is clearly altered.

Empirical estimates of tourist income multipliers show a range of values from 0.18 for small towns in Wales to around 1.20 for an island center like Dominica. With few exceptions, however, the tourist income multipliers are less than one, reflecting substantial leakages (Pearce, 1989, 209). Espino (1994, 163) estimated the tourist income multiplier for Cuba to fall in the range of 0.74 to 0.84, based upon 1989 propensities to consume and import.

### THE TOURISM INDUSTRY IN CUBA SINCE THE 1950S

The history of tourism in Cuba since the 1950s is a story of the death and the rebirth of a major industry. After the Revolution, the emerging socialist government decided that the ills of tourism were so great that the industry should be reduced or eliminated. The bright lights of Havana casinos were dimmed, prostitution declined, and the tourist inflows from the United States mainland disappeared. Changing attitudes and pressing financial needs two decades later lead to the revival of the industry, however. The major difference between the new Cuban tourism and its predecessor would be the conspicuous absence of legalized casino gambling.

Jenkins (1992, 142) provides a brief outline as he views policy changes at the time of the Soviet breakup:

In order to break its dependence on sugar and develop more balanced foreign trading relations, Cuba needs to generate substantially greater export revenues. The key to the problem is being sought, almost

**Table 1. Cuba: Tourist Arrivals by Region of Origin, 1986-94  
(percent of total arrivals)**

Region	1986	1987	1988	1989	1990	1991	1992	1993	1994
Americas	47.1	43.3	43.3	49.1	48.1	48.9	49.1	52.8	43.5
Europe	51.3	55.5	56.1	49.8	49.6	46.4	47.4	45.1	48.7
Africa	0.9	1.0	0.4	0.6	0.7	0.4	0.6	0.3	
Asia, East and South East/ Oceania	0.8	0.1	0.1	0.3	0.5	0.4	0.4	0.3	
Region not Specified					1.0	3.9	2.5	1.5	7.8
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: United Nations, *Statistical Yearbook*, 1990/91 through 1994.

inevitably, in tourism. After two decades of spurning it as a source of foreign exchange — and despite bad memories of what tourism, prostitution, and gambling did to Cuba in the 1950s — the government made the decision in the late 1970s to open up the country to western tourism once again. The National Institute of Tourism (Intur), set up in 1959 to save the industry, was dusted off and set to renovating hotels, developing infrastructure, and attracting a new generation of tourists.

Although it had a ponderous, inexperienced, and inefficient bureaucracy, Intur was able to get the number of hard currency tourists visiting Cuba up from 78,000 in 1980—of whom 22,000 were from Canada and 35,000 from the United States—to 149,000 by 1986, despite the loss of the United States market when Reagan tightened travel restrictions. The main markets it succeeded in developing during this period were West Germany (23,000 in 1986), Spain (20,000), Mexico (13,000), Italy (11,000), and Argentina (7,000).

From the late 1970s until the late 1980s, Cuban tourism grew erratically and haltingly. Hard currency expenditures by visitors to the island totaled about US\$16.7 million in 1977. By 1979, after a growth spurt, spending hit a level of US\$87.6 million. A slump followed, with lower annual flows, until tourists again injected US\$87.3 million into the economy in 1985. From that point forward, the trend was steadily upward. The average receipt per visitor from capitalist countries was estimated to be US\$501 in 1982. This figure did not increase appreciably until 1988 (Espino, 1994, 156-157).

### Tourism Patterns in Recent Years

The country mix of tourists visiting Cuba has changed only slightly over the past decade. As the data in Table 1 indicate, at least 90 percent of annual tourist arrivals in Cuba are from the Americas or Europe. Africa, Asia, and Oceania constitute minor sources of such flows. During 1996, Italian tourists constituted the largest national group visiting Cuba, with 185,000 persons. Canadian and Spanish tourists both numbered more than 100,000. Other major tourist sources included Germany, France, Mexico, England, and Colombia. Total expenditures by these tourists reportedly amounted to US\$1.3 billion (DevTech, 1997, 2).

**Table 2. Cuba: Average Tourist Receipts per Arrival, 1984-94  
(thousands of 1987 U.S. dollars)**

Year	Average Receipts
1994	\$1,285.65
1993	\$1,220.44
1992	\$1,117.06
1991	\$823.77
1990	\$654.51
1989	\$580.49
1988	\$580.49
1987	\$650.49
1986	\$722.68
1985	\$432.86
1984	\$435.56

Source: Computed from data in United Nations, *Statistical Yearbook*, various issues, 1987 through 1994.

Assuming the validity of tourist receipt data generated by the United Nations (Table 2), there has been a clear increase in per capita tourist expenditures in Cuba. Since 1984, expenditures per tourist have increased at least threefold, albeit on a somewhat erratic trend.

Werlau (1996, 460) comments that “[t]he tourist sector has proven what is perhaps the most visible aspect of Cuba’s push to attract foreign capital — both in terms of a growing number of tourist visits to Cuba each year and probably also in terms of investment. Since 1990 the number of visitors to Cuba — primarily from Canada, Spain, Italy, Germany, and France — has reportedly increased by 54 percent, and earnings by 75 percent; from January through June of 1996 visitors were said to have risen 46 percent in comparison to 1995.”

While estimates of the level of tourist expenditure and the average expenditure per visitor may understandably vary, the underlying growth trend in tourism in recent years is undebatable. Tourists from developed countries have acquired an appetite for the delights of Cuban beaches and resorts, and are flocking there in increasing numbers.

#### LAW NUMBER 77

During the early 1990s, Cuba was still not attracting luxury tourists, who would leave greater amounts of foreign exchange in the country (Jenkins, 1992, 143). A joint venture law had been on the books since 1982 (Decree No. 50), but no joint ventures of any significance in tourism occurred until 1989. The subsequent inflows of capital were heartening, but fell far short of national needs. One impediment appeared to be the requirement that foreigners might not operate a wholly-owned enterprise in Cuba, but instead must always have a Cuban partner who possessed some of the equity.

Chapter XI of Law Number 77 establishes the ground rules for the hiring and compensation of Cuban workers by foreign or joint venture firms. Article 31 requires that the employees of such firms shall normally be Cubans or foreigners permanently residing in Cuba. Higher management positions and some technical positions may be filled by nonresident

foreigners, however, following pertinent immigration laws. Article 32 permits the establishment of an economic stimulus fund, generated from company profits, for the benefit of workers. Articles 33 and 34 establish an organ of the Cuban government as the official hiring agency for workers. This *entidad empleadora* receives payment from employers in hard foreign currency, and then pays the Cuban tourism workers in Cuban pesos.

The provisions of these articles establish the Cuban government as a monopsonist, or a single buyer of labor for the tourist industry (and other industries using foreign capital) at the national level. Since the *entidad empleadora* essentially serves as a single seller of labor to tourism facilities, the resulting situation is similar in many ways to bilateral monopoly. The opportunity for worker exploitation is evident. The arrangement is also clearly designed to generate additional foreign exchange for the government.

In addition to this wage arrangement, all such foreign enterprises are subject to Cuban taxation, generating even more government revenues: an income tax that takes away 30 percent of net income, an 11 percent tax for labor force utilization, a 14 percent social security tax, import duties, personal property taxes on automobiles, and documentary fees (Coto-Ojeda, 1995; Pérez-López, 1993, p. 234).

Miller, Glen, Jaspersen and Karmokolias (1997, p. 29) point out that joint ventures in developing countries “are often fragile and both difficult to negotiate and, once negotiated, to hold together.” Those that succeed typically have developed an agreement that addresses potential conflicts, and that provides a means of resolving those conflicts or of exiting the agreement; and have established a good working relationship that is characterized by flexibility in negotiations and bargaining.

At this point in time, the effects of Law Number 77 are still uncertain and unproved. As time passes, the viability of this approach will be indicated by the permanence or departure of foreign investors. In any event, the Castro government retains control of the labor supply available to tourist attractions, and has

the ability to control a substantial portion of the foreign exchange that flows through those attractions.

### TOURISM IN CUBA TODAY

José Luis Rodríguez, Cuba's Minister of the Economy and Planning, reported in January that the Cuban economy had expanded by 7.8 percent, instead of the predicted 5 percent (1997, 1). He noted the role of foreign investors in the expansion, during which the number of "economic associations with foreign capital" rose from 212 to 260. As identified by government spokespersons, the primary sources of this growth were expansion in the tourism industry, continued growth in sugar and nickel production, and an increase in construction activity (DevTech, 1997, 1). Such optimistic figures may contain as much marketing as they contain truth. Sugar output figures are almost surely overstated, world sugar prices have dropped because of overproduction, the exact economic impact of tourism cannot be computed, and the country's trade deficit rose during 1996. Mesa-Lago (1996, 6-7) concludes that "the dramatic decline in the Cuban economy was halted in 1995-1996, at least temporarily, but the recovery has been sluggish to say the least."

Collis (1996, 453) describes recent and anticipated growth in Cuba's tourism industry:

Between 1990 and 1994, Cuba's tourism grew more than 16 percent annually, compared with 4.7 percent for the Caribbean as a whole. By 1995 tourism ranked as Cuba's second highest gross foreign exchange earner (\$1 billion for 1995) after sugar (\$1.2 billion). Despite a brief downturn following the rafters exodus in mid-1994, tourist numbers grew again — to 745,000 — in 1995. Optimistically, the Cuban government announced it expects to have 50,000 hotel rooms (up from 23,255 in 1995), 2.5 million visitors and a gross revenue of 3-plus billion dollars by the year 2000. . . . The main tourist centers are Havana, Santiago de Cuba, Cayo Largo, Cayo Coco, and Varadero.

Calendar year 1996 is now a relative peak in this growth trend. The official Cuban statistics record 1,004,336 tourists arriving on the island, and "generating earnings" of US\$1.3 billion. Government predictions are for 1.2 million tourists in 1997, creating

earnings of US\$1.75 billion. By the year 2000, tourist arrivals are predicted to exceed 2.5 million per year. A doubling of tourist volume in only four years will require a substantial expansion of tourist facilities and its supporting infrastructure (Casals, 1997, 2).

The urgency of the need for planning and adaptation is emphasized by the comments of Ignacio Vasallo, Secretary of the World Tourist Organization, at the end of his 1996 visit to Cuba (*Business Tips on Cuba*, 1996). Vasallo argued that Cuba was capable of sustaining tourism growth of 10 percent per year for the foreseeable future. In the worst case, he said, Cuba could count on a tourism growth rate double that of world tourism, which will grow by 3.5 to 3.8 percent per year in the near future. By the year 2005, Cuba could be the leading tourist destination in the Caribbean. And such growth inevitably places stresses upon the infrastructure and natural resources

### THE POSITION OF LABOR IN THE CUBAN TOURIST INDUSTRY

Assessing the role of labor in the Cuban tourism industry requires data concerning employment levels, working conditions, and compensation. As is true of other economic sectors on the island, figures regarding the tourism industry are scanty, and are usually not subject to direct verification. Adequate data and anecdotal observations do exist, however, to paint a basic picture of labor conditions in the tourism sector.

Alfonso (1996, 11-13) lists the major categories of private-sector employment in Cuba as follows:

- *Trabajadores por cuenta propia*, such as paladares, taxis, beauty salons, and craft and mechanic shops. About half of the persons in this category were unemployed.
- *Trabajadores del sector mixto*, or *del sector de empresas mixtas*, which are the joint ventures involving foreign management and capital.
- *Trabajadores del sector campesino privado y cooperativo*, including farmers and members of cooperatives, producing such items as coffee and tobacco.

Other employed workers serve in state enterprises, 12 percent of whom are part-time. The estimated employment in each of the private sectors is as follows:

<i>Trabajadores por cuenta propia con licencia</i>	208,500
<i>Trabajadores por cuenta propia sin licencia</i>	190,000
<i>Trabajadores del sector mixto</i>	53,000
<i>Sector campesino y cooperativo</i>	271,857
<i>Total sector no estatal</i>	669,357

By this accounting, workers in the joint venture sector constitute only 7.9 percent of all private sector workers, and only 1.2 percent of the entire labor force. If the official labor force is 4.6 million, then subtracting the above figures from 4.6 million yields 3,930,643 persons who either work in state enterprises or are unemployed.

According to Rodolfo Casals (1997), about 130,000 Cuban workers are now employed in the tourism industry. Half of that number are directly employed by tourist enterprises such as hotels. The remainder presumably hold jobs that are created indirectly by tourist spending. In multiplier terms, these numbers suggest that the indirect and induced employment effects of tourist spending are equal to the direct effects. Again, assuming the correctness of this figure, tourism industry employees constitute only 2.83 percent of the total labor force. If all 130,000 tourism employees are included in Alfonso's total for the private sector, then they make up 19.4 percent of that total. Regardless of the accounting approach, Cuban workers associated with the tourism industry are a minor fraction of the total labor force.

Employees of the tourism sector are also treated differently from other workers in the Cuban economy. Córdova (1996, 365) lists three groups of workers in the economy with special compensation arrangements: "1) those working in strategic industries (like tourism, mining, ports, and the electric and power sector) who are allowed to receive part of their remuneration in dollars; 2) those active in other important but not so critical sectors who as an incentive may receive "convertible" pesos in specified quantities; 3) the rest of the labor force who continue to receive only Cuban pesos." Pérez-López (1993) confirms the special arrangements for tourism workers.

Córdova (1996, 365) points out that the government essentially circumvents the arrangement for workers in Group 1 who are in the tourism sector:

Although those working in the tourism industry enjoy a special status, they are also adversely affected by other government measures. Foreign companies operating hotels for instance must pay their workers in dollars through a transfer of the corresponding amount to a government agency called Cubatec. The agency then pays the workers in pesos at the exchange rate fixed by the government. Such an arrangement represents a handsome profit for Castro and an infraction of Convention 95 of the International Labor Organization (ratified by Cuba) which in order to protect wages provides that they should be directly paid to the workers. It also constitutes an infringement of the principle of integrity regarding the amount owed to the workers.

Werlau's analysis (1996, 471) of labor conditions in the tourism industry is sobering. Joint ventures may officially pay workers a wage that is between US\$400 and US\$500 per month. Employers also foot the bill for a benefit package. Unfortunately, the workers get only a fraction of the official real wage when the Cuban government pays them in pesos. As a result, the employing enterprises add on other unofficial benefits ("bonuses, gifts, meals, automobiles, hard currency under the table"), further increasing the cost of labor. Transportation and uniforms also raise the wage bill. Not surprisingly, theft is a common problem. Werlau argues that, because of these additional costs, Cuban labor is expensive, relative to labor in other Caribbean countries. The differential could ultimately have an adverse effect Cuba's competitive position. As noted above, taxes imposed on the employing companies are also substantial.

With regard to working conditions, Werlau (1996, 472) notes that workers in the international tourist sector face more restrictions than other Cuban workers. They are "subject to longer probationary periods and work hours, more irregular schedules, shorter periods for challenging disciplinary decisions, and no right of appeal through usual judicial and administrative channels." Too, they are prohibited from saying or doing things that might tarnish the state's im-

age. In essence, any labor conflict is quashed (Pérez-López, 1993).

In short, Cuban tourism workers are subject to the same kind of wage exploitation that the Cuban government imposes on employees of non-tourism joint enterprises. But they suffer additional restrictions on hiring, speech, and action. They receive, thanks to the largesse of their foreign employers, additional unofficial real income. As welcome as the additional dollars or food or other gifts may be, they cannot fill the gap between the wage payments they deserve and the small amounts of Cuban pesos that they receive.

### PROSPECTS AND CONCLUSIONS

Some tentative conclusions emerge from the foregoing facts and analysis:

First, economic growth is continuing in Cuba, and tourism is one of the engines propelling that growth. Although the expansion of the tourism industry is beyond dispute, its precise role in recent Cuban economic growth cannot be adequately measured. As noted below, the multipliers associated with tourist spending simply cannot be determined at the moment. The size and timing of capital inflows associated with joint ventures are also uncertain. The facts are few: Tourist facilities have employed rising numbers of Cuban workers, presumably reducing the labor surplus recognized by the government in 1996. A large percentage of the foreign exchange left on the island by tourists flows to the Cuban government, through taxes and through expropriation under Law 77. There has undoubtedly been some induced growth in industries that support the tourism industry. Without adequate measures of sectoral linkages, such as an input-output table, the quantification of this growth becomes speculative.

Second, another discouraging conclusion is that the multipliers associated with the tourism industry in Cuba are either difficult or impossible to estimate at the present time, given the poor data available and the effects of Law Number 77. Good data concerning the marginal propensities to consume and to import are also lacking.

Third, Cuban workers who are employed in the tourism industry are exploited in several ways. They are screened and controlled more strictly than other Cuban workers. They are subject to dismissal without recourse, if they behave in inappropriate ways or make statements that are critical of the government. They are paid very low wages through the agencies established by Law Number 77. Not surprisingly, employers often provide unofficial and nominally illegal support to their workers through additional hard currency payments, use of resort facilities and equipment, and payments in kind, typically food. It is also no surprise that theft by employees is a problem at resorts. A policy intended to generate hard currency for government use has clearly exerted a strong adverse effect on the welfare of Cuban tourism workers.

Fourth, there are several wild cards in this analysis. The first is the continuing effect of the Helms-Burton Act on tourism growth. If foreign countries continue to battle with or ignore most of the strictures of Helms-Burton, then the expansion of tourism can continue over the near term. If the Clinton administration finally decides to enforce Helms-Burton, however, there may be a chilling effect on tourism growth. We are clearly dealing with an imponderable.

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