

BACK TO THE FUTURE: CUBAN TOURISM IN THE YEAR 2007

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At last year's ASCE meetings we presented a paper comparing the future of the Cuban tourism industry and its economic impact under two scenarios. We accepted the Ministry of Tourism's figures projected through the year 2000 and formulated our own estimate of a ten-year projection through the year 2007. We chose to project ten years into the future and avoided consideration of the variables, issues, theories, predictions and suggestions regarding changes in the political system in Cuba. In this manner, we did not cloud the purpose and methodology of our study with political issues.

The two scenarios were defined as follows:

First Scenario: Assumes the continuation through the year 2007 of the current political and economic system, perhaps with minor changes having a minimal impact.

Second Scenario: Assumes the complete elimination of political and economic barriers, both internal and external. We also assumed a free capitalistic economy, where American citizens and residents, as well as Cuban citizens, are able to invest in, operate, visit and enjoy any of Cuba's tourism facilities; to develop any enterprise to support the tourism industry; and to satisfy the growing consumer demand for better products and services.

Table 1 summarizes our estimated tourism statistics under both scenarios, for the year 2007.

Table 2 shows the economic impact of tourism in Cuba in 2007 estimated on the basis of Puerto Rico's multipliers. Please refer to Appendix II for the em-

ployment, production and income multipliers used for the table.

On the basis of Puerto Rico's employment and production multipliers, Cuba's tourism will annually be forfeiting the opportunity to generate \$7.575 billion in economic impact.

Measured in terms of income, the government of Cuba will not receive annually from \$4.162 billion to \$9.262 billion (depending on the use of Type I or Type II multipliers) because it continues with the present political, social and economic models.

The above annual losses expressed on a daily basis indicate that every day of the year 2007, Cuba will be forfeiting from \$20.8 million to \$25.4 million.

We estimate that Cuba is currently losing between \$4.6 and \$5.7 million of economic impact per day.

The extraordinary effort made by Cuban authorities to develop the tourism industry is only partially effective because of its poor economic performance. Should Cuban citizens be allowed to actively participate and benefit from the ripple effect of the economic multipliers that tourism activity would generate, Cuba might have solved the problem of the Soviet Union's discontinuance of subsidies to the island. Thus, it could be argued, the so-called "special period" would have ended by now.

Some of the comments and feedback received from colleagues, friends and critics included the suggestion of comparing the Cuban experience with that of another tourism area similar to the island. This would

Table 1. Cuba’s Estimated Tourism Statistics, Year 2007

	First Scenario	Second Scenario	Increase In Units	Percentage Increase
Rooms	69,000	69,000	-	-
Annual Visitors	4 million	5 million	1 million	25
Tourism Revenue	\$7.50 billion	\$11.25 billion	\$3.75 billion	50
Annual Room-Nights Available	25.185 million	25,185 million	-	-
Annual Room-Nights Occupied	16.798 million	21,004 million	4,206 million	25
Annual Occupancy	66.7%	83.4%	16.7%	25
Average Number of days of stay	4.2 days	4.2 days	-	-
Expenditure per Visitor	\$1,875	\$2,250	\$375	20
Daily Expenditure per Visitor	\$446	\$536	\$90	20
Direct Number of Employees	138,000	103,500	-34,500	-25
Indirect Number of Employees	130,000	180,000	50,000	39
Total Number of Employees	268,000	283,500	15,500	6

Source: Cuban Society of Tourism Professionals

Table 2. Economic Impact of Tourism in Cuba for 2007, Estimated on the Basis of Puerto Rico’s Multipliers (Billion U.S. dollars except number of employees)

	First Scenario	Second Scenario	Difference
Employment Multipliers			
Gross Revenue	\$7.500	\$11.250	\$3.750
Direct Employment	114,225	171,337	57,112
Indirect Employment	203,320	304,979	101,659
Induced Employment	239,700	359,550	119,850
Production Multipliers			
Gross Revenue	\$7.500	\$11.250	\$3.750
Production Generated in the Rest of the Economy	\$7.650	\$11.475	\$3.825
Income Multipliers			
Type I	\$8.325	\$12.487	\$4.162
Type II	\$18.525	\$27.787	\$9.262

support our claim that the Cuban Government is shortchanging itself and its citizens.

SEARCH FOR A COMPARABLE EXAMPLE

After an exhaustive search we identified Cancún, in the State of Quintana Roo, Mexico, and the development of a tourism corridor that begins with Cancún and continues south down the coastal areas. The development of Cancún is the successful result of a strategic alliance among the Mexican government, Mexico’s private sector, and the international hospitality industry.

Mexico, unlike many other countries in the world, developed important tourism centers by creating master-planned destination resorts. Several Federal agencies built the first hotel properties and infrastructure and soon were followed by private investors who acquired land from those agencies to build new

hotels. These developers acquired the land ready with utilities and urban infrastructure.

How the Mexico and Cancun Story Began

The enormous development of the tourism industry in Mexico originates with the governmental support to the industry throughout the last 24 years. The Secretariat of Tourism (SECTUR) and other governmental agencies, including the National Trust Fund for the Development of Tourism (FONATUR) pioneered the “polo turístico” concept of “destination resorts” in the country, resulting in a major success for the industry. The five fully integrated tourism centers—Cancún, Ixtapa, Los Cabos, Loreto, and the Bays of Huatulco—are products of an alliance between the government and the private sector.

Just 27 years ago, Cancún was a sleepy fishing village near archeological treasures surrounded by beautiful

Table 3. Hotel and Tourism Statistics for Cancún, Q.R., Mexico, 1980-97

Year	Number Of Rooms	Average Occy.	Number of Visitors		Total Visitors	% Change Prior Year
			National	Foreign		
1980	3,930	65.7%	218,400	241,600	460,000	16.2%
1981	5,225	64.4%	264,000	276,800	540,800	17.6%
1982	5,258	63.8%	307,400	336,400	643,800	19.0%
1983	5,709	80.8%	244,500	510,200	754,700	17.2%
1984	6,106	72.3%	214,300	499,600	713,900	-5.4%
1985	6,591	72.1%	226,900	503,000	729,900	2.2%
1986	7,028	81.1%	227,400	641,900	869,300	19.1%
1987	8,910	83.5%	200,100	760,500	960,600	10.4%
1988	11,891	55.8%	180,700	657,500	838,200	-12.7%
1989	15,310	57.0%	296,500	857,100	1,153,600	37.6%
1990	17,470	68.0%	395,200	1,180,500	1,575,706	36.6%
1991	17,971	69.4%	479,700	1,432,400	1,912,100	21.3%
1992	18,376	75.0%	488,100	1,584,400	2,046,500	29.9%
1993	18,913	72.0%	487,000	1,492,400	1,979,400	-3.3%
1994	19,998	69.0%	515,500	1,446,300	1,963,800	-0.8%
1995	20,278	75.6%	492,244	1,671,985	2,164,229	10.0%
1996	21,097	77.9%	475,648	1,835,992	2,311,640	6.8%
1997	21,683	81.0%	551,987	2,069,281	2,621,268	13.4%
Compound Annual % Change	11.5%		3.9%	15.3%	11.7%	

Source: SECTUR, Asociacion de Hoteles de Quintana Roo, Phoenix Hospitality and Consulting Corp.

Caribbean beaches. Today, it is one of the most visited tourist destinations in the country, and the world. The number of visitors in 1997 reached 2.6 million, with 79 percent being foreign visitors.

FONATUR has provided, during its first 24 years of existence, more than US\$1.7 billion in loans for new tourism projects and renovation of existing ones, adding more than 180,000 rooms to Mexico's inventory. FONATUR has also acted as a catalyst, bringing together resources from public and private sectors in Mexico and attracting foreign investment to the tourism sector. Cumulative foreign direct investment in Mexico's tourist sector amounted to US\$5.4 billion between 1989 and 1997; meanwhile, domestic investment in this sector exceeded US\$2.0 billion. Funding from the World Bank and the Inter-American Development Bank to FONATUR was used mainly for infrastructure improvements and tourism centers. Commercial banks have been the vehicles to channel funding for tourism projects. In addition, commercial banks are permitted to act as developers and promoters and assemble deals for projects ranging from a single hotel property to mixed-use destination resorts.

The role of commercial banks in the development of tourism in Mexico has been significant, even in the period when banks were "nationalized." The portfolio of hotels and other tourism assets has fluctuated, following the ups and downs in the market. Because Mexico is still in the process of becoming a totally-free-economy, actions by the government's finance authorities impact on the tourism industry, often beneficially.

As a result of the implementation of the North American Free Trade Agreement (NAFTA), both sides of the border began an intensive exchange of acquisitions, joint ventures, and other forms of trade and business arrangements. These activities caused an improvement in the confidence level regarding the investment opportunities that were offered on both sides.

At the last Acapulco Tiangis (an annual tourism meeting) a number of U.S. hotel chains announced development programs in Mexico by joint ventures, management contracts, and franchising. These plans are still active, in spite of the economic crisis of 1994-95, a period that provided an education for

foreign entrepreneurs on the management of inflation and devaluation in Mexico.

Cancún, like any other tourism destination in Mexico, may be affected by the ups and downs of the Mexican economy. History, however, has proven that Cancún has been able to protect itself from situations related to currency devaluation faster than other Mexican destinations because of the practice of pegging room rates and cost of packages to the U.S. dollar. This is due to the fact that the bulk of the demand for this destination is from foreign sources. Because payments in foreign currency precede chronologically the payments of expenses in pesos, the industry benefits and technically is protected from the effects of devaluation. As we know, the wise practice of operating in foreign currency is paramount in the Cuban tourism activity.

In order to appreciate the growth of tourism in Cancun, Table 3 presents Cancún's tourism statistics from 1980 to 1997.

CANCUN AND CUBA

The Mexican Caribbean, including Cancún, compares with Cuba in as many ways as they differ. Table 4 summarizes those similarities and differences that show how each tourism dollar of revenue behaves so differently under the two political-economic regimes.

It is interesting to note that the average expenditure per day per person has increased in Cuba while it has decreased in Cancún. This is due in part to the increase in new all-inclusive properties in the Cancun market, which generally cater to a price sensitive client, and to better marketing on the part of the Cuban tourism authorities. Sales of Cuban cigars for re-

sale and for own consumption account for \$24 of the average expenditure per person per day in the island.

This comparison of selected tourism issues tells only part of the story. In order to understand the ramifications of the tourism activity, its necessary to estimate the economic ripple effect that tourism causes in each of the two cases in their respective economic systems: Cuba, a socialist economy, and Cancún, Mexico, a free market, capitalist economy.

In Table 5 we provide such a comparison. The comparison is based on the methodology followed in the Year 2007 exercise described at the beginning of this report. Due to the absence of data from the island, the author made assumptions in several of the variables.

CONCLUSION

Cuba in 1997 received \$1.500 billion in gross revenue from tourism. On a daily basis, this represents \$4.1 million per day.

However, on the basis of employment and production multipliers, Cuba's tourism industry in 1997 forfeited the chance to generate \$913 million in economic impact.

Measured in terms of income multipliers, the government of Cuba failed to receive in 1997 between \$738 million to \$1.857 billion (depending on whether Type I or Type II multipliers are used) because it continues with the present political, social and economic model.

The above annual estimated losses expressed on a daily basis indicate that every day of 1997 Cuba forfeited from \$2.5 million to \$5.1 million.

Table 4. Comparison of the Tourism Industry in Cuba and Cancun Today

Issues	Cuba	Cancún
Development Issue		
Government initiative and participation in development	Only the government.	Government agency FONATUR provides development of infrastructure and creates master plan.
Real Estate Issues		
Participation of private sector	Yes, only foreign entities or persons under leases, joint ventures or contracts to exploit tourism under special rights.	Yes, FONATUR sells sites with infrastructure and public utilities. Buyers are local, foreign or mixed entities.
Ownership transfer from the government to a buyer	No. There is a system that allows foreign entities the right to use land under certain conditions such as loans, advances, etc.	Yes, all sites are sold under the regime of trusteeship. May be sold to locals or foreigners.
Resale of property to a third party	No. With government approval the rights may be transferred to another foreign entity.	Yes, to any Mexican or foreign entity.
Marketing Issues		
Market demand	The destination resorts are mostly marketed as All-inclusive hotels or prepaid package plan. Habana and other major cities offer European Plan service since they also cater to individuals often on business.	In this resort destination there are both European Plan hotels and All-inclusive hotels. Generally the first group are in the Gran Turismo and Deluxe categories. The All-inclusive hotel market is growing at a faster rate.
Marketing resources		
	The government hotel chains and their official agencies abroad promote and sell the destinations. Partnerships with wholesalers and other demand suppliers.	The government has a support role in promoting the destination. Hotels are encouraged to participate in the joint promotions. Hotels, hotel chains and representatives perform sales and marketing functions.
Origin of demand	Mostly Europe and Canada. U.S. demand is limited due to legal restrictions.	Mostly North America and Europe followed by South and Central America, Asia
Principal market competitors	Dominican Republic, Isla Margarita, Cancún, Panama, Costa Rica.	All the Mexican coastal area resorts. In the low end of the All-inclusive market segment, Dominican Republic, Margarita, Costa Rica and Cuba.
Number of rooms	27,394. It is reported that 59% are in the four and five-star categories.	21,683 at the end of 1997. This figure does not include condos or time-sharing non-hotel properties.
Number of rooms planned for the year 2000	49,558. Estimated by the Ministry of Tourism in 1997. Reported under construction: Hoteles Taino 1,3, and 4 in Varadero; Hotel Covarrubia in Las Tunas; Hotel Río Oro in Holguín; Hotel Parque Central and Hotel Habana in Havana; and Hotel Gregorio in Cayo Coco. Also the "polo turístico" of Trinidad.	43,500. It includes the new "polos turísticos" Riviera Maya and Mundo Maya. There are 6,500 rooms under construction scheduled to open within 18 months.
National tourism	Normally, Cubans are not permitted to use foreign tourists' facilities. The rationale given is to expedite economic recovery during the "special period." Hotels for Cubans are available.	Yes. Mexicans represent 19 to 21 percent of all visitors to Cancún. Note: 50,000 Mexican families own timeshare units in Cancún.
Average Days of Stay	6.8 days	5.1 days
Occupancy percentage	63.9	81.0
Total Revenue 1997	US\$1.500 billion	US\$1.952 billion
Average Expenditure per Visitor per Stay	US\$1,280.96	US\$744.92
Number of Visitors 1997	1,155,000	2,621,000
Average Expenditure per Person per Day	US\$188	US\$146

Table 5. Table 5: Economic Impact of Tourism in Cuba and Cancún for 1997
(billion U.S. dollars except number of employees)

	First Scenario Cuba	Second Scenario Cancún	Difference
Employment Multipliers			
Gross Revenue	\$1.500	\$1.952	\$0.452
Direct Employment	22,845	29,728	6,883
Indirect Employment	31,755	52,920	21,165
Induced Employment	34,613	62,500	27,887
Production Multipliers			
Gross Revenue	\$1.500	\$1.952	\$0.452
Production Generated in the Rest of the Economy			
Income Multipliers	\$1.530	\$1.991	\$0.461
Type I	\$1.430	\$2,168	\$0.738
Type II	\$2.962	\$4,819	\$1,857

Appendix I IMPACT OF CUBAN TOURISM DEVELOPMENT IN THE CARIBBEAN

Cuba continues its accelerated growth in number of rooms, visitors and revenue from tourism.

Cuban statistics indicate its fast growth from practically zero to today's maturing hospitality industry. This tempo continues while competitors in the Caribbean prepare to satisfy the increase in demand for destination resorts and other lodging facilities in the area.

Number of Visitors in Cuba and the Caribbean

Appendix III demonstrates the growth in the number of visitors to a selected group of countries in the Caribbean in 1997. You will notice that Cuba and the Dominican Republic lead the pack with 25% increase in the number of visitors, followed by Puerto Rico with 19.9%. However, in terms of market share

of the total visitors to the Caribbean, Puerto Rico is the leader with 22.8%, followed by Dominican Republic at 15.1% and Bahamas at 10.9%

Cuba attained 7.9% of the total visitors to the Caribbean a substantial jump from the 4.4% it had in 1990.

Tourism Receipts in Cuba and in the Caribbean

Appendix IV presents the growth in terms of dollars received from the tourism activity by a selected group of countries in the Caribbean in from 1993-97.

The leader is Cuba, with an average annual increase of its tourism revenue at 20.4% followed by Dominican Republic at 14.0% and the emerging Guadeloupe at 11.9%.

Appendix II PUERTO RICO'S EMPLOYMENT, PRODUCTION AND INCOME MULTIPLIERS FOR TOURISM HOTELS ACCORDING TO THE 1982 INPUT-OUTPUT TABLE

Employment Coefficients of:

Direct Employment requirements	15.23
Direct and Indirect requirements	42.34
Type I multiplier: (Direct and Indirect)	2.78
Type II multiplier: (Direct, Indirect, and Induced)	4.88

Production and Income:

Production Multiplier:	2.02
Coefficient of:	
Direct Income requirements	0.19
Direct and Indirect Income requirements:	0.41
Type I income multiplier	2.11
Coefficient of:	
Direct, Indirect and Induced income requirements:	0.67
Type II Income multiplier	3.47

Basic Definitions:

- **Production Multiplier:** Indicates how much production (defined as intermediate plus final

sales) is needed to satisfy one dollar of final demand concerning any industry included in the Input-Output Matrix.

- **Employment Multiplier:** Shows the direct and indirect employment generated in the economy for each direct employment created in a particular sector or industry.
- **Income Multiplier:** Shows the direct and indirect income generated by unit of final demand required from a particular sector.

Our thanks to Mr. Santos Negrón Díaz, a distinguished Economist from Puerto Rico, for his valuable input in economic matters.

Appendix III
MARKET SHARE OF TOURIST ARRIVALS (OVERNIGHT VISITORS) SELECTED
CARIBBEAN DESTINATIONS

Country	1993	Market Share	1997	Market Share	Increase 1993-1997	%Total Increase
Cuba	544	4.4%	1,152	7.9%	608	25.3%
Antigua & Barbuda	240	2.0%	231	1.6%	(9)	-0.4%
Aruba	562	4.6%	650	4.4%	88	3.7%
Bahamas	1,489	12.2%	1,592	10.9%	103	4.3%
Barbados	396	3.2%	472	3.2%	76	3.2%
Bermuda	413	3.4%	380	2.6%	(33)	-1.4%
British Virgin Islands	200	1.6%	251	1.7%	51	2.1%
Curacao	223	1.8%	210	1.4%	(13)	-0.5%
Dominican Republic	1,609	13.1%	2,211	15.1%	602	25.1%
Guadeloupe ^a	453	3.7%	660	4.5%	207	8.6%
Jamaica	1,105	9.0%	1,192	8.1%	87	3.6%
Martinique	366	3.0%	514	3.5%	148	6.2%
Puerto Rico	2,854	23.3%	3,332	22.8%	478	19.9%
Saint Lucia	194	1.6%	248	1.7%	54	2.3%
Saint Maarten	503	4.1%	425	2.9%	(78)	-3.3%
Trinidad and Tobago	249	2.0%	324	2.2%	75	3.1%
U.S. Virgin Islands	550	4.5%	411	2.8%	(139)	-5.8%
Total	12,237	100.0%	14,636	100.0%	2,399	100.0%

Source: Resort Development Consultants, Inc., Phoenix Hospitality and Consulting Corp., World Tourism Organization

a. Includes French St. Martin

Appendix IV
INTERNATIONAL TOURISM RECEIPTS
(US\$ MILLION) SELECTED CARIBBEAN DESTINATIONS

Country	1993	1994	1995	1996	1997	Annual % Change	Receipt/ Tourist
Cuba	636	763	977	1,231	1,338	20.4%	\$1,161
Antigua & Barbuda	277	293	247	257	260	-1.6%	\$1,126
Aruba	467	453	517	553	570	5.1%	\$ 877
Bahamas	1,304	1,333	1,346	1,450	1,510	3.7%	\$ 948
Barbados	528	598	662	685	717	7.9%	\$1,519
Bermuda	505	525	488	472	474	-1.6%	\$1,247
British Virgin Islands	196	198	205	268	270	8.3%	\$1,076
Cayman Islands	271	334	376	368	369	8.0%	\$ 969
Curacao	195	183	175	186	187	-1.0%	\$ 890
Dominican Republic	1,246	1,428	1,576	1,842	2,106	14.0%	\$ 953
Jamaica	942	973	1,069	1,092	1,131	4.7%	\$ 949
Guadeloupe ^a	318	389	458	496	499	11.9%	\$ 756
Martinique	332	379	384	382	383	3.6%	\$ 745
Puerto Rico	1,628	1,728	1,828	1,898	1,996	5.2%	\$ 599
Saint Lucia	221	224	268	269	270	5.1%	\$1,089
Saint Maarten	390	420	349	325	327	-4.3%	\$ 769
Trinidad ^ Tobago	81	87	73	107	108	7.5%	\$ 333
U.S. Virgin Islands	902	919	822	688	601	-9.7%	\$1,462
Total	10,439	11,227	11,820	12,569	13,116	5.9%	\$ 896

Source: Resort Development Consultants, Inc. Phoenix Hospitality and Consultants Corp., World Tourism Organization

a. Includes French St. Martin