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A GENERATION OF ISOLATION: CUBAN POLITICAL ECONOMIC POLICIES

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Introduction

Economic society is defined mostly by the competitiveness of its private sector and the effectiveness of its economic policies. Nevertheless, understand the dynamics that lead a nation to economic development compels the analysis of other factors, which, it is de rigueur to point out, do not have an economic nature, but a significant influence on national economic strategies, i.e. history and government.

The history of developing countries, particularly their colonial experience, has a remarkable impact on their political and economic performance. The dynamics between colonies and colonizers constitute the basis in which the state and its institutions were created. “The impact of colonialism on state formation was especially significant because most developing country states are the product of colonialism, and their respective forms were molded decisively by this encounter with more advanced political economies” (Kohli, 2004, 17). Consequently, it is not possible “to formulate adequate development theory and policy for the majority of the world’s population who suffer from development without first learning how their past economic and social history gave rise to their present underdevelopment” (Kanth, 1994, 149).

The state has the capabilities to improve economy, especially in developing countries, where the market does work with imperfections, and the “government is constantly asked to rectify market error or market inequity”. Moreover, in poor societies the private sector does not increase its operations if the government does not take participation in the national market (Lewis, 1984, 4). “Many neoclassical economists would accept that markets for technology development, manpower training, and credit to small firms and exporters may failure seriously enough to warrant some offsetting government intervention” (Wade, 2004,12).

Therefore, two important questions arise: 1) can private sector reach efficiency without government provision? and 2) are public policies drawn to colonialism? The responses for these two questions will be addressed by the political and economic analysis of Cuba – a nation, which in the fifteenth century, was colonized by Spain during the maritime expeditions of Christopher Columbus, and after the Revolution –led by Fidel Castro, became in the twentieth century a totalitarian state-run economy.

Cuba is not only the largest island in the Greater Antilles, but also the only communist island in the Caribbean. This country has been governed by the Marxist-Leninist ideology for more than fifty years. Although the Cuban economy has not shown significant development since January 1, 1959, i.e. when the Revolutionaries came to power, it is presenting a new economic capability—the tourism industry, which could drive the nation to a moderate economic growth.

The tourism sector is the primary provider of foreign exchange earnings and employment in Cuba, exceeding agriculture –which since the old days of colonization used to be the economic leader sector. (Khrushchev, Henthorne, and Latour, 2007, 403). After the Second World War, Cuba presented a competitive economic environment, which in case of had being

conserved by the government of Fidel Castro, it would bring excellent opportunities to develop the Cuban economy; i.e. improve the industries (public and private), strength relations between state and private sector, increase international market operations, and enhance standards of livelihood.

The Cuban economy, in contrast to many economies at the time, was not dramatically affected by the war. Foreign entrepreneurs could find in Cuba an ideal environment for investment, e.g. the Cuban investment market was one of the most sustainable in Latin America and the Caribbean; the Constitution of 1940 guaranteed the protection of property in Cuba; the Cuban peso was at par with U.S. dollar; foreign exchange operations were not under state control, and the cost of living did not present important variations (Baklanoff, 1998, 268).

Nevertheless, despite this favorable economic scenario, Cuban development prospects proved to be unpredictable. As a Marxist-Leninist country, Cuba had isolated its people from globalisation and its economy from free market. Fidel Castro refuses to consider foreign industries and investment as the engine for economic growth. The foundation of his economic policies are based on the dependency theory of Andre Gunder Frank, which states that developing countries will not economically improve if they maintain "importing sterile stereotypes from the metropolis which do not correspond to their satellite economic reality and do not respond to their liberating political needs" (Kanth, 1994, 159).

Fidel Castro contemplates an agricultural sector protected by the state as the train that would take the Cuban economy straightly to development.

"Cuba is above all an agricultural state. Its population is largely rural. The city depends on these rural areas. The rural people won the independence. The greatness and prosperity of our country depends on a healthy and vigorous rural population that loves the land and knows how to till it, within the framework of a state that protects and guides them" (Fidel Castro, *History Will Absolve Me*, 1953).

Consequently, he believes that American economic intervention is not the key for economic growth. Nonetheless, American private capital proved to have the capability to improve the condition of living through its economic and political influence during the pre-communist period (Bernstein, 1966, 145). Atul Kohli bases his development theory on the role of the "state as an economic actor" and the importance of a close relationship between government and private sector in order to lead the nation to economic growth.

"Patterns of state authority (neopatrimonial, cohesive-capitalist, and fragmented-multiclass) including how the politics of the state are organized and how state power is used have decisively influenced the economic context within which private economic decisions are made" (Kohli, 2004, 2).

Based on the development theory of Kohli, the performance of the Cuban tourism, and the Marxist-Leninist government of Cuba, four leading questions guide this research: 1) can tourism lead Cuban economy to development? 2) do public policies alienate the tourism sector? 3) is the state of Cuba offering an attractive environment for foreign direct investment? 4) does the embargo of the United States restrain Cuban tourism?

This paper will be developed in five sections. The foundation of the Cuban economy during the Spanish colonization (1492-1899) will be described in section one. The golden years of the Cuban tourism (1952-1958) will be discussed in section two. The situation of tourism after the Revolution (1959-1969) will be explained in section three. The economic perspective of the embargo of the United States on Cuba (1963) will be defined in section four. The government tourism reforms will be presented in section five. The paper closes with some observations about the improvement and capabilities of the Cuban tourism sector and its

development prospects.

The Spanish Colonization: Foundation of the Cuban Economy

“While building its large empire in America, Spain paid scant attention to Cuba.”
(Cuban Economic Research Project, 1975, 4)

Tourism in Cuba did not developed as economic sector during the Spanish colonization. “A study of the history of Cuba, both internal and external, is fundamentally a history of sugar and tobacco as the essential bases of its economy” (Ortiz, 1970, 4-5). Nonetheless, it is important to state that agriculture was not always the most prominent economic sector, and Cuba was not always an outstanding colony.

Christopher Columbus reached the island of Cuba on October 28, 1492 –fifteen days after he landed for the first time in America. In his journal he described Cuba as follows: “I never saw a lovelier sight: trees everywhere, lining the river, green and beautiful. They are not like our own, and each has its own flowers and fruit. Numerous birds, large and small, singing away sweetly... It is the most beautiful island even seen...” (Simons, 1996, 77, 79). Even though Columbus named the new island Juana, in honour of the Prince, Don Juan, son of the Spanish monarchs (Isabella of Castile and Ferdinand of Aragon); it conserved its native name –the aboriginal people used the word *Colba* to refer the island, word that the Spanish understood to be Cuba (Wright, 1970, 5-6).

Nevertheless, the finding of Mexico – Hernán Cortés’ s expedition sailed from Cuba “in 1519 to conquer the Aztec Empire”, and the lack of minerals of the island would soon diminish the fascination for Cuba. Mexico and its abundant mineral resources seemed to promise a large treasury for the Spanish adventures and for the Catholic kingdom. However, despite the “exodus of population, decline of food production, and economic misery” caused by the expeditions to Mexico (Suchlicki, 1997, 21, 27-28), Spain maintained control over Cuba for naval strategy; “Havana had become the most widely utilized port for the repair of vessels in the Antilles, and one of the most widely utilized ports of call in its empire” (Cuban Economic Research Project, 1975, 1). During the naval period the Cuban economy was based on repairing and building ships, while the agricultural potential of the island was neglected (Ritter, 1974, 10).

Although sugar production was favored in 1529 by a royal decree, which protects sugar producers from foreclosure debt, sugar cultivation in Cuba presented slow growth compared to Jamaica, Haiti, or Barbados. This was caused by the following main reasons: lack of foreign capital; lack of promotion from abroad; difficulties in importing equipment; costliness of slaves’ imports, and lack of a rapidly growing market for sugar in Spain. Consequently, Cuba truly developed its agricultural capabilities by the 1750s when the production of tobacco was suited as the dominant Cuban export, and the word *Havana* was a synonym for quality cigar tobacco in much of Europe (Ritter, 1972, 10-11). However, it was not until the generation from 1834 to 1867 that Cuba became an important colony for Spain, when the sugar industry proved to be remarkably profitable, and made Cuba “the richest colony in the world” during that period (Alvarez, 2004, 5).

The Spanish colonization has four significant characteristics that explain why the island did not experience a prompt economic development, i.e. late abolition of slavery, weak labour legislation, high-cost of livelihood and great dependency on imports. “On October 7, 1886 the Spanish government abolished slavery on the island”; twenty-one years after the United States –on December 18, 1865 slavery was eradicated in the American nation (Simons, 1996, 122, 127).

It is important to state that “the slave labour was the factor that contributed most to the delay in the development of a labour movement as such” in Cuba. *Sociedad Económica*

de Amigos del País” (1793); “*Sociedad de Socorros Mutuos de Honrados Artesanos y Jornaleros*” (1857); “*Asociación de Tabaqueros de la Habana*” (1866) are the first labour organisations in the history of the colony, which were founded by Spanish workers who were concerned about the protection of their personal interests, but not engrossed in requesting to the Spanish crown the creation of a whole labour system to protect the entire Cuban labour population. After the conclusion of the Spanish power the labour legislation platform in Cuba was restricted by natural conceptions protected by Civil, Commercial, and Penal Codes. “The labour contract was accomplished by the mere consent of the parties and the only requirement was the term of the contract could not be set for lifetime”, according to the Civil Code, which also stated that “in cases of death or bankruptcy of the employer, his employees enjoyed the status of preferential creditors in the collection of their salaries and wages”. The Commercial Code established an “indemnity of one month of salary when the discharge affected commercial employees” and the Penal Code punished with one to six months in prison to anyone who were involved in any endeavor to change or reduce either the wages or the conditions of employment. By the nineteenth century, the low-income worker class used to live in “*Solares*” or “*Casas de Vecindad*”, i.e. large houses occupied by many families –one family per room (Cuban Economic Research Project, 1975, 22-27). The cost of livelihood at that time was considerably expensive.

“The cost of these rooms at the end of the century was \$5.00 per month, on the average, and in solares with better conditions, up to \$14.00. The rest of small houses in modest neighborhoods in Havana were about \$20.00. The supply of water by means of aqueducts was available to only 16 percent of the dwellings on the island” (Cuban Economic Research Project, 1975, 27).

Mostly all the goods in Cuba were imported; “tools, paper, and even food-stuff were brought in from the outside”. Spain built a mercantilist economy, strengthening Cuba’s dependence on imports and “looking at the island as a producer of raw materials to satisfy the needs of the mother country” (Suchlicki, 1997, 27).

After independence Cuba did not have established a strong labour organisation system, an efficient commercial law, or a competitive industrial sector, and most of the people could not afford a decent livelihood. This particular situation of Cuba was not due to its previous condition of traditional society.

“One whose structure is developed within limited production functions, based on pre-Newtonian science and technology, and on pre-Newtonian attitudes towards the physical world. Newton is here used as a symbol for that watershed in history when men came widely to believe that the external world was subject to a few knowable laws, and was systematically capable of productive manipulation.” *The Five Stages of Growth* by W.W. Rostow (Kanth, 1994, 99).

But due to the own experience of Spain as a nation that has suffered from war and economic strifes. “In 1486, when Columbus first presented himself at the court, the Crown was poor, heavily engaged in the last stage of the *Reconquista*” (Simons, 1996, 76). Therefore, Spain was not interested in building economic autonomous colonies in America –they were geographically located far away from Europe, and the Spanish empire was consolidating its political power and assuring the increment of its economic resources; with the “Moors expelled from most of the Iberian Peninsula and the unity of Spain achieved, the Catholic monarchs now looked to new horizons to expand their faith as well as their commercial interests” (Suchlicki, 1997, 14).

As a result, Cuba was merely considered as a provider of resources. The Spanish did not plan to make the island an extension of their kingdom; consequently, they did not transfer enough capital, knowledge or technology to improve the Cuban economy. Therefore, colonialism in Cuba generated the roots of a nation that would not find the guidance for a national economic prospective by itself, and sixty-two years after its independence Cuba would remain being a slave of its colonial history. “A socialist regime is here, but the fault is not ours, the blame belongs to Columbus, the Spanish colonizers” (Fidel Castro, 1961, May Day Celebration: Cuba is a Socialist Nation Speech).

Tourism in Cuba before Fidel Castro: The Golden Years

“No country can be politically and economically independent, even within the framework of international interdependence, unless it is highly industrialized and has developed its power resources to the utmost.”

- Jawaharlal Nehru

In the pre-Revolutionary era, the Cuban economy was characterized as being empowered by the new dominant nation in the hemisphere—the United States. In the nineteenth century, when Spain was losing power among its colonies in Latin America and the Caribbean, the Cuban economy was acquired by American firms, which maintained ownership and control until the Revolution (Thompson, 1997, 97).

Nevertheless, the origin of the American imperialism in Cuba goes back to the time when the island was pursuing its recognition as an independent republic. Despite the ten-year war (1868-1878) Cuba did not get its independence from Spain. There was an uncertain period before Cuba could be a liberated country. “On January 1, 1899, after the evacuation of the Spanish troops”, the United States became the new power nation in Cuba; placing a military government in the island until May 20, 1902; when Cuba proclaimed itself as an independent republic (Cuban Economic Research Project, 1975, 3-4).

This was the first American intervention in Cuba, and with it a political legacy came to being and controlled the state for more than thirty years, i.e. the Platt Amendment, “which until 1934 had been forced into the Cuban constitution in 1901 by the United States.” The purpose was to intervene Cuba as many times as it was necessary in order to protect “life, property, and individual liberty” in the new nation (Boorstein, 1968, 9). The Platt Amendment gave the United States a significant influence in Cuban politics, and consequently strengthened the confidence of American entrepreneurs to increase their investments in Cuba (Alvarez, 2004, 4,6). Therefore, the Cuban economy was dominated by American monopolies (Boorstein, 1968, 1).

The “Golden Age” of Cuban tourism (1952-1958) was during the government of Fulgencio Batista –a military dictator. His administration can be described as what Kohli defines cohesive-capitalist state::

characterized by the top leadership equating rapid economic growth with national security, a highly centralized and penetrating public authority, state -controlled political society (though in close alliance with capitalist groups), and a highly interventionist state, with a good quality economic bureaucracy. (2004, 12)

Batista was known for his authoritarian regime, and for holding negotiations with American entrepreneurs, who enjoyed special treatment, i.e. having their interests considered as superior to those of the local workers. This was possible because at the time, Cuba did not possess competitive labor organisations—condition inherited from colonialism; therefore, it

was impossible for Cuban workers be part of the economic development and implementation of planning (MacEwan, 1981, 128).

Although this situation promoted inequality within the Cuban society, the tourism industry represented a worthwhile sector. The American entrepreneurs were preparing Cuba for the anticipated Caribbean tourism boom of the 1960s, in which this nation would play a central role (Baklanoff, 1998, 272).

The investment strategy taken by the Americans was to double the existing hotel capacity in Cuba during 1952-1958. Foreign tourist expenditures increased from \$19 million in 1952 to an annual average of \$60 million in 1957-1958. The hotels The Habana Hilton, The Capri, The Habana Riviera, and The Nacional (all backed by U.S. owners) were very important in promoting Cuba internationally as a first class service provider (Baklanoff, 1998, 266).

Transculturation was one of the foremost factors supporting the improvement of Cuban tourism.

Transculturation is a term “coined by the Cuban anthropologist Fernando Ortiz in the early 1940s, and was created in order to explore the cultural dynamics in operation between Cuba and the metropolitan centres.” With the concept, Ortiz suggests, “a process of mutual interaction exists between cultures, despite the unequal distribution of power characteristic of transcultural relations” (Herrle and Wegerhoff, 2008, 251-252).

The Americans not only traveled to Cuba for regular vacation, they also adopted some aspects from the Cuban culture, making the voyage to the Caribbean island an endless paradisiac experience, not to mention the promotion to visit the exotic country headed person-to-person by the Americans (Khrushchev, Henthorne, and Latour, 2007, 404).

Tourism became the major source of revenue (U.S. dollars) and employment during the government of Batista. In 1957, the tourism sector produced more revenue than the tobacco industry, and was second only to sugar production in profits (Falcoff, 2003, 132-133).

Nevertheless, in 1958 the vulnerable political environment rose by the struggles between the rebel army (led by Fidel Castro) and President Batista interrupted the glorious period of Cuban tourism. Once again, the Cuban economy became a slave of its own history.

Economic development is not a process that occurs by itself, it is the result of an effective relationship between the government and the private sector. “State intervention aimed at boosting investor profitability is strongly associated with rapid industrialization” (Kohli, 2004, 7). Therefore, a country cannot evolve economically without political improvement. Moreover, there are four additional elements that determine the economic performance of any country: luck, geographical location, institutions, and culture and social capital (Lin, 9, 2009).

In the specific case of Cuba, the island was not lucky being colonized by Spain, which compared to Portugal or England, was less industrialized. Besides the Spanish empire did not consider the island as a prominent society.

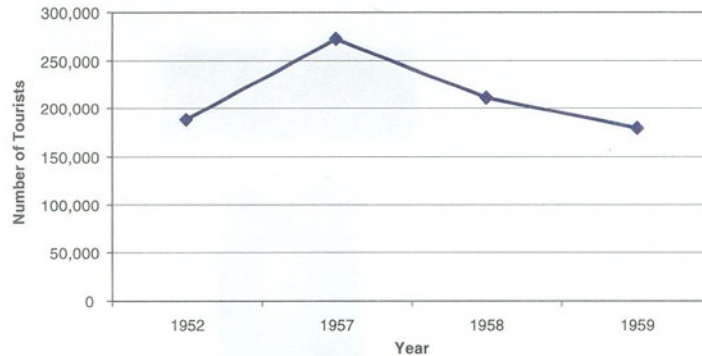
The geographical location of Cuba allowed it to be taken into consideration first by the Spanish for naval purposes, and later by the United States as a potential colony, or at least as a lucrative market.

The Cuban institutions were based on personalized, corrupt bureaucracy, and the Cuban culture was the result of a combination of Spanish and African influence, creating a heterogeneous population.

Even though these factors have the capability to determine the development of a

society, the role of the state, as Kohli states, can accelerate or impede economic growth. In the Cuban context, it is easy to understand why the Cuban tourism sector improved so rapidly during the Batista period, and why it declined quickly after Fidel Castro came to power. Cohesive-capitalist states have “proved to be the most successful agents of deliberate state-led industrialization in peripheral countries” (Kohli, 2004, 11).

Figure 1: Tourist Arrivals in Cuba, 1952-1959



Source: Sergei Khrushchev, Tony L. Henthorne and Michael S. Latour, *Cuba at the Crossroads: The Role of the U.S. Hospitality Industry in Cuban Tourism Initiatives*; Cornell Hotel and Restaurant Administration Quarterly 2007 48: 406.

In 1958 Cuba faced a Revolution against the government of Batista. The country was divided into two groups, both with contradictory political ideologies. Cuba was no longer the exotic island of the Caribbean. It was a dangerous war zone until the culmination of the Revolution.

The genesis of the Cuban Revolution was the affiliation of the President Fulgencio Batista with some members of the Mafia, e.g. Meyer Lansky, Lucky Luciano, and Santo Trafficante Jr. who were well-known for being part of the organized crime in the United States. “Lansky was paying Batista millions of dollars a year from mafia casinos in Cuba in return for a monopoly of the business” (Simons, 1996, 259). The construction of the hotel Riviera, for instance, was funded by Meyer Lansky and partially sponsored by the Cuban government with fourteen million dollars, money that could be used to improve the life of many Cuban citizens who lived in extreme poverty, especially in the countryside (History Channel, *Declassified: The Godfathers of Havana* (Documentary) March 23, 2006). During the dictatorship of Batista, “the Mafia funds airline companies to export cocaine” (Cuban National Archives; Records of the Cuban National Bank, file 192, number 6). At the end of 1959, the number of tourists in Cuba fell to approximately 175,000 (Khrushchev, Henthorne,

Cuban Tourism after the Revolution: A Generation of Isolation

“Understanding the Revolution is more difficult than
dying for the Revolution”
- Fidel Castro

On January 1, 1959, Cuba welcomed a new year and a new president—Fidel Castro. The victorious Revolutionary party replaced the past government of Batista. It was a perfect scenario to build a democratic and prosperous country. The new leader promised to work for the Cubans and with the Cubans. The former revolutionaries received international sympathy, and the world welcomed the re-born Cuban nation. Nonetheless, the sympathy for the

Revolution, especially from the United States, would rapidly end, when the younger half-brother of Fidel—Raul Castro, and his colleague Che Guevara solidified their affiliation with the Communist Soviet government (Khrushchev, Henthorne, and Latour, 2007, 405).

The foundation of the first communist country in the capitalist Caribbean found its roots in a special visit from the Soviet Union. On February 4, 1960 the Soviet representative Anastas Mikoyan arrived at Cuba and signed a contract with Castro, which was worth \$100 million (US Dollars). The agreement was that the Soviet Union would buy 5 million tons of sugar within three years, and in exchange Cuba would receive petroleum (Khrushchev, Henthorne, and Latour, 2007, 405). Consequently, Cuba began a close relationship with the Communist Soviet government, and abnegated its commercial privileges with the United States.

On May 1, 1960 a new era began for the Cuban society. The nation embraced communism as its new political power. Fidel Castro was rigidly determined to maintain his Marxist-Leninist ideology. He made it very clear for the Cuban citizens during the May Celebration, but also for the international community, especially for the United States, when he emphatically stated: "If Mr. Kennedy does not like socialism, well we do not like imperialism! We do not like capitalism!"

The fact that Cuba had officially declared itself a communist country has two repercussions, i.e. the Cuban "government is intent on not returning to the past, where as a dependent capitalist country, it was subjected to external domination" (Saney 2004, 204-205), and the United States felt threatened by the possibility of a military attack from Cuba. By this time there was increasing political tension between the United States and the Soviet Union, and the "Cold War" period was well under way. Consequently, in April 1961 the United States President John F. Kennedy attempted unsuccessfully to invade Cuba and topple the government of Castro. In July 1963, the United States invoked a commercial block against Cuba (Khrushchev, Henthorne, and Latour, 2007, 406).

I believe there is not country in the world... where economic colonization, exploitation, and humiliation were worse than in Cuba, in part owing to my country's policies during the Batista regime. I can assure you that I have understood the Cubans, I approved of the proclamation, which Fidel Castro made in the Sierra Maestra, when he justifiably called for justice and especially yearned to rid Cuba of corruption. In the matter of Batista regime, I am in agreement with the first Cubans revolutionaries. That is perfect clear. But it is also clear that the problem has ceased to be a Cuban one and has become international, that is, it has become a Soviet problem. I am the President of the United States and not socialist; I am the President of a free nation which has certain responsibilities to the free world. I know that Castro betrayed the promises made in the Sierra Maestra, and that he has agreed to be a Soviet agent in Latin America" (The United States President John. F. Kennedy during an interview by Jean Daniel, which was published on December 14, 1963 in the *New Republic*, pp. 15-20).

After the embargo of the United States, the tourism sector in Cuba decreased in a surprising manner. In the mid-1960s Cuba was receiving a miniscule three thousand foreign tourists per year (Khrushchev, Henthorne, and Latour, 2007, 406).

There is no reliable data about the performance of the Cuban tourism in the 1960s. Even so, it is reasonable to expect a significant decrease in state revenues from the tourism sector. During the first years of the Castro administration, tourism was not considered a lucrative business, but a racism engine. Therefore, it is not surprising that during the

Fidel Castro regime the industry of tourism lost its importance as economic sector, as it used to be during the Batista period. However, Cuban tourism was not neglected by the state for hedonism or simple obstinacy. The lack of direct state involvement in tourism has its origin in the racial conflict that the Cubans (especially those who descended from Africans) faced during the pre-Revolution government. Saneý points out the perception of the Cubans toward tourism, according to Shakur:

...racist ideas and racist attitudes about the natives... People come down here with big money, with big money attitudes, and no respect for the people, no respect for the Revolution... So tourism industry makes a kind of attitude that does not do anything but reinforce white supremacist values, mentality, and power relations. You don't see a lot of black tourists come into Cuba. It's economic, so that power is associated with white people. (2004, 110)

The Revolution was the social rights agent for the black Cubans and for the first time since the colonial stage they considered themselves as Cuban citizens, with the capability to be active performers in national subjects. Saneý presents Nicolas Guillén, an Afro-Cuban, and national poet, whose poem "Tengo" (I Have) summed up the significance of the Revolution for blacks in 1967 (2004, 102):

I have, let's see:
that being black
I can be stopped by no one at
the door of a dancing hall or bar.
I have, let's see:
that I have learned to read,
To count
I have that I have learned to write,
and to think
and to laugh.
I have that now I have
a place to work
and earn
What I have to eat.
I have let's see:
I have what was coming to me.

The *social* improvement led by the Revolutionary government of Fidel Castro should be admired by all the nations around the world, as well as by social development scholars. According to the United Nations Development Programme, Cuba is the country number 51 in human development in the world (Human Development Report, 2011, 126).

Nevertheless, economic development is decisive in regards to increasing the quality of the popular welfare. MacEwan points out that many economic theorists, particularly neo-classicists, consider the Marxist-Leninist system in Cuba to be a suitable illustration to prove that is not possible to incorporate economic growth and economic equality, not in contemporary times, and not in a global market economy. He states that the social policies of Castro were not effective for the Cuban economy:

The problem faced by Cuba, and by other nations attempting to build socialism in the context of capitalist underdevelopment, has been how to accomplish the task of both transforming the productive forces of society and

transforming social relations. (1981, 127)

The economic future of Cuba based on its Marxist-Leninist ideology is unpredictable, but the social needs of Cubans are still heard by the state.

The Embargo of the United States on Cuba: An Economic Perspective

“Cuba does not intend to be a pawn on the global chessboard”
- Fidel Castro

Not only political subjects caused the embargo of the United States –the Cold War, but also economic matters did so. After the Revolution, the Cuban government confiscated –without any compensation –all the properties owned by the Americans; and doing that the Cuban authorities infringed the international commerce law. Therefore, the embargo of the United States was not only pursuing its political policy, i.e. force Fidel Castro to change its totalitarian government and hold democratic elections, but now an economic purpose was established –reintroduce a market economy in Cuba. “With a clear perception of anticipated consequences, Castro resolutely engaged in an extremely risky course of action, one that eventually would lead to a complete change in the character of the Cuban society and economy by creating an aberrant dependence on the Soviet bloc.” The United States has historically constituted a natural and complementary commercial partner for Cuba, being its principal provider of trade relations, financial assistance, direct investment, and technology transfer. (Horowitz and Suchlicki, 2001, 263-265). In economic matters, when Fidel Castro chose communism, he excluded the opportunity for Cuba to reinvent itself and develop its economic capabilities.

Cuban Government Reform: The Return of Tourism

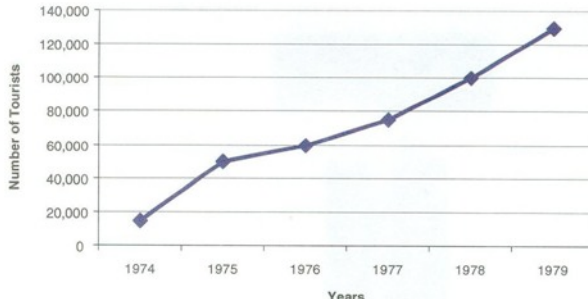
“All openings have brought risks. If we must make additional openings and reforms, we will. But for the moment they are not necessary”
- Fidel Castro

The importance of tourism as an economic sector was reestablished in Cuba before the fall of the Soviet Union. In the mid-1970s Cuba was receiving a great majority of its visitors from countries friendly with the Soviet Union. Nevertheless, it was in the 1990s when the government of Cuba recognized tourism as a prominent economic sector (Horowitz and Suchlicki, 2001, 407-08). Therefore, the new “boom” of the Cuban tourism was after the Castro administration implemented its reforms during the mid-1990s. It is important to point out that these reforms were not political policies, and even though Fidel Castro applied some opening strategies to the economy, Cuba would remain a communist state.

“Several measures have been implemented in the past few months... Does this mean that we should abandon our socialist principles or our Marxist-Leninist convictions? On the contrary, we should to conduct ourselves as genuine Marxists-Leninists... At any rate, this does not imply... that this is a return to capitalism, or much worse, an insane and hysterical race in that direction” (Fidel Castro, July 26, 1995).

In the tourism sector, four innovative economic policies were taken, i.e. the Cuban government amended its constitution in 1992 to recognize and protect private property, in 1993 the Cuban government permitted the dollar to circulate legally for the first time since

1959, the Decree-Law 147 in 1994 created a new Ministry of Tourism, and the Cuban tourist agency (INTUR) and Cubanacán were broken up into a number of separate entities to render the state sector more agile (Falcoff, 2003, 136).



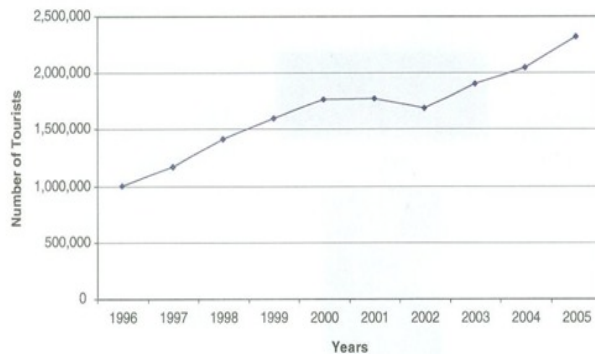
Source: Sergei Khrushchev, Tony L. Henthorne and Michael S. Latour, *Cuba at the Crossroads: The Role of the U.S. Hospitality Industry in Cuban Tourism Initiatives*; Cornell Hotel and Restaurant Administration Quarterly 2007 48: 407.

Figure 2: Tourist Arrivals in Cuba, 1974-1979

After these policies took place in Cuba, the tourism sector underwent great improvement. In 1979 the tourist arrivals in Cuba was close to 140,000. In 2005 this number was close to 2,500,000, presenting a huge increase of 17.85 times 17.85 times more than in 1979.

“In the past decade, Cuba has experienced the highest rate of growth in tourism arrivals to become the overall second most popular tourism destination in the Caribbean region and the second most popular regional destination for European travelers” (Horowitz and Suchlicki, 2001, 409).

The development theory of Kohli and its emphasis about the role of the state in economic growth becomes stronger through the Cuban case. The tourism sector in Cuba developed enormously after many years of stagnant growth. However, growth was possible when the government of Cuba realized that in order to improve the economy it should open its market to foreign direct investment.



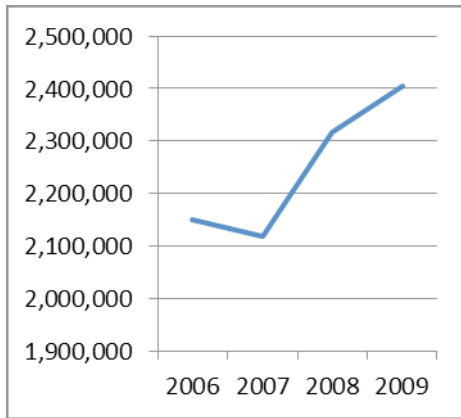
Source: Sergei Khrushchev, Tony L. Henthorne and Michael S. Latour, *Cuba at the Crossroads: The Role of the U.S. Hospitality Industry in Cuban Tourism Initiatives*; Cornell Hotel and Restaurant Administration Quarterly 2007 48: 409.

Figure 3: Tourist Arrivals in Cuba, 1996-2005

The Cuban tourism sector remained remarkable during the four following years. In 2006 Cuba received a total of 2,150,000 tourists. In 2007 2,119,000 tourists visited the Caribbean island, in 2008 it increased to 2,316,00 and the he next year Cuba received 2,405,000 tourists (World Development Indicators & Global Development Finance, The World Bank, 15 December, 2010).

In comparison to 2006, the number of tourist arrivals in 2007 decreased by 31,000 tourists. Though, next year that number would increase by 197,000. In 2009 the number of tourist arrivals presented a growth of 1.04%.

Figure 4: Tourist Arrivals in Cuba, 2006-2009



Source: World Development Indicators & Global Development Finance, The World Bank, 15 December, 2010.

On the one hand, despite the accelerated growth of the Cuban tourism sector in the last years; the government of Cuba still has central control of the economy. The hospitality industry is struggling with the limitations imposed by the state due to the uncertainty about the Cuban government’s commitment to foreign direct investment, the government’s constraints on the operation of business, enterprises’ prohibition from managing human resources, the inability to pay workers in convertible currency and the United States sanctions (Ritter, 2004, 155-166).

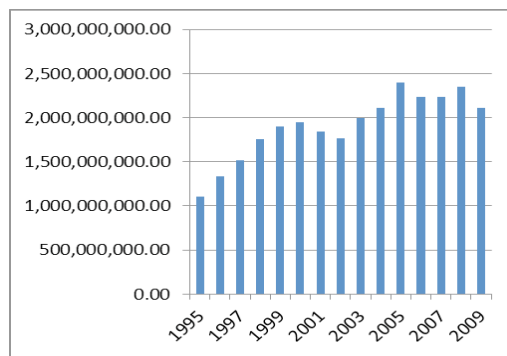
On the other hand, Cuba has demonstrated that in case of open entirely its economy to free market it would improve the tourism sector at great scale. In 2005, Cuba was the second most visited island in the Caribbean, with 2,319,300 tourists, after the Dominican Republic’s 3,690,700 tourists (Horowitz and Suchlicki, 2001, 410).

Table 1: Comparative Caribbean Tourism Data

	2000	2002	2004	2005	2004–2005 Percentage Change
Dominican Republic	2,972,600	2,793,200	3,443,200	3,690,700	7.2
Cuba	1,774,000	1,686,200	2,048,600	2,319,300	13.2
Cancun (Mexico)	2,555,300	1,965,400	2,331,400	2,134,200	-8.5
Bahamas	1,544,000	1,513,200	1,561,300	1,514,500	4.4
Jamaica	1,322,700	1,266,400	1,414,800	1,478,700	4.5

Source: Sergei Khrushchev, Tony L. Henthorne and Michael S. Latour, *Cuba at the Crossroads: The Role of the U.S. Hospitality Industry in Cuban Tourism Initiatives*; Cornell Hotel and Restaurant Administration Quarterly 2007 48: 410.

Figure 5: International tourism, receipts (USD)



In 1995 the annual tourism revenues in Cuba increased to \$1 billion (USD). At the end of 2005, it topped the \$2 billion (USD) mark (Horowitz and Suchlicki, 2001, 410). Although this provides proof of economic success in the tourism sector, the Cuban economy remains in the shadow of a communist society, which does not allow a private sector to develop, and in which the state determines how the national market should function and

how negotiations should be held. “As long as the [economic] system doesn’t change, and private enterprise is forced to operate with so many controls, the Cubans will not really prosper” (Falcoff, 2003 138). Many of the Castro’s government policies fit perfectly in the dependency theory of Andre Gunder Frank, where developing countries retain their markets isolated from developed economies. Unfortunately, contemporary economy is based on close cooperation with the private sector, foreign investment, knowledge and technology transfer, international relations, and global market.

Concluding Observations

The colonial stage in Cuba constituted the foundation of a slow-growing economy, limited in most of the cases by a lack of foreign investment and technology transfer. The history of Cuba is clear evidence of the importance of colonization in economic development. For Cuba, the Spanish colonization meant to be the beginning of a society economically and politically dependent on foreign nations.

During the Batista regime Cuba revealed considerable economic growth, and was one of the principal commercial partners of the United States. The golden era of Cuban tourism was between 1952-1957—still under Batista administration. Most of the tourists were Americans, and the major investor in the tourism industry was indeed the United States. The improvement of the tourism sector in Cuba at that time was possible because of the cohesive-capitalist government of Batista.

After the Revolution, the Cuban economy changed drastically, moving from a capitalist system to a communist structure. The end of the commercial liaison between Cuba and the United States defined the start of an isolated generation, where tourism was one the most afflicted economic sectors. The tourist clientele during the Soviet period was only from Eastern Europe, and the Soviet Union did not invest in the tourism industry as much as the United States did during the Batista dictatorship.

The tourism sector could lead the Cuban economy to development because it has been the principal source of employment and foreign exchange earnings for the last fifteen years. The tourism industry is the primary force behind foreign direct investment in Cuba. In the last two decades, the service industrial has become the main economic resource for Caribbean countries as a whole, and Cuba has a strategic geographical location that makes the island a very attractive choice for the tourists.

The economic policies taken by the Cuban government alienated tourism from development for more than thirty years. The lack of foreign direct investment and a market economy made it difficult to improve this vital sector. Since the communist government took power, the state has been in complete control of the economy. The Castro administration did not consider tourism as an important economic sector. As a result this industry fell into a critical period where the state did not invest in the sector.

After the collapse of the Soviet Union, Cuba was economically unsponsored, and lacked a developed industry sector. Therefore, tourism seemed to be the best solution to face its economic crisis. The Cuban government had to make some reforms in order to offer an attractive and profitable environment for foreign investors. Even though the economic policies taken by Cuba allowed foreign direct investment, the tourism sector presented some limitations.

Cuba has a totalitarian economy, hence the state dictates the regulations about how investments in the market should operate, and it is the only mediator for all commercial negotiations. Cuba does not have a free market; therefore, the embargo of the United States is not the major cause of the limited performance of tourism in Cuba. It is clear that once Castro permitted the entry of foreign capital, the tourism sector showed a substantial improvement.

Then a question arises: can Cuba achieve economic development without making political reforms? It seems that the future of the tourism sector, as in the rest of the Cuban economy, must rely on a market economy, but the Marxist-Leninist ideologies of Fidel Castro are based on a centrally controlled economy. Cuba, originally named by Spanish colonizers as “the place of safety,” is not currently a safe place for economic development. The Cuban policies are essentially oriented to protect the interests of the state, which do not allow the private sector to flow completely free and naturally. If Cuba wants to become an economic successful nation, it has to wake up from its communist dream and embrace a capitalist reality.

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Appendix A

Trajectory of the Tourism Sector in Cuba

Approximate Tourist Arrivals (1952-2005: Data provided by Sergei Khrushchev, Tony L. Henthorne and Michael S. Latour, *Cuba at the Crossroads: The Role of the U.S. Hospitality Industry in Cuban Tourism Initiatives*; Cornell Hotel and Restaurant Administration Quarterly 2007 48: 406-409. 2006-2009: Data provided by World Development Indicators & Global Development Finance, The World Bank, 15 December, 2010).

GOLDEN Period		REVOLUTION Period		ISOLATION Period		SOVIET UNION Period	
<u>1952</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960s</u>	<u>1974</u>	<u>1975</u>	
200,000	300,000	200,000	175,000	3,000	20,000	59,000	