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Privatization Reforms and the Cuban Tourism Industry:
A Reflection on the Benefits and Consequences

During the second-half of the twentieth-century, Cuba's tourism industry experienced multiple cycles of expansion and contraction. Before Castro's Revolution in 1959, the Cuban tourism industry was entirely privatized, often with American ownership. After 1959, the country immediately nationalized the industry and then experimented with a mixture of state-owned and privatized models, each having a varying degree of success. Because privatization is generally disfavored by communist governments, it is unsurprising that privatization in the Cuban tourism industry has been limited and has usually only occurred in times of desperate economic need. Previous growth of the tourism industry produced two negative consequences: the growth of inequality among the Cuban population and the resurgence of prostitution and sex tourism. Because of these phenomena and other ideological concerns, the Cuban government has been wary of further growth through privatization. Nevertheless, beginning in 2011, the Cuban government made a series of privatization reforms that are likely to stimulate the growth of the tourism industry. Not only can more Cubans receive licenses to start small businesses, they can buy and sell their homes, which increases mobility and liquidity. Beginning in 2015, the Cuban government plans to sell nearly 9,000 state-owned restaurants to private operators. Although the Cuban tourism industry is not likely to see tremendous growth until the United States government

removes its travel ban, these privatization reforms are important indications of potential change in both the Cuban economy and political mindset of Cubans.

History of Cuban Tourism (1959-2000)

Prior to the Revolution in 1959, Cuba was a popular tourist destination for many Americans. Tourism was concentrated in Havana, which was “renowned for its uninhibited nightlife and casinos, catering for a wealthy and predominantly American clientele.”¹ After Fidel Castro’s revolution, and the United States’ government subsequent travel embargo, “Cuba lost 80 percent of its international tourist market.”² While the United States preventing tourists was certainly a loss to Cuba’s tourist industry, nationalization of many of the tourism industry’s support business also impacted the decline in the market. Hotels, restaurants, and tour companies became state owned and operated, and the emphasis of tourism moved from social or “elite tourism” to “Socialist tourism.”³ For example, tour operators in Cuba were generally restricted to offering cultural exchanges to groups, usually from Soviet Bloc countries.⁴ These tours were heavily scripted and were intended to tout the Cuban government’s achievements in education and healthcare.⁵ As the Cuban state asserted more control over the tourism industry, the industry began to decline further.

¹ Brian G. Boniface, Chris Cooper, & Robyn Cooper. *Worldwide Destinations: The Geography of Travel and Tourism*. Routledge, 2012. 6th edition.

² Id.

³ Id.

⁴ Id.

⁵ Id.

Though Cuba was once seen as “the leading destination of the Caribbean” prior to the Revolution,⁶ nationalization and the United States’ ban on international tourist travel greatly decreased its prominence.

In the 1980s, Fidel Castro’s government began to reevaluate its approach towards international tourism, as the industry had declined substantially to about 30,000 visitors annually.⁷ Although Americans were still restricted by the United States government from traveling to Cuba, Western European countries were not. Thus, the Cuban government began to broker “joint ventures between Cubanacán, the state-owned tour operator and foreign companies, such as the Spanish Meliá group...with the aim of expanding and modernizing the hotel sector.”⁸ As some “small business enterprises were allowed limited participation in the tourism, such as *paladares* (restaurants in private homes),” the tourism industry slowly began to regain some of its former appeal.⁹ Because these private restaurants were only allowed twelve seats, gains were unfortunately limited.¹⁰ As such, it was not until after the fall of the Soviet Union and the ensuing Special Period before expansion in tourism truly returned.

Faced with the loss of all aid from the Soviet Union, Fidel Castro announced that the Cuban government would seek foreign investment to

⁶ Id.

⁷ Id.

⁸ Id.

⁹ Id.

¹⁰ Arch Ritter. “Cuba to Privatize 9,000 Restaurants,” *The Cuban Economy* (Sept. 19, 2014), *online at* <http://thecubaneconomy.com/articles/2014/09/cuba-to-privatize-9000-restaurants/>.

stimulate Cuba's economy. The Cuban government sought to encourage the development of joint ventures, or *empresas mixtas*, with foreign companies in order to grow the tourism industry.¹¹ To further this objective, the Cuban government passed a constitutional amendment in 1992, which allowed the foreign companies paired in joint ventures to own up to a 49 percent share.¹² Additionally, the Cuban government passed Decree Law 140 in 1993, which "legalized the use of [United States] dollars on the island."¹³ Although the legalization of the dollar was deemed "necessary" given the economic situation on the island, many concerning social implications arose as a result of the "dual economy" created by having two currencies on the island.¹⁴ Those Cubans with access to dollars were at a considerable advantage over Cubans who only had access to the Cuban national currency, the peso.¹⁵ Cubans with access to dollars could buy imported goods, such as gasoline and clothing; however, Cubans with access to pesos could only buy basic food items.¹⁶ Since one of the main avenues to acquiring access to dollars was employment in the tourism industry, the tourism industry again symbolized inequality among the population.¹⁷ Jobs in the tourist industry quickly became the most attractive, as "work in

¹¹ Stephen P. Hanna, Amy E. Potter, E. Arnold Modlin, Perry Carter, David L. Butler, *Social Memory and Heritage Tourism Methodologies*, Routledge (2015).

¹² Phillip Brenner, Marguerite Rose Jiménez, John M. Kirk, William M. LeoGrande, *A Contemporary Cuba Reader: The Revolution under Raúl Castro*, Rowman & Littlefield (2013).

¹³ Id.

¹⁴ Id.

¹⁵ Id.

¹⁶ Id.

¹⁷ Id.

restaurants, hotels, taxis, and other parts of the tourist industry with access to payment or tips in CUCs became in many cases more attractive and more lucrative than work in the professions for which people were freely educated.”¹⁸ This continues to result in a “‘brain drain’ from teaching and other professions to tourism.”¹⁹ Though the tourism industry has certainly brought about economic growth in Cuba, it has not been without its challenges in past periods.

Benefits and Consequences of 20th Century Privatization Attempts

Prior to the Revolution, the Cuban tourism industry, which was entirely privatized, flourished. While the tourism industry brought a variety of economic benefits, these benefits produced social inequality and facilitated prostitution in the form of sex tourism. Castro’s Revolution clearly was intended to remedy the social inequality that had developed, and extensive efforts were made as well to “eradicate prostitution by rehabilitating and educating former prostitutes, incorporating them back into the new Cuban society as productive workers.”²⁰ The Cuban government backed policies that gave Cuban women “opportunities previously unimaginable in Cuba, in areas such as education, health care, and employment. They became full participants in the Cuban economy, increasing their economic activity by 223.9 percent between 1970 and 1990. During these

¹⁸ Roger Keeran and Thomas Kenny, “Is Cuba Turning Back to Capitalism?” *Marxist-Leninist Today* (July 2014), *online at* <http://mltoday.com/is-cuba-turning-back-to-capitalism>.

¹⁹ *Id.*

²⁰ Phillip Brenner, Marguerite Rose Jiménez, John M. Kirk, William M. LeoGrande, *A Contemporary Cuba Reader: The Revolution under Raúl Castro*, Rowman & Littlefield (2013).

years, prostitution in Cuba all but disappeared.”²¹ Unsurprisingly, with the resurgence of tourism during the Special Period, prostitution and sex tourism resurfaced.²² To attract tourists back to the island, the Cuban government invited *Playboy* “to tour the island and run a feature on Cuban women.”²³ While the Castro regime insisted that prostitution is not “necessary” because the government provides for the needs of the population, it is an undeniable fact that as the tourism industry grows in Cuba, so does prostitution and sex tourism if it is left unchecked by the Cuban government.

Another unintended consequence of the rise of the tourism industry is the reemergence of racial discrimination. After the Revolution, many in the Cuban government proudly proclaimed that racial “discrimination disappeared when class privileges disappeared.”²⁴ While this may be true from an institutionalized perspective, racial prejudice and individual discrimination likely still existed, as evidenced by the return of racial discrimination with the reintroduction of tourism in 1991.²⁵ Over 60% of those Cubans involved in the tourism industry in the 1990s were determined to be “light skinned,” and Afro-Cubans had “significantly less access to jobs in the legal tourist industry.”²⁶ One of the major benefits to working in the tourism industry is access to dollars or CUCs, as previously discussed; thus, racial discrimination is exacerbated if a certain race

²¹ Id.

²² Id.

²³ Id.

²⁴ Id.

²⁵ Id.

²⁶ Id.

has less access to economic resources and becomes perceived as economically disadvantaged. Additionally, this problem was “compounded by the fact that Afro-Cubans had been the most economically disadvantaged segment of prerevolutionary Cuban society and had not achieved equality when the Special Period began.”²⁷ While the economic benefits of the tourism industry were clearly visible, much of the evidence suggests that these benefits were not accessible to all races of the Cuban population.

The tourism industry has stimulated the Cuban economy multiple times throughout the twentieth century, but this stimulus has come with unintended consequences. Because of the rise of prostitution and racial discrimination that tend to follow the growth of the tourism industry, the Cuban government has been wary of additional reform and policies that promote development. Privatization is one of the most common ways to promote growth of an industry, but it is unsurprising that the Cuban government, in conjunction with its ideology and its wariness of the consequence of prostitution and racism, has been slow to adopt these types of reforms. Nevertheless, there have been two major waves of privatization reforms affecting the tourism industry in twenty-first century Cuba. These two periods of reforms will be discussed at length after discussing the government’s response to prostitution between the Special Period and the later waves of reforms.

²⁷ Id.

***Cuban Government's Response to The Prevalence of Prostitution
(Special Period – 2011 Reforms)***

Since the Revolution, the Cuban government has publicly claimed that improving the status of women is part of its mission of achieving equality throughout the population. Improving the status of women has included policies that promote greater education of women, incorporate of women into the work force, and limit prostitution. Additionally, the Cuban government's efforts have included championing international efforts at promoting women, and in 1980, Cuba became the first country to sign the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW).²⁸ CEDAW binds Cuba "to puts [the Convention's] provisions into practice and to submit reports on the progress and overall situation of women within the country, at least every four years."²⁹ As a result of this monitoring, by the early 2000s, the United Nations assumed an active role of "[addressing] the problem of prostitution in Cuba and [promoting] the abolishment of prostitution through more direct means than those currently present."³⁰ A common criticism of the Cuban government's approach to eradicating prostitution during this period is that "the Cuban government has done little more than create new policies without enforcing them."³¹ This sentiment is most clear in the 2006 report by a Committee of CEDAW, which noted despite "recent efforts of the State party with respect to

²⁸ Inés Lecland, "Prostitution: Cuba's Real Tourist Attraction" The Political Bouillon, *online at* <http://thepoliticalbouillon.com/en/prostitution-in-cuba/>.

²⁹ *Id.*

³⁰ *Id.*

³¹ *Id.*

the tourism sector aimed at discouraging prostitution, the Committee is concerned about the absence of legal and other measures aimed at further discouraging the demand for prostitution.”³² This criticism has continued and increased in response to the privatization reforms, as the demand for prostitutes by tourists increases with the number of tourists. The economic reforms are discussed below, followed by a discussion of the issues related to prostitution during the same time period.

2011 Reforms

In 2011, Raul Castro announced a five-year plan to reform Cuba’s economy. These reforms are commonly seen as allowing free-market activities in the economy through privatization measures. While the Cuban government is not “abandoning a half-century of socialism for freewheeling capitalism,” the changes were implemented to grow the economy, including the tourism industry.³³ Specific changes include allowing Cubans to engage in self-employment and to start small businesses.³⁴ Because these reforms gave Cubans the ability to make additional money over the state salary of \$20 per

³² Concluding Comments of the Committee on the Elimination of Discrimination against Women: Cuba, United Nations Convention on the Elimination of All Forms of Discrimination Against Women (Aug. 25, 2006), *online at* <http://www.un.org/womenwatch/daw/cedaw/cedaw36/cc/cuba/0647852E.pdf>.

³³ “Raul Castro Says Market Reforms in Cuba Having Impact, but More Work Ahead” Fox News Latino (December 14, 2012), <http://latino.foxnews.com/latino/politics/2012/12/14/raul-castro-say-market-reforms-in-cuba-are-having-impact-but-more-work-ahead/>.

³⁴ Council on Hemispheric Affairs, *Cuba’s Waves of Change: The Lingering Impact of the Embargo*, COHA (May 29, 2014), <http://www.coha.org/cuba-waves-of-change-the-lingering-impact-of-the-embargo/>.

month, many successful artists, engineers, and other government employees have since chosen to leave their public sector jobs to pursue opportunities in the private sector, such as selling their own artwork.³⁵ Another reform, which has stimulated the economy through increased liquidity, includes the ability to buy and sell real estate.³⁶ Additionally, the Cuban government has made a number of agricultural reforms, allowing farmers who lease farmland from the government to “sell almost half of their output to the highest bidder, rather than handing all of it over to the state as in the past.”³⁷ Overall, it seems the goal of these reforms is to increase the amount of money in the hands of Cubans, though many critics would argue that any increase is not intended to be substantial. Most of the 2011 privatization reforms impact the tourism indirectly; however, reforms since this time have had a more substantial impact on the tourism industry.

Further Reforms and Development

Since the announcement of reforms in 2011, the Cuban government has subsequently announced additional privatization efforts aimed directly at growing and improving the tourism industry. For example, in September 2014, the Cuban government announced plans “to sell nearly 9,000 state-owned

³⁵ Id.

³⁶ Id.

³⁷ “Money Starts to Talk: And eventually, perhaps, in one currency, as the tempo of reform accelerates,” *The Economist* (Jul. 20, 2013), <http://www.economist.com/news/americas/21581990-and-eventually-perhaps-one-currency-tempo-reform-accelerates-money-starts>.

restaurants to private operators” in early 2015.³⁸ The sale includes all of the state-owned restaurants, meaning the food services industry will become entirely operated by non-state operators.³⁹ This change is expected to improve the quality, service, and availability of food items, as the state-owned restaurants have had many operational issues.⁴⁰ An important limitation is that private restaurants can only offer seats for up to 50 guests at a time.⁴¹ Nevertheless, this change is expected to make a huge impact on improving the food offerings for tourists.

The Cuban government also approved leases to foreign companies for up to 99 years.⁴² This was an important change from the previous lease terms of 50 years with the option to extend for 25 years, as the 99-year term is more attractive to foreign investors.⁴³ Since this reform, developers have been acquiring real estate to build hotels, resorts, golf courses, and other tourist attractions.⁴⁴ Increasing the number of beds, especially in hotels operated by foreign companies, is important because tourists tend to prefer staying in them

³⁸ Ritter, *supra* note 10.

³⁹ Id.

⁴⁰ Id.

⁴¹ Id.

⁴² “Cuba approves 99 year leases for foreign property investors,” Property Wire (Aug. 31, 2010), <http://www.propertywire.com/news/south-america/-cuba-real-estate-boost-201008314451.html>.

⁴³ Id.

⁴⁴ “The 99-year lease in Cuba,” *online at* <https://propertyfutures.wordpress.com/2013/04/26/the-99-year-lease-in-cuba/>.

to staying in local establishments.⁴⁵ The increase in availability and types of accommodations would not have been likely without the adjustment in lease terms, demonstrating the importance of these reforms.

Prostitution During the Privatization Period and Beyond

As seen with previous attempts in Cuba to improve the tourism industry, sex tourism is experiencing a revival of its own in Cuba since the reforms in 2011. What is interesting about this development is that many commentators suggest that women and girls turn to prostitution as a means of escaping poverty.⁴⁶ Because these 2011 reforms are intended to improve the Cuban economy, one might expect that the inverse would happen and prostitution would decrease as poverty decreases. However, one of the major drivers of the continued prevalence of prostitution in Cuba is that foreign tourists pay prostitutes in CUCs, which is more valuable than the local Cuban currency as discussed above. Thus, even if the Cuban government is able to improve the economic conditions, while there two currencies remain, prostitution seems likely to remain entrenched as part of the tourism industry.

The Cuban government has taken steps to attempt to reduce the prevalence of prostitution, despite many critics noting that the Cuban

⁴⁵ “Cuba: At the Dawn of a Revolution, a Look at a Century of Tourism,” Hospitality On (Dec. 29, 2014), <http://hospitality-on.com/en/news/2014/12/29/cuba-at-the-dawn-of-a-revolution-a-look-at-a-century-of-tourism/>.

⁴⁶ Jennifer Karsseboom, “Poverty Pushes Cuban Women into Sex Tourism,” Global Policy Forum (Mar. 26, 2003), *online at* <https://www.globalpolicy.org/component/content/article/211/44367.html>.

government “resists discussion of issues that might suggest weaknesses in the governing and social system.”⁴⁷ In 2010, child sex tourism in Cuba gained substantial publicity to the point where the government could no longer ignore its presence. After attending a sex party with foreign tourists, drugs, and alcohol, 12-year-old Lilian Espinosa died.⁴⁸ Though these sex parties had been occurring since 2009, the Cuban regime was finally forced to take action; many in the community expressed surprised when three Italians and 10 Cubans were convicted in Lilian’s death.⁴⁹ After this horrible event, the Cuban police publicly declared they would be cracking down on prostitution in Havana and throughout the country.⁵⁰ This crack down has involved arrests, warnings, detentions, and deportation to other regions of the country.⁵¹ Although it appears that the prevalence of prostitution has decreased in response to this crack down, it is difficult to know from outside the country what is happening on a day to day basis since many of these incidents are not publicized until months or years after the fact.

⁴⁷ Juan Tamayo, “Cuba’s Most Horrifying Episode of Child Sex Tourism Resulted in a Girl’s Death,” *The Star* (Mar. 16, 2013), *online at* http://www.thestar.com/news/world/2013/03/16/cubas_most_horrifying_episode_of_child_sex_tourism_resulted_in_a_girls_death.html.

⁴⁸ *Id.*

⁴⁹ *Id.*

⁵⁰ Juan O. Tamayo, “Cuba police crack down on prostitution after child sex tourism investigation,” *The Star* (Jul. 15, 2013), *online at* http://www.thestar.com/news/world/2013/07/15/cuban_police_crack_down_on_prostitution_after_child_sex_tourism_investigation.html.

⁵¹ Rolando Cartaya, “Police Raids Fail to Stop Prostitution in Cuba” *Martí News* (Apr. 21, 2015), *online at* <http://www.martinews.com/content/police-raids-fail-stop-prostitution-cuba/26661.html>.

Unknown Future: The Potential Consequences of a Resurgence of American Tourism in Cuba

As the current headlines suggest, relations seem to be improving daily between the United States and Cuba. If travel restrictions between the countries are lifted or adjusted, the number of United States' visitors to Cuba is very likely to substantially increase. Predictions of annual number of US visitors are expected to increase drastically from the current 170,000 authorized US travelers per year, especially as visa restrictions in different categories are eased.⁵² The increased number of visitors will likely provide a stimulus to the Cuban economy, and the tourism industry should experience a variety of improvements from the creation of jobs in both the service sector as well as construction (to build and improve the accommodations available since it is clear that Cuba currently lacks the infrastructure in the tourism industry for a major increase in visitors). Nevertheless, the resurgence of the tourism industry may also lead to a competing resurgence in the sex tourism industry or prostitution. Another great concern of an increase in the number of tourists to Cuba is the environmental impact. Because some of the major tourist attractions in Cuba include nature tourism and marine tourism, the country's national parks and marine life would be more at risk with more visitors.⁵³ While there is much to be gained from the privatization reforms from an improvement

⁵² Kim Gittleson, "Cuba Reforms: Who are the biggest winners?" BBC News (Dec. 17, 2014), <http://www.bbc.com/news/business-30523362>.

⁵³ Hospitality On, *supra* note 45.

in economic conditions, it is clear that the Cuban government must also prepare for these unintended consequences of the tourism industry.

Conclusion

Since Castro's Revolution in 1959, Cuba has gone through periods of encouraging and discouraging tourism. When the Cuban government institutes reforms that encourage the development and growth of the tourism industry, it is most often in response to a struggling domestic economy. Improving the economy, though, has come with important social costs such as an increased prevalence of sex tourism, racial discrimination, and environmental impact. Cuba has seen this cycle a number of times, so it will be interesting to see moving forward whether or not the Cuban government institutes policies to combat these unintended consequences of a stronger tourism industry.

Although Cuba remains a Communist-led country today, Raul Castro has continued to implement important economic changes since assuming leadership of the Cuban government. These economic changes, which allow for self-employment and the development of small businesses, impact a variety of industries, but particularly provide a boost to the tourism industry.

Additionally, the Cuban government decided to sell the remaining state-owned restaurants to local Cubans and allow foreign companies to obtain 99-year leases for hotel and resort properties. These privatization reforms have encouraged an influx of investment in the tourism industry, which has achieved the government's main goal of stimulating the economy. Nevertheless, if the

Cuban government does not also take action to prevent the unintended consequences that follow from growing the economy through the tourism industry, it is unclear whether or not the economic gains will outweigh the social losses that have so closely followed the expansion of the tourism industry in Cuba in the last half-century.