

Number 1, January 1993

The Sociological Impact of Rising Foreign Investment

By Gillian Gunn

Growing foreign investment in Cuba, and related implementation of capitalist-style management techniques in the resulting Cuban-foreign enterprises, is leading outside observers to pose the following question: Is such investment gradually undermining the Cuban socialist system? Specifically, is it creating new class divisions among workers, since those in the joint enterprises receive superior pay and conditions, in breach of the socialist egalitarian ethos? Is investment causing nationalistic resentment, and a sense of violation of sovereignty, by establishing recreational facilities available only to foreigners? Is the exposure of Cuban managers and workers to capitalism's efficiency and an individualist, rather than collectivist, work ethic, slowly changing the psychological outlook of Cubans employed in the joint enterprises, undermining their allegiance to socialism and turning them into closet capitalists? And last, is foreign investment reducing political control of employment and promotion decisions, removing a sector of the work force from the Cuban Communist Party's overlordship?

These questions were explored during three trips to Cuba, in November 1991, May 1992, and September 1992. Interviews were conducted with Commander in Chief Fidel Castro, high-ranking members of the Cuban Communist Party, leading figures in the National Assembly, Cuban managers and workers in Havana and Varadero tourist hotels, foreign managers of such hotels, Cuban and foreign managers at the Havana shipyard, and members of the Cuban public. Cuban academics associated with the University of Havana offered valuable assistance, as did officials from the Foreign Ministry, the Confederation of Cuban Workers, Cubanacan, Gaviota, and the Chamber of Commerce. Managers of private Cuban companies providing services to foreign investors were also extremely helpful. Finally, the associate director of the Georgetown University Cuba Project, David Collis, gave much needed research and writing support. The study's methodology suffers from the shortage of case studies from outside the tourism sector. Moreover, the only operating joint enterprise in the industrial sector extensively examined was in ship-building-other joint operations exist in agriculture and in nickel mining, but time constraints prevented their inclusion here.

Because the joint enterprises explored constitute only a limited sample, the above questions must be considered incompletely answered, and the findings therefore highly tentative. That said, the available evidence suggests a contradictory conclusion.

The subversive effect of new investment is currently balanced by other sociological results of foreign investment that actually consolidate the Cuban system. Furthermore, the Cuban authorities have proved resourceful at inventing new political mechanisms to maintain Communist Party leverage in the joint venture environment.

However, there is clear evidence that the influx of foreign investment is gradually transforming the psychology of Cuban managers, economists, and planners from a centralized, state-control model to a decentralized model in which market mechanisms play a major role. If investment rises faster and spreads further from the tourism enclaves into agriculture and industry, the sociological impact could indeed cause profound changes in the Cuban system, with or without Fidel Castro at the helm.

In sum: Is foreign investment currently subverting Cuba? No. If foreign investment rises might it subvert the Cuban system? Quite possibly.

Constitutional Basis for Foreign Investment

The legal basis for foreign investment in Cuba was established on February 15, 1982, by Legislative Decree Law 50, which states that economic associations between Cuban and foreign entities may be developed on Cuban territory. After this law was passed, the State Committee for Economic Cooperation (CECE) began to pursue joint ventures with foreign companies, whose participation was restricted to 49%. Because of Cuba's economic reality in the last three years exceptions have been made to Decree Law 50, allowing the foreign company's participation to exceed this threshold. In an October 1992 interview with the Mexican news agency NOTIMEX, Carlos Lage Davila, Fidel Castro's top economic adviser and the executive secretary of the Council of Ministers, "affirmed that the Cuban government is open to foreign capital and to the creation of enterprises whose capital could be 50, 80, or 100% foreign capital."

This trend toward greater flexibility and legal guarantees for foreign investment was also confirmed in mid-July 1992, when the Cuban National Assembly ratified a revised constitution reinforcing the legality and legitimacy of foreign investment in Cuba. Specifically, Article 14 now "establishes that in the Republic of Cuba the governing economic system is based on the socialist ownership by all the people of the fundamental means of production and the elimination of the exploitation of man by man." This contrasts markedly with previous language giving the "people" ownership of all means of production. According to Juan Escolona Reguera, president of the National Assembly, the Consejo de Estado can now transfer a land title to a foreign investor, if such a transfer is deemed to be in Cuba's national interest.

These laws have allowed for the pursuit of three types of foreign investment strategies. "Joint ventures" define transactions in which the Cuban government and a foreign partner jointly invest in a project. Tourism, medicine, and food production have been the main areas of joint venture activity. In "production agreements" Cuba supplies the labor and facilities, while the foreign partner supplies the equipment and the materials. Under such an agreement, the foreign partner may become an exporter or distributor. A third type of investment category, a "joint account," allows foreign partners to manufacture and distribute products designed by Cuba, assuming the risks and reaping the subsequent profits related to developing those products.

According to Cuban economist Joss Luis Rodriguez, as of July 1991, \$400-\$500 million in investment was already in Cuba or had been contracted, primarily from Latin America and Europe. These numbers, he contends, compare favorably with investment figures in other countries, including Bulgaria, \$400 million; Czechoslovakia, \$540 million; Poland, \$510 million;

and Romania, \$192 million. Cuban government statistics show that as of May 1992 there were approximately 240 companies operating (though not necessarily investing) in Cuba, 60 of which were participating in joint ventures. In addition, government sources claimed that 100 new joint ventures were in the negotiation phase as of October 1992.

The Official Cuban View

The Cuban leadership has not been oblivious to the potentially subversive effects of increasing foreign investment. Virtually every time the author raised the matter with a government or party official, the interviewee would reply that his or her office was concerned about that very question. An assistant to a Politburo member remarked in a May 1992 interview that the party was initiating its own study of this issue, and suggested comparing it with the author's own completed research for mutual edification. In September 1992 an official at the Confederation of Cuban Workers (CTC) said that new labor questions had arisen as a result of the increase in foreign investment and that the institution was working on a new document to define the relationship between the Cuban workers and foreign investors.

Castro has given considerable thought to the ideological "contamination" inherent in collaboration with foreign capitalist enterprises (see excerpts from the author's interview with the Cuban leader in sidebar) and has concluded that despite the risks, Cuba had no choice but to welcome investment. Displaying a remarkable ability in ideological gymnastics, he even claimed that the alternative to foreign investment would be to "renounce" Cuba's independence and return to being a colony of the United States. Who would have thought that Fidel Castro would one day refer to Western capitalists as potential saviors of Cuban socialism?

Almost exactly a year later, on 18 November 1992, Castro's chief economic adviser, the above-mentioned Lage, appeared on a "call-in" television program. The public's questions were grouped together and then posed to the guest by a panel of journalists. Carmen Amador from Havana's Plaza municipality was, according to journalist Soledad Cruz, "one of many callers who asked: What studies has the government conducted on ... the social cost that development of tourism and foreign investment might carry?"

Lage acknowledged that this issue "worries a great portion of our populace," adding, "I would say, first of all, that it is true that Cuba's foreign capital investment ... policies carry a social cost.... I would also add that we must acknowledge the need to pay that social cost."

Later in the same program Clotilde Serrano from Cerro municipality and Roberto Gonzalez from Plaza, asked via journalist Pedro Martinez Pirez, "How can the Cuban economy, a planned socialist economy, be integrated into a capitalist economy ... ?" Lage replied, in part, "In these existing joint enterprises the Cuban managers are not capitalists or the owners of those facilities. They are members of the Revolution performing the task assigned to them by the Revolution." Is Castro correct - is Cuba's political structure neutralizing the subversive effect of capitalist investment? Are answers like Lage's assuaging the Cuban public's concerns, succinctly summarized in the call-in questions? Case studies in industry and tourism may help the reader draw his own conclusions.

Industry

The vast majority of Cuban collaborations with foreign enterprises are in tourism, services, commerce, and mineral exploration and extraction. There has been little activity in the industrial sector, so a new joint operation in ship-building and repair attracted much attention when it got under way on January 1992.

Industry is a particularly sensitive area politically, for, as a Cuban economist pointed out in September 1992, "Workers in the industrial sector have traditionally been considered part of the backbone of the revolution, the most combative. Therefore, if foreign investment produces ideological transformations in these workers, it will have serious consequences for the future of the country. The government is aware of this potential, and is putting considerable effort into curtailing the ideological impact." This economist added that, while the industrial sector has thus far evinced few associations with foreign enterprises, it is currently one of the most dynamic areas of foreign investment and the rate of contract signing is accelerating.

Pre-Investment Rectification

The process of introducing new management techniques in the Havana shipyard actually began before the foreign collaboration was initiated. In March 1991, as part of the rectification process, a new Cuban manager was assigned to the facility at Casa Blanca, on the outskirts of Havana, with the simple instruction to make the operation efficient. He subsequently argued that 90% of the problems were attributable to organizational deficiencies, rather than resource shortages. "We had too many workers, and every person that doesn't have enough to do disrupts the work of four others."

Therefore, in the spring of 1991, when the shipyard was still looking for a foreign investor, it reduced its workforce of 2,309 by 759, a 33% cut. The most severe retrenchment was suffered by office staff, whose ranks were trimmed from 243 to 55, a 77% reduction. An employment office was created to locate alternative posts for laid-off workers, who received full pay while awaiting new jobs. By November 1991, 90% had found new positions outside the yard.

In addition to layoffs, workers were also relocated within the yard. Many technicians who had been working in administrative jobs were returned to the shop floor, those who proved unskilled assigned manual labor. A reassigned worker retained his original salary during the first reassignment. Upon a second transferal, however, he received the salary appropriate for the new post.

A row of low concrete stumps lining the main road near the entrance to the complex attests to the introduction of stricter work discipline in this period. These stumps are all that remain of a series of benches that formerly graced the curb. Workers complained bitterly when the seats were removed, saying they were needed to facilitate relaxation during the lunch hour. The new management said that such "hanging out" was bad for worker morale.

In a November 1991 interview with Fidel Castro the author asked about the effects of increasing foreign investment. Castro's reply occupied nine pages of transcript. What follows has been considerably edited.

"I am disposed to admit that there are elements...of capitalism in certain areas of our socialist system. For this I have a theoretical answer. In no book of Marx, Engels, or Lenin is it said that it is possible to construct socialism without capital, without technology, and without markets...In the conditions of a small country like Cuba...It is very difficult to develop...relying only on one's own resources.

"It is for this reason that we have no alternative but to...associate ourselves with those foreign enterprises that can supply capital, technology, and markets...The alternative would be to renounce the independence of the country, the Revolution, and socialism, in order to again become a colony of the United States...What will be the consequences in the political and social life of our country? This remains to be seen-at this moment one can do no more than speculate and make bets...

"We rely on the party as the political and ideological vanguard force. We rely on our youth, we rely on our powerful mass organizations, politically educated in the principles of socialism, who understand what has to be done in the current circumstances...to save the country, the Revolution, and socialism. With these factors we hope to win the ideological battle that you mention and in the end ensure that the values of socialism prevail, and not the values of the capitalist islands...That there will be a capitalist ideological influence...no one denies."

The Investment

The managerial adjustments were designed not only to make the yard more efficient, but also to enhance its attractiveness to potential capitalist collaborators. Negotiations were undertaken with Japanese, German, and Curaçao firms, the last eventually concluding successfully. According to thirdhand sources, the Curaçao Drydock Company (henceforth CDM) made the following calculation. If Cuba remained politically stable and collaborated with a foreign firm, the Havana shipyard would then compete with Curaçao's shipyard for business. Because Cuba's salaries and living costs are lower than Curaçao's, Casa Blanca would offer lower prices than CDM and erode the latter's profits. If Castro were to fall, the Casa Blanca yard would be privatized, again it would compete with CDM, and again the latter would lose business.

"Displaying a remarkable ability in ideological gymnastics, [Castro] even claimed that the alternative to foreign investment would be to 'renounce' Cuba's independence and return to being a colony of the United States."

Because of these competitive concerns, CDM offered Cuba particularly attractive terms. The Cuban authorities also felt that through a strategic alliance with Curaçao the two yards could increase their domination of the Caribbean ship repair business, since the only other facility in the region is based in Mexico. The Mexican yard is reportedly inexpensive but slow, a disadvantage in a business where each day a ship is in dock represents a day's forfeited shipping fees.

CDM and part of the Casa Blanca facility then merged and began their joint operations on January 1, 1992. CDM was not interested in merging with the entire Havana operation, however, so a portion of Casa Blanca's physical plant and workers remained part of the state enterprise. Of

the approximately 1,600 workers at the entire yard, half went to work on a regular basis for the merged CDM/Casa Blanca operation, and half for the original state enterprise. However, during periods of peak demand, as many as 400 workers can be temporarily shifted from the state enterprise to the joint operation. The joint portion does, however, subcontract certain services to the state enterprise. The former pays hard currency for the latter's services, as it does for all goods and services it acquires within Cuba.

Workers are paid in a circuitous fashion. As in other Cuban-foreign collaborations, all workers, in both the state and the joint-venture portion of the shipyard, officially work for the "*empres empleador*" (employing company) - which in this case is the state enterprise. Using hard currency, the CDM/Casa Blanca venture pays the *empres empleador*, which then pays the Cuban workers in pesos.

The merged operation, which also goes by the initials CDM, adopted the name of the Curaçao partner. It has 50% Cuban equity and 50% Curaçao equity, the Cuban equity being held by unspecified "private Cuban shareholders." CDM rents the Curaçao and Havana facilities from the respective governments (the Curaçao portion was previously in the hands of the Curaçao state). In Havana a Cuban general manager supervises a Curaçao financial manager, a Curaçao commercial manager, and a Cuban production manager. (Cuban managers also work in the Curaçao shipyard.)

Worker Impact

There was considerable worker apprehension when the merger occurred. "Because discipline became much fiercer and extensive layoffs occurred in March, when the new management techniques were introduced, the workers were afraid there would be another escalation when the joint operation got under way," commented the Cuban manager. However, this did not occur, because the previous restructuring had resulted in adequate efficiency. "It was accidental, but the timing was actually fortuitous. We introduced the changes that most dislocated the lives of the workers while the yard was still a state enterprise. Therefore, collaboration with the capitalist partner was not associated with layoffs and increased discipline."

During the four-week period between the signing of the agreement and its implementation, established political institutions tried to explain what the merger would mean for workers. The Cuban general manager briefed CTC and Cuban Communist Party (PCC) leaders but found that they were unable to "clarify the workers' concerns," so the Cuban manager met directly with the workers. Their main preoccupation was whether there would be additional layoffs, and, since a capitalist firm now influenced management, whether this time workers would be "thrown into the street." The workers were told that no additional reductions were planned, and that if they did occur the employment office would continue past practice.

As the new operation proceeded, workers in the CDM portion of the plant received a 60% increase in salary, while those in the state portion received a 40% increase. "This way," remarked the Cuban manager, "all workers felt that they benefited from the merger, though of course those in the CDM portion benefited more." The joint venture was also persuaded to contribute \$1 (in hard currency) a day per worker to the cafeteria, which serves the entire workforce. The day the

author visited, the meal consisted of rice, a generous portion of pork, vegetables, bread, and fruit juice. While this might not sound sumptuous to an outsider, in Cuba it is a feast. Under current rationing, made necessary by the collapse of trade ties with the former socialist bloc, most Cubans eat meat infrequently and in tiny amounts, often having to purchase it at exorbitant black-market prices. (A well-positioned bureaucrat at an important government ministry revealed that his usual lunch consists of a half a hamburger, a small amount of rice, and water.) The CDM portion of the plant also provided six buses to transport workers. While all the transport costs are borne only by the joint-venture side of the plant, it serves workers from both sides.

When the joint operation decided to start offering workers new work clothes and soap to wash them, the state portion of the enterprise also did the same for its workers, out of its own resources. Foreign exchange payments from the joint-venture portion for salaries and services presumably created a pool of foreign exchange profits to fund such expenditures.

One issue that has caused considerable comment outside the plant is the segregation of the two workforces. Although they share the same buses and cafeteria, they are physically separated during the workday by a low wire fence that is currently being reinforced into an imposing concrete barricade. There are two reasons for the fence, according to management. First, the workers from the state enterprise, who liked to chat on the joint venture side, "created indiscipline." Second, the joint venture has a special agreement with the Cuban government, excusing it from paying import taxes. Therefore the CDM portion of the plant is considered "a type of free zone" and its perimeter fence must be built to Cuban customs' specifications.

Attempts to ascertain workers' opinions about this arrangement were hampered by the inability to question them in private. Management claims that the workers on the CDM side are proud to have been selected for this priority task, have higher morale because they have instant access to any resources needed to get a job done, and appreciate the reduced pilfering that has accompanied the tightened security arrangements. A brief excursion around the complex revealed a workforce that is over half nonwhite, no socializing, clean work premises, and an absence of the political slogans that decorate the walls of most Cuban factories.

Sources outside the complex, however, reported that workers from both the state and the CDM portion refer to the dividing barrier as the "Berlin Wall." Furthermore, there have been unconfirmed reports that the workforce reduction targeted employees of certain political views and that those who complained were subjected to "Actos de Repudio" - the shouting of insults by a mob. (Cuban management says that decisions, regarding both layoffs and selection of workers for the CDM portion, were made purely on the basis of efficiency.) In addition, human rights groups within Cuba received complaints from some workers that they were threatened with job loss if they declined to work overtime. A Western diplomat who heard of this complaint wryly commented to the author, "Welcome to capitalism."

According to the management of the CDM portion, in the first quarter of 1991, before the reforms were introduced, 412,000 work-hours were performed, compared to only 396,000 work-hours in the first two quarters of 1992. Over the same period there was a 30% decrease in the

period of time required for ship repairs. If these figures are accurate, this means that efficiency more than doubled. As of September 1992 the yard was working at an estimated 70% of capacity, according to management.

Since January 1, 1992, the CDM portion of the yard has been required to pay all foreign exchange costs out of its own earnings, in contrast to 1991, when this was guaranteed by the state. Since all ships serviced by the yard must now pay in foreign exchange, this has not presented a difficulty. (Cuban ships also pay the yard in hard currency, but benefit from a 12% discount.) CDM estimates that between 50% and 60% of the hard currency earnings remain in Cuba in the form of salaries and payments for services.

Lessons

What lessons concerning the sociological impact of foreign investment can be drawn from the shipyard's experience? Though only tentative conclusions are possible, since the author is not a trained sociologist and frank conversations with workers were impossible in the circumstances, several themes emerge:

1. Cuban workers were fearful that collaboration with a capitalist company would mean summary dismissals with no guarantee of re-employment elsewhere.
2. The established political instruments, in this case the CTC and the PCC, were incapable of assuaging workers' fears, either because they were not believed or because they did not understand the new procedures, and the task was delegated to the company management.
3. Management believes that by implementing efficiency reforms nine months before the agreement with the foreign capitalist was implemented (ostensibly eroding the psychological connection between layoffs and capitalist collaboration), it accidentally stumbled onto a method for blunting the ideological shock to workers. However, the workers surely knew that the yard was seeking a capitalist investor at the time of the layoffs, so the connection must remain in the workers' minds to some degree.
4. The investment did create a Cuban worker elite, those in the joint collaboration, and a lower status group, those in the state enterprise. Whatever the technical justifications for the wall separating the two groups, it is a physical manifestation creating a clear social cleavage. The wall's nickname further suggests that for some workers it has ideological connotations.
5. The authorities are sensitive to the political implications of such divisions and try to minimize them, for example, through the joint cafeteria, the provision of buses for all workers, and the state portion's effort to match the joint operation's perquisites. In this case the foreign investor is assisting the government in its efforts, though it is not clear whether such assistance was a condition of the merger agreement.
6. Two-thirds of the 2,309 workers originally employed by the shipyard are materially better off now than before, and they know that the foreign collaboration is largely responsible for this improvement. They all have better diets, higher salaries, new uniforms, soap rations, and guaranteed transport.

These developments suggest a negative answer to the question "Is the Casa Blanca investment undermining the Cuban socialist system?" While the investment clearly caused some insecurity, jealousy, and ideological weakening, on balance it strengthened both the shipyard and the Cuban

system. If workers are laid off in the future without guaranteed reemployment, or if the gap in the material conditions enjoyed by CDM and state workers grows significantly, however, the balance could shift.

Tourism

According to Pedro Monreal, a Cuban economist employed at Havana University's Center for the Study of the Americas, approximately 30% of foreign investment in Cuba are in joint ventures, and half of these joint ventures are in the area of tourism.

Statistics from the European magazine *Cuba Business* show an increase in hard currency tourism revenues from \$75 million in 1984 to approximately \$250 million in 1991. According to the same source, 243,026 tourists visited Cuba in 1984, while 412,000 visited the island in 1991. Osmany Cienfuegos, vice president of the Council of State and the Council of Ministers, announced in August 1992 that for the first half of the year there was a 32.5% increase in foreign exchange earnings and a 24% increase in the number of tourists compared with the same time period in 1991. At the time of writing Cuba hoped to attract half a million tourists by the end of 1992; Carlos Lage estimated tourism earnings at \$400 million for the year.

Canada, West Germany, and Mexico have consistently provided the largest percentages of tourists to Cuba, at 22 %, 18 %, and 10 %, respectively, in 1990 the combined total represents half of all tourists who traveled to Cuba that year.

The Cuban authorities project that the island will have approximately 30,000 hotel rooms and a million tourists by 1995. In a November 1992 interview Lage said that in 1990 Cuba had approximately 14,000 rooms available for international tourism, and that by early 1993 the figure would rise to 20,000. Abraham Maciques, president of Cubanacan S.A., Cuba's "privately owned" tourism development corporation, estimated in May 1992 that of the approximately 4,000 rooms built per year, 65% are financed through joint ventures.

Existing Scholarship on Tourism Investment

It is well known that foreign investment in the tourism sector can severely disrupt any society. In his book *Tourism and Development* (Cambridge University Press, 1973), John M. Bryden noted that foreign visitors have a "demonstration effect on consumption," specifically that the local population develops a taste for the products it witnesses being consumed by the foreign visitor. Bryden identified another social cost, the "corrosive" effect on culture, quoting an Asian bishop's complaint that "Local people were ... encouraged to be 'interesting natives' and go through traditional movements for the benefit of goggling strangers. It robbed the people of their dignity to be treated as zoo-objects."

Michael Peters, in *International Tourism* (Hutchinson Publishers, 1969), identified five potential benefits from tourism: hard currency earnings; dispersion of development to nonindustrial regions; creation of employment; positive impact on the general economy through multiplier effects; and social benefits arising from a "widening of people's interest generally in world affairs and ... a new understanding of foreigners and foreigners' tastes."

In *Growth, Development and the Service Economy in the Third World* (Praeger, 1988), David McKee wrote that tourism can be, though is not necessarily, an economic "growth pole." He built on the work of Jean Paelinck, who defined a "growth pole" as an industry producing output or revenue that influences the growth of other activities technically linked to it ("La Théorie du développement régional polarise," *Cahiers de l'Institut de Science Economique Appliquée*, March 1965). Paelinck had considered only manufacturing activities as growth poles, but McKee argued that in certain circumstances tourism could act as a pole because "it generates a need for various consumer-oriented establishments, or...support businesses." He cited tourism ability's to broaden the market for domestic production and create jobs in the supply of "hotel and resort furnishings, athletic equipment, domestically produced food, resort wear and artifacts." McKee noted, however, that "the potential for tourist-related import-substitution as a stimulus for local industry declines...in direct relation to the size and strength of the host economy."

To what degree are these factors, identified in academic studies of tourism elsewhere in the Third World, manifested in Cuba?

Demonstration Effect

Has tourism in Cuba evidenced the "demonstration effect on consumption" anticipated by Bryden? Yes, but with different results than elsewhere due to the unique Cuban context. The growing number of tourists has exposed the island to the lifestyles of the Canadians and Europeans. These visitors frequently fall into the category of lower middle class in their own societies, but nonetheless enjoy a higher standard of living than most Cubans. Contact with them has further whetted many Cubans already strong appetite for foreign consumer goods. Bryden anticipated that such consumption desires would damage the local society mainly through "adverse effects on the demand for locally produced commodities." Cuba now suffers such a severe shortage of locally produced consumer goods that there is no danger of such an "adverse effect." Any consumer item, no matter how poorly manufactured, finds a ready buyer.

Rather, the adverse sociological impact on Cuba arises from the fact that the items consumed in the hotels can be purchased only with hard currency, which Cuban citizens are prohibited from possessing, or on the black market, which is illegal and, for many people, prohibitively expensive. Furthermore, many normal consumer items, such as detergent, shampoo, soap, and razor blades, are now in such short supply in Cuba that hotel shops, where items can be purchased only by foreigners with hard currency, are rapidly becoming one of the two sources. (The other main source being the *diplo tiendas*, diplomatic shops.)

As is obvious to any visitor in Cuba, this situation has led to a steady growth in the number of so-called *jineteras* (the female form of the Spanish word "rider") as well as the emergence of a small number of their male counterparts. These individuals, who are usually made in their teens or early twenties, gather around the entrances to tourist facilities, the women frequently clad in tight-fitting clothes. Such figures can also be seen hitchhiking on roads frequented by foreigners, the Havana-Varadero route being one of the most popular. They are hoping to befriend a foreigner, and at least be taken to dinner in a foreign-exchange only restaurant. If the relationship develops a sexual component commensurately greater reciprocal favors are expected from the foreigner.

"...employment in the joint-venture hotels has shown workers the demanding side of capitalism."

This is not classic prostitution, since sex for money is seldom explicitly proposed. While pimping does exist, and indeed the (female) author was offered the "company" of a "male friend" by a woman who struck up a conversation in a hotel lobby, in general each *jinetera* operates on his or her own.

In informal conversations, Cubans voiced a variety of opinions about the *jinetera* phenomenon. Many felt that it brings shame on the country and reminded them of the "bad old days" of Batista. Others said that while they disliked the practice, they understood the women's motivation. "Right now in Cuba, the only way to get certain items that we have come to think of as essentials, such as deodorant or shampoo, a new dress once in a while, is either by purchasing them on the black market for huge sums of pesos, or by striking up a friendship with a foreigner," commented one woman. "I don't like it, but I'm not going to say they are bad women."

Others were not so charitable. One mother described the reaction of her teenage daughter to a schoolmate who has engaged in this activity. "She despised her, in particular because this young woman comes from a high-ranking family. She could acquire these goods through other routes." The woman's daughter had developed such a dislike of foreigners that "if a tourist asks her the time of day, she ignores them."

A highly educated Cuban man in his early thirties observed, "A Cuban man looks at one of these women and becomes resentful, for she is offering her body only to foreign men. If a Cuban man approaches her she looks at him as if he were invisible." The tone of voice used to describe this resentment further suggested that the interaction seriously injures the ego of the man ignored. In sum, Bryden's "demonstration effect" does play a role, but the severe austerity Cuba is now experiencing means that the presence of foreigners with the ability to purchase consumer goods would distort Cuban society regardless of whether the foreigners were teaching the local population new consumption habits.

"Tourist Apartheid"

There is another social problem in Cuba closely related to the Bryden's "demonstration effect": Cuban citizens' resentment at being excluded from the new joint venture hotels, captured in the term "tourist apartheid." The government is aware that such exclusion undermines one of its main claims to legitimacy - egalitarianism - and reminds Cubans of the time when all but the elite were turned away from certain beaches and clubs. The exclusion also flatly contradicts Article 43 of the Cuban constitution, which guarantees all Cubans, "without regard to race, skin color, religious belief, or national origin," the right to "lodge themselves in any hotel," "be attended in all restaurants and establishments serving the public," and "enjoy the same spas, beaches, social clubs, and other centers of sport, recreation, and leisure" (author's translation). The degree of citizen outrage is evident in the remark of a vigorous Castro supporter, who over a three-year acquaintanceship had never criticized the regime. This autumn he remarked that once while jogging on the beach he had been stopped by a guard for a joint venture hotel, who said

only foreigners were permitted on the next section of sand. Furious, he told the guard that Cuban beaches are for Cubans, and kept on jogging.

The anger was also evident in an April 1992 article published by Lisandro Otero, vice president of Cuba's National Union of Writers and Artists in *Le Monde Diplomatique*. The article, viewed by many observers as a protest document, remarked that tourism has substantial drawbacks including "the appearance of tourist oasis to which the Cubans themselves, the victims of segregation, have no access, resulting in great discontent." A young hitchhiker used more straightforward language when he told *Washington Post* reporter Lee Hockstader in May 1992, "Obviously it's unfair. They get the best, we get what's left." A few months later a nondissident Cuban academic dining at a hard currency-only restaurant told another *Washington Post* correspondent, Douglas Farah, "Can you imagine, I cannot even eat here without a foreigner, and this is a revolutionary government. We are not even allowed to go to the best beaches - they took the best beaches from us. Of course this creates great tensions. If this is not tourist apartheid, what is it?"

A March 1992 incident on Havana's Radio Rebelde network also reflected the resentment. Two announcers, Jorge Ibarra and Ana Margarita, had the following exchange on the "Doing Radio" program.

IBARRA: Have you ever heard that the country is being sold off? There are several people saying this out on the streets.

ANA MARGARITA: Selling the country?

IBARRA: Yes, sir, selling the country. Tourism seems to create unrest in some people because only those who come from abroad have the right to buy certain products and enjoy facilities that were built by Cubans.

ANA MARGARITA: That topic appears in the report for the Sixth Union of Young Communists Congress.

IBARRA: That is why I brought it up. There are things that are true.

The Cuban government's concern about this resentment can be gauged by monitoring the amount of time spent on the issue in official speeches, which has been steadily rising. On 11 July 1992, Castro devoted half his speech before the National Assembly of People's Government to justifying this policy. He said it was not "an attempt to discriminate against anyone," pointed out that historically Cuba had always exported its best tobacco, seafood, and citrus fruit, and then claimed that "tourism is an export service." He added, "For every five (Cuban) people staying two or three days in one of those hotels, the country would have one less ton of meat to distribute to the people. For every six or seven people, we would have one less ton of powdered milk to distribute to the people."

More recently, in an interview on 18 November 1992, Lage conceded that tourism had both a political and a social cost, commenting that "there are people who, when confronted with the country's need to give priority to tourism services for foreigners, become angry and upset. They do not understand the complex reasons that motivate the Revolution to make this decision."

Hard Currency Earnings

Of the five potential tourism "benefits" named by Peters, the first three are definitely applicable to Cuba. Tourism is clearly earning Cuba hard currency, estimated by Lage at \$400 million for 1992. However, an economic benefit does not necessarily equal a social benefit. One well-educated Cuban remarked that he thought that tourism profits were simply being recirculated in the tourism sector and were not visibly helping other parts of the economy. Cuban journalist Pedro Martinez Pirez reflected a similar sentiment in the 7 November 1992 interview with Lage.

After commenting that tourism "is a controversial subject in the national life," Martinez asked "To what extent does tourism affect ... our population's domestic consumption? To what extent is tourism really guaranteeing our country's survival?" Lage responded that tourism "does not affect it [domestic consumption] negatively to any extent at all.... Tourism leaves a surplus; and that surplus is then used by the country to buy foodstuffs and medicine, and transport and fuel."

Despite Lage's answer, Martinez's question shows that there is considerable apprehension about the real benefits of tourism. The Cuban manager of a joint venture hotel in Varadero was aware of this problem. He mentioned that the abundance within the hotel walls contrasted sharply with the austerity in Cuban society and that, where possible, the hotel "tries very discreetly and in a low-profile way to assist the surrounding community." For example, this hotel had supplied the paint used to redecorate the community's health clinic, and the community knew this. When asked why it was necessary to emphasize discretion, he replied, "We were not created for this, to help the local community. We were created to run a hotel."

Dispersal of Development

Tourism is also performing the second role identified by Peters, the dispersal of development to nonindustrial regions. The establishment of hotel complexes on the Isle of Youth and on a variety of small keys is the most obvious example. The author was unable to visit these sites and so could not evaluate their sociological impact.

Evidence was encountered, however, concerning "dispersal of development" in an unconventional manner that could have an important impact in the future. Some Cuban state institutions, including the Cuban Armed Forces (FAR), have established mechanisms to use their far-flung infrastructures to earn tourism income for their own use, and foreign investors are being courted to improve the efficiency of these mechanisms.

While Cubanacan S.A. was established in 1986 as the main Cuban enterprise engaging in tourism joint ventures, a smaller firm, Gaviota S.A., was formed in 1988 to cater to high-income visitors seeking tailor-made tours, often with an emphasis on sports. Gaviota, a "private" Cuban company, to date has only Cuban equity, though it is negotiating with foreign firms about joint venture participation. Sources within Gaviota were vague about the identity of the Cuban shareholders in a September 1992 interview, but usually reliable U.S. sources say the FAR is the primary shareholder. If this is true, tourism through Gaviota - may be providing hard currency income for the Cuban military.

Regardless of the real story on shareholder identity, the Cuban military clearly plays some role in Gaviota, since the enterprise started by renting recreational facilities from the FAR, the Poder Popular (legislative institutions), the Council of Ministers, the Council of State, the Interior Ministry, and the Communist Party itself. Marinas, hunting lodges, spas, and small hotels built for the respective organizations' own employees are now occupied by foreign-exchange-paying tourists. Gaviota pays rent to the installations' owners in pesos, former employees are often retained by Gaviota, and the owner gains occasional access to the facility by special arrangement. Through this network Gaviota has facilities in many remote areas of Cuba. If foreign investors join in, the "dispersal of development" will become more pronounced, both geographically and institutionally.

Provision of Employment

In both the new and the traditional tourist areas, tourism is clearly fulfilling the third function outlined by Peters, provision of employment. According to Lage, tourism directly provided 59,000 jobs in 1992. Since under- and unemployment are growing problems in the Cuban economy, this is a positive development for regime survival. However, since the joint venture hotels use Western management techniques, it is reasonable to question whether employment in such an enterprise also influences Cuban workers' political thinking, perhaps undermining their commitment to socialist values.

Interviews conducted at four Varadero hotels revealed that workers come from a variety of backgrounds. The head of the chambermaids in one joint venture is a former economist. When asked how her current work contrasted with her past employment, she said, "Before I didn't feel that I was accomplishing anything, sitting in an office pushing papers around. Now I feel that my work means something." The previous occupations of three young men tending bar in the same hotel included mechanic, bus driver, and cartoonist. A woman in her mid-thirties acting as receptionist at the hotel's shop had been an English teacher. Among the Cuban managers in Varadero were an electrical engineer who had worked on petroleum projects, a university professor, and a veterinarian.

Most Cuban workers and managers cited at least one of the following reasons for seeking employment in tourism:

- Their previous job had been jeopardized by Cuba's economic difficulties;
- Their previous job had been located far from their home, and transport difficulties made it impossible to get there;
- They viewed tourism as a key part of Cuba's economic survival strategy and therefore felt that working in the sector would be socially useful.

Though none cited improved material conditions and higher status as a motivation, these undoubtedly played a role.

And the material conditions are indeed remarkably better than those in virtually any other sector of the economy. The average pay in tourism is 375 pesos per month, compared to the national average of 200 pesos. A chef in a five-star hotel can make as much as 570 pesos, before tips and payments in kind.

These last two forms of compensation are often far more important than salary. Whereas previously the Cuban government discouraged guests from tipping hotel workers, calling the practice degrading, the authorities now actively encourage tipping, in part to earn more foreign exchange revenue and in part to provide a greater incentive for workers to perform efficiently. At every hotel visited in Havana and Varadero, workers were required to turn over their foreign currency tips to hotel management. They received an equivalent sum in local pesos, calculated at the official one-to-one rate. Depending on a worker's post and efficiency, tips can make a big difference in income. At one Varadero hotel a waiter turned in \$609 in tips in just one month, bringing his total income for the month up to nearly 1,000 pesos, five times the national average. Since \$1.00 can buy up to 40 pesos on the black market and can also be used to purchase scarce goods illegally, there is obviously a strong temptation for hotel workers to hold back part of their tip earnings. The Cuban manager at one hotel estimated that the compliance rate ranges from 10% to 100%. Another manager said that in her hotel the tips handed in amounted to 3% of the bill, in contrast to the expected 10%. This would imply a 70% rate of worker noncompliance with the tip conversion rule.

Because of the requirement that dollars be converted to pesos and because goods needed by the Cuban hotel workers cannot be purchased in pesos, it is standard practice for chambermaids to inform guests discreetly that they would prefer to be given a bar of soap or a bottle of shampoo. This practice is legal. The maids first must register the "gifts" with management and are then free to take them home. Goods so obtained supply the extended family of the hotel worker, perhaps solving the hygienic needs of a dozen people.

Working conditions are also superior to those experienced in the rest of the economy. Hotel workers eat the same food served in the establishment's restaurants, an important benefit at a time when increasing numbers of Cuban enterprises are either reducing lunch to a "snack" or eliminating it altogether by adjusting working hours.

In one hotel, tips can be converted into food. A special record is kept of the dollar tips turned in by the chambermaids and a list of housekeeping staff maintained, which includes maids who clean the common areas and therefore do not receive tips. When the hotel restaurant has food left over, the employees at the top of the list have the right to obtain the surplus. Those who receive the food then go to the bottom of the list, and the next set of maids receives the next opportunity. This is conducted in a collective manner, the tip pool being debited rather than each woman's individual account, and the portions of food allocated do not vary according to tip earnings. (This practice was observed in only one hotel contacted.)

A joint venture providing photographic services for tourists also adopted an innovative tip policy. This enterprise, which involves private Cuban shareholders and a Spanish firm, pools the tips earned by the photographers, all of whom were women. Intermittently, the pool is used to purchase personal items necessary for the women's work. Since they stand up for long hours, shoes are deemed appropriate; since they must appear presentable, cosmetics are on the list for future purchases. Once again, each worker receives the same items, regardless of contribution to

the tip pool. The leading Cuban shareholder, who helped devise this system, is a highly respected PCC member who also holds a position in a state institution.

Most hotels also take tip earnings into account when deciding who will earn the "emulation prizes" distributed intermittently. Prizes are usually items such as a bicycle or a television, highly valued in Cuba but worth less than the hard currency tip earnings of the winner.

Many joint venture hotels also use part of their hard currency profits to provide special bus service for workers, critical in a country where bicycles, horses, and hitchhiking are rapidly becoming the major modes of transportation due to fuel shortages.

The joint venture can further ease life in all sorts of small ways. One manager explained that if a worker had an electrical problem in his house and required one small, inexpensive part to resolve the difficulty, he was welcome to discuss the problem with management. If the hotel had a large supply of the item, management could hand over the part as a gift. The manager emphasized, however, that this applied only to small items.

These aspects of tourism employment bring up an issue not addressed in the standard works on tourism in the third world: the sociological impact of the creation of a worker elite. Because the Castro government bases part of its claim to legitimacy on its "egalitarian" ethos, creation of such an elite has a different impact in Cuba than it would elsewhere.

Cuban Communist Party officials are concerned about the deleterious impact on morale that might result from the growth of such an elite. This growth has, for example, complicated decisions on the tip conversion rule. In early 1992 top PCC officials floated the idea that hotel workers be officially permitted to retain some portion of their tips and spend them in the hard-currency stores previously reserved for foreigners. The argument was that material needs were so great, and therefore the temptation to retain tips so strong, that even exemplary citizens were breaking rules. Promoting the habit of rule breaking in an other-wise faultless person was believed to have a negative long-term effect on morale, and a policy change was therefore judged wise.

After extensive discussions, this idea was rejected on the grounds that it would create a worker elite. Some hotel managers argued that such an elite existed anyway, whether or not the rules were changed. The party responded that while this was true, at least if the current rules are maintained resentful workers from the rest of the population, upon observing the more comfortable life-style of hotel workers funded with illegally retained hard currency tips, would not feel that this was a "government-sanctioned inequality." Until there are sufficient resources to provide similar perquisites for workers in other sectors of the Cuban economy, the official answer says, tip conversion rules will not be changed.

The noncash remunerations enjoyed by workers in joint venture hotels have also led to friction with the rest of the population. One hotel, for example, has a bus to transport workers from their homes, which also serves other Cubans along the same route. The problem arises when nonhotel

workers board first and take up all the seats; the hotel workers, who feel it is "their" bus, are then forced to stand for the journey home.

Research in the Varadero area suggests that, regardless of the PCC's efforts, tourism workers are definitely becoming an elite group, some dressing so well that they are mistaken for foreigners. Just how much this is resented by the rest of the community is unclear, however. There is some evidence that envy is blunted by the fact that the family and friends of hotel workers also benefit, and, at least in the Varadero area, workers' homes are dispersed over a large area. Many years ago the Cuban authorities prohibited Varadero residents from exchanging houses with residents in other parts of Cuba, for fear that it would promote under-the-table payments by citizens wishing to live near one of the Caribbean's best beaches. Therefore, virtually all hotel workers live outside Varadero, many in the cities of Matanzas and Cardenas. Furthermore, a Cuban knowledgeable about the tourism industry pointed out that Cuba recently created the conditions for growth of a worker elite in the state sector by forming contingents that work long hours at an accelerated pace and receive superior food rations and living conditions. This person believes that the benefits accrued by tourism workers were not much higher, and no less deserved, than those earned by Cubans working in state-run contingents.

Employment in a joint-venture hotel using market management techniques could also be expected to influence some workers' political perceptions; this question was extremely difficult to explore, however, because of the difficulty of having confidential conversations with workers. According to unconfirmed secondhand reports, some workers have argued that the hotels demonstrate capitalism's greater efficiency and that if foreign capitalists are acceptable, individual Cubans should also be allowed to establish such enterprises.

**"...At times the Revolution has had too much egalitarianism, and this needs to change."
-A hotel manager**

What is clear is that employment in the joint-venture hotels has shown workers the demanding side of capitalism. Employees are expected to be on the move every minute of their shift. The bartenders, for example, have no set lunch hour and can only dash off for a quick sandwich. If a maid responsible for maintaining the lobby area performs all her duties before quitting time, she is either assigned a task elsewhere or is required to reclean the same area. "The sight of an employee standing around doing nothing makes a bad impression on guests and is bad for the morale of other workers," commented one Cuban manager. Also, unlike in state hotels, workers are expected to help with tasks that are not in their specific field of competence. For example, if an electrician finishes his work, but the plumber is still busy and a toilet needs attention, the electrician will be sent to repair the toilet. Logical though this may sound to Western ears, it is quite a change from past Cuban practice.

The higher efficiency required from the workers is reflected in employment statistics. In the state-run INTUR hotels, there is an average of 1 worker per room; but in the joint-venture hotels for which statistics are available, there is an average of 0.6 workers per room, a 40% improvement in efficiency. The difficulty Cuban workers have had in adjusting to this

management style is reflected in the high turnover rate the establishments experienced after startup.

Assessing the impact of the employment experience on Cuban managers was easier. While some seem to reconcile easily working in a quasi-market enclave with socialist ideology, others appear to have greater difficulty. One manager, for instance, was quite exercised about the government's tip policy. "I think the system has to change," he remarked. "The person that earned \$600 in tips in one month is bringing in \$6,000 to \$8,000 for the country in one year. If he converted that to pesos on the black market he would make in one month the normal earnings for ten years, and he knows it." Implying, but not stating outright, that such a worker needs to be rewarded more, the manager suggested, "It would be better to reward the person who turned in the most tips with a trip to Cancun, which might cost Cuba \$1,000." The same manager later said, "At times the Revolution has had too much egalitarianism, and this needs to change." He seemed to think that since inequality already existed, and the tourism workers were already an elite, the government's reluctance to make the inequality "official" was pointless. In this case the Cuban manager had come to understand the real value of the dollar and the peso in the international economy, and was fighting to manage his operation so as to provide better material incentives for his workers. Managers working in joint-venture hotels also develop a different definition of "success" than they did when working in the state sector. A manager who shifted from one to the other commented, "At INTUR we were preoccupied with gross income. Now we worry about profit.

We worry about the cost of utilities, and we don't want to have a single excess employee on the payroll." Most Cuban managers received some training abroad, usually in Western Europe, where they learned these new approaches to business.

At one hotel there was a conflict between the foreign and Cuban managers over the issue of voluntary labor. The Cuban had instructed workers to clean up part of the hotel garden on their own time, as voluntary labor, which is common in state enterprises. The foreign manager was distressed; he said that if the employees were working they should be paid, and that if they were on their own time they should rest. Whether the Cuban manager might eventually come to adopt the foreign manager's approach to the issue is an open question.

Interchanges between Cuban managers employed in tourism joint ventures and their colleagues in various parts of the state sector have also produced changes in perspective. "Cuban managers are now fascinated with the idea of finding foreign partners," said a Cuban economist familiar with these conversations. "A year ago, when Cuban managers thought about how to become more competitive and efficient, they concentrated on improving Cuban, socialist models. Now they are looking almost exclusively to foreign, market economy, models.... It's capitalism through the back door... This model is being copied in the rest of the economy. It will have a pull effect. Ten years from now Cuba may still call itself socialist, but it could in fact be a mixed economy."

There is also curious self-censorship when Cubans discuss the change in mentality prompted by tourism investment. A Cuban academic told the author, "It's night and day, the change in attitude

is so big." Another Cuban academic, rumored to have close links with the authorities, joined the conversation. The first looked embarrassed, and recanted, saying that the shift had not really been that profound. After the first academic left, the second said that he disagreed with his colleague - the impact of foreign investment on managers' outlooks was very significant. The author was reminded of the fairytale "The Emperor's New Clothes": Everyone knows what is happening, but no one wants to admit it in the presence of a perceived state authority. Another sociological aspect of employment not addressed in the standard works on tourism, but highly relevant in Cuba, concerns the role of the party in job security and promotion. It has been widely speculated that the growth of employment opportunities not directly under PCC control undermines the government's ability to force worker compliance with the socialist system. Some observers have wondered whether tourism employment might play this role, since in order to attract capital the government has promised investors the right to hire and fire as they see fit. Research in Varadero suggests that the Cuban Communist Party was well aware of this vulnerability, and has developed a variety of innovative techniques to protect itself. For example, the foreign partner, or the foreign management team selected by the venture, selects workers from Cubanacan's employment bureau. That bureau, in turn, recruits its workers largely from Cuba's state-run hotel training schools. Applicants need recommendations from local Committees for the Defense of the Revolution in order to be accepted by these schools. Therefore, while the actual job interview by the foreign manager does not involve political questions, the applicant pool has in fact been prescreened.

Furthermore, in each hotel there is a management commission composed of the foreign manager, the Cuban manager, and one representative each from the PCC, the Union of Young Communists (UJC), and the CTC. Many, though not all, management decisions are made by this group through consensus. If a worker does not receive a promotion he thinks he deserves, for example, he can bring the issue up with one of the latter three representatives, who may then intercede on his behalf. The commission also selects the winners of emulation prizes. At one hotel it was explicitly stated that a worker who had failed to pay his union dues or to perform voluntary labor was not eligible for such emulation rewards.

There has also been a mysterious growth in the percentage of workers who are party members. At one hotel just under 10% of the employees were either UJC or PCC members when the facility opened two years ago. Now the percentage has grown to 33%. Questioned about this trend, the hotel's PCC representative replied, "It might be that the people who like to work hard also tend to be PCC members, and the people who work hard survive the [probation] period best."

All these developments suggest that while the party's leverage on workers is somewhat reduced in the joint-venture hotels, it is far from eliminated, and the party is creatively inventing mechanisms for retaining at least some influence on job security and promotion.

Multiplier, or "Growth Pole" Effect

Peters's fourth potential tourism benefit, the "multiplier effect," has much in common with McKee's reference to "growth poles." Both are based on tourism's ability to stimulate other sectors of the society by providing a market for locally produced goods and services.

As noted above, some Cubans seriously doubt that the rest of the economy is benefiting from tourism's growth. However, visits to four joint-venture hotels in Varadero and interviews in Havana suggest that there have been some modest "multiplier" effects. One hotel had required a large supply of good quality marble, and since the investor was European he naturally ordered from his usual supplier in Europe. The Cuban partner, however, located comparable marble on the Isle of Youth and persuaded the investor to purchase from the local source instead. "There were unemployed marble workers on the Isle of Youth," said the Cuban manager. "They are now back at work, and they know that they owe their jobs to the construction of this hotel." Similarly, most of the furniture in the hotels is of Cuban origin. Previously, good quality Cuban furniture was exported to the socialist countries, but these markets have been lost. As in the case of marble, the hotel construction provided a foreign exchange source for the furniture manufacturers and employment for their workers.

There have also been multiplier effects in the service sector, with particular impact on the operations of new quasi-"private" Cuban companies. For the last few years the Cuban government has discreetly permitted the formation of such firms, which are identified by the initials S.A. (Sociedad Anónima) after their name. Such operations had always been permitted under Cuban law, but few existed until 1989. Now there are 63. (Some observers have speculated that several of these so-called private companies are actually fronts for state-owned corporations; this claim is plausible but has not been confirmed.)

The bureaucratic procedures for establishing such a firm are complex and shrouded in secrecy. One must apparently be in good standing with the PCC to do so, and only highly trusted individuals are allowed to contribute the capital, which must be in Cuban pesos. The S.A. companies have individual Cuban shareholders, who earn dividends in pesos. However, most of the "private" firms require hard currency to start up, and the origin of that hard currency is still unclear. The S.A. firms generally seek partnerships with foreign companies as they grow. The strategy is to establish Cuban firms able to compete for "spin off" business from the major foreign investments, rather than allowing the market to be dominated by foreign service companies.

Consequently, there are S.A. companies operating as consultants to foreign investors, providing advertising services for firms wishing to market to visiting tourists, and acting as clearinghouses for countertrade deals between foreign and Cuban enterprises. It may be difficult for those unfamiliar with Cuban practices over the last 34 years to appreciate how large a departure from past procedures these new firms represent. In effect, the Cuban authorities are permitting the establishment of a state-sanctioned domestic capitalist sector.

One such company has created a joint venture with a foreign firm to provide photographic services to visiting tourists. The firm depends on workers in the hotels to recommend the service. However, those hotel workers do not receive any additional pay for this activity, so the joint venture has sought to compensate its hotel contacts in other ways. For instance it once provided a pullover sweater with the name of the firm emblazoned across the front, using the rationale that this performed a marketing function (though of course the article of clothing is also of value to

the hotel contact). Six months later the foreign partner again rewarded the hotel contacts - this time by distributing soap. The Cuban manager objected, saying that this violated ethics because it too closely resembled a commission, and that any donated article must have a marketing role. Thereupon the foreign partner proposed wrapping the soap in paper bearing the enterprise's name. The Cuban partner burst into laughter while recounting the tale, saying he was not sure how he was going to respond to this ingenious proposal.

Some "Private" Cuban-foreign joint operations have begun to run into more serious competition problems with state enterprises. In one case such a firm produced an item for sale to tourists and discovered that two state enterprises functioning in the same sector "did not exactly welcome" the innovation. "This was in their sphere, it was clear something needed to be done, yet they did not do it," claimed a Cuban source. "They are distressed because we showed them up."

"I had been taught that in capitalist countries people lived in misery. When foreign visitors started to arrive in the late 1970s, I realized that not only were they not miserable, they were doing much better than we were. That made me very disillusioned with the Cuban system."

- A former Cuban government official who defected

In another case, a Cuban S.A. company acting with a foreign partner offered a service to tourists that was also offered by a state enterprise. At first "all sorts of bureaucratic obstacles were put in our path," according to the Cuban partner. The private firm then discovered that the state company was using "unethical practices" to hinder the private firm's marketing. This revelation so disgusted the Cuban partner that he decided to "go do voluntary work in the countryside for two weeks to have a break."

A brief comment made by the Cuban partner in one of these joint S.A.-foreign entities also sheds light on the internal mental processes of this person, which may be shared by others in similar positions. The individual is a PCC member apparently loyal to Castro. In an interview, however, he said that his firm would be well positioned "*si las cosas cambian*" (if things change). This could mean that the individual was setting himself up to prosper individually if Cuba shifts to a fully free-market economy. However, it could also mean that the party has a plan to establish loyal members in a functioning Cuban private sector, so that the party could survive and develop economic leverage should such an economy be adopted.

There is also evidence that the "thirtysomething" children of the Cuban historic elite are trying to form private S.A. operations in order to establish joint ventures with foreigners catering to the tourism industry. The multiplier effect is clearly understood by those in a position to sense the direction of the economy.

Although the above cases are far from a statistically valid sample, they lead to three tentative conclusions. First, foreign investment in tourism is producing some "multiplier" effects, though their full extent could not be ascertained in this study and the popular Cuban perception is that these effects are limited. Second, because the authorities have permitted quasiprivate Cuban companies to exploit "multiplier" opportunities, competition has sprung up between Cuban state

and Cuban S.A. enterprises. This phenomenon is the clearest example found during the research for this study of a clash between the new market economy enclaves and the surrounding socialist system. Third, the multiplier effect may be giving PCC members opportunities to create their own individual liferafts in a possible future market system, or it may indeed be manipulated by the party to devise a mechanism for maintaining leverage in a market system. On balance, it seems plausible to conclude that the multiplier effects have a modest positive impact on regime survival, but they are creating side effects that could have a destabilizing impact over the long term.

Widening Interest

Peter's last category, "widening of people's interest generally in world affairs and ... a new understanding of foreigners and foreigners' tastes" is certainly playing a role in Cuba, though it is difficult to quantify. Since the new drive to attract Western tourists began, English has replaced Russian in the educational curriculum. Knowledge of English obviously makes a whole range of foreign publications and radio broadcasts accessible to the Cuban population. Foreign fashions and music had always been popular in Cuba, and the new influx of foreign tourists is clearly enhancing this tendency. The comments of a Cuban government official who defected to the United States in 1989 provide some insight into the result of contact with foreigners on Cubans. "I had been taught that in capitalist countries people lived in misery. When foreign visitors started to arrive in the late 1970s, I realized that not only were they not miserable, they were doing much better than we were. That made me very disillusioned with the Cuban system." As with other aspects of foreign investment that might undermine the Cuban system, the Cuban government had adopted some measures to neutralize this influence. For many years Cubans have been strongly discouraged from fraternizing with foreigners, and there are even special guards located outside some Havana hotels to prevent such contacts. The fact that the new hotels accept payment only in foreign exchange, which Cubans are prohibited from possessing, also limits contacts.

This strategy has not been entirely effective. Foreigners who wish to talk to Cubans inevitably find a way to do so, and Cubans' naturally outgoing nature means that friendships are easily struck. In addition, there has been criticism within the party that the nonfraternization rule means "the only Cubans foreign tourists get to meet are black-marketeers and *jineteras*." The argument is that if foreigners are to go away with a good impression of Cuba, they must be free to meet "normal" Cubans.

Consequently, Cuba now has an ambivalent attitude toward fraternization. It still excludes Cubans from foreign exchange-only hotels and stations police in the tourist area to "discourage black-market activity." However, it is somewhat more open to "normal" fraternization than before.

Conclusion

Present conditions in Cuba suggest that while rising foreign investment is undermining Castro's power in several important ways, this subversive effect is balanced by other sociological results of foreign investment that actually consolidate the system. The balance is delicate, however, and could easily shift, particularly if investment flows increase.

A new class of elite workers is indeed developing, undermining Cuba's egalitarian ethos, but the relatively small number of privileged workers and their tendency to share material gains both with their extended family and with neighbors, has partially alleviated resentment. The Cuban government has also gone to considerable pains to provide nearby workers, who are the most likely to envy those in the joint enterprises, some of the same benefits.

Similarly, investment is reducing PCC control of the workforce, but only slightly. The policy of requiring foreign managers to select Cuban workers from a preselected pool of candidates provided by the state-controlled *empresa empleador* means that even though the foreign manager selects workers without regard to political credentials, he/she is selecting from a pool that in effect has been "pre-vetted." Furthermore, in some enterprises the top party representative has acted as a channel through which disgruntled workers voice complaints to foreign managers, permitting the party to present itself as a defender of the worker, thereby strengthening, rather than weakening, its influence with employees.

That said, the other two factors mentioned in the introduction - nationalistic resentment about facilities built by joint ventures that are open only to foreigners and the exposure of Cuban managers and workers to capitalist efficiency and an individualist work ethic - are having an effect. Anger over the first of these is evident in all sectors of the population, including among Fidelistas. In addition, a few of the Cuban managers who have become immersed in market-type management techniques are interested in establishing their own capitalist enterprises. A very small number of politically trusted Cubans are being allowed to establish their own private companies, which often use Western rather than socialist management techniques. Some Cuban managers in joint operations, who are increasingly finding themselves in open competition with state entities in the same sector, complain about the latter's use of "dirty tactics" to gain a competitive advantage. Perhaps even more important, there is an intangible, hard-to-quantify change in the psychological outlook of some key elites, a subtle shift from identifying with socialist models to identifying with market ones.

However, as of late September 1992, the ideologically subversive effects of these two factors were not severely disrupting Cuba's social fabric. Foreign investment is actually bringing foreign exchange into the country, albeit in modest quantities, and it is giving the population some small economic hope; therefore, one has to conclude that the overall sociological impact of rising foreign investment is positive, though not by a large margin.

That balance could easily change, however. If investment rises faster and spreads further from the tourism enclaves into agriculture and industry, then the class of privileged workers will grow, and the contrast with the hardships of their neighbors employed in state enterprises will become more evident. A rapid rate of investment growth would also make it more difficult for the party apparatus to design new indirect political control mechanisms. The joint venture's demand for labor could exhaust the pool of politically reliable workers offered by the *empresas empleadores*, putting the Cuban authorities in the position of forfeiting investments or permitting less "integrated" workers to join the new elite. If joint enterprises were to become more common, it

seems plausible that a growing number of citizens would come to question why capitalism is all right for foreigners, but not for Cubans. The phenomenon of Cuban managers working in joint enterprises finding themselves in competition with operations in state enterprises in the same sector would become more common, leading to potentially divisive economic rivalries.

There are also important psychological factors, relevant to two levels of society. At the level of mass opinion, the most important consideration is the Cuban government's ability to demonstrate to the average man in the street that such investment is actually benefiting him in his daily life, not simply channeling wealth into the pockets of the elite and the black market traders flourishing in the periphery of the market economy enclaves. In the author's judgment, the Cuban government is currently underestimating the population's skepticism about the society-wide benefits of investment. If it continues this error and foreign investment rises significantly, the subversive sociological effects of investment could be profound. At the level of key elites, the most important consideration is the tendency to look to market rather than socialist models for solutions to problems. The more vigorous foreign investment becomes, the more pronounced this psychological shift.

The evidence therefore suggests that while foreign investment is marginally strengthening the Castro regime at the moment, if it escalates the above-listed factors could lead to a more thorough erosion of socialist values.

To summarize: Is foreign investment undermining the Cuban system? Not yet.