

Detailed comments on the Espino and

Perez-Lopez papers for the proceedings

by

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The papers by Espino and Perez-Lopez are informative useful works which provide a basis for start exploring the policy prospects for tourism and energy in a post-Castro Cuba. While I don't have fundamental disagreements on the thrust of both works, I would have liked the authors to go further and address policy implications for a future Cuba as they relate to the two sectors.

The main points that **Espino** makes is that in spite of Cuba's efforts to encourage tourism, the economic contribution of tourism remains insignificant and that, under existing conditions, prospects are not bright. While agreeing with this main point, I would raise the following issues :

1. The strong post-1981 growth in tourist arrivals is at least in part a reflection of the very low base -- one of the lowest in the Caribbean. Accordingly, the rise is less meaningful than it would seem.
2. Most likely, cost advantages are not the only reason why average receipts per visitor are very low -- perhaps there are very limited alternatives in which to spend.
3. While the paper attributes to tourism some success in attracting joint-ventures, it can only substantiate two hotels constructed under joint ventures. Not that impressive. (The paper adds that there is no way to estimate the foreign investment that Cuba has been able to attract.)
4. The paper indicates that the economic benefits from tourism include improvements in the balance of payments, generation of government revenues, income and employment creation, and promotion of growth and development. However, this can be said of any exports industry. Moreover, in many of the Caribbean islands the real significant impact is on employment.
5. The estimate of an import coefficient of 30 to 38 percent of imports seems quite low for an enclave economy.
6. The paper recommends a greater tax burden on tourism when a mixed economy is adopted. The problem here is that this seems to imply a differential tax treatment among industries, thus possibly biasing investment flows and discouraging investment in tourism. Such approach would be inconsistent with a "level playing field" objective which would be neutral with respect to industry taxing -- ie we should not continue to attempt to pick winners but let the competitive market do it. (In this connection, one is also concerned about references to administered and potentially subsidized credit made by other participants in the conference.)
7. While the paper underscores the isolation of the tourist sector and blames policy for such situation, it doesn't elaborate on the nature of such policies. To do so would be important for this seems a key aspect for the future. Is the author referring to the overall inefficiency and lack of incentives in the economy? What policies would the author recommend so as to strengthen the linkages between tourism and the rest of the economy? In a democratic Cuba, what policy approach vis-a-vis tourism is advisable?

Perez Lopez' paper depicts how neglect of the price system has led to a grossly inefficient use of energy resources.

The major points the paper makes are:

1. The country is highly dependent on energy imports.
2. Even with highly subsidized prices for sugar exports, Cuba has experienced in recent years rapidly growing merchandise trade deficits.
3. Oil reexports have been a very important source of foreign exchange, but Cuba will not be able to continue reexporting oil at the same levels as in the past.
4. Existing industry is not energy efficient. Moreover, because past policy implicitly took oil as an abundant resource, the economy has had very high energy coefficients.
5. Given Cuba's very limited ability to earn convertible currencies through exports, the energy situation amounts to a major crisis.

In its present format the paper could be enhanced by illustrating the balance of payments implications of financing the energy imports required to sustain target rates of growth -- such exercise would be also useful for future negotiations with international financing institutions. Moreover, the paper could elaborate more on past and potential efforts to exploit nonconventional energy sources.

The points raised in the paper are relevant for economic policy in post-Castro Cuba. The implications are :

1. Most of Cuba's economic sectors require energy as a primary input. However, Cuba will have to continue importing most of its energy requirements.
2. In part, economic growth is going to be a function of whether the country is able to finance its energy needs.
3. The future government will have to deal with the issue of how to address the serious constraints to the country's capacity to finance energy imports.
4. Such situation adds urgency to the need to follow adequate foreign exchange and trade policies which do not discriminate against exports or other sources of foreign exchange.
5. In such light, the need for exchange rate policies which do not overvalue the domestic currency, for an open trade regime, and for a foreign investment regime which attracts the foreign investor are of key importance.
6. Likewise, the energy situation imposes the need to move rapidly toward the efficient use and conservation of energy resources. This means that allowing prices to reflect scarcity costs of energy resources will be urgent. In such context, the government will have to make painful decisions regarding targeted subsidization of energy resources --especially electricity and fuels -- and the mechanisms for such subsidies if some subsidization is adopted.

The above implications are consistent with three principles on which, in my opinion, energy policy would be based :

- * encourage competition in the supply and distribution of energy
- * regulate only to counter monopoly advantages and for environmental protection

* regulations and policies should encourage the use of energy conservation

In preparation for the implementation of policy based on such principles the following analytical work is advisable :

1. On price policy :

-- identify how to introduce marginal cost pricing (ie what it costs to deliver additional electricity to users)

-- as a subitem, one should determine how electricity and energy prices should be decontrolled and the extent to which they should be

2. On subsidization :

-- Is some subsidization warranted? To whom? How much?

-- What are the most efficient channels for subsidization of energy use?

3. On institutions in the energy sector :

-- What should the regime for foreign investors in the energy sector be?

-- In letting market forces by and large guide changes and the development of the energy sector, what are the roles of the private and public sectors?

-- Should there be a centralized institution responsible for energy policy?

-- What should be the legal regime covering technological transfers

-- What should tax policies affecting the energy sector be?

4. On energy and the environment

-- What has been the environmental impact of energy practices in Cuba. One can venture that if it is at all like what has taken place in Eastern Europe, much is to be done. What regulations should be adopted in this respect?