## What's the Future of Hospitality and Tourism in Cuba as U.S. Embargo Loosens?

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The loosening of the U.S. trade embargo on Cuba has generated significant discussion regarding the country's potential for economic transformation. Most analysts agree that Cuba will be a very different country 10 years from now; however, the manner and speed of this transformation remain a mystery. Our prediction is that in the short- to medium-term, the impacts of improving U.S.-Cuba relations will be most visible in the hospitality and tourism industry. Already, the number of tourists vacationing in Cuba has increased substantially over the past year. According to the Cuban government, the total number tourists in 2015 was more than 3.52 million, representing a 17 percent increase from 2014. U.S. citizens or residents comprised 450,000 of the total, up 77 percent from the year before. While tourism per se remains illegal under the embargo, the Obama administration has been promoting purposeful travel by allowing Americans to visit the island under 12 exemptions to the travel ban, which include cultural exchanges, medical and religious missions, and "people-topeople" visits. Although travel restrictions are loosening, many Americans continue to see the island as the "forbidden fruit." In their minds, Cuba has been frozen in time, and they want to get a glimpse of the country before it starts to change. The number of American tourists is expected to further increase later this year when eight airlines begin to offer 20 daily nonstop flights between American and Cuban cities. Cruise lines are cautiously expanding trips to Cuba as well. Cuban officials have set lofty goals in order to cash in on this potential influx of tourists and their dollars. Over the next decade, they have set out to build scores of new hotels and to more than double the number of hotel rooms in the country. Foreign hospitality companies will be crucial to this endeavor. Their investment generally takes the form of a joint venture with the Cuban government as the majority partner. These companies have a management contract for a hotel that is owned by the Cuban government. Earlier this month, Starwood Hotels and Resorts opened Four Points Havana, the first U.S. hotel in Cuba in almost 60 years and one of the few to offer Wi-Fi throughout the premises. Transformation of the Cuban hospitality and tourism industry will not be limited to traditional hotels. Already, there is large demand in Havana and the beach cities for private rooms, lodges and bed-and-breakfasts. You should expect an increase in the number of such privately owned accommodations as well as

paladares, which are privately and often family-owned restaurants. Tourists tend to flock to these private establishments instead of their government-run counterparts in search of real interaction with the Cuban people. Speed Of Change We expect that any loosening of the embargo will have a much slower impact on most other industries. The country's lack of modern infrastructure, including decline in energy production, will continue to be an obstacle to it being able to fully participate in the global economy. Already, increased demand for energy brought about by the boom in tourism, coupled with economic turmoil in Venezuela, Cuba's supplier of oil, has stoked fears of power outages. Huge inflows of capital are necessary to upgrade not only the country's power infrastructure but also its ports, airports and roads. Furthermore, the end of the embargo will not remedy the administrative, legal and political limitations within Cuba's socialist economy. Over the past 60 years, Cuba has developed a top-down way of doing business that involves a maze of rules and regulations that will not be easy to cast aside. As the U.S. and Cuba continue to normalize relations, we expect Cuba to evolve into (return to) a "tropical playground" for tourists as many remember it to have been in the days before Fidel Castro. Perhaps in the long term, with greater investment in infrastructure, Cuba's development will be more comprehensive. In the meantime, we recommend that leaders, especially those outside Miami, remember that any predicted highs or lows for the Cuban economy must be tempered by the reality that the Cuban people are long suffering. Most prognoses about Cuba, especially regarding the speed of change, have been in error. Reprinted with permission from the *Daily Business Review*.

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