



BILDNER CENTER

FOR WESTERN HEMISPHERE STUDIES

Colloquium

Session 1

Economic Dynamics in Today's Cuba

La inversión extranjera directa en Cuba:
Necesidad de su relanzamiento

Omar Everleny Pérez

Foreign Direct Investment and the Update of the Cuban Economic Model

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FDI in Cuba: Antecedents

➤ From DL N° 50 (1982) to Law 77 (1995).

Constitutional Reform (1992).

Agreement 5290 del CECM(2004). Cooperative Production Agreement (Goods and Services) y Administration Contract (Production and Services)

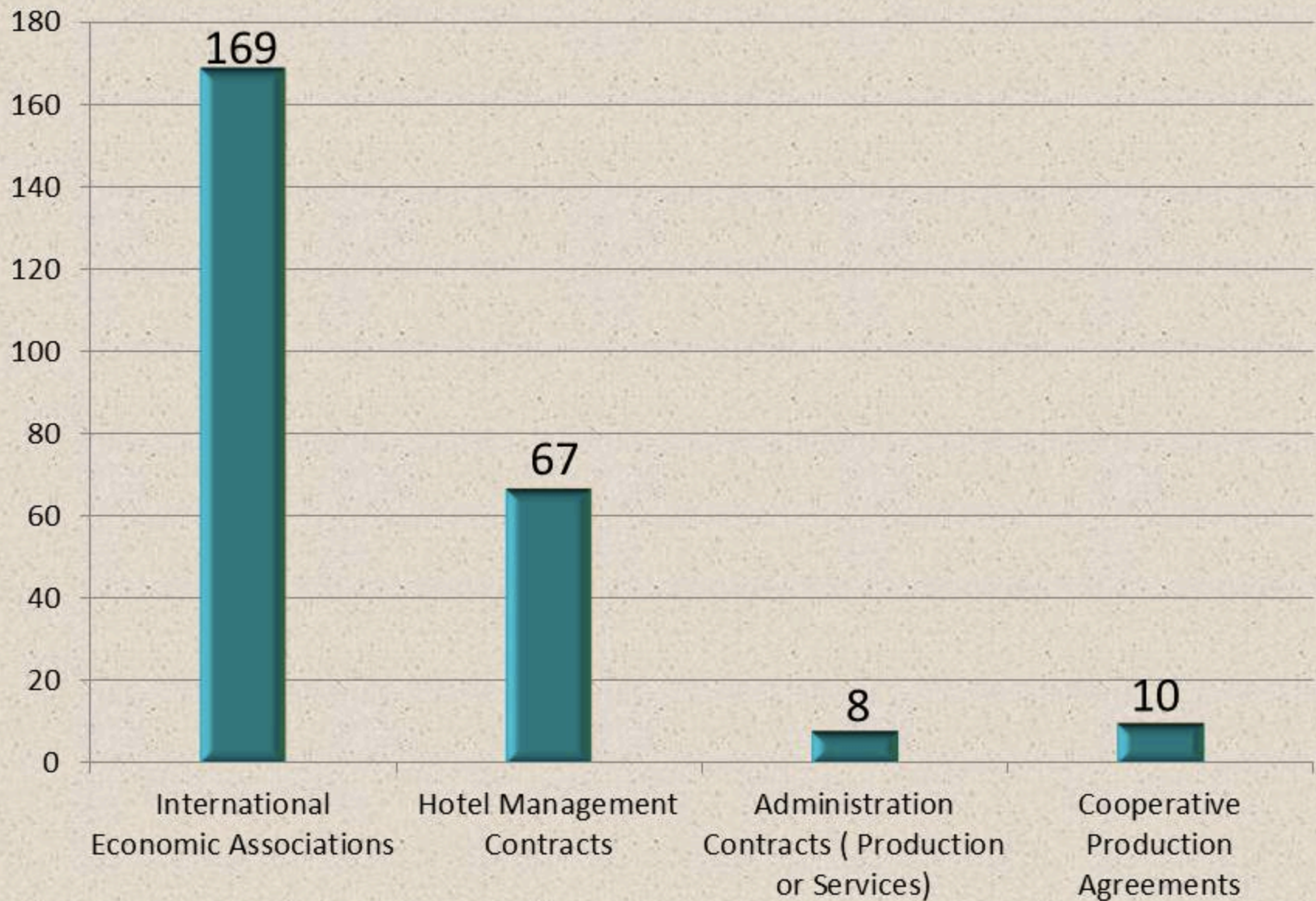
Agreement 7144 Hotel Management Contract (approved by MINTUR)

➤ Number of businesses and Pledged foreign capital

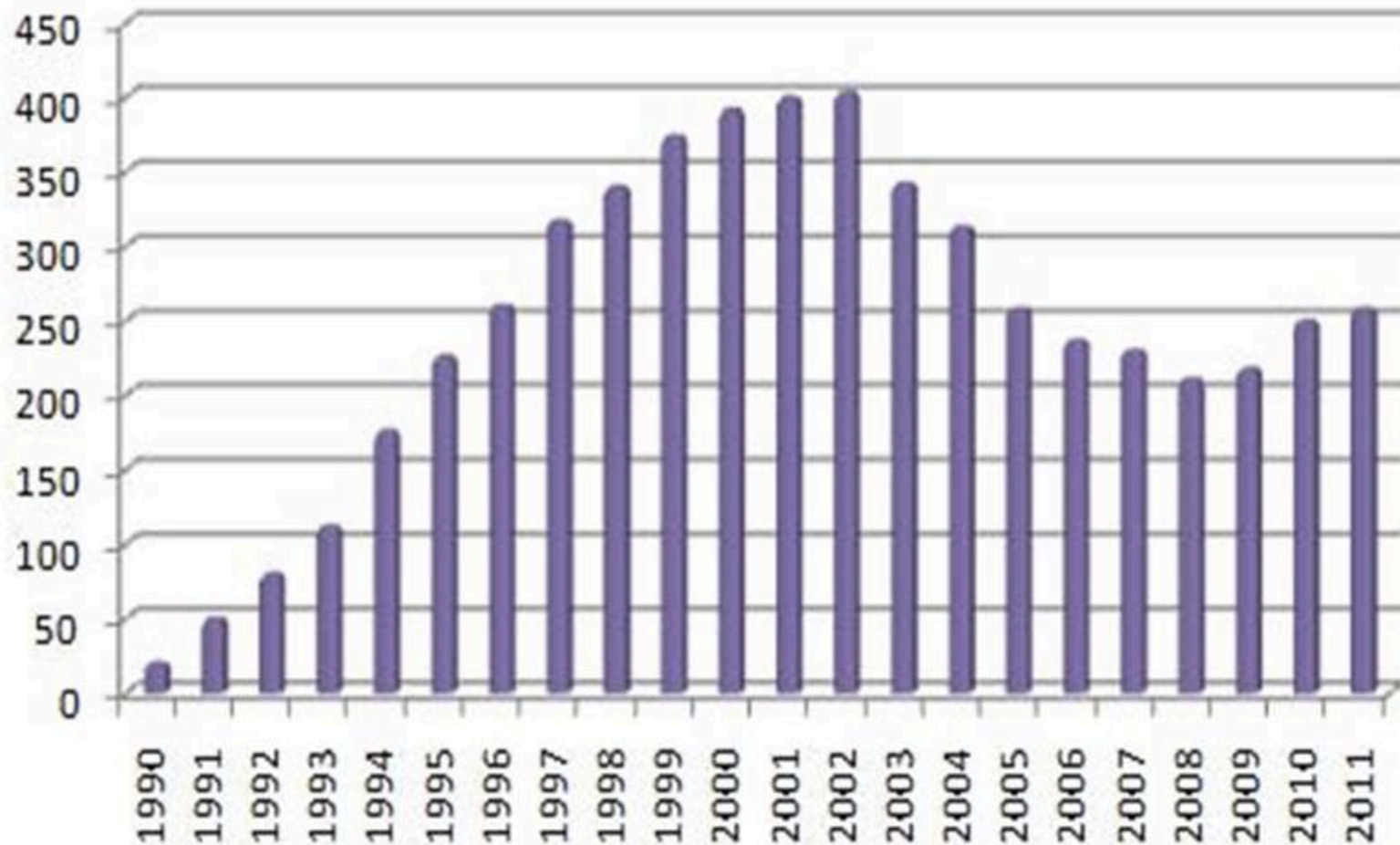
	2002	2009
○ Number of Businesses	403	307
○ Capital (MMUSD)	5200	4200

○ ***FDI Stock/GDP 0,5% (UNCTAD, 2010).***

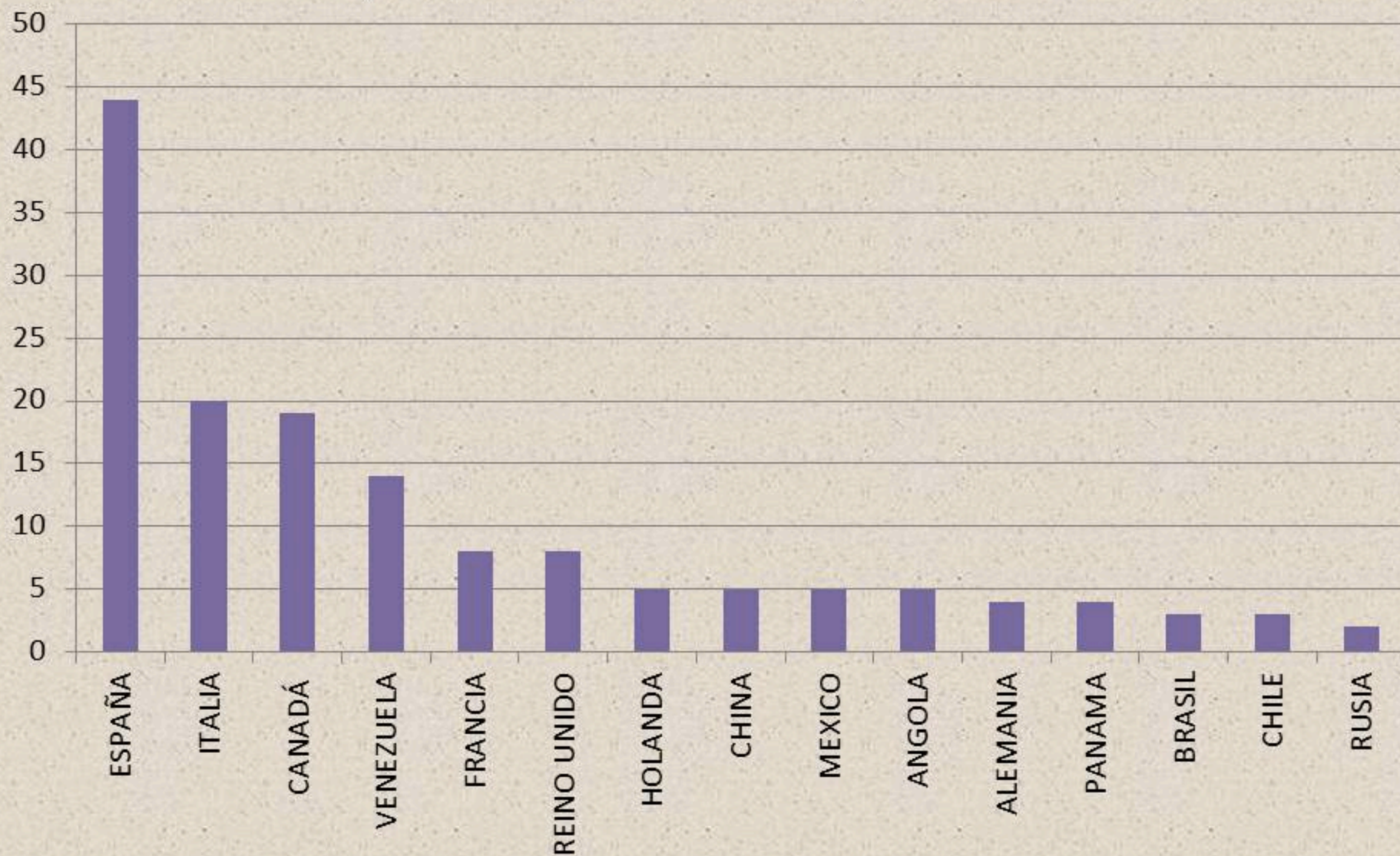
Total Number of Businesses with Foreign Direct Investment in Cuba at the end of 2012



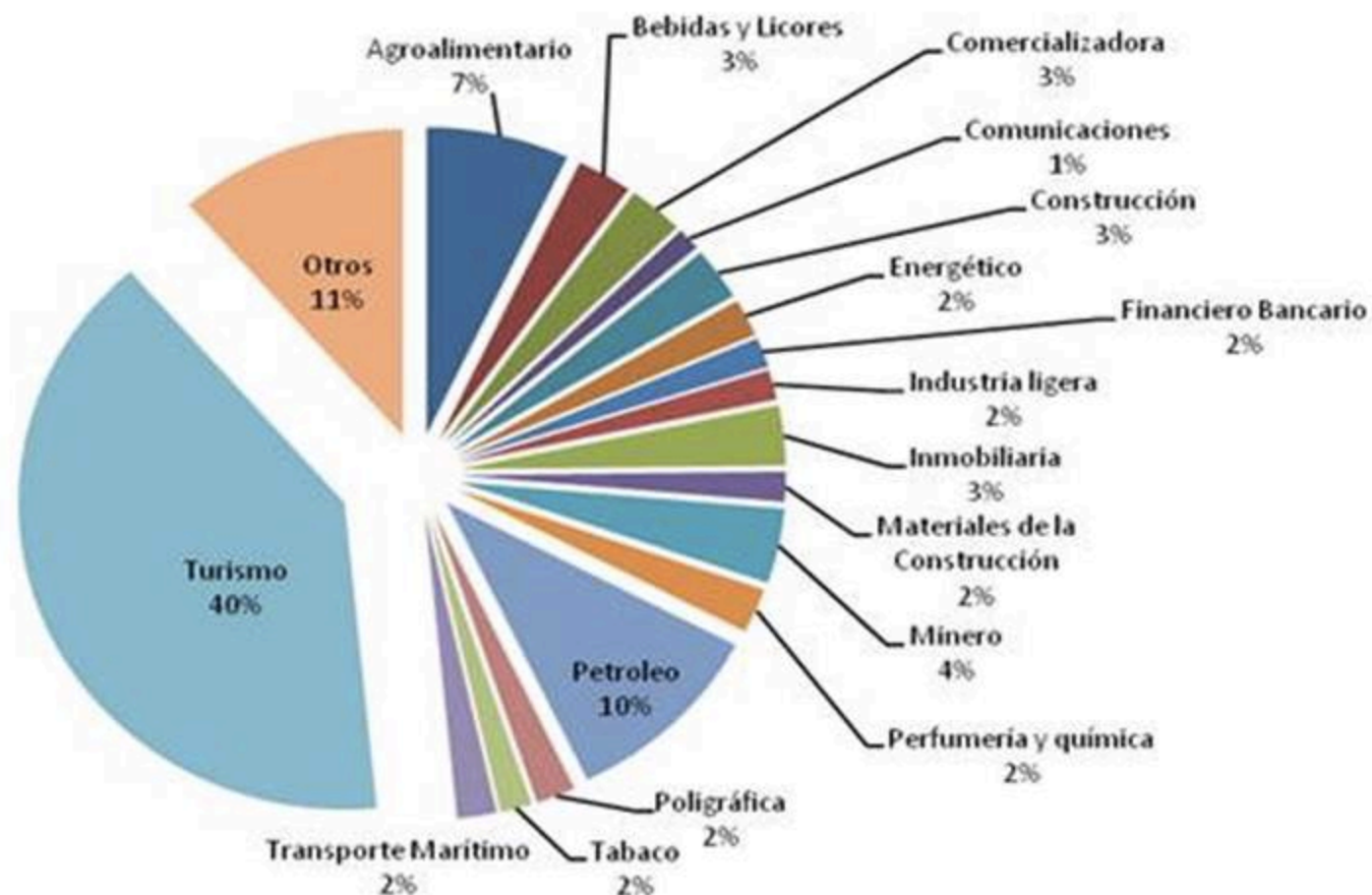
Number of International Economic Associations in Cuba. 1990-2011



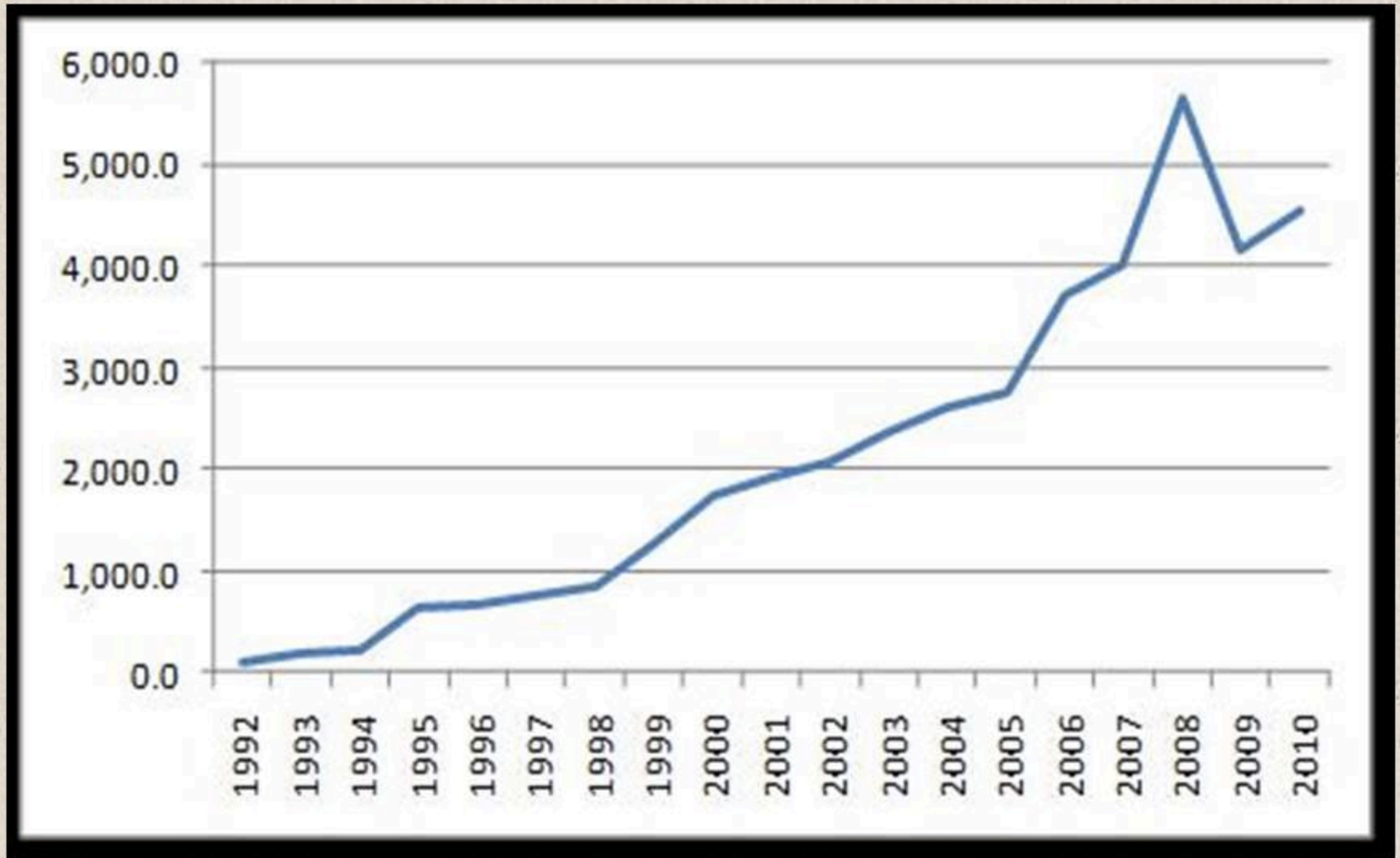
International Economic Associations in Cuba by Country (15 principal Partners) in 2012.



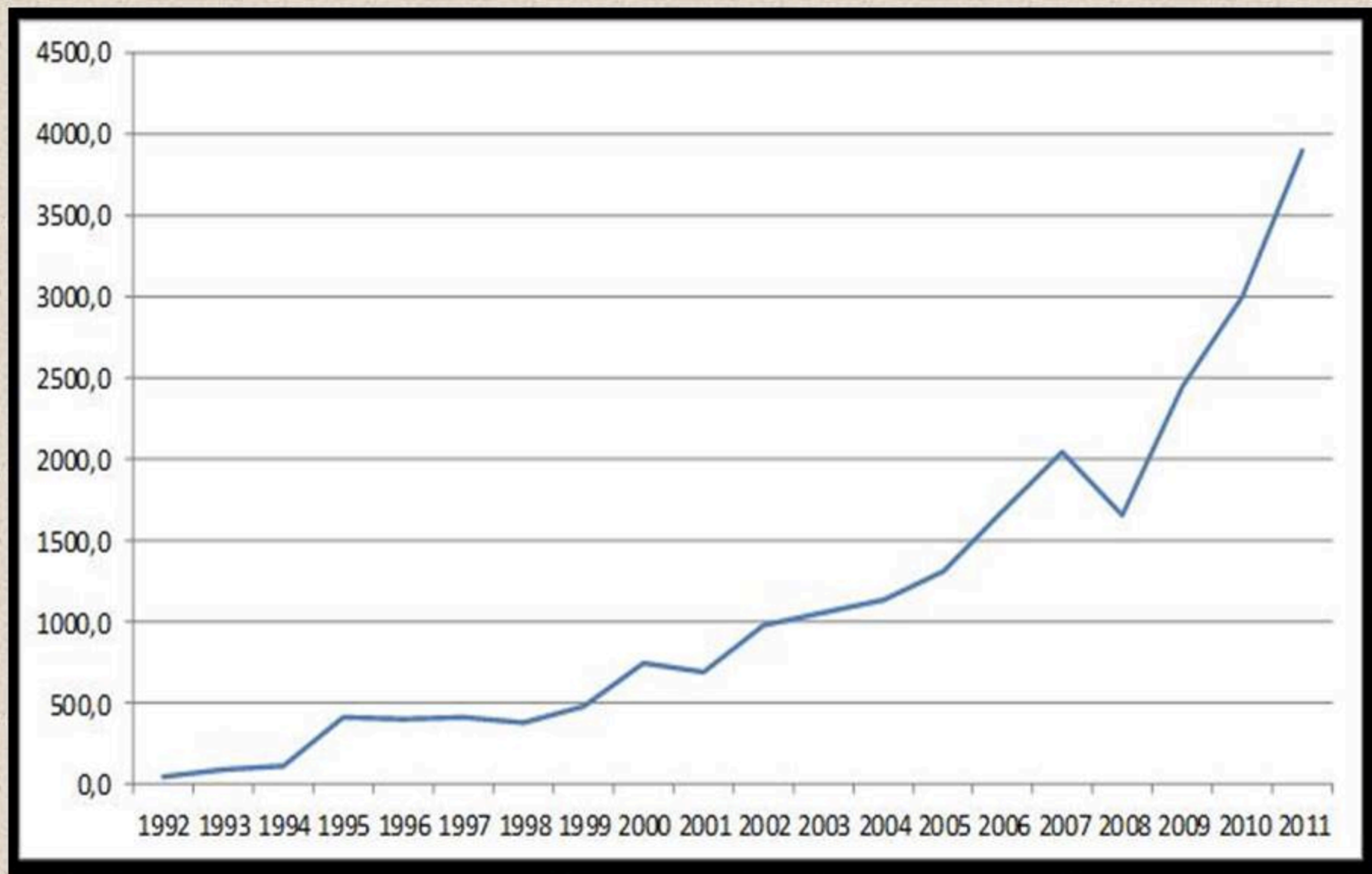
International Associations by sector in 2012 (Percentage Distribution)



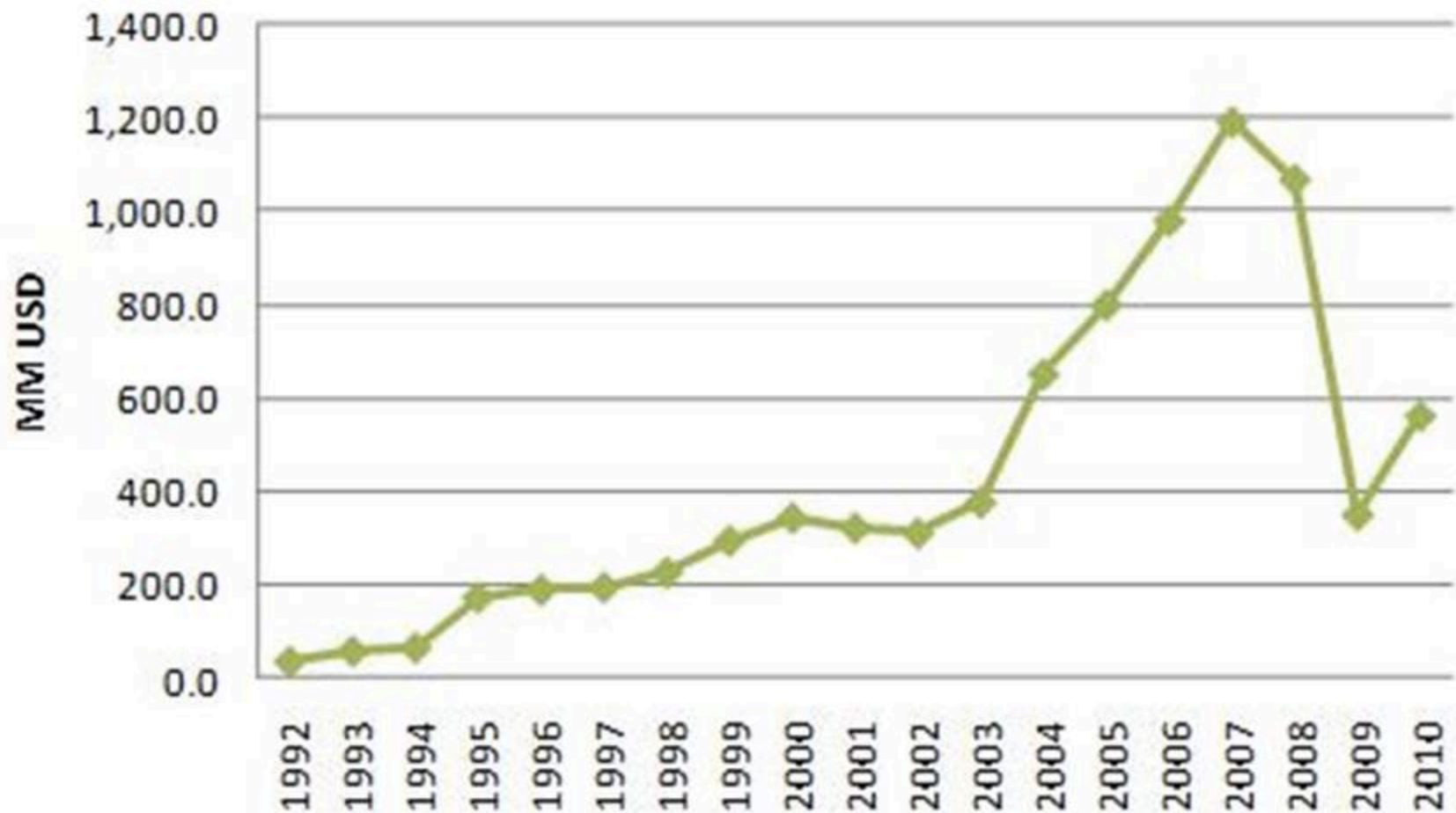
Sales of Goods and Services of International Economic Associations. (Millions of CUC)



Exports of Goods and Services of International Economic Associations. (Millions of CUC)



Direct Income to the Cuban State from International Economic Associations



On april 18, 2011 the Sixth Congress of the PCC Approved the Economic and Social Policy Guidelines of the Party and the Revolution with respect to foreign Investment, the guidelines stated the following:

Foreign Investment must guarantee:

- Access to technology.
- Methods of Business administration.
- Diversification and growth of export markets.
- Import Substitution.
- External Financing
- Stimulation of New Sources of employment.

- A Favorable Change to the Institutional environment is the promotion of Special Development Zones (ZDES). Where local and Foreign Companies operate in a context of simplified administrative and custom rules and low costs.

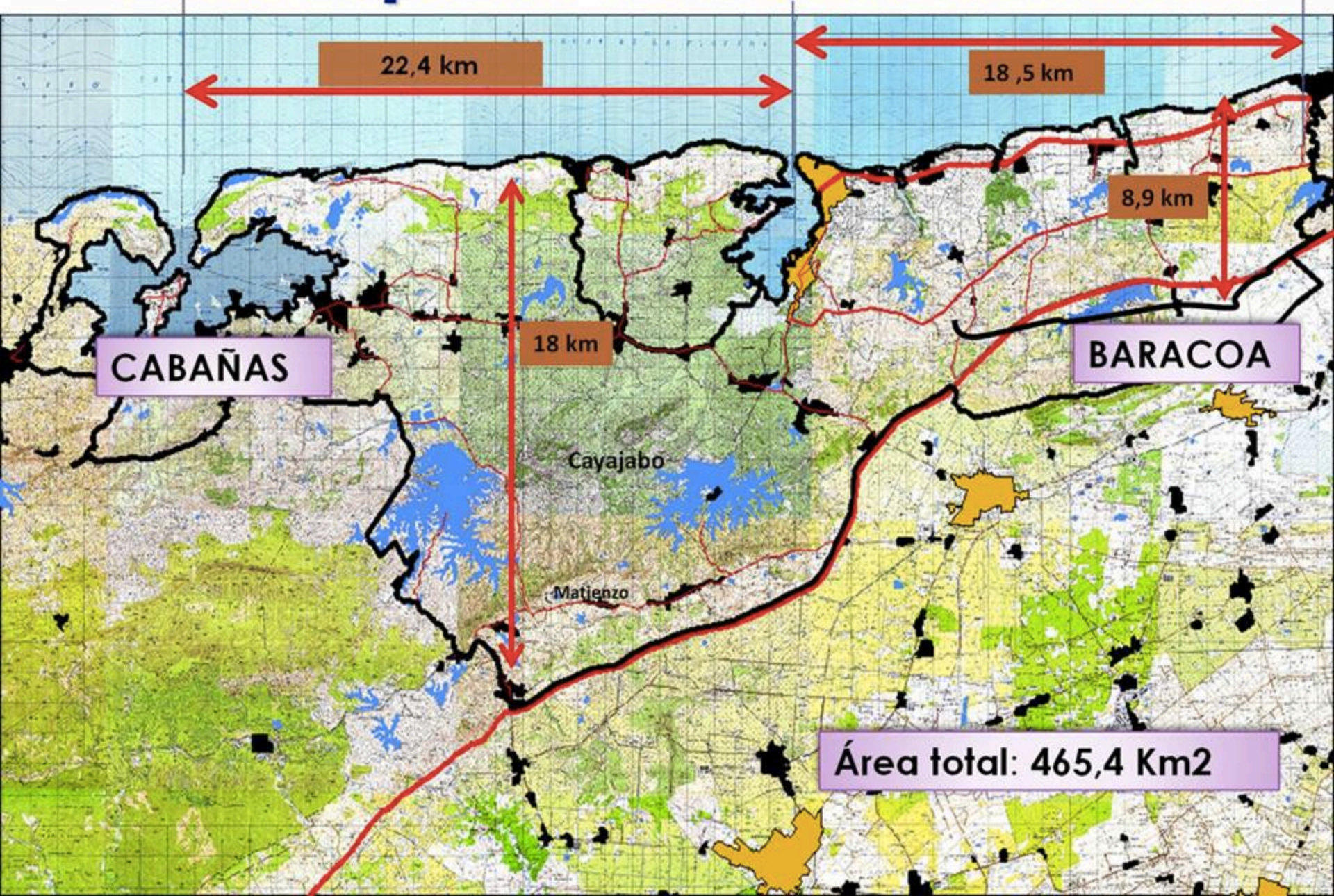
Promotion of ZDEs

- Promote the Creation of ZDEs.

On September 23, The Official Gazette of the Republic of Cuba in its Extraordinary Edition No 26 Published Decree-Law **No. 313** "De la Zona Especial de Desarrollo Mariel", del Consejo de Estado; su Reglamento, el Decreto No. 316 del Comité Ejecutivo del Consejo de Ministros; y las disposiciones jurídicas complementarias emitidas por los ministros de Finanzas y Precios; Trabajo y Seguridad Social; Ciencia Tecnología y Medio Ambiente; y del Interior; así como el Ministro-Presidente del Banco Central de Cuba y el Jefe de la Aduana General de la República.

- Decree-Law 313 offers concrete tax advantages such as the exemption from paying taxes on the use of a workforce; No income Tax for ten years and no sale tax for a year.
- In any case tax terms are attractive and include a 12 % fixed tax on income, 1 % on sales and 14 % for contributions to social security.
- In the ZED, The Cuban Government has decided to prioritize production operations in the areas of Biotechnology, pharmaceuticals, renewable energy, agro food industry, packaging, tourism and real estate, telecommunications and agriculture and livestock.
- . In this moment, 23 projects, Spain, France, Germany, Brazil, Russia, China.

Zona Especial de Desarrollo Mariel





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- The Fast Advanced Project in the ZED to date is The Mariel Port with its Container Terminal, which has a dock of 702 meters for ships over 15 feet of draft of a ship and terminal with an annual capacity of 850- 1 million containers

STS 04

SWL Single Container 50T
SWL Twin-Twenty Container 65T
SWL Under Cargo Beam 75T

ZPMC
上海振华

STS 03

SWL Single Container 50T
SWL Twin-Twenty Container 65T
SWL Under Cargo Beam 75T

ZPMC
上海振华

STS 02

SWL Single Container 50T
SWL Twin-Twenty Container 65T
SWL Under Cargo Beam 75T

ZPMC
上海振华

STS 01

SWL Single Container 50T
SWL Twin-Twenty Container 65T
SWL Under Cargo Beam 75T

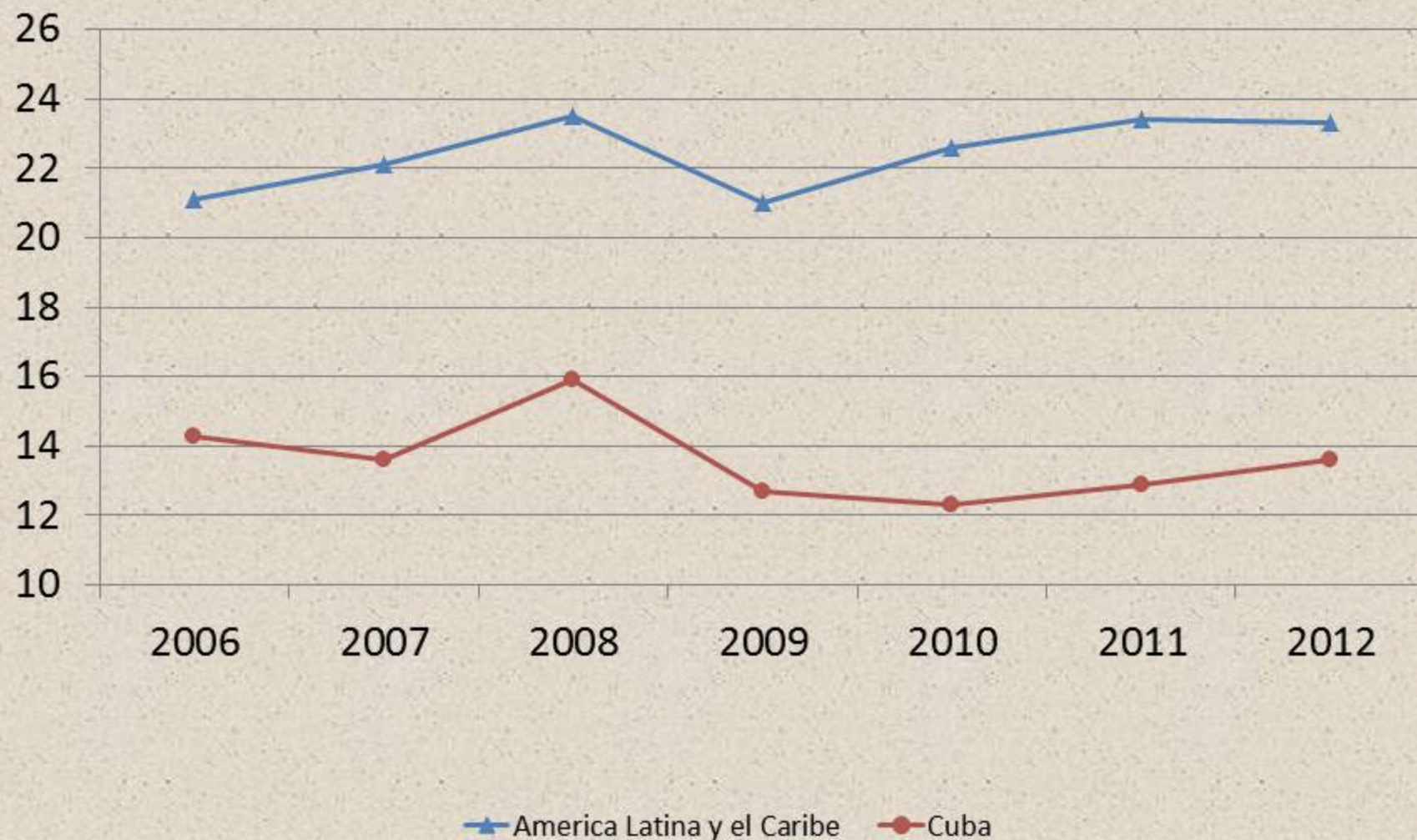
ZPMC
上海振华

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Gross capital formation as a share of GDP at Constant prices . (%)



	MMP	%
Total GDP	50 260.0	100
Total Internal Demand	45 793.0	91.1
Gross Capital Formation	6 812.0	13.6
Total Consumption	38 981.0	77.5
Households	26 239.0	52.2
Government	12 742.0	25.3
External Trade Balance	4 467.0	8.9
Exports of Goods and services	14 191.0	28.2
Minus		
Imports of Goods and Services	9 724.0	19.3

- Therefore to satisfy both requirements in the specific case of the Cuban economy was necessary to rely, whenever possible on significant savings coming from the income generated by external sources.

- Not using these sources meant to keep low growth rates and delay the necessary development thus Cuba decided to use FDI, as an important source of external resources and offers favorable terms to attract FDI flows which tend to be scarce in this region. Law 77 despite certain good provisions, lacked the required specificity or law 77 were not clear enough.

- **More specifically, if Cuba hopes to achieve a 5-7 % annual GDP growth, it needs to have an annual accumulation rate (Gross Capital Formation) of at least 25- 30 %. As it was explained, this means to receive annual FDI flows of 2-2.5 millions USD at least in the beginning, and it is possible that later the requirements will be of an even greater magnitude.**

- There are still obstacles such as:
- The Blockade imposed by the US government.
- The external debt situation, even if a renegotiation process was recently carried out with favorable agreements establishing substantial debt forgiveness.
- **Past mistakes.**
- Restrictions caused by hard currency shortages.

Main Policy Principles

- Foreign Investment is an active and fundamental tool to spur growth of certain sectors and economic activities.
- **Foreign Investment is promoted in a wide and diverse group of projects, through stages and in potential sectors, prioritizing the Special Development Zone of Mariel.**
- The development of integral (comprehensive) projects that generate productive linkages is promoted.
- Foreign Investment is oriented toward export sectors and import substitution as well as to remove obstacles in the productive chain favoring modernization, infrastructure improvements, and technological upgrade.

- Wholly- Owned foreign enterprises can be authorized to execute complex investments especially to upgrade the industrial infrastructure.
- Foreign Investment may contribute to changing the country's energy model.
- The Cuban participation will always be majoritarian in:
 1. Extraction of natural resources.
 2. Public Services.
 3. Biotechnology development.
 4. Wholesale trade.
 5. Tourism.

- The figure of the employment agency is maintained and its main objective will be to provide and control the workforce.
- **Salary will be linked to the work done, to efficiency and the aggregated value generated by the enterprise it will be above the established minimum salary.**
- **The employment agency and the foreign company will negotiate workers' salaries.**
- In some cases, foreign investment can be used to support the operations of non-state economic associations with juridical personality.
- **The deficit in the country's construction capacity cannot halt the investment process with foreign capital. Alternative options will be considered to avoid this.**
- **Exclusive rights in the Cuban market will not be granted.** The foreign partner will enjoy the same treatment of third parties and, may be both supplier and client of the business.

- **The Property of state assets will not be transferred, except in certain cases established by the Cuban Constitution.**

11 Sectors will be prioritized.

- Agriculture and Forestry
- Wholesale Trade
- Food Industry
- Sugar Industry
- Metalworking, Light, Chemical and Electronic Industries.
- Pharmaceuticals and Biotechnology
- Energy and Mining
- Health
- Construction
- Tourism
- Transportation.

Foreign Investment: Legal Environment

The New Legal Environment consists of:

- Foreign Investment Law with 61 articles.
- Regulatory Decree.
- 2 Agreements of the Council of Ministers.
- 2 Resolutions of the Ministry of Commerce and Foreign Investment.
- 1 resolution of the Ministry of Labor and social security
- 2 resolutions of the Cuban Central Bank.

- **The Law establishes specific guarantees, destination sectors, modalities, authorization regime, rules of environmental protection and use of natural resources, arbitration conflicts and special regime (banking, export and import, labor, taxation and security, among others).**

- The Decree Facilitates the investment process with rules on the presentation negotiation and control of the projects.
- It also defines the composition and functions of the commission of the evaluation of businesses with foreign investment, which advises the government in making decisions.

Main Changes to Law 77

- The compensation standard regulated by law 77/95 (previous indemnification) as guarantee in cases of expropriation of the assets of foreign investors was conformed to constitutional rules (due indemnification)
- With respect to the three modalities of foreign investment established by law 77/95 (joint ventures, enterprises with 100 % Foreign capital (wholly-owned foreign enterprises and international economic association contracts was broadened to include production and service administration hotel management and **professional services-**

- Approval rules were modified according to the strategic importance and types of businesses.

The Council of State approves businesses in the following areas: non-renewable natural resources (except Risk contracts) administration of public services and public work.

The Council of Ministers approves: Wholly-Owned foreign enterprises; when there is a transfer of property or other rights involving state.; non renewable resources risk contracts involving assets, when a public foreign company participates to the business, exploitation of renewable energy sources; investments in the business areas of healthcare, education, and armed forces.

- Rules on the evaluation and approval of businesses area streamlined. The process must be completed within 60 days since the submission of the documentation and 45 days in the case of OACE decisions.