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Analysis of the Portfolio of Opportunities for Foreign investment in Cuba

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INTRODUCTION

The "Foreign investment Law" No. 118 enacted March 29, 2014 by The National Assembly of Cuba, together with its Regulations and other complementary rules, are closely linked to the *Guidelines of the Economic and Social Policy of the Party and the Revolution* formulated to advance the country's sustainable development. This strategy sees foreign direct investment (FDI) as the foundation for economic development in the short, medium and long runs, in so far as it will provide "access to advanced technologies, management skills, diversifying and expanding export markets, import substitution, access to international finance, creation of new sources of employment and higher income generation by enabling product chains with the national economy".[1]

According to Council of Ministers Vice-President and Minister of Economics, Marino Murillo, Cuba needs between $2 and $2.5 billion dollars in annual investments to stimulate development that will result in prosperity and sustainability of its socialist socio-economic project. The aim is to attract a level of FDI that will allow gross capital formation rates of 25-30% of GDP, spurring rates of growth of between 5 and 7% annually. Foreign capital is essential for increasing the rate of growth of the economy, which averaged 1.8 % over the last decade.[2]

The 2014 Havana International Fair (FIHAV) was the occasion chosen by the Ministry of Foreign Trade and Investment (MINCEX) to present its first Portfolio of Foreign investment Opportunities, which they hope "will

1 Malmierca Díaz, R., Ministro de Comercio Exterior and la Inversión Extranjera, en la presentación del proyecto de Law de Inversión Extranjera a la Sesión Extraordinaria de la Asamblea Nacional del Poder Popular, 29 de marzo de 2014.

2 http://www.cubadebate.cu/noticias/2014/03/29/aprobada-nueva-law-de-inversion-extranjera-fotos/#.UzdiPIV8vZ8

constitute an important tool to attract investors, [and provide] a summary of the business ventures that the Cuban government wants to develop with foreign capital plus information on the policies established for the various sectors".[3] It puts forward 246 proposals, with an estimated total value of $8.7b. Minister Rodrigo Malmierca explained that the initiatives do not constitute a list developed by the government, rather, they were presented by the Cuban enterprises in response to their priorities.

Before the project summaries the document provides information on the policies approved for the various sectors, the legal framework as well as data on human capital, productive structure, lead products, key results, etc.

TYPES OF VENTURES

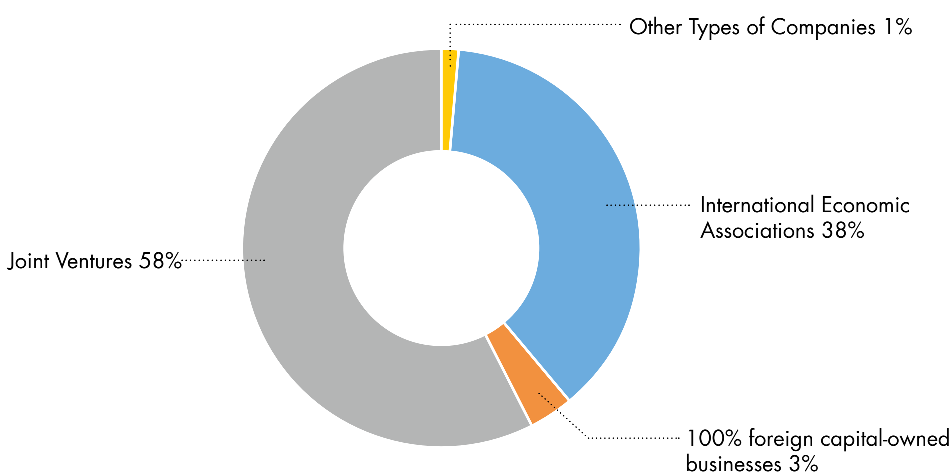
Law No. 118 establishes the types of business that foreign investors can participate in:

1. Joint venture;
2. International Economic Association (IEA), which includes, among others: contracts for hotel administration, production or services, contracts for the provision of professional services, contracts at risk for exploration of non-renewable natural resources, for construction and agricultural production;
3. 100% foreign capital-owned businesses.[4]

Of the 95 projects described in the la Portfolio, 55 offer to form Joint ventures, 36 different forms of International Economic Associations and 3 can be constituted as 100% foreign capital corporations – all for the production of renewable energy (wind and solar panel farms).[5] One is open to any form of association: The Project Colas Rojas ("Red Tails") in Moa, Holguin, for treating and processing the "tails" that have accumulated as a result of the production of nickel, which are rich in iron and other elements.

It is noteworthy that only State-owned enterprises (SOE) propose businesses, despite the fact that the projects for the production of peanuts and fruits include the participation of cooperatives and individual farmers, as is

Types of Businesses with Foreign Investment



3 Ministerio de Comercio Exterior and la Inversión Extrajera de Cuba, Portfolio de Opportunities de Inversión Extranjera 2014, http://www.cepec.cu/cepec/sites/default/files/Cuba_portfolio-de-opportunities_2014_ESP.pdf

4 Ibídem, p.9

5 "According to Ivonne Vertiz Rolo, General Assistant Director for Foreign Investment at MINCEX, "There are nine foreign ventures of 100% foreign capital established in the country, mainly in the energy, industrial infrastructure and banking sectors. One of them was established after Law Nº 118/14 was passed…. As of June 2014 there were 208 ventures with foreign capital in the country… 42% in tourism and 13% in energy and mining." Periódico *Granma*. Edición viernes 12 de diciembre del 2014. Pág. 16. La Habana.

already the case in the production of *habano* cigars. MINCEX has defined national investors as legal entities of Cuban nationality and residence. This includes cooperatives, which are a non-State form of management that enjoys legal status[6]. Nevertheless, among the proposing entities there are no agricultural, industrial or service cooperatives, which suggests that despite the expressed will of the government to support and develop the non-state sector of the economy, in practice the various national entities charged with implementing these decisions still do not align with the policies put forth by the country's leadership.

Cuban nationals residing in the country are excluded as potential investors, but not Cubans residing abroad. According to MINCEX, foreign investment is promoted precisely because of the need to attract foreign capital, and neither the SOEs nor the Cuban residents have the necessary investment capital to achieve the levels of economic growth required. On the other hand, the new Foreign Investment Law does not distinguish between the sources of capital invested in Cuba. The criteria for the selection of the investors stress the experience and prestige of the foreign entities partnering with the Cubans, their global positioning, general requirements for a foreign investor that do not address their place of origin.

In any event, the restrictions for Cuban-Americans to invest in Cuba are established by the US and not the Cuban government.

VALUE OF THE INVESTMENTS

While the editors of the Portfolio stated that it encompasses 246 proposals with an estimated value of \$8.7b, a detailed analysis of the document yields a total of 95 proposals, of which 78 indicate an estimated value of investment. These total \$7.63b, and range from \$600 md for Project Cajálbana, to mine and process nickel and cobalt in Pinar del Río, to \$2m for a project to produce fresh pastas in Havana or Villa Clara. Nevertheless, many of the 17 proposals that do not give an estimated investment value are potentially large projects.

MARIEL SPECIAL DEVELOPMENT ZONE (ZEDM)

The Portfolio is organized by sectors of the economy, but because of its importance and priority, the first section is dedicated entirely to project proposals for the Mariel Special Development Zone (ZEDM). It encompasses 32 of the 95 projects presented in the Portfolio. Of these 32, some 25 estimate the value of the investment, totaling \$1.64b, or 21.5% of the total value of the projects with estimates. Five projects are in the agriculture and food sector, one of them the production of fresh vegetables for consumption in the ZEDM proper and for export. Fifteen projects, valued at over \$860m, are in the Biotechnology / Pharmaceutical Sector. Ten projects are in the Industrial Sector: iron and steel, mechanical, light industry, automobile, chemical and electronic; while one is for the construction of a solar panel farm to generate electricity for consumption in the ZEDM itself, and another to provide ancillary services for the biotechnology/pharmaceutical industries.

PROJECTS BY SECTORS

In the rest of the country, 16 projects correspond to the Agriculture, Forestry and Food Sector, with a total value of \$573.8m, all joint ventures, mainly oriented toward import substitution and export.

Four sugar mills are open to Administration contracts, in the provinces of Matanzas, Artemisa, Camagüey and Las Tunas, as International Economic Associations, with the aim of recuperating the original design capacity of the mills, increasing production of sugarcane and sugar, introducing new production and management

6 Entrevista a Déborah Rivas, Directora General de Inversión Extranjera and Armando Cuba, Director Jurídico en el MINCEX, "Conozca más de la Ley de Inversión Extranjera en Cuba" Cubadebate, 1 abril 2014 http://www.cubadebate.cu/serie/modelo-socialista-cubano/

technologies, increasing efficiency and quality and reducing the cost of producing sugar, and recover the investment cost.

Ten projects in the Industrial Sector include: production of computer equipment, mesh sacks, footwear, paper (bond, tissue and newsprint), car batteries and UPS, aluminum containers, stainless steel, metallic structures; and solid waste management in the city of Havana.

In the Tourism Sector we find the construction and commercialization of new hotels and villas in Cienfuegos, Las Tunas, Holguín, Camagüey and Trinidad, as well as real estate developments associated with golf courses, and the administration of 33 existing hotel installations.

IEAs for at-risk offshore oil exploration prevail among the projects in the Energy Sector: a total of 85 blocks are envisioned, located on land and shallow waters along Cuba's coast and in Cuba's exclusive economic zone in the Gulf of México. They also include secondary recovery of oil in wells located along the North Coast, as well as the generation of electricity from forestry biomass and sugarcane bagasse, and new wind farms in Maisí, Guantánamo, and Banes, Holguín.

The predominant projects in the Mining Sector call for prospection—exploration of metals and other minerals in the Central and Eastern Regions and in the Isle of Youth. Hierro Mantua (PRI) deposit constitutes the principal reserve of copper minerals in the country, and they are proposing a project for its exploitation, processing and commercialization. In addition to the Cajálbana and Colas Rojas projects already mentioned, there is the San Felipe Project, in Camagüey, also for processing minerals to obtain commercially viable nickel and cobalt products.

Three projects are being presented in the Transportation Sector associated with existing installations: management of a transportation hub for tourism employees in the Central Region and an urban transportation base (bus depot) in Havana; and remodeling and operating the Casablanca Shipyard in Regla, on the Havana Bay waterfront.

In the Construction Sector we find projects for the design, construction and operation of a new plant for the production of Clinker (cement) in Gibara, Holguín, and a new production line in the existing Nuevitas, Camagüey, cement factory.

The only project in the Commerce Sector is a joint venture for importing and wholesale marketing of motor vehicle parts and aggregates. The domestic wholesale and retail sales networks are not open to foreign investment, notwithstanding the formidable obstacle to the development of cooperatives and small businesses resulting from the absence of a wholesale market, and the deplorable state of quality and prices in retail trade, a source of constant complaints by consumers.

The ICT (Information and Communications Technologies) Sector (including software production) is not included within the priorities for attracting foreign investment. Nor are the small and cottage industries, which contribute so much to employment and local development, prioritized.

In the words of, Ivonne Vertiz Rolo, MINCEX Assistant Director General of Foreign Investment:

> *"… foreign capital should contribute to increasing the yield of investments and reduce allocation risks, while at the same time generate other positive indirect effects (spillovers) toward the domestic industry, promoting production linkages in all directions. We should also take advantage of it for generating new employment and local development."*[7]

7 Ob. Cit.

CONCLUSIONS

The Portfolio of Foreign Investment Opportunities suggests that the Cuban government has adopted a proactive posture and is clear as to where it wants to direct and promote investments. It is much easier to stimulate the influx of foreign capital when there are precise ideas of what they are looking for. But the legal framework per se is not enough. It is necessary to organize / adjust (poner a punto) the entire environment for doing business in the country, which includes the banking system, customs and the tax system, as well as telecommunications, domestic trade and the real estate market. The potential for exporting TIC services, for providing consulting and other professional services, in association with various national investors including cooperatives, could attract a significant amount of FDI and provide well-paid jobs to an important number of professionals in the country.

The Portfolio underscores mainly large investments, to the detriment of small and medium ventures, when they—in fact—are not mutually exclusive. The international practice demonstrates that medium enterprises tend to be more active in FDI that large multinationals, which have other interests associated with global value chains.

In subsequent editions there should be greater number of opportunities for infrastructure projects, especially design and construction of highways and bridges, currently very deteriorated, together with telecommunications, to employ global technologies of e-commerce and messaging, among others.

The Portfolio prioritizes production for export, which will have a large import component. The country will need to guarantee the necessary facilities and flexibility of related institutions and mechanisms related to both. The excessively centralized form of planning that prevails today will need to be adjusted to the new times.

Nor does the Portfolio encompass all possible foreign investments with the State sector: negotiations continue for projects under consideration before the Portfolio was published, others that stem from bilateral and multilateral agreements signed between Cuba and other nations, and still others such as those associated with the rehabilitation of the Havana Harbor, which changes function and morphology with the transfer of many of its industrial and port activities to Mariel and other areas.

Finally, agility in the decision-making process is an essential component in order for foreign capital to arrive with the swiftness that the Cuban economy requires, even though it has been a very gradual process to date. But the undercapitalization and accumulated needs require a quicker pace than has been adhered to until now.