



**NEW CONTAINERS** terminal at Mariel's Special Development Zone, the largest non-touristic investment in recent years.

## IN THIS ISSUE

### INTERVIEW

**CUBA 2016: The Havana Consulting Prognosis** 2  
*David Adams*  
 THCH analysts talk about pending reform issues in Cuba, what was achieved in 2015 and the prognosis for 2016..

### LOGISTICS

**The Thaw Begins to Transform the Markets** 10  
*Emilio Morales*  
 The future of the parcel delivery agencies to Cuba after reestablishing the regular postal service between both countries.

### INVESTMENTS

**Investment Deficit: Implications for Future Growth**  
*Jorge Pérez-López*   
 Cuba needs to triple its gross capital formation rate compared to its Gross Domestic Product for the economy to succeed.

**New Prospects for Spanish Businesses in Cuba** 18  
*Julio Cerviño*  
 Cuba ranks amongst the preferred investment countries for the Spanish companies in Latin America, a research concludes.

### LEGAL

**Broad Legal Brushstrokes for Potential Investors** 21  
*THCG Legal insider*  
 Cuba's legal system is non-compatible with that of most developed countries, and investors must know.

### AIR TRANSPORT

**Commercial Air Travel Will Stunt Charter Flights** 23  
*THGC Business Intelligence Unit*  
 The major U.S. commercial airlines would take over the vast majority of air traffic, with a small niche for Cubana de Aviacion and today's dominant charter airlines.

### ECONOMY

**Alternatives for the Future of the Cuban Economy** 26  
*Archibald Ritter*  
 There are several institutional structures that Cuba might accept that include the private sector.

### OUR TEAM

**About THCG Business Report** 30

## *Some opening words*



Dear readers

**F**or the first time after more than five decades of antagonism and distancing from one another, the U.S. and Cuba have crossed the threshold of change.

Some basic steps have been taken since the thaw of Cuba-U.S. relations that began on December 17, 2014, in the difficult road to build confidence between the two geographic and historical neighbors: reestablishing formal diplomatic relations, establishing communications links, connecting individuals in the two nations, expanding academic collaboration, and lifting some restrictions to trade.

The short distance traveled to date is merely the beginning of a long, tortuous and unknown road that eventually should lead to a positive relationship, in which suspicion and rancor might exist for some time but not to the extent that they would derail mutually beneficial relations.

The thaw in diplomatic relations has generated an intense interest among businessmen in the U.S., Europe, Asia and Latin America in entering the Cuban market. They assess the Cuban market as potentially providing the greatest commercial opportunities in the Caribbean region in the next few years, principally because of Cuba's privileged geographic position, its natural resources and the high level of education of its human resources.

Still ahead are the challenges of opening trade and investment relations to a scale that will reach persons of all social strata in both sides of the Florida Straits. Convinced that changes in that direction are forthcoming, The Havana Consulting Group has prepared the THCG Business Report to keep you informed about the course of the improvement in relations, the doors that are opening, and particularly about the characteristics of a market that is so near and so unknown.

Published bimonthly, THCG Business Report is required reading for any company or investor interested in knowing about the opportunities of doing business in the island, how to manage risk and ways to compete in the Cuban market.

THCG Business Report relies on a multidisciplinary team of experts with different backgrounds specializing in marketing, legal issues, and business development. These experts have studied all aspects and sectors of the Cuban market from inside and outside the island for more than 30 years.

Each issue of THCG Business Report will contain information not available anywhere else originating from our own research and analysis of the Cuban market. The approach of our experts is objective, based on serious analysis of real and transparent business situations. The information and analysis will assist you in assessing the Cuban market and making your own decisions.

Without further ado, we put in your hands the first issue of THCG Business Report.

Emilio Morales  
Presidente y CEO  
The Havana Consulting Group & Tech LLC

A handwritten signature in black ink, appearing to read 'Emilio Morales', written over a thin red line.

# Investment Deficit: Implications for Future Growth

By Jorge Pérez-López

The importance of investment in determining the future growth path of an economy cannot be overstated. As opposed to current consumption, which comprises the goods and services produced by an economy that the population or the government uses up (consumes) in a certain period of time, investment (or gross capital formation) reflects the construction or acquisition of plant and equipment and improvements in infrastructure that will yield an economy's production of a future stream of goods and services.

Economists generally consider the ratio of gross capital formation to the gross domestic product (GCF/GDP) as an indicator of future growth of an economy. Economists posit that the higher this ratio, all things being the same, the stronger will be the future growth performance of an economy.

## Cuba's GCF/GDP Ratio

Writing in 2006, economist Omar Everleny Pérez Villanueva observed that robust economic performance in Cuba would require achieving capital accumulation (GCF) ratios of about 25% of GDP, roughly the ratio recorded between 1975 and 1989. Table 1 shows Cuba's GCF/GDP ratios (in percent) for the period 2009-2014. From

### Ratio of Gross Capital Formation to GDP at Current Prices

2009	2010	2011	2012	2013	2014
10.9	10.1	8.5	8.6	9.4	7.6

Source: Oficina Nacional de Estadísticas e Información, Anuario Estadístico de Cuba 2014, Table 5.2.

a low level in 2009 of 10.9% in 2009, the GCF/GDP ratio fell to 10.1% in 2010, 8.5% in 2011 and 8.6% in 2012, rose to 9.4% in 2013 and dropped sharply to 7.6% in 2014. The latter GCF/GDP ratio, while not the lowest in Cuban history -- it was about 5% of GDP during the special period -- nevertheless is extremely low in historical perspective.

Another way to look at the level of Cuba's GCF/GDP ratio is to compare

## Robust economic growth in Cuba requires Gross Capital Formation/Gross Domestic Product ratios of about 25 percent

it with other countries in the region and with fast-growing countries. According to information provided by each Latin American and Caribbean country to the Economic Commission for Latin America and the Caribbean (ECLAC), over the 6-year period 2009-2014, the regional average ranged from 19.3% in 2009 to 21.3% in 2013, exceeding 20% in every year except for 2009. Three of the fastest-growing economies in Latin America -- Chile, Colombia and Peru -- had gross fixed capital formation to GDP ratios exceeding 25% every year since 2010, with this ratio peaking in Chile at 28.7% in 2012, Colombia at 27.6% in 2013, and Peru at 35.2% in 2013. Meanwhile, Cuba's GFC/GDP ratio was consistently below the worst-performing Caribbean and Central American nations -- Dominican Republic, El Salvador and Guatemala -- and significantly below Costa Rica, Honduras, Nicaragua and Panama. With respect to fast growing developing countries, the GFC/GDP ratio in 2014 was 46% for China, 32% for India, and 27% for Vietnam.

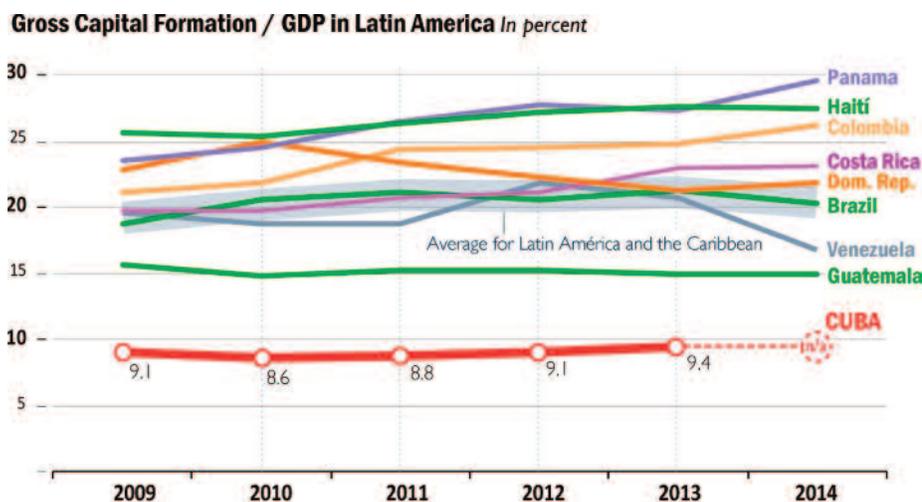
## Cuba's Investment Deficit and Foreign Investment

Cuba's leadership has focused on attracting foreign investment to plug the very serious investment gap. Economist Juan Triana has posited that the island needs \$3 billion in foreign investment annually "in order to reach an adequate productive phase." Elsewhere, Triana has argued that Cuba needs to increase its gross capital formation by about 15 percentage points -- from about 7-8% to 22-23% -- in order to be able to generate a growth rate of about 4% per annum.

Somewhat lower estimates of the gap have been made by Cuban government officials. Minister of Foreign

Trade and Foreign Investment Rodrigo Malmierca stated in early 2014 that Cuba needs to attract between \$2 billion and \$2.5 billion in foreign investment annually in order for the economy to grow at the 7% per annum rate planners have set as a target for the next few years. "If the economy does not grow at levels around 7%," said Malmierca, "we are not going to be able to develop." And Vice President of the Council of Ministers Marino Murillo told the National Assembly in March 2014, in the lead up to consideration by that body of the new foreign investment law, that Cuba required around \$2.5 billion per annum in foreign investment in order to "stimulate development that would result in prosperity and sustainability of Cuba's socialist socio-economic model."

The levels of foreign investment that Cuba is seeking to attract are quite significant by historical standards. Although time series statistics on foreign investment over extended periods are not available because Cuba has not regularly published such statistics, it can be estimated that incoming investment amounted to roughly \$2 billion over the time span 1993-2001, or roughly \$224 million per annum (\$233 million per annum for 1996-2001, after the passage of the 1995 foreign investment law). The only recent datum originates from a statement by the then-Minister of Foreign Investment who estimated that incoming investment amounted to a record-high \$981 million in 2006, 22% higher than a year earlier (suggesting that incoming foreign investment in 2005 was roughly \$765 million). Economist Pérez Villanueva has estimated that cumulative committed (i.e., promised, which could be lower than actually realized) foreign investment through 2012 amounted to about \$5 billion. Compare these historical investment levels to the \$2.5 billion per annum in foreign investment that Cuban officials indicate is the minimum amount that Cuba requires for sustainable growth.



Source: CEPAL, Estudio Económico de América Latina y el Caribe, 2015, Tabla A. Based on information reported by each country to CEPAL.

## Cuba's Gross Capital Formation / Gross Domestic Product ratio has been consistently below other Latin American and Caribbean countries at least since 2009

### Policies to Attract Foreign Investment

The economic and social development guidelines approved by the VI Congress of the CCP in April 2011 embraced foreign investment as a complement to domestic investment in fulfilling economic and social development plans. Consistent with the guidelines, the Cuban government passed legislation in 2013 creating the Mariel Special Development Zone (Zona Especial de Desarrollo Mariel, ZED Mariel) and in 2014 revising the overall foreign investment law. Both of these legislative initiatives created or enhanced economic incentives to attract foreign investment.

In the fall of 2014, the Cuban Ministry of Foreign Trade and Foreign Investment released a portfolio of projects for which Cuba was seeking foreign investment; the portfolio consisted of 246 projects, both within the ZED Mariel and outside, for which

Cuba solicited foreign investment of approximately \$8.7 billion. As is the norm, Cuba has been largely mum with respect to foreign investment flows that have resulted. The ZED Mariel webpage has dozens of news items reporting on visits from foreign delegations and playing up the advantages of investing in the zone, but no information or statistics on investment projects actually consummated.

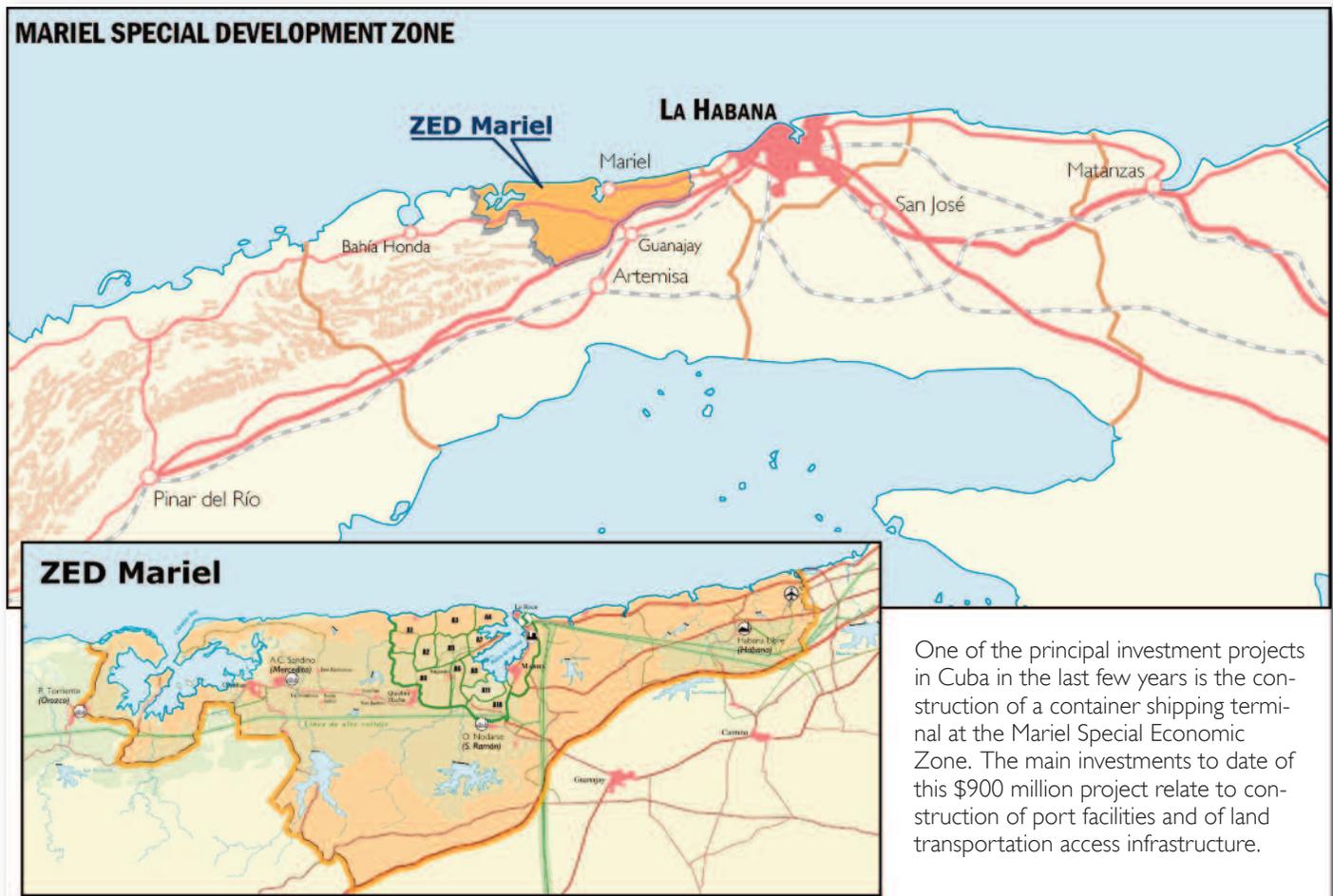
In the context of the announcement in January 2016 of a \$35 million investment in the ZED Mariel by British-Dutch multinational company Unilever (that would produce personal and homecare products in a joint venture with Cuban corporation Intersuchel), Cuban officials stated that there were 8 other projects authorized for operation in the Zone, including the joint venture Bras-Cuba (cigarette producer with Brazilian capital), two Mexican investors (meat products company Richmeat and paint producer Devox

Caribe), Spanish company ProFood (food and beverages for the tourism industry) and two Belgian companies one in the field of logistics and the other in technology. There is no indication of the overall dollar value of these investments. Nor is there any information on investments in the island outside of the ZED Mariel.

### Prospects for Investment and Growth

As has been documented in the first part of this essay, Cuba's investment in productive capacity that would generate future economic growth has been chronically insufficient for many years if not decades. Minister of Economics and Planning Murillo informed the National Assembly at the close of 2015, that a boost to investment was planned for 2016 -- an increase of nearly 14% to 7,841 million pesos from 6,900 million pesos in 2015. While this is a significant positive step, it would mean a GCF/GDP ratio of 8.2% for 2015 and 9.2% for 2016, still extremely low by any standards. It is not clear if the investment figure for 2016 announced by Minister Murillo includes an expected foreign investment component, but we assume that it does not and refers to national investment.

Undoubtedly, the posture that Cuba has taken in trying to attract foreign investment, combined with the thaw in diplomatic and economic relations with the United States since December 2014, are generating a great deal of interest by U.S. and foreign businessmen in investing in Cuba. This is palpable from the number of delegations visiting the island and the number of expressions of investment interest that are being reported by Cuban officials. Whether or not this enthusiasm results in actual investments is the great unknown.



## Bibliography

- [1] **Omar Everlery Pérez Villanueva**, *La situación actual de la economía cubana y sus retos*, en Pérez Villanueva, compilador, *Reflexiones sobre economía cubana*, La Habana: Editorial de Ciencias Sociales, 2006), p. 15. Vea también **José Antonio Alonso y Juan Triana Cordoví**, *Nuevas bases para el crecimiento*, en José Antonio Alonso y Pavel Vidal, editores, *¿Quo Vadis, Cuba? La incierta senda de las reformas* (Madrid: Libros de la Catarata, 2013), p. 53.
- [2] El ex ministro de Economía y Planificación José Luis Rodríguez ha observado que la tasa GCF/PIB cayó de 26.9% del PIB en 1989 a 5.2% en 1994. **José Luis Rodríguez**, *Cuba, la necesidad de nuevas inversiones y el capital extranjero*, *Cuba Contemporánea* (18 de marzo, 2014), <http://cubacontemporanea.com/noticias/cuba-la-necesidad-de-nuevas-inversiones-y-el-capital-extranjero>.
- [3] **Comisión Económica para la América Latina y el Caribe** *Estudio económico de América Latina y el Caribe*, 2015, Tabla A.6, basado en la información provista por cada país.
- [4] Las tasas reportadas se refieren a la formación bruta de capital contra el PIB y parten de la base de datos de los Indicadores de Desarrollo del Banco Mundial, <http://data.worldbank.org/indicator/NE.GDI.TOTL.ZS>
- [5] Citado por **Carlos Batista**, *Cuba se abre a la inversión extranjera con megapuerto de Mariel*, *El Nuevo Herald* (25 de enero, 2014). Un incremento en la inversión de \$3,000 millones llevaría la tasa de formación bruta de capital de Cuba en el 2012-2013 aproximadamente al 20% del PIB.
- [6] *Inversión extranjera y desarrollo social*, Catalejo, *El Blog de Temas* (26 de marzo, 2014). Panel de discusión moderado por Rafael Hernández con la participación de varios expertos, incluyendo Elvira Castro, Richard Feinberg, Roberto Pérez, Saira Pons, Fabio Grobart, y Juan Triana.
- [7] Citado por **Daniel Trotta**, *Cuba approves law aimed at attracting foreign investment*, Reuters (29 March 2014).
- [8] **Rafael Arzuaga**, *Asamblea Nacional de Cuba aprueba nueva Ley de Inversión Extranjera*, *Cubadebate* (March 29, 2014).
- [9] A partir de estadísticas del balance parcial de pagos en datos de la Oficina Nacional de Estadísticas, *Anuario Estadístico de Cuba 2002*, y anteriores.
- [10] *Cuba: inversión reorganizada y con récord de ingresos*, AP, La Habana (June 27, 2007).
- [11] **Omar Everlery Pérez Villanueva**, *La inversión extranjera directa en Cuba: necesidad de su relanzamiento*, Centro de Estudios de la Economía Cubana (2014).
- [12] *Lineamientos de la Política Económica y Social del Partido y la Revolución*, [www.cubadebate.cu/wp-content/uploads/2011/05/folleto-lineamientos-vi-cong.pdf](http://www.cubadebate.cu/wp-content/uploads/2011/05/folleto-lineamientos-vi-cong.pdf).
- [13] **Eileen Sosín Ramírez**, *Cartera de Inversión Extranjera: La propuesta de Cuba*, *Progreso Semanal* (November 6, 2014). Un portafolios similar fue publicado para el 2015 Vea *Cartera de Oportunidades de Inversión Extranjera 2015*, <http://www.granma.cu/file/sp/cartera-de-oportunidades-de-inversion-extranjera-23/datos/documentos/Cartera%20de%20Oportunidades%20de%20Inversi%C3%B3n%20Extranjera%202015.pdf>
- [14] *Aprueban nueva empresa mixta Unilever Suchel S.A. en Zona Mariel*, *Cubadebate* (11 enero, 2016), <http://www.cubadebate.cu/noticias/2016/01/11/aprueban-nueva-empresa-mixta-unilever-suchel-s-a-en-zona-mariel/#.Vq59wuZfics>
- [15] *El gobierno anuncia inversiones por 7.841 millones en áreas que considera 'clave'*, *Diario de Cuba* (29 December 2015).
- [16] Estimates based on a GDP growth of 4% in 2015 and 2% in 2016.

## ABOUT THCG BUSINESS REPORT

The team of expert consultants who prepare this Business Report is composed of experienced analysts and researchers with vast knowledge of the internal dynamics of the Cuban economy, the social and political situation, and the legal framework as well as the island's international and commercial relations.

The team is composed of some of the most prolific and cited authors in the academic literature, experienced journalists who have taken Cuba's pulse for an extended period of time, businessmen who are familiar with the world of business in the U.S. as well as in Cuba, and

lawyers who are able to navigate the peculiar Cuban legal environment.

It is important to listen to experts particularly at a time when Cuba is attempting to reform its economic system to improve efficiency and create sustainable economic growth that improves the standard of living of the population.

Frank, clear, and independent analysis and opinions are needed, based on the most recent information available. The experience and authority that The Havana Consulting Group offers fills this gap.



**Emilio MORALES**  
Team leader & Consultant  
President & CEO The Havana  
Consulting Group & Tech LLC, USA



**Jorge PÉREZ-LÓPEZ**  
Editor & Consultant  
International economist



**Armando H. PORTELA**  
Editor & Consultant  
Geographer and cartographer



**Carmelo MESA-LAGO**  
Consultant  
Distinguished Service Professor  
Emeritus of Economics and  
Latin American Studies  
University of Pittsburgh



**Jorge SALAZAR-CARRILLO**  
Consultant  
Head of the Center of Economic  
Research of the Florida Interna-  
tional University (FIU)



**Arch RITTER**  
Consultant  
Distinguished Research Profes-  
sor Emeritus, Carleton University  
in Ottawa, Canadá



**Julio CERVIÑO**  
Consultant  
Doctor in Economic and  
Entrepreneurial Sciences,  
Carlos III University, Madrid



**David ADAMS**  
Contributor  
Former Reuters Editor in  
charge for the Southeast U.S.  
and Caribbean, USA

**THCG LEGAL INSIDER**  
Legal team working for THCG

**THCG BUSINESS INTELLIGENCE UNIT**  
Marketing Intelligence team of THCG



The **THCG Business Report** is created and published by THCG & Tech LLC.

Copyright © 2016 by THCG & Tech LLC. All rights reserved.

Annual subscription, \$5,000.00USD.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying or otherwise, without the prior permission of THCG & Tech LLC.