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**PROMOTING FDI IN A TRANSITIONAL CUBAN ECONOMY: ASSESSMENTS POLICY AND  
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**Abstract:** Foreign direct investment (FDI) always plays a vital role in the economic development of every country, especially in developing countries. Cuba has continuously reformed its economic policies and legal environment to attract FDI. Cuba's efforts have been implemented since the collapse of the Soviet Union and the socialist system in Eastern Europe in 1991. However, these efforts have only really achieved encouraging results since then. The 6th Congress of the Communist Party of Cuba in April 2011 made many groundbreaking decisions in economic reform policies. This article analyzes Cuba's potential to attract FDI since the 6th Congress of the Communist Party of Cuba, which emphasizes essential policies and legal adjustments to attract FDI to Cuba.

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**INTRODUCTION**

Having a strategic location with many rare mineral resources, beautiful landscapes, and other favorable conditions, however, the Cuban economy has encountered many difficulties over the years in development. At the end of the 20th century and the beginning of the 21st century, the Cuban economy revealed limitations and weaknesses such as lagging technological level, low quality of raw material production, ineffective economic management, unreasonable use of labor, severe imbalance between high average salary and low labor productivity... leading to production stagnation and difficult socio-economic life. The above context poses an urgent need for Cuba to find ways and measures to overcome limitations and challenges while taking advantage of and promoting its inherent strengths to attract foreign investment, serving the goal of economic development, gradually stabilizing and improving

people's lives. In April 2011, the 6th Congress of the Communist Party of Cuba approved the country's new socio-economic policy with 311 contents of "updating the economic model," formalizing reform measures that have been applied, and at the same time adding several new measures (gradually decentralizing the economy, streamlining payrolls in the state sector, aiming to eliminate the two-currency regime) as well as allowing people to own and purchase real estate, cars...). Efforts to innovate and develop the country continue to be made by the Communist Party of Cuba after the following Congresses (the 7th Congress in April 2016 and the 8th Congress in April 2021. Cuba's economy has significantly progressed despite many difficulties over the past decade. This success is partly due to Cuba's increasing FDI capital, which is becoming an essential economic component for Cuba.

#### Factors affect FDI attraction of Cuba

Cuba is located between the Caribbean Sea and the North Atlantic Ocean, blocking the entrance to the Gulf of Mexico between North, Central, and South America. Notably, Mariel deep-water port has a strategic location in the commercial center of the Caribbean and Americas, located at the intersection of the East-West / North-South axis in the Western Hemisphere, convenient. Benefiting sea and air transport, it is expected to become a critical logistics center in the Caribbean region. The advantage for foreign businesses investing in manufacturing plants in the Mariel Special Development Zone is that they can sell goods conveniently, meeting the Cuban market's needs and providing goods to the Ca-region market. Ribbon has a population of about 400 million people. With such favorable geographical factors, foreign business activities operating in Cuba can expand access to other potential markets, such as Central America and South America. In particular, these geographical advantages are even more valuable when gasoline prices and transportation costs increase today. Besides, Cuba is also a potential market. With a population of 11 million, the Cuban market is suitable for foreign small and medium enterprises investing in manufacturing settlements. Currently, most of Cuba's consumer goods are imported. In addition, Cuban businesses also prioritize purchasing domestically produced goods to replace imported goods, so investing in a factory in Cuba is an advantage. Notably, Cuban consumers' demand for goods is only average, so it is suitable for goods from developing countries.

In terms of natural resources, Cuba has many natural resources such as nickel, cobalt, and oil, many beautiful tourist destinations, and rich biodiversity. Specifically, Nickel is a leading natural resource in Cuba. The country is one of the world's top ten nickel producers. Besides, Cuba is also one of the leading cobalt producers in the world. According to estimates, Cuba has the world's third-largest cobalt reserves (NS Energy Staff Writer, 2021). This mineral is crucial in making lithium-ion batteries used in electric cars. Cobalt exports contribute to national income and provide jobs for Cubans.

Regarding oil and natural gas, Cuba has enormous offshore oil and natural gas reserves in the north of the country. Oil is an essential source of energy for Cuba. Researchers point out that many undiscovered oil fields exist in the country. Cuba has cooperated with international companies, especially Australia, China, Brazil, Norway, India, Venezuela, and Canada, to explore vast oil reserves. Besides providing energy to Cuba, the oil industry employs many Cuban citizens and generates income. Natural gas extracted in Cuba is used to power machinery in the nickel and cobalt industries. Cuba's natural gas production is estimated at 305 million gallons annually (Benjamin Elisha Sawe, 2019). Notably, Cuba's islands have beautiful and diverse landscapes, bringing income to the country through tourism. Foreign companies are increasingly interested in investing in Cuba's tourism sector.

Regarding infrastructure, Cuba has a relatively synchronous infrastructure system, helping to reduce investment costs for investors. Seaport, road, and aviation infrastructure allow connecting targets. socio-economic, both domestically and internationally. The most important routes connecting the island nation are the Central National Highway, central railway, Railway system with 8,367 km of tracks. Cuba has a solid aviation infrastructure with many international and domestic airports.

Regarding maritime transport, Cuba has about 32 commercial ports. Essential ports are Mariel, Havana, Santiago de Cuba, Cienfuegos, Matanzas, Moa, Gerona, Cayo Largo, Batabanó and Nuevitas. Cuba's most modern seaport is the port of Mariel, in the province of Artemisa, located in the Mariel Special Development Zone, about 45km east of Havana.

Regarding the quality of education, Cuba has a sound education system and a high intellectual level. This is an area that has always been a priority in Cuba. Primary, secondary, technical, and university education is free. Education is compulsory for children between 6 and 11 years old. Most children continue their education to secondary school. Students who graduate from high school can enter universities, colleges, or technical training institutes. On average, there is 1 teacher/45 people. Cuba has a higher literacy rate than countries in Central and South America. Cuba has over 46 higher education centers. Good education and a high intellectual level are the strengths that give Cuba quick access to modern science and technology, advanced management, and meeting the needs of highly skilled labor for investors.

Integration of the Cuban economy into the global economy

Since the 6th Congress of the Communist Party of Cuba, Cuba has focused on promoting bilateral and multilateral foreign affairs activities, significantly improving relations with Western countries to overcome the blockade and embargo from the US. On December 12, 2015, the Paris Club announced a

debt cancellation of 4 billion USD for Cuba (Doanh Nhan Online, 2015). Cuba normalized relations with the US in December 2014 and with the European Union in March 2016. After these events, diplomatic delegations of businesses from the US and the European Union came to Cuba to seek cooperation opportunities. Cuba's outstanding success in international integration is that more and more countries in the United Nations support Cuba's political position. Specifically, on November 3, 2022, the 77th United Nations General Assembly passed a Resolution (drafted by Cuba) calling for an end to the US economic embargo against Cuba with a vote of 185/193 in favor. Since then, Cuba's position and voice in the region and the world have been strengthened. Cuba maintains diplomatic and consular relations with more than 180 countries and maintains more than 140 diplomatic corps in 120 countries. Cuba has also signed and is a member of important international and regional organizations such as ALBA, CELAC, UN, CELAC, OAS, WTO, NAM...

#### Policy reforms and legal environment for FDI investment in Cuba

Cuba considers foreign investment policy as a source of economic development for the country in both the medium and long term. Besides, Cuba considers FDI as a positive and fundamental part of the growth of several economic sectors and activities. Cuba advocates directing foreign investment into export and import substitution sectors and eliminating bottlenecks in the production chain, creating favorable conditions for modernization, infrastructure formation, and technological improvements. Since 2011, the Cuban Government has taken clear steps to promote the economy by focusing and selectively attracting FDI, advocating the separation of state management and corporate management functions, and granting autonomy to state-owned enterprises. To encourage foreign investment attraction, Cuba has updated its legal framework to ensure benefits for foreign investors. Foreign enterprises investing in Cuba can contribute the majority of capital in all fields except natural resource exploitation and public service provision, which allows foreign investment in the domestic trade sector (wholesale and retail trade). Priority projects to attract foreign investment in Cuba include projects that contribute to increasing and diversifying exports, energy projects, food production projects, and tourism development projects.

Since the 6th Congress, Cuba officially updated its economic model and issued many new legal documents to create conditions for attracting FDI. The Cuban National Assembly has issued over 40 new legal documents consistent with "Updating the economic model," such as taxes, foreign investment... Notably, on March 29, 2014, the Cuban National Assembly passed the new Foreign Investment Law (Law 118), officially taking effect on June 28, 2014, to promote attracting foreign capital for economic development (Reuters Staff, 2014). The new Foreign Investment Law, passed by

the Cuban National Assembly, is one of the economic and political reforms under Cuban President Raul Castro to increase efficiency and production capacity for economic development. The new law includes many preferential provisions for foreign investors, such as income tax exemption in the first years of operation, allowing foreign investment in many economic sectors, such as tourism, agriculture, biology, and high technology, except fields such as health, education, and military institutions. In addition, the Law also stipulates a legal framework to protect foreign investors, such as ensuring that assets of foreign companies investing in Cuba are not expropriated, except in cases where they are public assets or serve social benefits but will be adequately compensated ( Investment Policy Hub, 2014). In addition, Cuba announced the inauguration of the Mariel Special Economic Development Zone - a 465 km<sup>2</sup> complex including a deep-water seaport, bonded warehouse, export processing zone, and service area, with many preferential policies on investment, trade, taxes, customs fees... The first 5 years of updating brought some positive results; growth in the period 2011 - 2015 averaged 2.8%/year.

In April 2016, the 7th Congress of the Communist Party of Cuba promoted one more step in innovating economic development thinking; passed the Resolution "Defining Cuba's socialist economic and Social Development Model" (TTXVN/Vietnam+, 2016); Continuing the state-led economic and planning model, do not privatize state assets or social services, and continue to take into account the indispensable role of market factors. This is the first time the Cuban Communist Party has sought an exact definition for the socio-economic development model that the country pursues. During 2016-2020, the process of updating the economic model took place cautiously. Growth slowed significantly due to many factors. Cuba's economy also depends heavily on external factors, especially US policy towards Cuba. On May 19, 2017, the Third Conference of the Central Executive Committee of the Communist Party of Cuba approved the document "Foundations of the Socio-Economic Development Plan to 2030: national vision, pillars, and strategic components" (Granma, 2017), with more open direction to promote internal resources, combined with attracting external resources for recovery (Le Ha, 2017). On August 2, 2018, the Cuban Government announced a package of adjustments to foreign investment regulations to simplify investment approval procedures to increase the attraction of foreign investment and create motivation to boost the economy. New rules took effect from September 1, 2018, including 1 decree and 3 resolutions related to the Foreign Invested Business Evaluation Committee's activities, methods of presenting financial information, and labor regime (Investment Policy Hub, 2018). With the new regulations, the investment project feasibility study process, previously a mandatory requirement in the Ministry of Foreign Trade and Foreign Investment (Mincex) business proposals, is eliminated. At the same time, the time limit for business evaluation and approval will be shortened, and the capital disbursement schedule will be determined from the beginning to ensure a

quick process. On September 10, 2020, Cuba issued a Decree regulating "one-stop" services for foreign investors - an online platform to speed up and facilitate procedures for domestic and foreign investors (Embassy of the Kingdom of the Netherlands in Havana, 2021). The one-stop service for foreign investors provides information and advice on foreign investment, promotes business opportunities, and creates favorable conditions for establishing foreign investment methods and processing licenses, permits, and authorizations.

In 2021, Cuba successfully organized the VIII Party Congress, introducing many guidelines and policies and adopting many essential strategies (Zoe Alexandra, 2021), which focused on (i) Strengthening the rule of law state Socialist, (ii) Restructuring the administrative structure from central to local levels, regulating tenure regime; (iii) Recognize non-state economic sectors, create a legal framework for the operations of these sectors; (iv) Expanding sectors for private participation... These are timely adjustments to adapt to the difficult economic situation due to the impact of the COVID-19 epidemic and US sanctions (Vu Trung My, 2021). By applying the new policies, despite the effects of the COVID-19 pandemic, Cuba's economy grew by 2%. During this time, Cuba focused on calling for 678 foreign investment projects with a total capital of approximately 12.5 billion USD (Cuba Staff, 2022).

In 2022, Cuba continued to carry out step-by-step economic reform, introducing many measures to open the economy, including promulgating several laws allowing private individuals, small, medium, and large enterprises to small businesses participating in many production, business, and service sectors that were previously held and monopolized by the State; Encouraging agricultural production, public-private joint ventures, income tax reform, allowing businesses to participate in the wholesale market, loosening exchange rate adjustments... to improve the economic situation. Cuban leaders' and officials' positivity and initiative have promoted investment promotion opportunities invited and offered many priority policies/areas and incentives for foreign-invested enterprises. President Miguel Díaz-Canel Bermudez and Prime Minister Manuel Marrero Cruz attended Havana's World Italian Federation Congress in June 2022 (Cubanew, 2022). At this Congress, Cuban Minister of Foreign Trade and Foreign Investment, Mr. Rodrigo Malmierca, presented 678 projects that Cuba wishes to attract foreign capital flows, focusing on the fields of food production, mining, industry, construction, computing and telecommunications, renewable energy, exporting goods and services, and introducing outstanding Cuban product and service lines in the fields of biotechnology and agriculture products and tourism (TPO, 2022). Cuban Deputy Prime Minister Alejandro Gil attended the Cuba-Mexico Business Forum (July 2022) to present Cuba's expansion of new businesses and many new economic entities, including calling for foreign investors in various fields (TOP, 2022). Besides, Cuba promoted foreign



investment in wholesale and retail. On August 16, 2022, the Cuban government officially allowed foreign investment in the domestic wholesale and retail sector for the first time in more than 60 years to solve the shortage of goods. Cuban Deputy Prime Minister and Minister of Economy and Planning Alejandro Gil said Cuba aims to promote foreign investment to help launch existing infrastructure in the country, such as warehouses, industrial parks, and factories. ., is currently ineffective due to a lack of resources and finances (Bich Lien, 2022).

Meanwhile, Deputy Minister of Commerce Ana Gonzalez Fraga said that for the first time (since the 1959 revolution), foreign investors were allowed to fully own wholesale establishments in Cuba, while Retailers can participate in public-private joint ventures (Nbcnews, 2022). In December 2022, the Cuban National Assembly passed the Law on Asset Expropriation to strengthen legal guarantees for foreign investors (Cuba Staff, 2022). This new law supports the provisions of Cuba's Law 118 on Foreign Investment (2014). It strengthens legal guarantees for foreign investors in expropriating assets, consistent with the Constitutional laws and international treaties that Cuba has signed (Mai Phuong, 2022).

In 2023, after the success of the election of the 10th National Assembly of the People's Power (end of March 2023) and the election of the Cuban State and Government Leadership Board for the 2023 - 2028 term, the Cuban Government immediately embarked on the task of developing the country and determining long-term strategies. Cuban President Miguel Diaz-Canel Bermudez affirmed that the top priority in the coming time is to continue focusing on the country's economic development. Mr. Miguel Diaz-Canel Bermudez emphasized that to develop the economy, Cuba needs to promote a macroeconomic stabilization plan, including anti-inflation policies, reduce the budget deficit, overcome the gap between two kinds of money, wages and purchasing rights, increase the availability of foreign currency as well as solving many other problems (Miguel Díaz-Canel Bermúde, 2022). Cuba is promoting domestic food production, gradually moving towards independence for food security. In addition, Cuba invests in food production with domestic and foreign capital while implementing actions to ensure nutrition and national food sovereignty. According to the Cuban Ministry of Tourism (MINTUR), recently, foreign companies have become increasingly interested in investing in Cuba, especially in the tourism sector; there are currently 87 foreign investment projects in the field (Kha Anh, 2023).

## **CONCLUSION**

Being a small-scale economy dealing with blockades and embargoes from the US, Cuba possesses many favorable natural factors to attract FDI. However, since the 6th Congress, Cuba has focused on offering favorable policies to attract FDI. The key elements necessary to promote FDI include macroeconomic stability, minimum corruption in the public and private sectors of the economy; a rational commercial legal and regulatory code consistent with the basic requirements of market economies, suitable governance structures, and civil society; a solid physical and human capital infrastructure; and a strong export sector that provides an adequate inflow of foreign exchange earnings. The institutional infrastructure necessary to provide a foundation that supports steady inflows of FDI is the same as that which fosters long-term economic growth and development in general. Cuba's economic growth shows optimistic prospects through the economic reform policies and the efforts of the Cuban government and citizens to attract FDI. Therefore, foreign investors can find Cuba to be a practical investment environment.

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