

Economic environment and investment possibilities in Cuba

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1. General information

a) Geographical facts

Land area:

109 820 sq km

Borders with:

US Naval Base at Guantanamo Bay 28.5 km

Countries close to Cuba:

Bahamas 21 km

Haiti 77 km

Jamaica 140 km

The United States (Key West) 150 km

Mexico 210 km

Distance from the capital Havana to:

Buenos Aires 6875 km

London 7502 km

Moscow 9603 km

New York 2099 km

Tokio 12 138 km

(www.timeanddate.com)



Source: CIA The World Factbook; Oficina Nacional de Estadística e Información, República de Cuba (ONEI)

1. General information

b) Independence and geographical/administrative areas

- **Independence**

20 May 1902 (however, the Cuban Government does not consider this date as a day of independence)

- Independence from Spain on the 10th of December 1898. Thereafter, Cuba was administered by the United States during the period 1898 to 1902.
- National holiday is celebrated on the day of the triumph of the Revolution (the 1st of January 1959).

- **15 provinces ("provincias" in Spanish):**

Artemisa, Camagüey, Ciego de Ávila, Cienfuegos, Granma, Guantánamo, Holguín, La Habana, Las Tunas, Matanzas, Mayabeque, Pinar del Río, Sancti Spíritus, Santiago de Cuba, Villa Clara

- **1 special municipality ("municipio especial"):**

Isla de la Juventud

- **167 municipalities**

1. General information

c) Political and economic system

- The country represents a centralized socialist economic system with one legal party, Cuba's Communist Party (see CIA The World Factbook).
 - After the Cuban revolution in 1959 (led by Fidel Castro), a new communist government was created. Centralized socialism took over in the country, which influenced the politics, economy and foreign relations (see Spadoni 2014).
 - Raúl Castro was elected as President in 2008, after which some structural changes were carried out in the Cuban economy, such as, an updated economic model including a new foreign investment law set in 2014 in order to encourage more investments to the country (see for more information on slide 17).
 - In 2018, Miguel Díaz-Canel Bermúdez was elected as President of Cuba.
 - The Cuban government is making an effort to loosen its socialist economic system and, at the same time, maintain political control (CIA The World Factbook).
- The US embargo has been in place since the 1960s affecting the foreign relations.
 - In December 2014, the former President of the United States, Barack Obama, started efforts for normalizing the relations with the two nations. In 2015, they re-established their diplomatic relations.
 - However, President Trump has again implemented some restrictions.
 - The trade embargo still remains. (CIA The World Factbook.)

Source: CIA The World Factbook; Spadoni (2014)

1. General information

d) Population

Population:

11 221 060 (2017)

Major city and the capital of Cuba :

Havana 2,1 million (2017)

Share of urban population:

77% of total population (2018)

Ethnic groups:

White 64,1%, mulatto or mixed 26,6%, black 9,3%

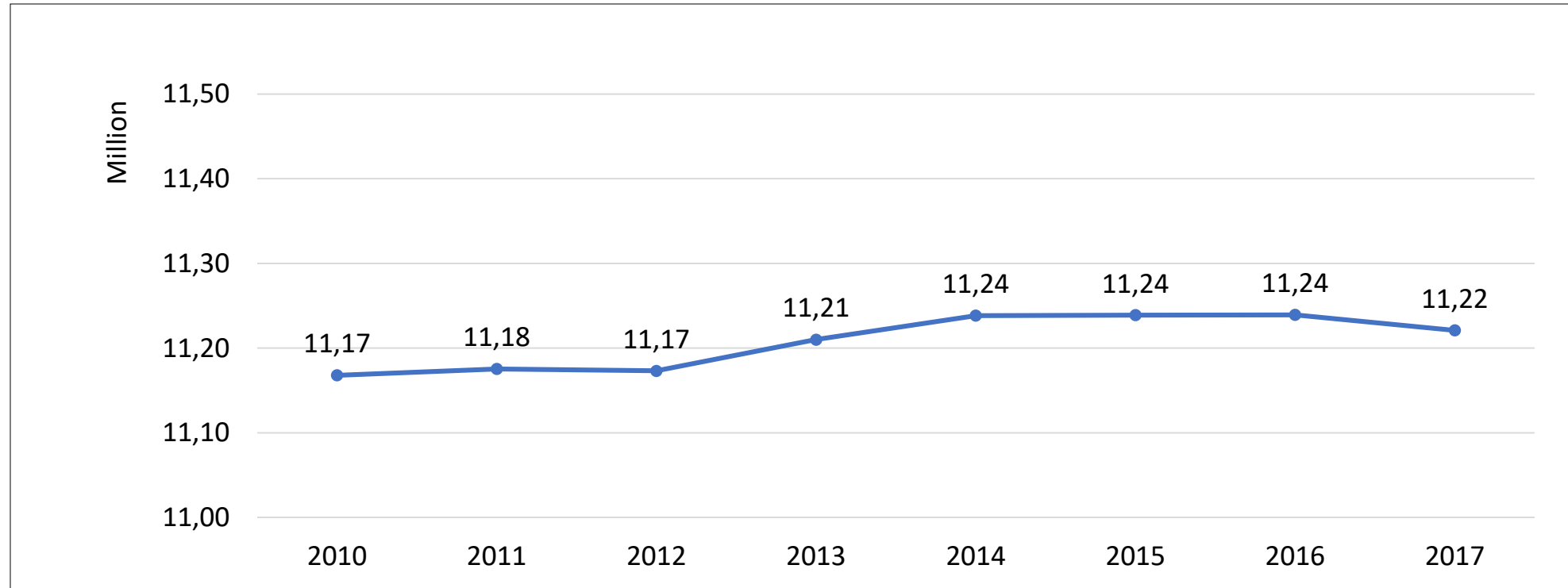
Official language:

Spanish

Sources: CIA The World Factbook; ONEI

1. General information

e) Total population change



Source: ONEI

1. General information

f) Basic facts

Main industries:

Petroleum, nickel, cobalt, pharmaceuticals, tobacco, construction, steel, cement, agricultural machinery, sugar

Products in agriculture:

Sugar, tobacco, citrus, coffee, rice, potatoes, beans, livestock

Natural resources in the country:

Cobalt, nickel, iron ore, chromium, copper, salt, timber, silica, petroleum, arable land

1. General information

g) Infrastructure

Airports	133 (64 with paved and 69 with unpaved runways)
Ports and terminals	Antilla, Cienfuegos, Guantanamo, Havana, Matanzas, Mariel, Nuevitas Bay, Santiago de Cuba
Railways	8 367 km
Roadways	60 858 km (approx. 49% paved roadways)
Waterways	240 km

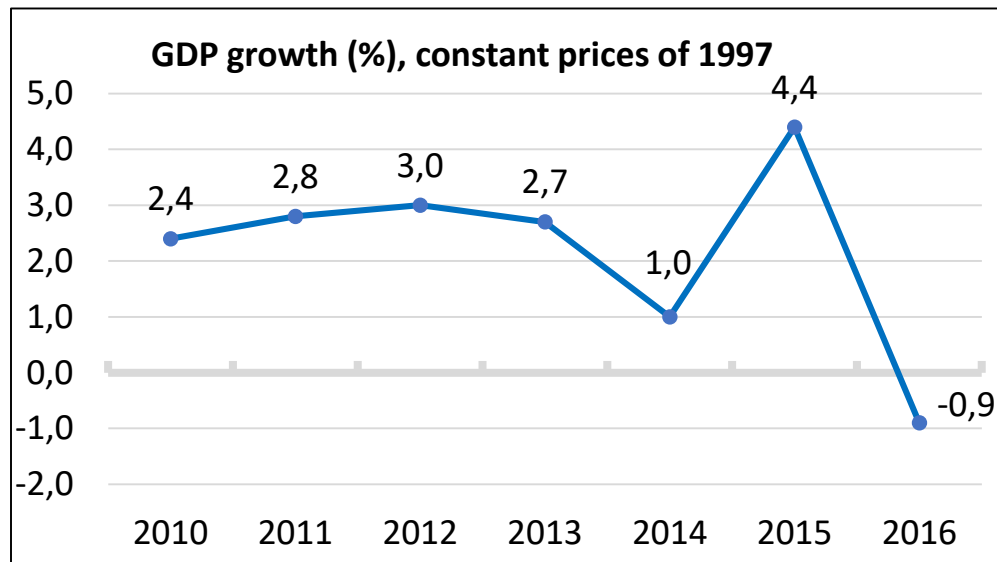
1. General information

h) National currency

- In Cuba, two currency systems exist, which are applied for different purposes and different target groups: Cuban Peso (CUP) and Cuban Convertible Peso (CUC).
- The common exchange rates for individuals and households are the following: CUP 24 = \$1 and CUC 1 = \$1 (Luis 2018). However, in addition to two types of currencies, also two CUPs exist, since enterprises use the following rate: CUP 1 = \$1 (Hernandez-Catá 2013). This means that foreign trade applies pesos at this same rate (see Luis 2018).
- It is worth mentioning that CUP is used for the national income accounts (NIA) of Cuba. However, state and private entities utilize a rate of CUP 1 = CUC 1. (Luis 2018.)
- The above mentioned differences need to be taken into account when Cuban statistics are addressed.

2. Economic development

a) GDP growth



Source: ONEI

Year	GDP, current	GDP per capita, current
2015	87 206 million US\$	7 609 US\$
2017	96 125 million US\$	8 370 US\$

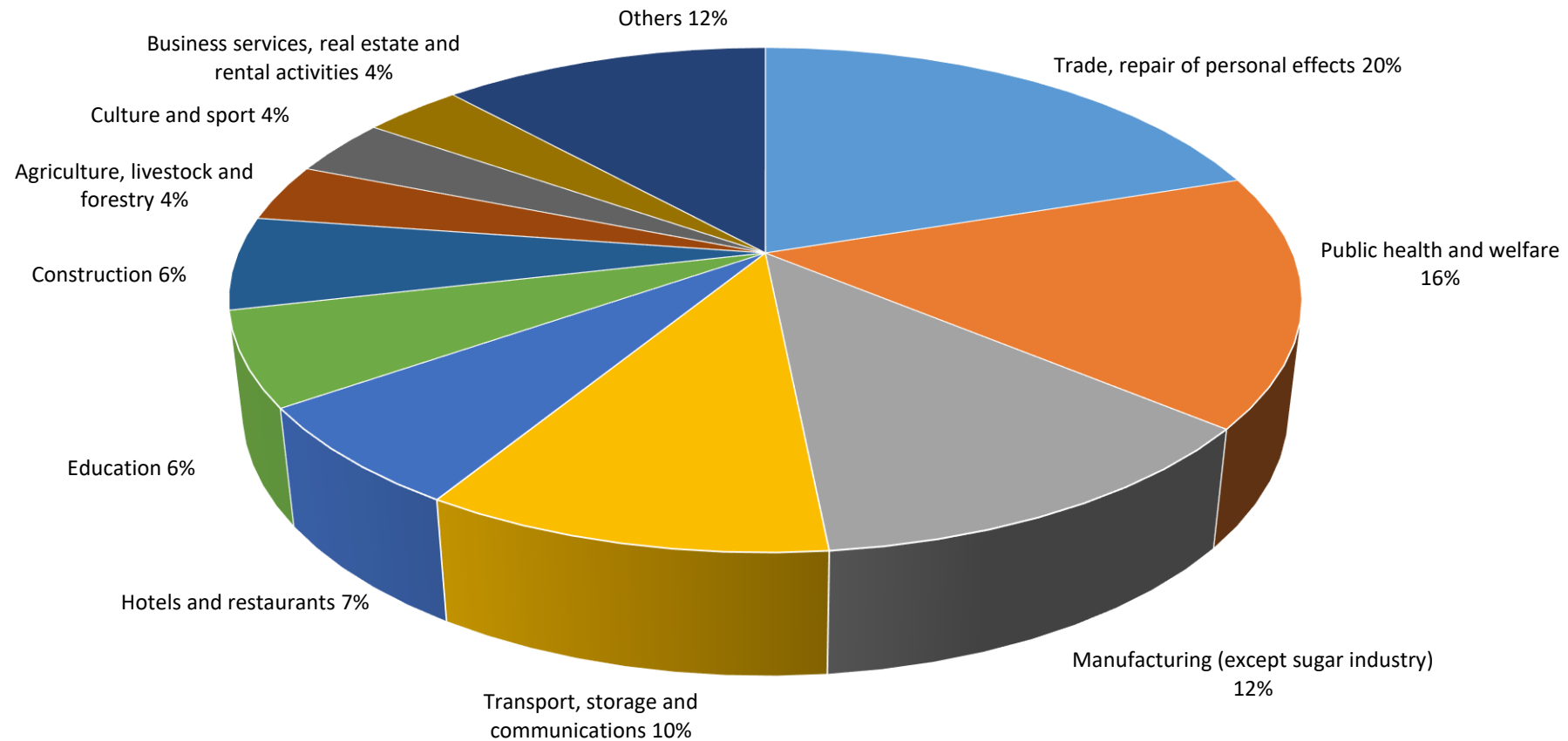
Source: UNCTAD

Year	Real GDP growth
2010	2,4%
2015	4,4%
2017	1,6%

Source: UNCTAD

2. Economic development

b) GDP by types of economic activity 2016



Source: ONEI

2. Economic development

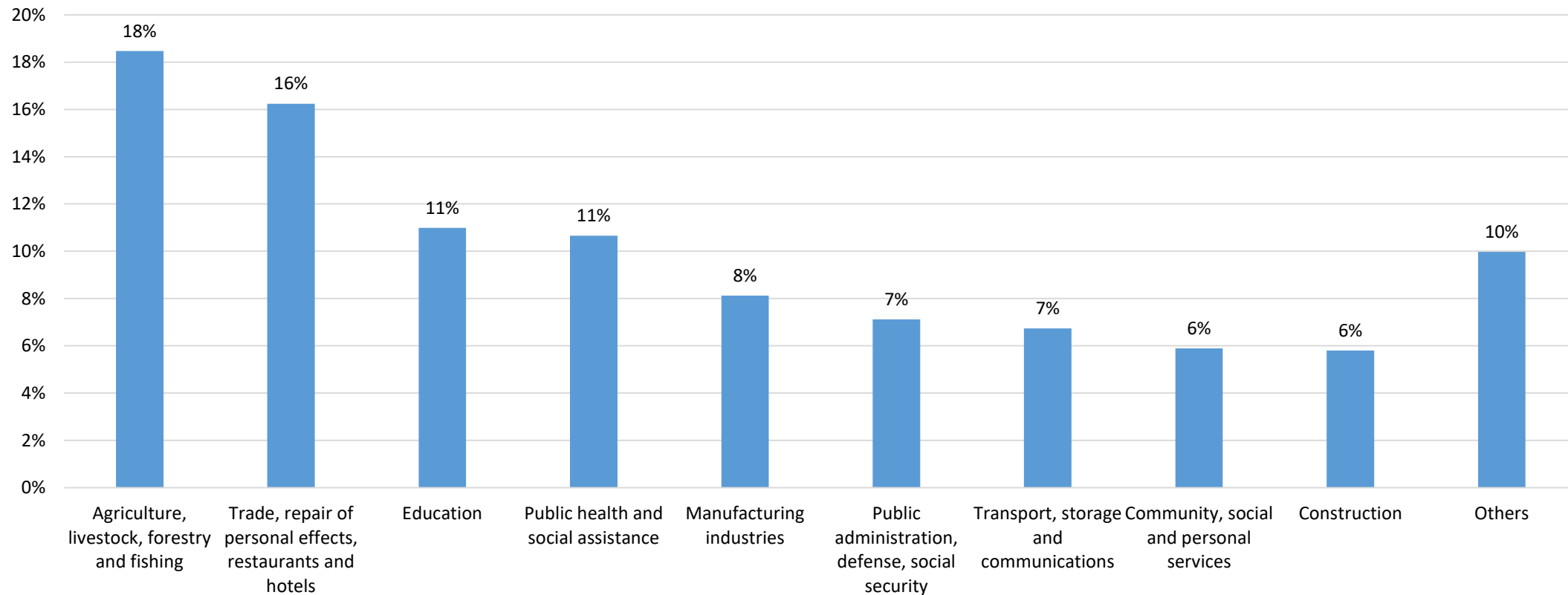
c) Labor force

	2012	2013	2014	2015	2016
Population (total resident)	11 173 151	11 210 064	11 238 317	11 239 004	11 239 224
Economically active population (of working age)	5 077 900	5 086 000	5 105 500	4 832 700	4 686 200
Unemployed (of economically active population)	175 700	167 200	135 700	119 000	95 100
Unemployment rate (% of population of working age)	3,5%	3,3%	2,7%	2,5%	2,0%

Source: ONEI

2. Economic development

d) Employment by sectors 2016



Source: ONEI

3. Political scene

a) Democracy

Democracy Index 2017 Regime type: Authoritarian	Overall rank 131/167
Overall score*	3,31
Electoral process & pluralism (on a scale from 0 to 10)	1,33
Functioning of government (on a scale from 0 to 10)	4,29
Political participation (on a scale from 0 to 10)	3,89
Political culture (on a scale from 0 to 10)	4,38
Civil liberties (on a scale from 0 to 10)	2,65

Source: Economist Intelligence Unit

* On a scale from 0 to 10, 0 is the lowest score.

3. Political scene

b) Business freedom

Ranking index	Rank of Cuba/ Total number of countries
World Democracy Audit ranking (World Audit, March 2018)	122/154
Press Freedom ranking (World Audit, March 2018)	150/153
Global Competitiveness Index 2017-2018 (World Economic Forum)	Cuba is not in the rankings.
The 2018 Index of Economic Freedom (The Heritage Foundation)	178/180
Corruption Perceptions Index 2017 (Transparency International)	62/180 [Corruption score 47 on a scale of 0 (highly corrupt) to 100 (very clean)]

3. Political scene

c) Economic reform

- In 2011, Cuba approved a plan for economic changes, whereby the government has implemented limited economic reforms. State sector jobs have been decreased, and self-employment (“cuentapropistas” in Spanish) in certain sectors has become an option.
- The new economic model involve, among others, the following aspects:
 - The private ownership as well as the sale of real estate and new vehicles is permitted
 - Private farmers are allowed to sell agricultural products directly to hotels
 - The creation of non-agricultural cooperatives is a possibility
 - Special Development Zone in the Mariel port
 - A new foreign investment law in 2014

Source: CIA The World Factbook

3. Political scene

d) Corporate tax and labor system (the Law no. 118 "Foreign Investment Act" 2014)

Corporate tax

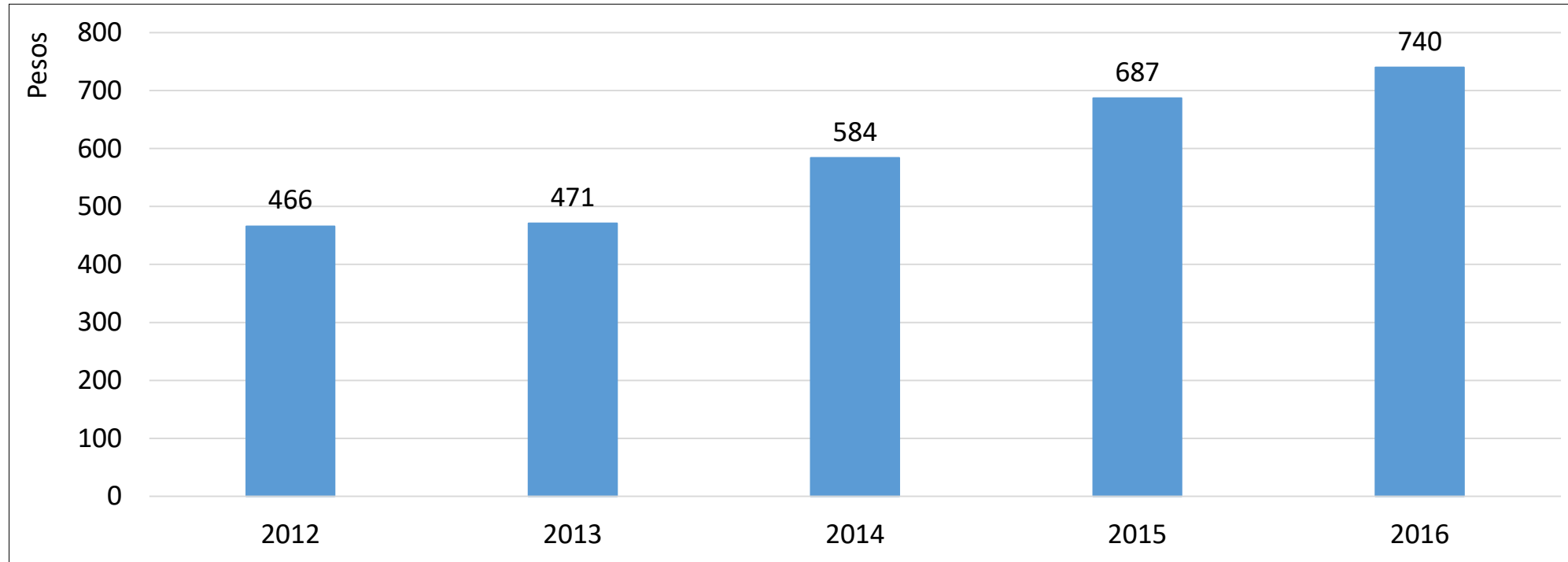
- Joint ventures, national and foreign investors and parties to international economic association agreements, pay a 15% tax rate on the net taxable profit (Art. 36.1).
- “Joint ventures and parties to international economic association agreements shall be exempt from paying profit taxes for a period of eight years as from the date of their incorporation.” (Art. 36.2)
- “When it comes to the exploitation of natural resources, whether renewable or not, the Council of Ministers may decide to increase the profit tax rate by up to fifty per cent.” (Art. 36.4)
- “Totally foreign capital companies shall be required, - - , to pay taxes under the law in force, without prejudice to the tax benefits that are to be established by the Ministry of Finance and Prices, - -.” (Art. 44)

Labor system

- “The workers who offer their services in activities related to foreign investments shall be, as a rule, Cuban citizens or foreign citizens permanently residing in the Republic of Cuba.” (Art. 28.1)
- However, specific top administrative positions or positions of technical nature can be filled by persons who are not permanent residents in Cuba (See Art. 28.2).

4. Prosperity and consumption

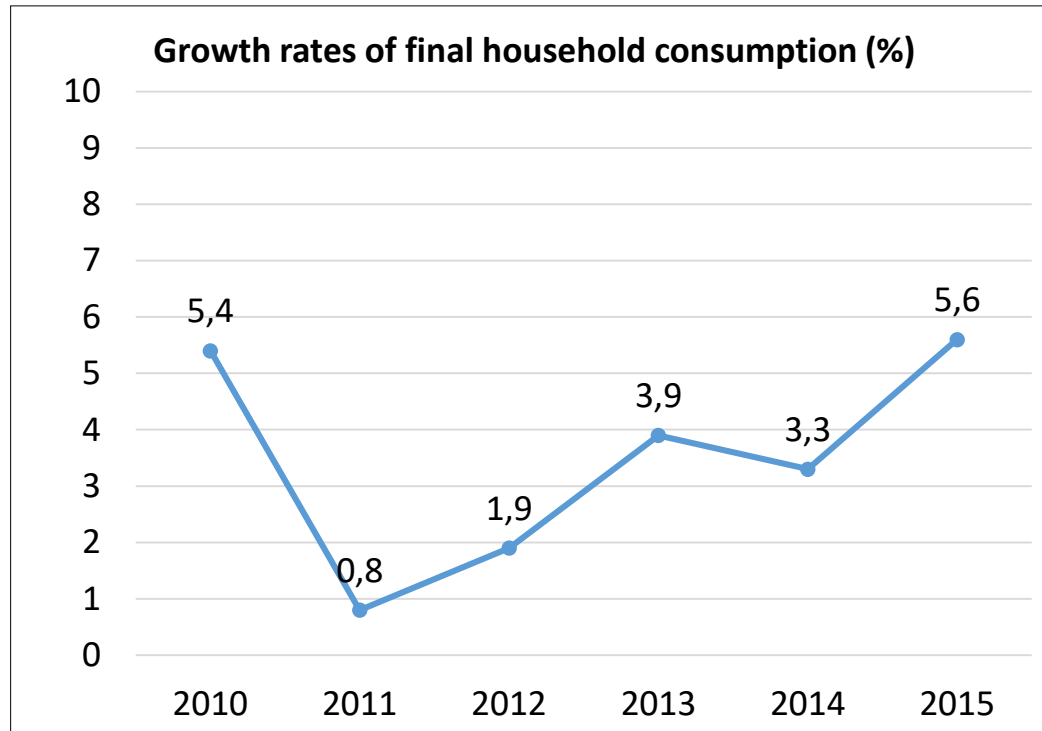
a) Average monthly salary



Source: ONEI, see slide 10 for information on the Cuban currency system.

4. Prosperity and consumption

b) Final household consumption



Growth rates at constant prices of 1997.

Year	Final household consumption	Final household consumption, per capita
2015*	69,57 billion CUP (at current prices)	6190 CUP (at current prices)
	40,85 billion CUP (at constant prices 1997)	3635 CUP (at constant prices 1997)

Source: ONEI

* According to ONEI, the values are provided in P = peso cubano (CUP).
See slide 10 for information on the Cuban currency system.

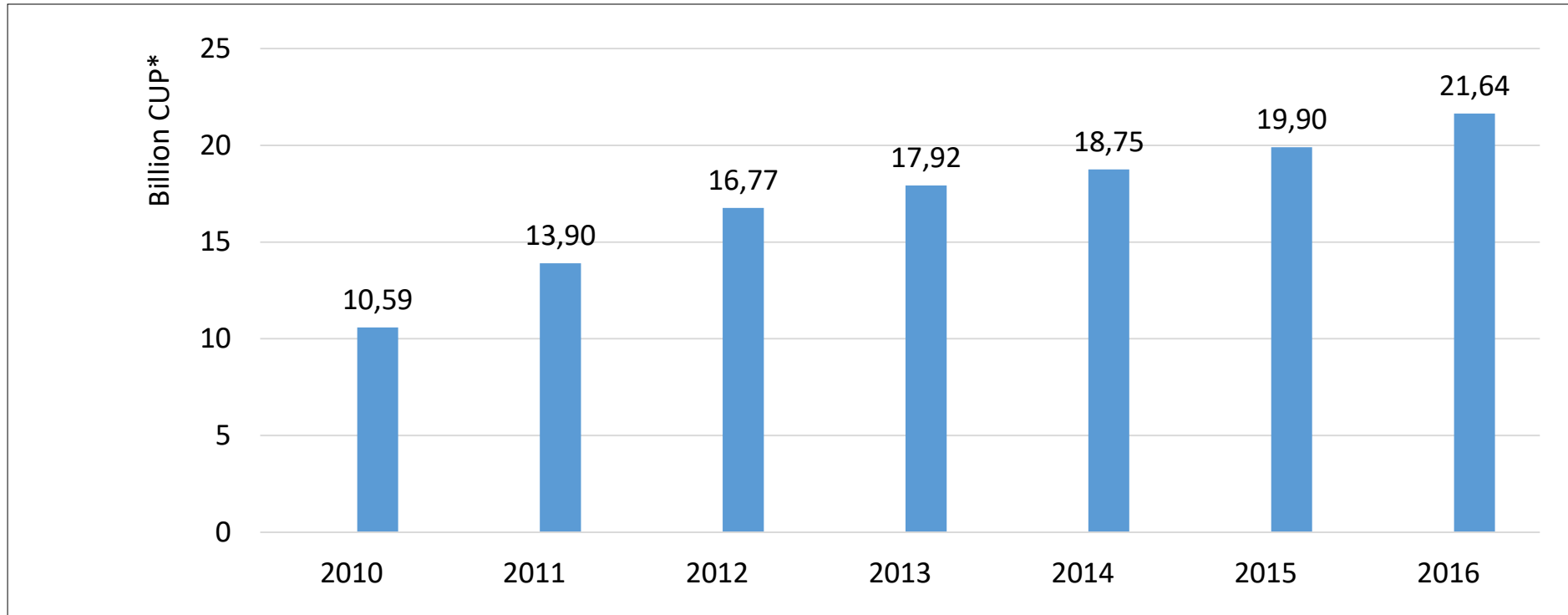
4. Prosperity and consumption

c) Consumer price indices

Year	2009	2010	2011	2012	2013	2014	2015
CPI (annual variation %)	-0,1	1,6	3,6	2,0	0,6	2,1	2,8

4. Prosperity and consumption

d) Retail trade turnover



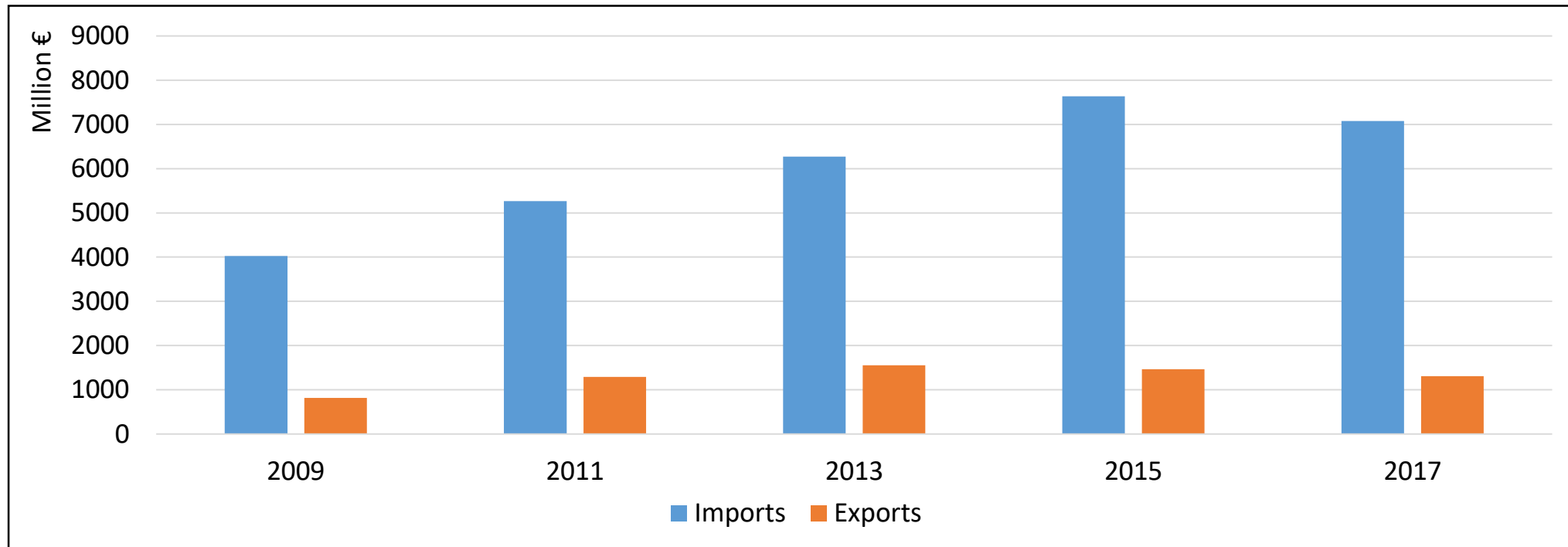
Source: ONEI

* According to ONEI, the values are provided in P = peso cubano (CUP).

See slide 10 for information on the Cuban currency system.

5. External economic relations

a) Cuba, trade with world



Source: European Commission, Eurostat

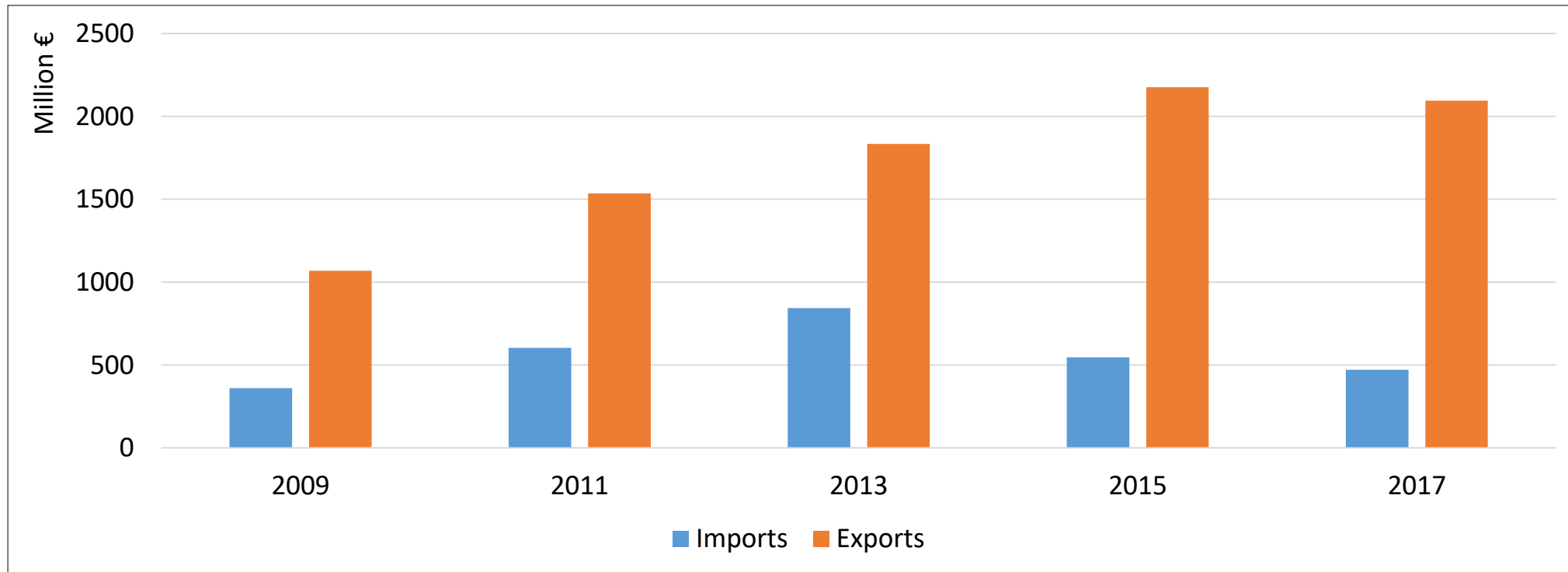
5. External economic relations

b) Major import and export partners of Cuba 2017

Imports				Exports				Total trade			
Rank	Country	Value (million €)	%	Rank	Country	Value (million €)	%	Rank	Country	Value (million €)	%
	World	7080	100		World	1306	100		World	8386	100
1	EU 28	2336	33,0	1	EU 28	412	31,5	1	EU 28	2748	32,8
2	China	1560	22,0	2	Venezuela	233	17,8	2	China	1575	18,8
3	Russia	352	5,0	3	Russia	103	7,9	3	Russia	455	5,4
4	Brazil	352	5,0	4	Lebanon	80	6,1	4	Venezuela	397	4,7
5	Mexico	345	4,9	5	Indonesia	59	4,5	5	Brazil	369	4,4
6	USA	321	4,5	6	Bolivia	40	3,0	6	Mexico	364	4,3
7	Canada	278	3,9	7	Hong Kong	37	2,8	7	Canada	291	3,5
8	Argentina	269	3,8	8	Switzerland	31	2,4	8	Argentina	270	3,2
9	Vietnam	233	3,3	9	Taiwan	29	2,2	9	Vietnam	234	2,8
10	Venezuela	164	2,3	10	Peru	24	1,9	10	Guatemala	104	1,2

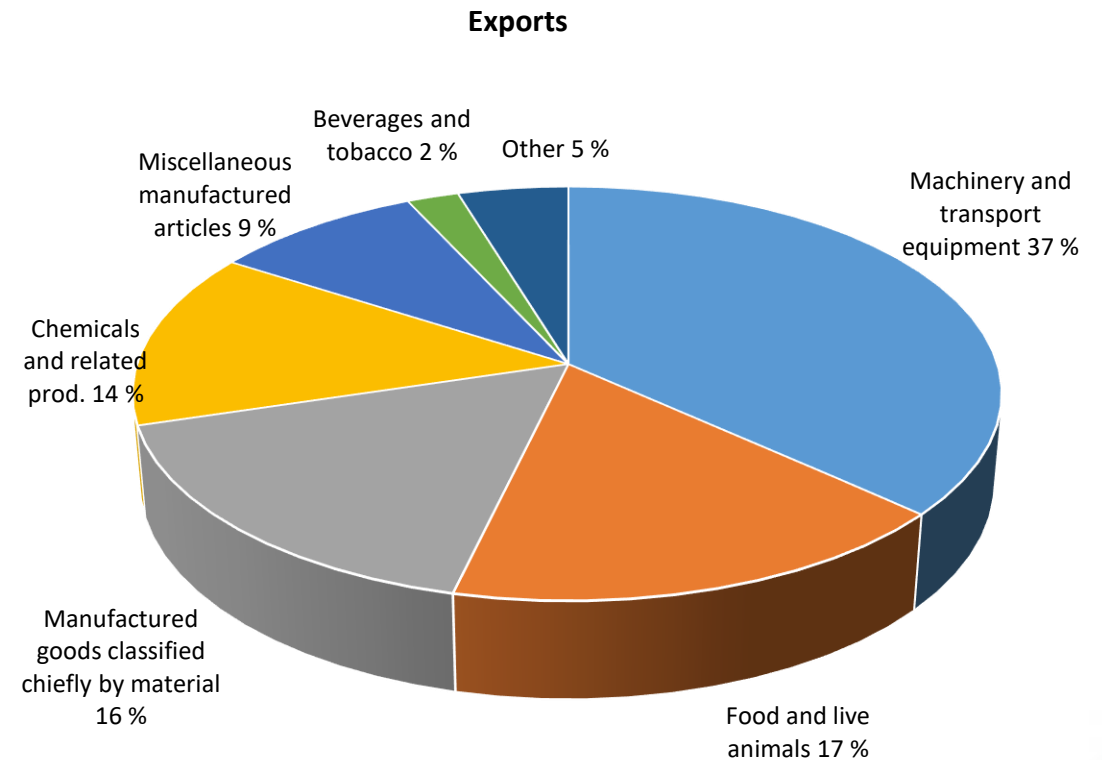
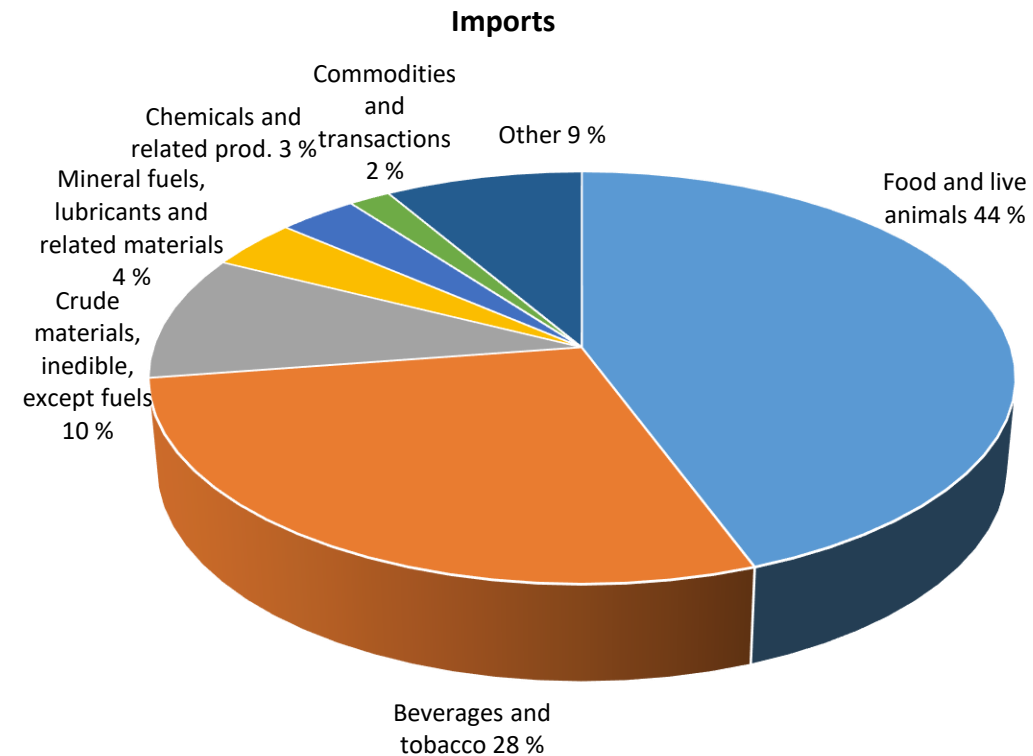
5. External economic relations

c) EU trade flows with Cuba



5. External economic relations

d) EU trade flows with Cuba by product group (SITC section) 2017



Source: European Commission, Eurostat

5. External economic relations

e) Foreign direct investment (FDI)

Year	Estimates of FDI flows in Cuba* (US\$ millions)
2000	448,1
2001	38,9
2002	50,0
2003	75,0
2004	200,0
2010	585,0
2011	740,0

- Generally, FDI figures of Cuba are difficult to achieve in the absence of official published data.
- Cuba faced economic problems in the 1990s due to the withdrawal of former Soviet subsidies from the country. Therefore, limited forms of foreign direct investment were needed as foreign lending decreased (Cruz 2003).
- At present, both joint ventures where Cuban state is the majority owner as well as companies that are fully-owned by foreign investors are allowed. However, Cuba has said to favor as partners state owned and privately owned enterprises that receive financial support from their home governments (Spadoni 2014).

Source: Cruz (2003); Spadoni (2014)

* The data is collected by Spadoni (2014, 91) from The Economist Intelligence Unit and Oficina Nacional de Estadísticas.

5. External economic relations

f) International economic associations in Cuba*

Country	2012
Total	169 (most of them joint ventures)
Spain	44
Italy	20
Canada	19
Venezuela	14
France	8
United Kingdom	8
Mexico	5
China	5
Others	46

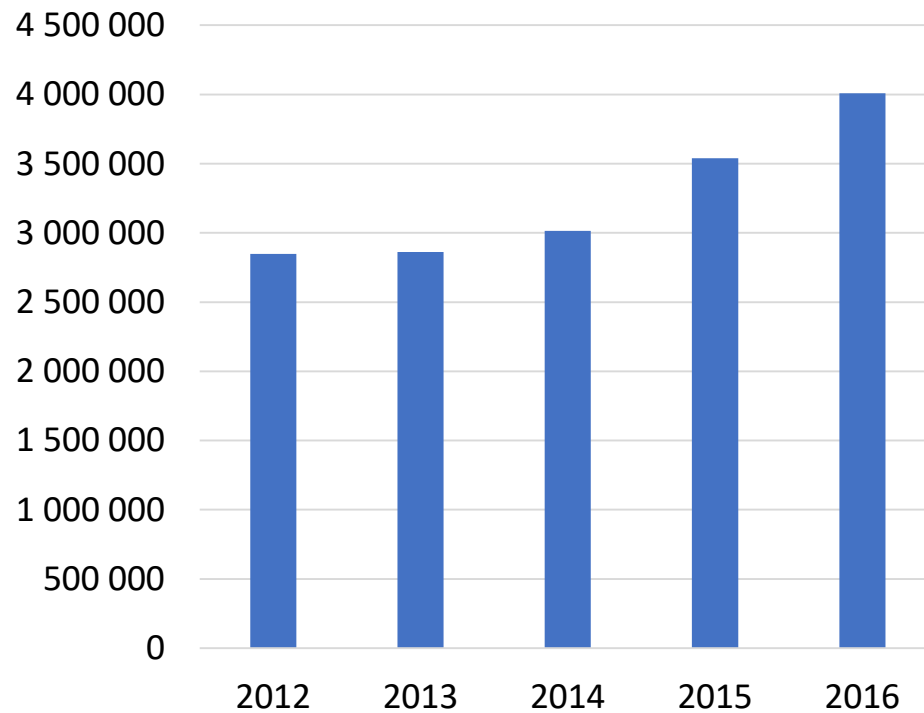
Source: Figures obtained from the Ministry of Foreign Trade and Foreign Investment by Spadoni (2014)

* International economic association here refers to any kind of judicial form of an economic association that includes foreign capital (Spadoni 2014, 83).

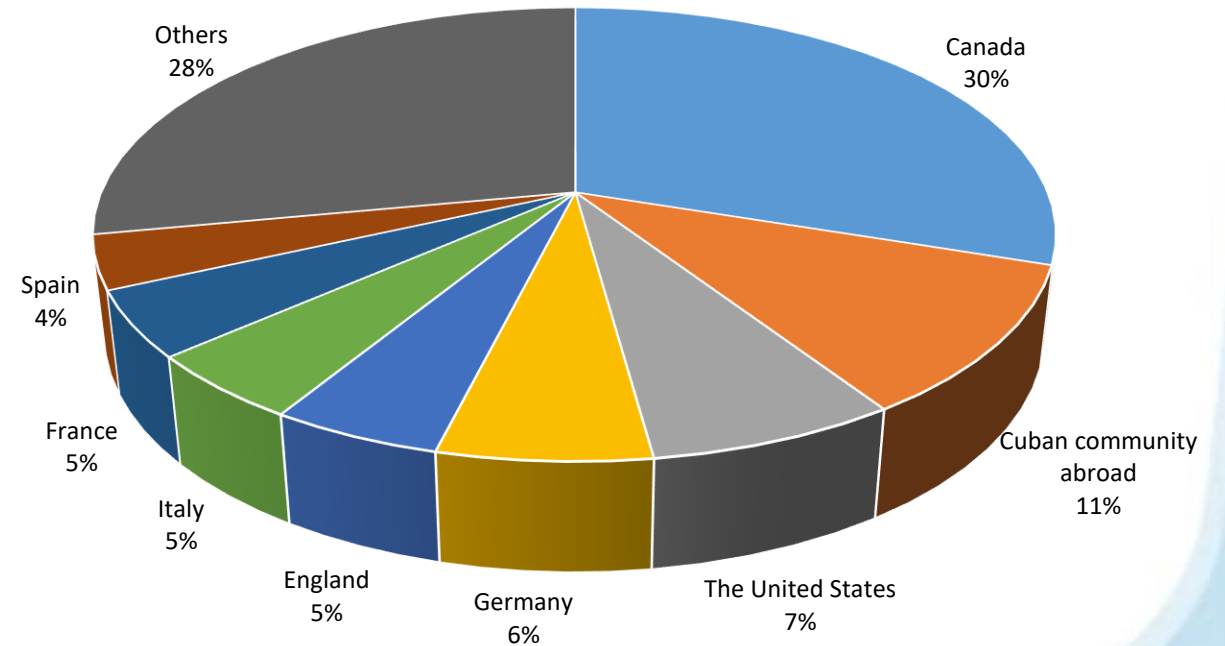
5. External economic relations

g) Tourism

International visitors



Visitors per country of origin 2016



Source: ONEI

6. Additional information

a) Business services and authorities

BUSINESS SUPPORTING SERVICES

Business Finland Mexico Trade Center (also answers requests for Central American countries)

www.businessfinland.fi/en/locations/americas/mexico/

Cuban Chamber of Commerce

www.camaracuba.cu/index.php/en/

ProCuba, Center for Promotion of Foreign Trade and Investment

www.procuba.cu/en

SOME AUTHORITIES

Ministry of Foreign Affairs of Cuba

www.minrex.gob.cu/en

Central Bank of Cuba

www.bc.gob.cu/English/home.asp

Information subject to changes

6. Additional information

b) Embassy and European Commission's Delegation

Embassy of Finland, Mexico

www.finlandia.org.mx/public/Default.aspx?culture=fi-FI&contentlan=1

Embajada de Finlandia
Monte Pelvoux 111, piso 4, Col. Lomas de Chapultepec
11000 México D.F., México
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Delegation of the European Union to Cuba

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Information subject to changes

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- World Audit: www.worldaudit.org
- World Economic Forum: www.weforum.org