Cuba: An Overview of Foreign Direct Investment

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Introduction

An important part of the Cuban government's response to the crisis of the 1990s focused on opening the country to foreign resources in order to capture foreign exchange, which had reached minimal levels, in the shortest time possible. This economic opening was critical for reactivating the economy and confronting the reality of the global economy and Cuba's insertion in it.

The most important aspects of the economic opening on the international plane were the promotion of and opening to investments of foreign capital, trade restructuring, and the accelerated development of international tourism.

By mid-1993 it became evident that fundamental changes in consumption, international relations, and the socio-economic structure of the country were necessary. At this point Cuba initiated a process of complex and experimental economic transformations and restructuring involving the implementation of numerous economic policies. Nonetheless, because of the contradictory nature of these transformations, and given the peculiarities of the Cuban situation, there has been an effort to maintain social stability and political control above all else. The economic changes have not been linear, and therefore have followed a trajectory of phases or stages of greater or lesser transformational dynamism (Romero, 1996).

The problems associated with foreign financing of the Cuban economy have become a priority issue given the impossibility of generating domestic savings sufficient for growth and development. The great dilemma was that financing was needed for growth, yet it was possible to get financing without achieving growth. Thus, it was absolutely necessary to maintain the recovery initiated in 1994 with foreign resources allocated to those areas of rapid recovery that were technologically advanced, such as mining, tourism, communications, and products for tourism.

Foreign financing traditionally has been considered an important complement to domestic savings to increase investment and stimulate sustained economic growth, but the island's restrictions on obtaining capital are well known, and its exports are not well diversified.

I. Growth, Financing and Technology

Developing countries generally have abundant sources of talent, productive capacity, and natural resources, among other resources. Transforming these resources into effective instruments for development requires constant increase in its potential economic utility through investments: investments in specialized knowledge and human resources, and investments in physical capacity for production (this is case of Cuba and other countries that invested a lot in human resources). This requires that the resources that are acquired be fully channeled through effective distribution (UNCTAD, 1987).

The investments necessary to transform those resources into agents of developments must be centered on industrial upgrading, or technological improvement of existing industries or of the industries that are created. The volume of capital available for this purpose will be one of the long run principal determinative factors for growth and economic development.

Clearly the principal source of financing for development is domestic savings. Nevertheless, during the launch period, and even during consolidation, additional resources in the form of capital, technology or markets are always necessary, whether through bilateral or multilateral mechanisms. Access to those resources is the short and medium term challenge facing the Cuban economy.

Efficient use of resources in production, avoiding unnecessary impacts on consumption, generation of savings in foreign exchange that amply covers international obligations, and the maintenance of stable financial flows in rational conditions are essential requirements to assure that foreign financing does not create more lasting problems than solutions.

Foreign financing in the form of development assistance has been very limited in the Cuban case, producing few results. Soft credit, which is necessary for some goals, has not been available to Cuba for many years, both for political and economic reasons.

For a country that aspires to get beyond its underdevelopment, foreign credit or loans should enable the mobilization of material and technical resources to promote new production that generates domestic savings, acquires technologies, and raises the level of exports necessary to pay for the financing. Beginning in 1991, most of the loans Cuba has received have been short-term export credits with high interest rates. Some countries, including Mexico, Argentina, Italy, Germany, France, Chile and Spain, have offered guarantees to businesses that trade with Cuba, making it possible to maintain commercial ties with those countries.

Contracts with suppliers are established under conditions that could also be described as tense; credit with favorable conditions is scarce. And as for foreign aid, donations and scientific-technical collaboration have experienced little increase.

The interaction of all these financing sources has allowed the country to obtain resources to attenuate the difficulties and implement reform, but these are insufficient, costly and offer few opportunities for growth until some problems are solved, especially the accumulated foreign debt and the service on that debt.

The easiest means for Cuba to obtain financial resources, and consequently, the technology capable of improving industrial competitiveness, has been direct investment. Foreign Direct

Investment (FDI) has played a significant role in financing development in many countries, especially in Asia, where results are encouraging, and in some Latin American countries. But it is not sufficient for the recipient country to improve its foreign investment policy for FDI to play a more important role in financing development; a national effort to resuscitate growth and financial viability must be undertaken.

Given an international context that is unfavorable to Cuba, including the strengthening of the U.S. economic blockade, it is necessary to obtain greater amounts and higher quality sources of foreign financing. In addition, a systematic focus for the country's insertion in the global economy that prioritizes activities to stimulate domestic savings must be established.

Economic restructuring in Cuba has been gradual since the island does not have much room for maneuver, nor can large or complicated risks be taken. The current international economic isolation imposes additional limitations on the feasible rate of national reconstruction. For example, a lot could be gained through the easing of tensions between Cuba and the United States, which could at least bring about the attenuation of the blockade imposed on the country. The need for stable sources of external financing has led to promoting and liberalizing the foreign investment regime.

It is important to note that technology transfer can be accomplished through foreign investment, and thus, foreign investment can be classified in two categories: Passive and Active effects (see Appendix 1).

The active effects are very relevant for Cuba in the future, given the existing scientific potential, since engineering programs or contracts can be undertaken with centers for research and development, and producers of capital goods. Additionally, adaptation and improvement of local technology can occur, along with other programs that include training in foreign countries (Dahlman, 1988).

In the Cuban case, demonstration effects (passive) have been the most common outcome of foreign investment, with good results. New technology has been introduced and has been effectively deployed, leading to an improvement in productive indicators.

Global trends have caused developing countries to open up more and liberalize foreign investment to a greater extent, given that access to high technology can only be obtained if greater control is given to the foreign investor who has the technology. However, it has become necessary to simultaneously invest more in developing technology domestically.

Karl Dahlman, a World Bank economist, posits that countries aspiring to overcome underdevelopment should elaborate a strategy that increases technological growth and the role of foreign investment in that growth. He proposes three components that must be included in this strategy:

1. Be able to take advantage of and use foreign technology, much as Japan, South Korea and Taiwan were adept at attracting different forms of foreign technology.
2. In any industrial sector there is a very large dispersion of productivity. Therefore, efforts must be made to increase productivity through the diffusion and extension of the technology obtained.
3. The role of research centers should not be merely to "reinvent the wheel," but to truly provide assistance to the industrial sector in order to create, diffuse and adapt technologies.

To attract foreign investment in such a way that it contributes to the economic development of the country, one can not wait for it to come, it must be promoted by identifying the type of industry that is desirable and researching and administering information on what type of technology exists and who possesses it. Cuba's challenge is to acquire the most modern technologies through FDI and incorporate it with the active effect described by Dahlman.

II. Foreign Direct Investment in Cuba

In the 90s Cuba began a process of reinsertion in the international market for which the island has few apparent advantages after more than 30 years of virtual absence. An important aspect of this economic opening is the Economic Associations with Foreign Capital, or joint ventures.

The decapitalization that began in 1990 had a powerful effect on industry, which was an important impetus for reaching out to FDI. The entire productive infrastructure was subjected to strong pressures: deterioration of basic resources, insufficient maintenance, and overloads generated by use in excess of technical capacity. Thus, the lack of raw materials and the need for industrial reconversion created by reinsertion into increasingly monopolized and demanding markets brought pressure for perfecting business practices, and therefore the search for technologies. In the experience of Cuba in the 90s, this was possible through associations with foreign capital.

The process of opening to foreign capital has been oriented to the solution of problems specific to the Cuban economic growth process, including: diversification of exports in quality and quantity, acquisition of raw materials, need for fresh capital, insertion into new markets, acquisition of advanced technologies, and introduction to modern practices of economic management.

The size of the Cuban firm plays an important role in the dynamizing process of foreign capital participation, in that small and medium enterprises need to be promoted along with development of the infrastructures necessary to boost levels of competitiveness.

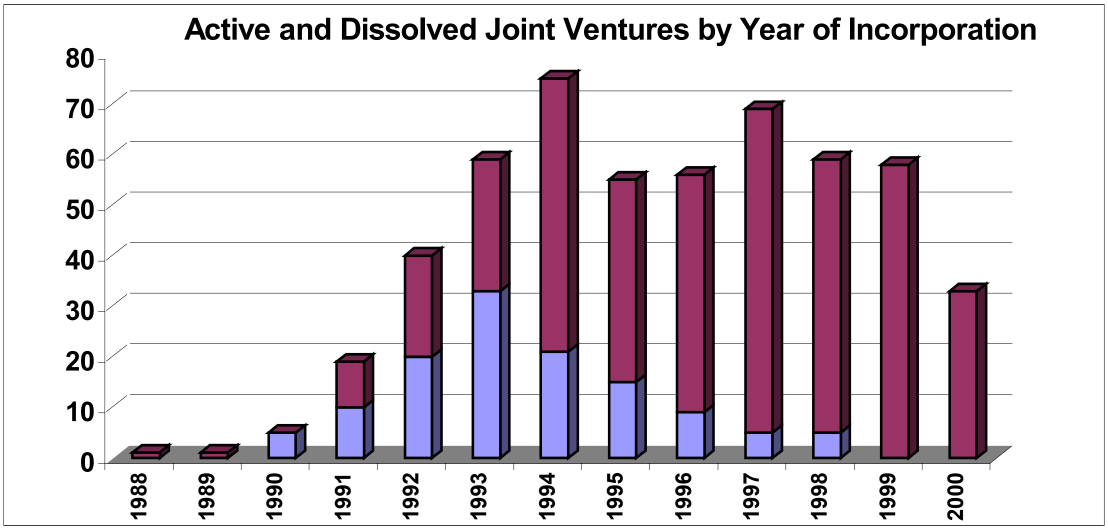
Viewed prospectively, the flows depend on the depth of economic reform, the sustainability of recovery, and measures to reduce the effects of the North American trade policies of extraterritoriality, in particular the Helms-Burton law, which was adopted by the United States in 1996 in an effort to strengthen the economic blockade of the island.

Some recent contributions to investment theory that consider uncertainty and the irreversability of decisions provide a relevant analytical framework to explain the cautious behavior of some foreign investors in Cuba, despite improvements in the economy and other factors that should stimulate that investment (Vera 1999).

Despite the caution of investors towards Cuba, the number of joint ventures has been increasing. Considering that the most powerful country in the world is attempting to impede the flow of FDI to Cuba, which affects the so-called country risk[1], the amount of foreign investment has much greater significance for Cuba than what emerges from a simple qualitative comparison on the investment flows to other countries in the region.

At first glance, the growth sustained since 1990 seems to confirm that there is a favorable pattern of investment in the domestic sphere since the positive elements have a stronger balance than the adversities.

For example, between 1988 and 2000 more than 530 international economic associations (joint ventures) were formed in Cuba, with 392 associations remaining active at the end of 2000. The following graph shows the evolution of operating firms by year of incorporation.



Red = Active; Blue = Dissolved

Source: Statistics from the Ministry of Foreign Investment and Collaboration. February 2001.

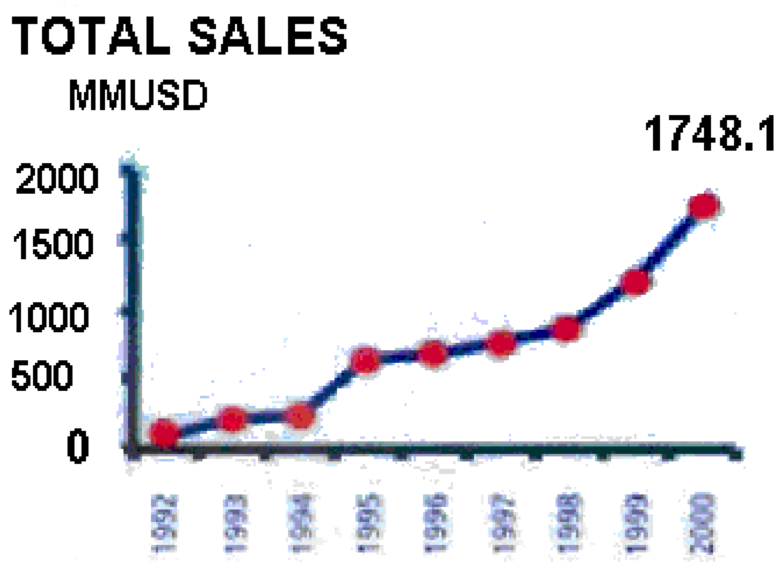
Notably, the number of firms dissolved for various reasons, including the termination of the contracted period, is less than 20% of the businesses incorporated.

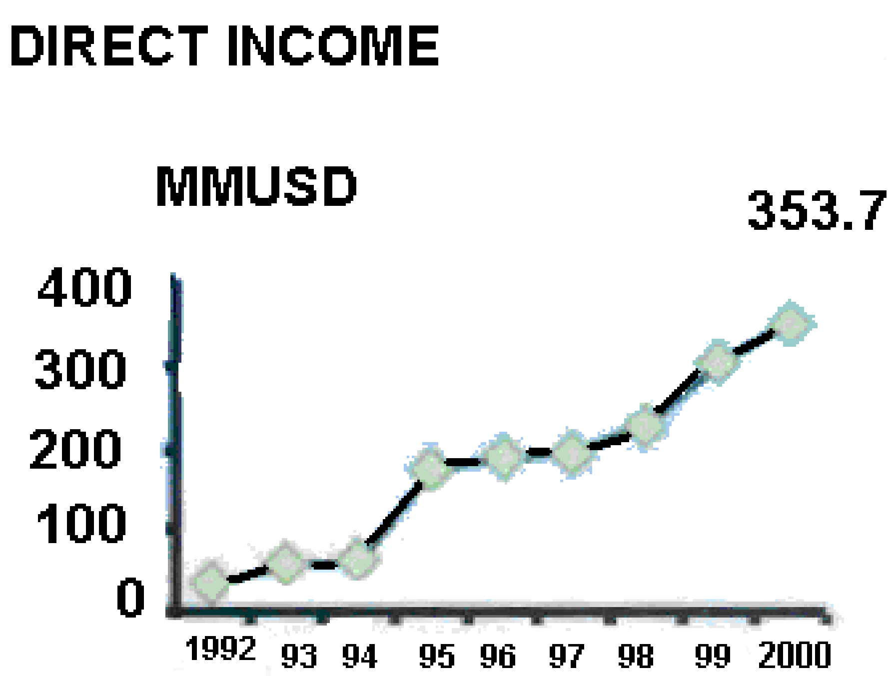
If a correlation is established between the indicator for gross fixed capital formation at current prices between 1991 and 1999, US$21,400 million (ONE 1998, and BCC 1998), and government figures for FDI in Cuba during that period, US$1,577.6 million, the resulting indicator is 7%. This is comparable to average world figures, although in Cuba's case these sums are still far from meeting the needs of the national economy.

As far as the qualitative and quantitative effects, foreign investments have impacted the work of some sectors, principally in tourism, mining, fuel, agriculture, communications, industry and services.

It is important to recognize that after a decade of foreign capital in Cuba (in the post-1959 period), it has undergone a maturation process with positive results

The indicators Foreign Investment in Cuba by 1992-2000 in the following:





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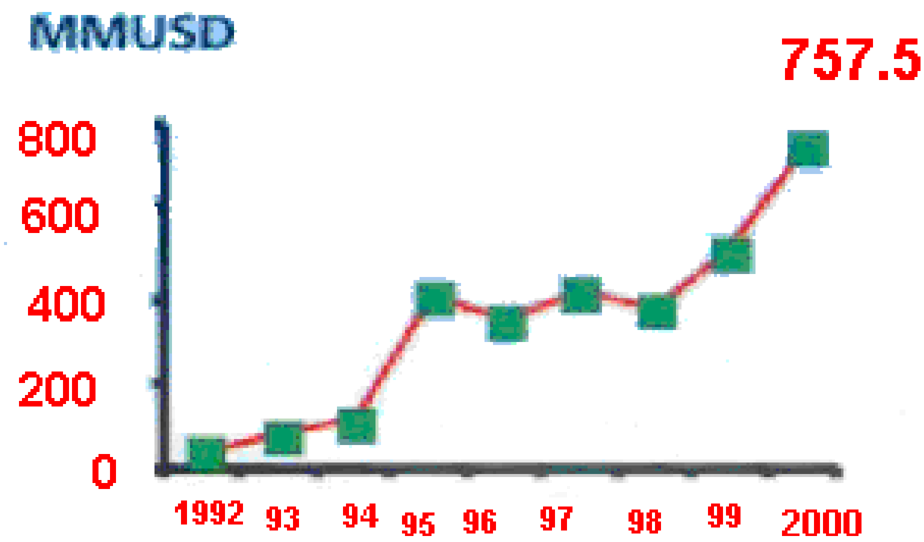
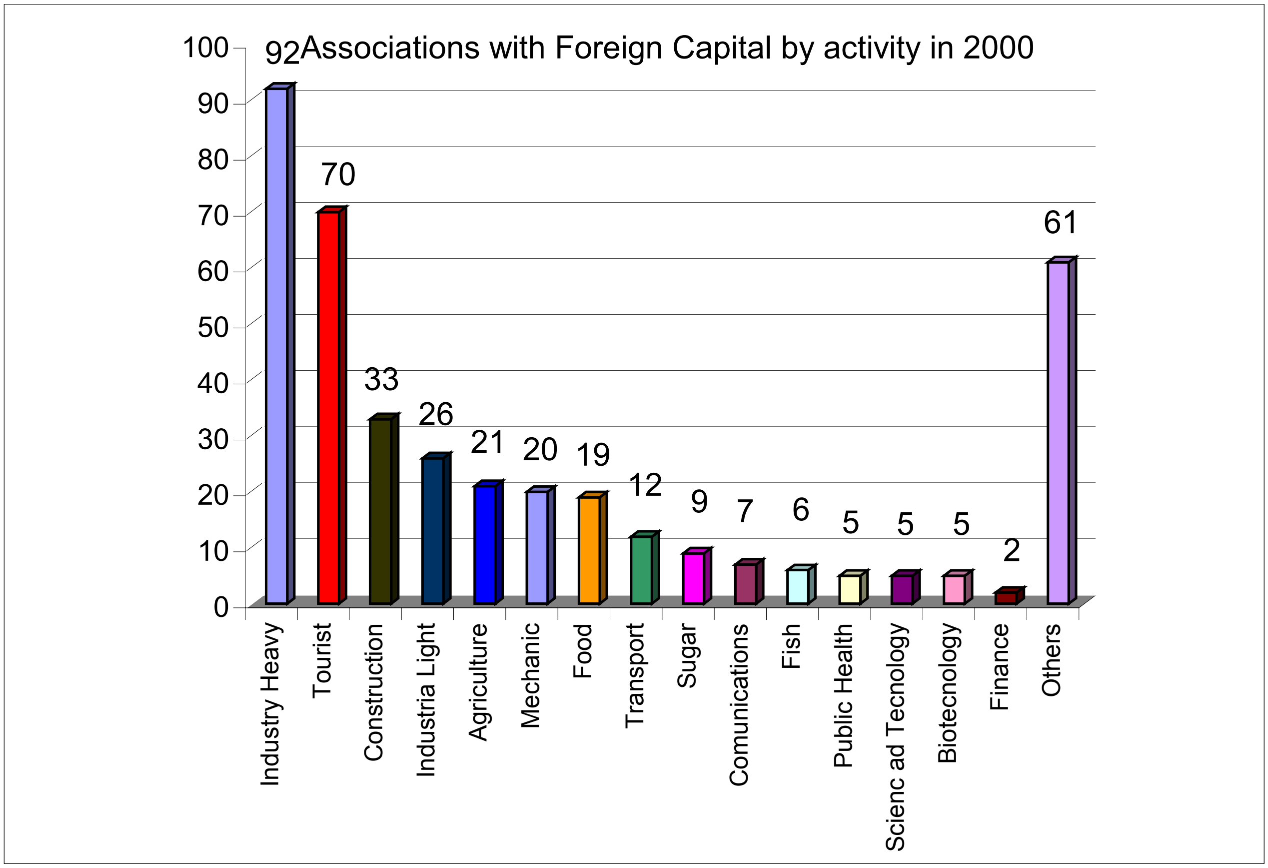


Beginning in 1998, economic associations directed at new activities emerged, including public services. For example, in 1999 the company ENERGAS (Cuban-Canadian) was formed to produce electricity using the gas accompanying the oil wells in the zone north of Havana. At the same time, the first business totally financed by foreign capital (from Panama) was created to construct and operate an electric generating plant on the Isla de la Juventud. Financial institutions were formed with Cuban banks, such as the joint venture between Banco Popular de Ahorro and Caja Madrid de España.

In 1999, 58 international economic associations were created. The most representative associations include the one by Habanos, S.A. with the European entity Altadis for marketing Cuban tobacco, and the creation of the firm Aguas del Oeste for managing water service for some municipalities on the city's west side. In the paper industry, three associations were created with Canadian firms to renovate existing factories in Cárdenas, Santa Cruz del Norte, and Jatibonico.

In terms of the number of mixed firms formed, the greatest percentage is linked to the industrial sector, followed by tourism, and to a lesser extent in services.



Source: Statistics from the Ministry of Foreign Investment and Collaboration. February 2001

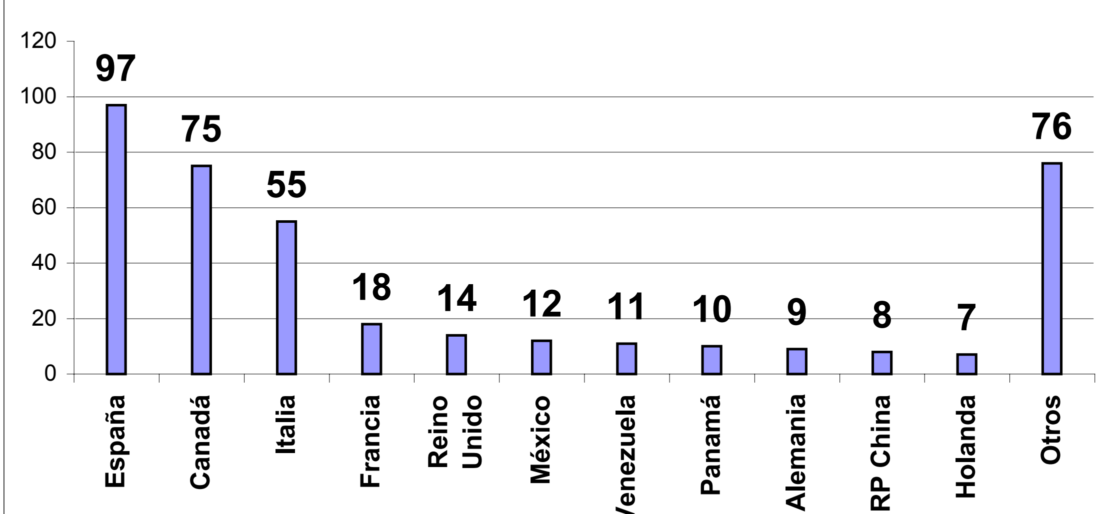
Additionally, there are tangible and intangible benefits; externalities are produced from the joint ventures that are difficult to quantify, such as management capacity obtained by Cuban administrators.

The data on employment generation shows it is not significant, since this type of business generally comes with greater automation and more efficient systems of organization. Job growth has not been dynamic, although the new jobs are in relatively high income areas. In 1995 there were already 13,800 workers employed in the mixed firms and in 1999 the number increased to 19,800 workers, less than 0.5% of the total employed in the country. In 2000, the average salary of workers in these businesses was about 243 pesos, yet their average income, which included other benefits, was 334 pesos, way above the national average. The fact that compared to workers in other countries in similar positions, Cubans receive a lower salary and fewer economic benefits should not be minimized, although the state guarantees those workers other social benefits, such as free universal health care and education. Thus, in the strict sense, the real income of those workers is greater than what the figures for nominal income suggest.

Source: Ministry of Foreign Investment and Collaboration. February 2 001

If the efficiency of the mixed firms is analyzed from a sample of those located in Havana, where most such firms are concentrated, spending on salary in pesos in commercial production in 2000 was 5.80 cents, significantly lower than the 19.08 cents spent by state enterprises and also less than the 13.27 cents of the Cuban commercial enterprises (state firms that operate in a more decentralized and flexible framework than conventional state enterprises). Although FDI

Associations with Foreign Capital by country of origin in 2000.



originates from more than 40 countries, it is fundamentally concentrated in the following countries:

III Foreign Direct Investment in Selected Industries

The analysis of FDI in certain Cuban industries, especially those with significant outcomes, such as tourism, beverages and alcohol, communications, and others, clearly indicates that industrial upgrading has taken place in Cuban enterprises, and some global production networks have included Cuban companies.

III.1 Tourism

Beginning in the 90s, the tourist industry introduced new operational modes through diverse forms of association with foreign capital that led to a restructuring of that sector, creating the chains Gran Caribe, Horizontes and Isla Azul together with the corporations CUBANACAN and GAVIOTA. These organizations group together different types of hotels, restaurants and other specialized deals.

The dynamism of the Cuban tourist sector has attracted FDI with increases in the number of visitors at average rates of 18% between 1990 and 1999, increases in gross income exceeding 30% annually, and in room construction by 13% annually.

Application of the theory of Oligopolistic Rivalry and its analysis of prevention leads to the conclusion that many foreign firms that today show interest in the Cuban market do so predicting that in the future, more powerful businesses will establish themselves, including from the United States, or that Cuba will have access to the North American tourist market.

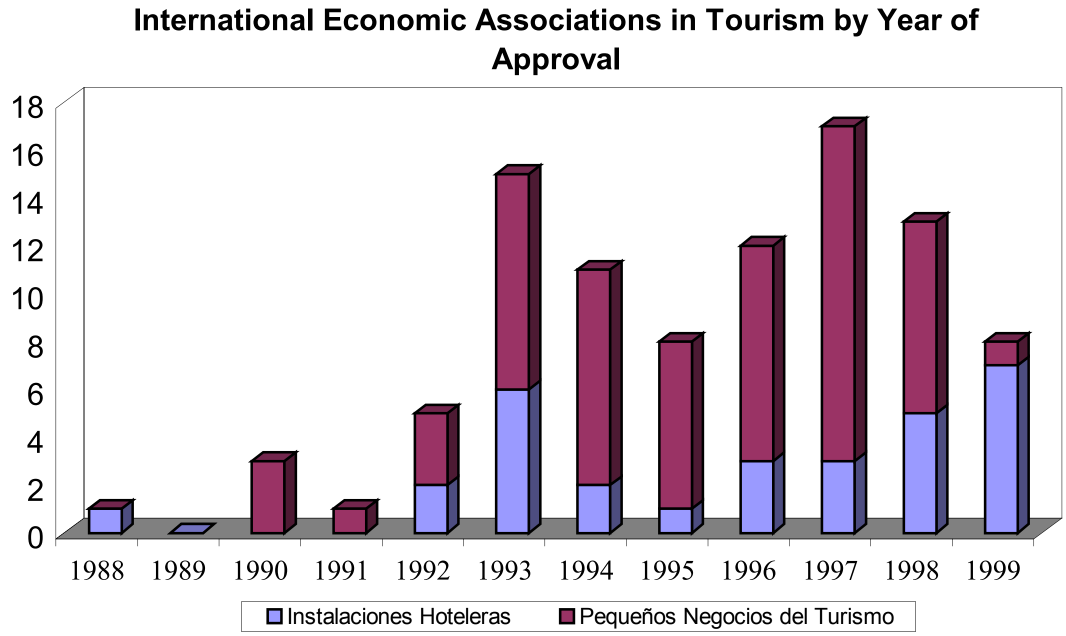
In 1990 Cuba received 327,000 tourists (ONE 1998) with 12,900 rooms available for international tourism, most of which required renovation. Management capacity was scarce in the tourist centers because this activity had not been prioritized for many years. A key element in the long-term tourist programs that were initiated at the beginning of the 1990s was the transfer of management skills through hotel administration contracts and the creation of mixed enterprises in hotels and the hotel industry.

In 1999, the number of joint ventures for hotel construction reached seven, which led to 19 foreign hotel chains operating in the country. Some of these hotels are considered among the best at the international level, such as the Sol- Meliá chain, which after acquiring the TRYP chain has become the tenth largest hotel chain in the world. Other important companies from Italy, Canada, and Germany have initiated operations in Cuba, and have thus included the country in their international circuits.

- ✓ At the close of 2000 there were 3,679 hotel rooms in mixed firms and more than 6,000 were constructed with foreign partners.
- ✓ There were 50 hotels under foreign administration, which amount to 15,870 rooms, or 50% of the hotel rooms for international tourism operating under hotel management contracts.

The rooms that are managed by administration contracts are not FDI, although the UNCTAD methodology considers them to be FDI.[2]

Foreign capital in tourist enterprises is greater than US$1,000 million dollars, with more than 100 associations with foreign capital involved in tourism, of which more than 30 were classified as hotels.



Agreements in tourism include restrictions. For example, foreign direct investment in Havana, Varadero and Cayo Largo is generally conditioned on the international partner's investment in other areas of the country. This is done to avoid overloading the effects of FDI in certain areas.

Tourism is itself a large importer. Thus, Cuba should increase national production of some goods and develop hotel related infrastructure even more, particularly in areas such as construction of theme parks, golf courses, and marinas. Cuba is already becoming part of the Caribbean tourist circuit, so its investment program in the coming years should be directed at activities that will interest international hotel chains.

If Cuba does not change its productive structure to meet the needs of tourism in the medium term, it will have to import US$3,000 million. So that this does not happen there is already an effort to generate national supplies using national and foreign financing to renovate existing installations and create new productive and service capacities. In order to reduce imports of inputs for tourism, competitive companies are needed that meet international standards, and this is where FDI is necessary.

In sum, tourism has been acting as the engine for the Cuban economy and it is likely that it will continue to do so. It is thus vital that plans for expansion of the tourist sector include (as already has begun) policies that incorporate FDI not only in tourist activities but also in the rest of the areas that form an integral part of the development of Cuban tourism.

III.2 Mining

Cuba has important multi-metal mineral ore deposits. The country is especially rich in nickel and cobalt reserves, which are among the largest in the world. In 1999, a record level of nickel production was achieved with 66,503 tons, and of these almost 50% were obtained in the joint venture Moa Nickel.

Within the productive sphere, there is a concentration of projects under implementation and in contract in solid mining for the short and medium term, with varying degrees of foreign interest. There are more than 50 agreements with foreign companies to develop geological or exploration projects in a territory of some 40,000 square kilometers, with 37 prospective areas.

Work is being conducted in the evaluation, prospecting and exploitation of deposits of copper, gold, silver, chromium, magnesium, lead, zinc and nickel. The documents signed bilaterally with foreign companies by the Cuban enterprise Geominera S.A. are based on risk contracts. They also include marketing of the minerals, with the exception of nickel, which due to the volume of reserves has an independent structure.

Geominera S.A. has agreements with the following companies: REPUBLIC GOLDFIELDS, MINAMERICA, METALL MINING CORPORATION, MIRAMAR MINING,

HEATH & SHERWOOD INTERNATIONAL INC, MINING ITALIANA SPA, MACDONALD MINES EXPLORATION LTD, RHODES MINING.NL, CARIGOLD, HOLMER GOLD MINES LIMITED, BOLIVAR GOLDFIELDS, LTD, SCINTREX, JOUTEL RESOURCES LIMITED, NINANFRICA, SA, among others.

There are three types of mining contracts:

1. Contracts in which foreign companies assume the risk of prospecting.
2. Exploration contracts, in which risk is shared between the Cuban and foreign parties.
3. Joint ventures in mining exploration.

The most promising contracts are those with Holmer Gold Mines, whose explorations have discovered gold, lead, copper, and zinc in Pinar del Río. Caribgold Resources from Canada has discovered gold in Camaguey. The Miramar Mining company is also operating a gold mine on the Isla de la Juventud. These contracts entail significant technological advances, which has enabled the exploration and extraction of minerals that were inaccessible with the previously existing technology.

The Case of Nickel

Beginning in 1992, sulfur from the Cuban Ni+Co was sent to the Sherrit company refinery in Canada, and in 1994 three joint ventures were created between the Unión del Níquel from Cuba and the Canadian company Sherrit International: Moa Nickel, S.A., which includes the mining operations and nickel processing in the plant "Pedro Soto Alba" in Moa, Cuba, The Cobalt Refinery Co., Inc., that encompasses the installations in Port Saskatchewan, in Alberta, Canada for refining the mineral, and the International Cobalt Co., Inc., based in the Bahamas, for marketing activities.

As a result of the agreements, the Canadian company became the owner of half the Cuban enterprise and its deposits, while the Cuban company acquired half the ownership of the Canadian refinery and of the third largest joint venture in the world marketing nickel and cobalt products (Figueras 1998).

This joint venture has introduced technological improvements, leading to lowered production costs and increased volumes of production reaching levels of plant design capacity. The company has the following well-defined objectives:

- Raise quality and costs to international levels.
- Increase the recovery of nickel and cobalt contained in the mineral to international levels.
- Cost reduction through improved energy efficiency in the plant.

The results from this plant as well as the modernization of the other two plants in Cuba and the renovation of all mining equipment, such as trucks and conveyer belts have led to the following:

- Ten per cent of the global production of cobalt in 1999.
- Sixth international producer of nickel.
- Recovery of the international market, with sales to more than 30 countries.
- New production records achieved.

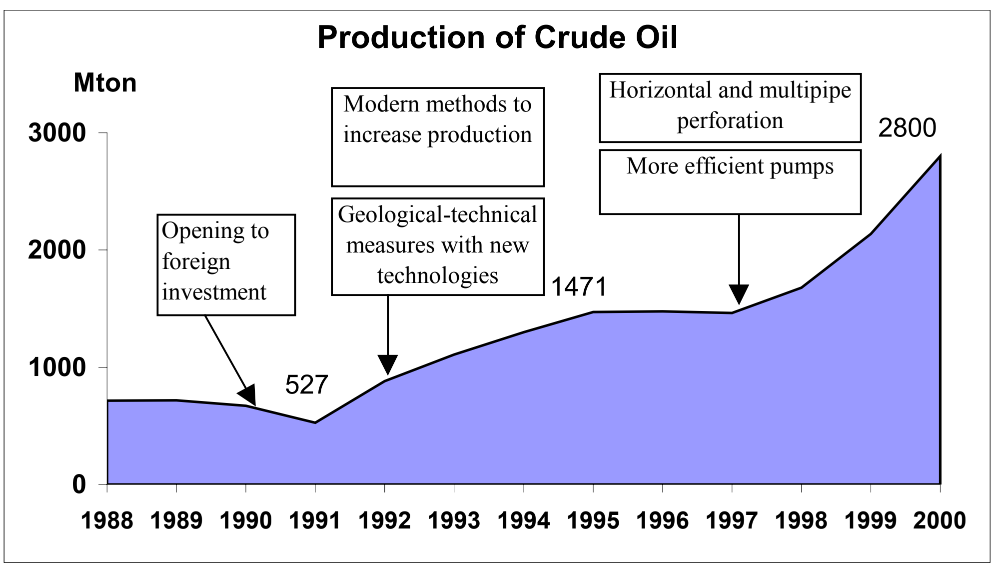
III.3 Petroleum and Gas

The association with foreign capital in this area has produced heartening results with the introduction of the most modern technologies available internationally. There are 20 risk contracts for the prospecting and exploitation of petroleum signed with important companies from Canada, France, the United Kingdom, Sweden and Brazil, among others.

Foreign companies have introduced top level technologies that have enabled increased production in crude oil and associated gas and its more efficient use, including the following:

1. Horizontal and multi-pipe perforation, which reduces perforation points by four or five times and raises production levels five or six times above traditional levels.
2. Improvements in the ROTAFLEX pumping system, thus increasing the productivity per well by two or three times.
3. Use of the associated gas in generating electricity and domestic consumption, eliminating pollution and recovering sulfur.
4. Construction of gas and oil pipelines, reducing transportation costs and increasing security.
5. Construction of plants for the treatment of crude oil capable of reducing the percentage of water and salts and eliminating sulfur, which saves time and energy.

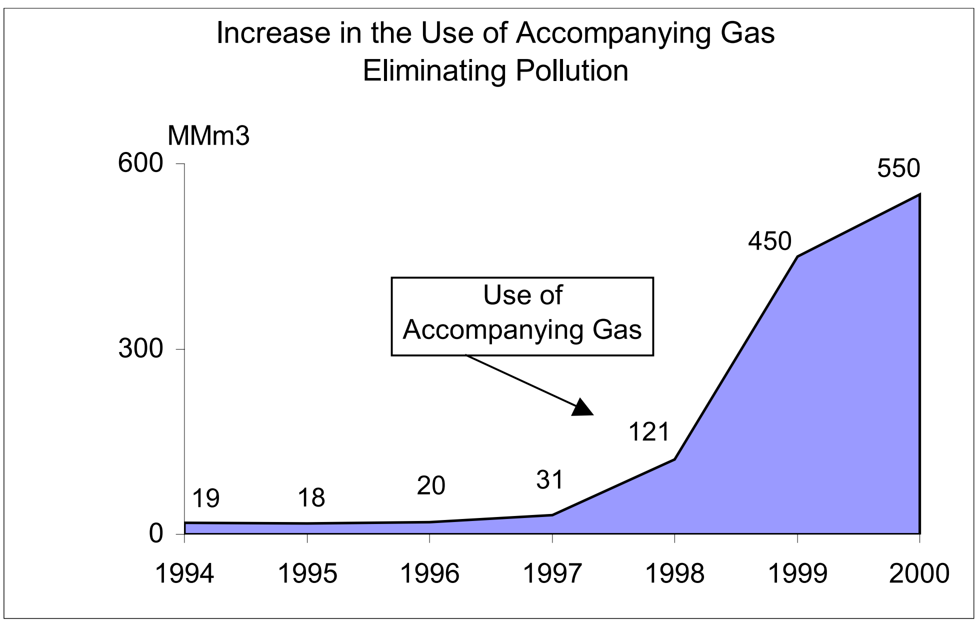
These cutting-edge technologies have increased the production of petroleum and gas; for example, the production of crude oil increased by a factor of six between 1991 and 2,000, as indicated in the following graphs.



Source: Ministry of Basic Industry. Report on Business Opportunities. Havana, October, 2000.

These levels of production have impacted import substitution in the year 2000 by more than US$410 million through the use of national oil and gas in electricity production, cement, nickel, and domestic gas, among others.

The joint venture between a Cuban firm and the Canadian company Sherrit, ENERGAS, with levels of investment of around US$150 million, has constructed a 210 megawatt plant with significant environmental impact. Through the use of the natural gas associated with petroleum extraction, which had polluted the coastal regions north of Havana and Matanzas, it was possible to recover 20,000 tons of sulfur and 12,000 tons of GLP that went into the atmosphere, while



producing electricity. In 2001, a US$120 million investment in a new150 megawatt expansion of the plant will be completed with two combined gas and cycle turbines.

The exploration of a new marine zone in the West, called an Exclusive Economic Zone, is divided into 59 blocks encompassing an area of more than 112,000 square kilometers for risk exploration with foreign companies. This exploration could increase the large volumes currently obtained, which together with new technologies will increase oil production by 4,750 thousand tons and gas production by 1,385 million cubic meters in 2005. (MINBAS 2000).

III.4 Telecommunications

One of the most important FDI agreements in Cuba was the creation in 1994 of ETECSA, a joint venture between the Cuban telephone company and the Mexican company CITEL. That venture involved more than US$1,500 million with a 55-year concession and US$740 million in the first seven years for modernization of the enterprise. Cuba controls 51% of the shares.

This agreement was very sui generis in that it covered all of Cuban communications and created organizational structures that were very centralized, as opposed to the territorial organization that predominated in the 1970s and 80s. Already by 1995 the company was billing close to US$145 million, with a net of US$108 million, although international mergers in the industry have had the effect of reducing income from these services.

In 1995, CITEL, which originally owned a 49% share of the company, sold 25% of its shares to STET International, an Italian firm. In 1997, STET bought additional shares that had been owned by CITEL. With that transaction the Italian company became the majority foreign shareholder. (CONAS, 1996 –1997). In 1997, the Sherritt Corporation of Canada acquired part of the communications firm CUBACEL, and Sherritt has discussed the purchase of shares with ETECSA.

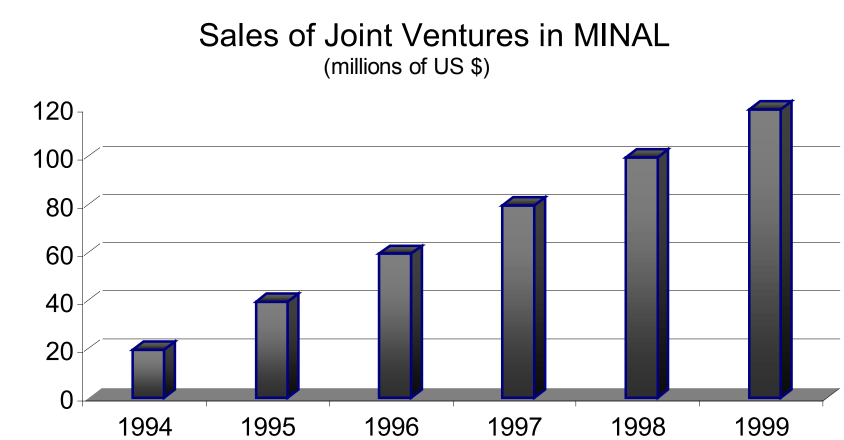
FDI in this area has had a very positive effect. The ETECSA joint venture put an end to the serious deterioration of telephone service in the country, constructed very modern digital plants, installed microwaves in several parts of the country, introduced up to date technology such as fiber optics in the local networks, and modernized the vehicle fleet. Most importantly, the improvement in service has been palpable to the users, since for the first time in 30 years new services have been offered to the general population. It is expected that within the next few years there will be 20 telephones for every 100 inhabitants.

One of the technological advantages of this type of business with internationally recognized European firms is that service quality has improved significantly. Currently available services are superior to those obtained from obsolete plants.

III.5 Food and Beverage Industry

One of the industries with the most extensive involvement of foreign capital is the Ministry of the Food Products Industry (MINAL), which at the close of 2000 oversaw sixteen joint ventures.

In 1996, the Corporación Alimentaria S.A. (Coralsa) was established with the objective of organically developing associations with foreign capital to find markets, technology and financing for the development of the rest of the MINAL industries, with the exception of the



Source: Cámara de Comercio. Cuba. Foreign Trade,No 3, 2000.

production of alcoholic beverages. The corporation also seeks to strengthen the income potential of the resulting associations. Currently there are sixteen joint ventures and twelve associations for cooperative production.

The sixteen joint ventures in MINAL produce 6% of the industry's total production, but they are a very valuable asset in terms of participation in the domestic market in foreign currency and exports.

Significantly, not only have sales from joint ventures increased, technological improvements in production quality and in packaging and product presentation have been introduced as well.

Noteworthy companies include the firm Havana Club International, made up of a partnership between Havana Rum & Liquors and the prestigious French firm Pernord Ricard, which is co-owner of 50% of the second most important rum in the world, Havana Club. This company's sales have increased from 250,000 cases in 1994 to 1,250,000 cases in 1999. Current investment in the business will enable the company to reach five million cases within ten years. (Foreign Trade, 2000).

In the meat industry, there is Industrias Cárnicas Hispano-Cubanas (Bravo, S.A.), a joint venture between Coralsa and Provalca of Valencia, Spain. This company has the advantages of the experience and know-how of the Spanish meat industry, adapted to Cuban conditions. It is a leading firm in terms of return on investment in the foodstuff sector and is expanding to the Caribbean and Central American markets. The company introduced cutting edge technology, which led to growth in production by 30% in 1999.

Los Portales, S.A. is a partnership of the Cuban company Coralsa and the Swiss group Nestle that produces and markets the biggest selling soft drinks and mineral waters in the country. The company owns several mineral water bottling plants. It introduced the use of PET containers for soft drinks and introduced new lines of canned beverages. Annual sales are increasing greatly and improved quality has led to expansion into markets in the Caribbean and MERCOSUR. The capital contribution of foreign partners is around US$80 million, which together with the Cuban contribution makes a total investment of US$118 million (González, 1998).

Companies relying on sales in the domestic foreign currency market have retooled their relationships with the national agricultural sector by entering agreements for high quality raw materials in exchange for advances of inputs and financing to the producers at mutually advantageous.

The integration of agroindustrial relationships into more dynamic, direct and less bureaucratic forms is an issue that should be more fully developed in the future, along with consideration of the new forms of production that have emerged in the agricultural sector.

This type of joint venture has on balance been positive for Cuba, in that Cuban products have reached markets and Cuban companies have benefited from the experience of the rigors of competition. Thus, it is desirable to expand these possibilities in the near future.

Nevertheless, it is necessary to eliminate the current division in the markets generated by monetary duality (markets in national currency and foreign currency) and apply measures to reduce dollarization that favor greater relationships among producers. This is one of the most important problems inherent in the attraction of foreign investment flows.

Conclusions

- ✓ The problems associated with external financing have become a first order task given the impossibility of generating sufficient levels of domestic savings for the growth and development of the Cuban economy. But the acquisition of this financing should have an even greater link to access to foreign high technology.
- ✓ The strategy that the government should pursue to obtain foreign financing in the amount and of the quality required can not be delinked from the strategy to generate domestic savings. To the contrary, these should be complementary goals in the process of insertion in the world economy.
- ✓ The investments necessary for transforming these resources into agents of development also require financing, and the volume that is available for this objective will be in the long run one the principal determinative factors for growth and macroeconomic stability.
- ✓ The experience of recent years shows the importance of economic policies that maintain a stable investment flow to recipient countries. However, in order to attract significant levels of capital, sound macroeconomic policies are not sufficient; deep internal reforms in economic and financial relationships are also necessary.
- ✓ Even if and when the strategy and tactics for using foreign capital are well defined, this process will not achieve all the results possible if a series of fundamental transformations are not undertaken. Necessary reforms include increased levels of decentralization, especially with respect to firm autonomy (managerial improvement should lead to enterprise autonomy); promotion of the role of small and medium businesses; elimination of the current market division arising from monetary duality; and implementation of an appropriate exchange rate for the Cuban peso.

- ✓ From a prospective view, foreign financial flows depend on the depth and direction of reform, the sustainability of recovery and the coherence and intelligence that are deployed to reduce the effects of the U.S. extraterritorial practice of the blockade policy, especially the Helms-Burton law.
- ✓ The growing level of speculation in international financial activity exacerbates the exclusion of underdeveloped economies in that the level of risk and exposure in capital transactions increases, especially in the short term. Thus, Cuba should continue the process of opening to foreign investment, and improving the rules that are established for it, so that it can be obtained without transgressing the limits that jeopardize control of the nation's fundamental riches.
- ✓ Finally, the experience of the analyzed sectors leads to the conclusion that the foreign investment process in Cuba has been successful at acquiring technologies and management capacities, and has achieved industrial upgrading in those areas where it has a strong presence. This success should be a guide for improving the development of other sectors or areas for greater dynamism in world trade so that Cuba can insert itself in the world economy as it is evolving in the new century.

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APPENDIX 1

Forms of Technology Transfer through Foreign Direct Investment (FDI)

1- PASSIVE EFFECTS

A) Experiences acquired by nationals and transmitted through turnover.
B) Demonstration effect. This is greater when the investment is in a new industry for the recipient country.
C) Contact with suppliers of raw materials and components.
D) Contact with distributors.

2- ACTIVE EFFECTS

A) Training programs in the country and abroad.
B) Technical assistance programs for suppliers of raw materials and components.
C) Technical assistance programs and training for distributors and repair service providers.
D) Contracts with FDI institutes, machine and equipment producers, and engineering firms for services and technological equipment.
E) Adaptation and technological improvement used in the country although not directly linked to FDI.
F) Research and development efforts in the country. For foreign companies that engage in it, almost all their research and development takes place in the country of origin.

Source: Dahlman, Karl (1988).

Notes

[1] Most of the agencies or publications specializing in country risk have always placed Cuba among the most risky countries for investment for several reasons, including macroeconomic indicators, especially trade deficits, debt, the U.S. blockade, etc.

[2] UNCTAD, World Investment Report, 1997, in its appendix of definitions states, " Foreign direct investors may also obtain an effective voice in the management of another business entity through means other than acquiring an equity stake. These are non-equity forms of FDI, and they include, inter alia, subcontracting, mangement contracts, turnkey agreements, fanchising licensing and product sharing. Data on transnational corporate activity through these forms are usually not separately identified in balance of payments statistics." Page 296. (Geneva)