Cuban government passes new law on foreign investment

Alexander Fangmann
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The Cuban National Assembly gave its approval on March 29 to a new foreign investment law that marks a profound step towards complete reintegration of the country into the global financial system. The law is the culmination of plans put in place following the Cuban Communist Party's Sixth Congress in 2011—one of roughly 300 measures put forward by the administration of President Raúl Castro aimed at dismantling the radical reforms previously put in place by the petty-bourgeois nationalist regime in Havana.

Appearing on state television, Rodrigo Malmierca, Cuba's minister of foreign trade and investment, stated that the goal of the push for investment is to boost GDP growth, saying that if "the economy does not grow at levels around 7 percent ... we are not going to be able to develop." Last year's GDP growth was 2.7 percent, short of an expected 3.6 percent, and is expected to fall to 2.2 percent in 2014. According to Malmierca, the investment needed to fund such a GDP growth rate is $2 to $2.5 billion per year. Current levels are estimated at only around a few hundred million dollars.

The foreign investment law opens up practically all sectors of the economy except for education, health, media, and the military to foreign direct investment. It also appears to give a big push to firms financed entirely through foreign capital, without state involvement in ownership or operation. Although allowed by a previous law dating from 1995, deals typically have limited foreign ownership to 49 percent.

The new law encourages partnerships between investors and the state by dropping the tax rate on profits for those jointly-owned firms from 30 percent to 15 percent, with a a total tax exemption for the first eight years—with the possibility of extension.

It also guarantees that investors' will be safe from expropriation without "due compensation," as vouched by José Luis Toledo, president of Cuba's parliamentary commission on constitutional and legal affairs. The approval process for foreign investment projects has also been streamlined.

Many comments in the press have noted that Cubans living abroad are not excluded from becoming investors in the new companies. While that was also the case under the 1995 law, many commentators expect that the Cuban regime's attitude has shifted in this regard. Even a figure such as Alfonso Fanjul, the right-wing Cuban exile sugar magnate, has conducted several recent trips to the island for high-level meetings on possible business opportunities in the agriculture industry.

Responding to a question from a Cuban journalist asking him to clarify the position on investment by Cubans in the United States, Malmierca responded that they could invest as long as they are not opposed to "the revolutionary process" and as long as they are not "linked to the Miami terrorist mafia." In other words, as long as they are willing to employ the Cuban Communist Party to police the working class and give them a cut of the proceeds.

The shift in attitude by the Castro regime has been accompanied by a circling of the vultures, with the European Union agreeing in early March to negotiate bilateral relations with Cuba for the EU as a whole. Not wanting to lose out to its imperialist rivals on opportunities for enrichment on the backs of Cuban workers just off its coast, the Obama administration has signaled a willingness to make adjustments to the decades-old embargo, which prevents investment in Cuban companies by people in the United States.

Regardless of its open pronouncements or policy changes, the Obama administration clearly sees opportunities to destabilize the Castro regime stemming from the changes being implemented, as seen from the work on the Cuban "Twitter," ZunZuneo.

Current investment by Cubans living in the United States is limited to remittances sent directly to friends or family. A study from 2013 by the Havana Consulting Group found that in 2012 remittances of cash and goods amounted to $5.1 billion in 2012, with cash along accounting for just over $2.6 billion. The value of remittances now exceeds that generated by virtually all other sectors of the economy.

Proof of how extremely dependent the Cuban economy is on such direct injections of cash can be seen in the fact that such remittances account for nearly 90 percent of the Cuban retail market and now amount to three times what the government pays in public sector wages. Around 62 percent of Cuban households receive remittances of some kind.

The injection of dollars into the Cuban economy has contributed to surging levels of inequality between those with access to dollars through either remittances or jobs connected to tourism or the arts, not to mention the ruling elites, and workers without such access. A relatively small but wealthy layer has been growing, eager for access to consumer goods and services.

This injection of cash into the Cuban economy in the form of dollars began in the period after the dissolution of the USSR. The Soviet Union had been subsidizing the Cuban economy for many years, paying above-market rates for sugar in exchange for oil and other goods.

Cuba has since entered into a similar relationship with Venezuela, which supplies cheap oil to the island and also pays for Cuban doctors and other medical specialists sent to Venezuela. This support is estimated at over $6 billion per year, and according to economist Carmelo Mesa-Lago, represents a more significant subsidy than that which the island received from the USSR.

The acceleration of many of the market oriented legal changes stems from a worry that the Venezuelan regime will very soon be unable to continue its subsidies. Already, the regime has filled all strategic oil storage facilities to the brim in preparation. In such a scenario, Cuba would need a significant increase in dollars to purchase oil and other imported items, which besides food and other consumer goods, includes machinery and raw materials for industrial production.

In this regard, one of the more significant aspects of the rules governing the operation of companies set up with foreign capital under the new investment law is that they must hire their workers through the government, which thus operates as a labor contractor under the auspices of the Ministry of Foreign Trade and Investment. The object of barring direct hiring is to capture currency for the purposes of foreign exchange, as companies are obliged to set aside hard currency for wages, while workers are paid in the relatively worthless Cuban peso. This same scheme is in place at the free trade zone recently set up at the new port facility at Mariel.

The response of the Cuban regime to its shambling economy and the potential disaster of the disappearance of Venezuelan assistance is to attempt to position itself as a labor contractor and a labor force police on behalf of capitalist investors from around the world, even as it throws hundreds of thousands out of work, prepares the shutdown of state companies, and cuts social assistance programs. In this respect, it resembles the Chinese Stalinist regime, and embodies the universality of the drive toward austerity and social counterrevolution.