

Is Cuba Ready for American Investment?

By *Judy Kruger* • Sunday, April 12, 2015 | Topic: **World**



with the U.S.

All eyes are on Cuba as an investment opportunity for U.S. companies. And with travel and trade restrictions relaxing this year the question becomes — is Cuba Ready? For each potential deal, a number of factors and risks need to be assessed. But as the small island nation strives to join the world trade community, Cuba is likely to become a favorable investment destination.

At the recent Summit of Americas in Panama, more definitive discussions related to business regulations between the U.S. and Cuba took place at the first meeting between the presidents. Both agreed to reopen embassies in Havana and Washington. And President Obama committed to review Cuba's status on the list of countries that sponsor international terrorism. Removal from this list would free Cuba to bank and do business

5 Key Factors for Investment

When companies look to invest globally, they typically consider five key elements: workforce availability, infrastructure development, political stability, a business-friendly tax code, and attractive incentives. How does Cuba fare in these areas?

According to the National Office of Statistics of Cuba, 71 percent of the 11.1 million population is between 15 and 64 years old. Surprising to many, the Cuban labor force is the highest educated labor force in Latin America. Over eighty percent of college-age Cubans in 2011 enrolled in postsecondary education, compared with 75 percent in Argentina, 71 percent in Chile, and 29 percent in Mexico, according to United Nations statistics.

The average Cuban wage is 471 CUP — approximately \$20 per month. And Cubans are eager for a better paycheck. Housing and food are subsidized, and there is no cost for health care or education. Nevertheless, there is pent up demand for higher salaries.

With foreign investment in mind, logistics infrastructure that is critical to meet expectations for new business has been developed. Through funds mostly from Brazil, the newly expanded deep-water Port of Mariel has replaced the Port of Havana as the major port for trade in Cuba. The port office opened the Special Development Zone Mariel (ZEDM) and has a website in English and Spanish on "How to Invest" and at www.zedmariel.com.

To entice business development, changes to the Cuban tax structure and incentives for foreign investment were implemented last year.

The Port of Mariel is only 45 minutes from the Havana airport. And the new four lane highway to the Port of Mariel's trade office is lined with semi-trailers passing through gates, waiting to load cargo containers sitting on the docks.

While the logistics piece is in place through the airport, highway, and seaport corridors, internet for business commerce in Cuba is sorely lacking. Internet that is available is complicated by weak infrastructure and tight government controls. Only about 5 percent of Cubans have access to the internet.

To meet various demands, an underground service was developed called "Paquete Semanal" (Weekly Packet), that allows many Cubans without internet service to obtain information on a daily basis. This, however, is not a sustainable communications method for business.

The wide open internet market in Cuba can be viewed as yet another business opportunity for U.S. companies. During the week of March 23rd., U.S. diplomats met with Cuba's state run telecommunications business, ETECSA, to discuss infrastructure development options.

Missing Critical Factors

The remaining three driving factors for FDI, however, are unknown and represent a risk that should be balanced against potentially profitable investment opportunities in Cuba.

Quick Search

enter search term...

» Advanced Search

Related Articles

- [The Approaching Implosion of Venezuela and Strategic Implications for the U.S. - 2015-07-23](#)
- [Tinkering with the Market Will Cost China Dearly - 2015-07-16](#)
- [Don't Reauthorize E-Verify - 2015-07-16](#)
- [How U.S. Trade Laws Have Run Amok - 2015-07-15](#)
- [Putting the Trans-Pacific Partnership in Perspective - 2015-07-15](#)

Featured Articles

[The Approaching Implosion of Venezuela and Strategic Implications for the U.S.](#)

[Tinkering with the Market Will Cost China Dearly](#)

[Thailand's Power Grab](#)

[Don't Reauthorize E-Verify](#)

[How U.S. Trade Laws Have Run Amok](#)

Will the political climate stabilize as Raul Castro plans his departure in 2018 and new leadership comes into power? Will the tax structure for foreign investment become business-friendly and stay that way? Will Cuba offer incentives that attract investment over other low-cost countries?

When Raul Castro announced he would leave the Presidency in 2018, he appointed Miguel Diaz-Canel as First Vice President. It is assumed that Diaz-Canel will be Cuba's next president, but the issue has not been officially addressed. Diaz-Canel is a trained engineer who has a strong background in government, education, sports and biotechnology.

Although it is not clear whether or not Diaz-Canel's leadership would create a stable political environment, he is well respected in educated circles. He is said to be business savvy and understands the need for sound infrastructure. Diaz-Canel was recently quoted as admitting that the development of Cuba's internet is essential to the growth of business and trade both domestically and around the world.

In an effort to entice business development, changes to the Cuban tax structure and incentives for foreign investment were implemented last year. The new law allows for 15 percent tax less start-up and investment costs — a attractive offer for companies looking for a location offering both low-cost labor and a low tax structure. However, without a recent history of production experience and tax enforcement, the actual cost and degree of difficulty of doing business in Cuba is yet to be determined.

If Cuba follows global foreign investment trends, more aggressive global companies undoubtedly will take action and incur the risks based on the benefits of low-cost labor and available market share. And, as new industries and businesses demonstrate profitability over the next several years, others will surely enter the market.

Is Cuba ready? For many companies, the answer is yes. And for those willing to take a risk and invest, a number of opportunities may present themselves sooner rather than later.

In The Spotlight

- **How Simple Changes to Tariffs Could Help U.S. Manufacturers**
- **Import Compliance for Small Business: Protecting Your Company on a Budget**
- **U.S. Ports, Transportation System Unprepared for What's Ahead**
- **Cuba at the Crossroads: New Policies, Laws and Potential Opportunities**

Recommended

Corporate Series

SEMINARS OF THE YEAR



- » Get an insider's perspective on the Latest Economic Trends, Global Strategies and Foreign Markets...
- » Get the Latest Syllabuses (Free)

Stock Watch

		+0.5
		+0.2
		0.0
		-0.2
DOW	17,568.53	0.00 (0.00%)
NASDAQ	5,088.63	0.00 (0.00%)
S&P	2,079.65	0.00 (0.00%)
GOOG or GOOG, .DJI, CSCC		4

FREE Impact Analysis

Get an inside perspective and stay on top

Like Share { 13 } Tweet { 0 } { 4 } Share 25 Share



About The Author **Judy Kruger**

Judy Kruger is Vice President of Operations USA for Grupo Prodensa, a large start-up services firm headquartered in Monterrey, Mexico. She also is a principal global strategy consultant with Vanguard Sales Solutions, LLC. and holds a law degree from Thomas M. Cooley Law School.

Follow

www.prodensa.com.mx



PRA Global Business Development *Spanning the Globe. Driving Growth.*

PRA's mission is to drive growth and profitability by establishing your company in new vibrant markets. PRA leverages a full suite of business development capabilities enabling you to capitalize on the opportunity in new markets. What makes PRA unique is our ability to set up and operate your global business in-country, on your behalf, until you are ready to 'fly free.' This approach minimizes investment and mitigates risks in the early stages of market entry or expansion, while driving significant growth in top-line revenue and profitability. We are first and foremost business developers - not consultants.

A Unique Set of *Capabilities*

- Market Analysis & RoadMap Development.
- Sales & Distribution Execution.
- In-country Manufacturing and/or Assembly set-up.
- Supply Chain Management & Quality Control.
- Acquisition and Joint Venture.
- Due Diligence.
- Global Customer Analysis.

A Phased Methodology to Minimize Investment & Risk

Crawl - Market entry preparation including market analysis, sales opportunity validation, and strategic RoadMap development.

Walk - Expand sales volume by further building sales team, then optimize distribution and establish warehousing.

Run - In-country manufacturing for local markets including establishment of a wholly owned entity or strategic partner for final assembly or full production.

PRA's Approach

- 1 Understand your strengths, competitive pressures and objectives.
- 2 Select the optimal international market(s) for entry or expansion.
- 3 Build your strategic RoadMap using our crawl, walk, run methodology.
- 4 Validate your financial business case and ROI through analysis and modelling.
- 5 Execute the RoadMap in a phased approach to minimize risk and investment.
- 6 Operate the global business in-country on your behalf until you are ready to 'fly free.'
- 7 Drive your expansion into additional vibrant markets.



Derek Begue
PRA Global Business Development
4467 Cascade Rd. Suite 4477
Grand Rapids, Michigan USA
DBegue@PRA-Global.com
Office +1 616 710 4530
Mobile +1 231 730 2567
www.pra-global.com



PRA Worldwide Office Locations:

Grand Rapids, MI	Chicago, IL	Minneapolis, MN	Shanghai, China									
Zhongshan, China	Shenzhen, China	Hong Kong	Sao Paulo, Brazil	Hyderabad, India	Chennai, India							
Latvia	Poland	Turkey	Vietnam	Taiwan	Indonesia	Malaysia	South Korea	Thailand	Australia	Argentina	England	Mexico