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# Doing Business in Cuba

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## Introduction

Cuba stands as one of the world's most distinctive and complex destinations for entrepreneurs seeking new opportunities. Its image is shaped by a rich cultural tapestry, a turbulent political history, and a resilient, centrally planned economy that continues to evolve. For decades, doing business in Cuba seemed nearly impossible for outsiders. Now, recent policy adjustments and economic reforms have begun opening doors for foreign investment across a range of sectors. However, the Cuban marketplace remains far from conventional, requiring those who seek entry to master a range of unique legal, operational, and cultural realities.

This book, *Doing Business in Cuba: A Comprehensive Guide for Prospective Entrepreneurs*, is designed as a practical, in-depth resource for anyone considering starting, investing in, or expanding a business within the Cuban context. Unlike many general guides to international business, this book focuses on the particularities and specificities that characterize the Cuban business environment. Each chapter breaks down the nuances of regulation, procedure, and strategy, equipping readers with the insights needed to navigate the system successfully.

In the pages ahead, you will discover the legal frameworks that underpin foreign investment, with detailed analysis of Law 118 and its supplementary regulations. You will learn not only which business structures are allowed, but also their associated rights, responsibilities, and limitations. The guide explores Cuba's evolving attitudes toward private enterprise, the new visibility of MSMEs, and the government's annually updated Portfolio of Opportunities, which shapes where foreign capital is most welcomed.

But regulations and business forms hardly tell the whole story. Doing business in Cuba also means understanding the influence of the state at every stage, overcoming persistent challenges from infrastructure and bureaucracy to currency complexities and the impact of the US embargo. Cultural sensibilities—how relationships are built, how authority is perceived, and how negotiation is approached—are equally vital to your prospects for success. This book explores these issues in depth, interweaving practical advice with real-world examples and lessons learned from those who have gone before.

This comprehensive guide does not promise quick or effortless success—such promises would be misleading, given the realities on the ground. However, it does provide a clear, honest appraisal of both the opportunities and obstacles that prospective entrepreneurs will encounter. If you are ready to take the time to study, prepare, and adapt, Cuba offers potential that is as exciting as it is formidable.

By the end of this book, readers will possess both a foundational understanding and actionable strategies for entering and growing a business in Cuba. Whether your interest lies in tourism, technology, agriculture, or one of the many other sectors undergoing transformation, you'll be equipped with knowledge that is current, practical, and focused squarely on the distinctive Cuban landscape. Welcome to your guide for doing business in Cuba.

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## CHAPTER ONE: The Cuban Economic System: Key Features and Recent Changes

To understand how to do business in Cuba, one must first grapple with the fundamental nature of its economic system. It's a landscape shaped by revolution, ideology, global politics, and sheer necessity. Forget the relatively free-wheeling markets you might be used to; Cuba operates predominantly as a centrally planned economy, where the state plays the leading role in directing resources, setting production targets, and controlling the key levers of commerce. While recent years have witnessed significant shifts designed to modernize the economy and attract foreign capital, the underlying structure remains profoundly different from most Western or even many developing economies.

The roots of this system lie in the 1959 revolution, which led to the nationalization of vast swathes of the economy, previously dominated by US interests and a domestic elite. Following the revolution, Cuba aligned itself closely with the Soviet Union, adopting key features of its centrally planned model. This involved state ownership of the principal means of production – factories, land, infrastructure – and the implementation of comprehensive economic plans, typically spanning five years, intended to guide national development. This system solidified over decades, providing social safety nets like universal healthcare and education, but often struggling with efficiency, innovation, and consumer goods availability.

The collapse of the Soviet Union in 1991 triggered a profound economic crisis in Cuba, known as the "Special Period in Peacetime" (*Período Especial en Tiempos de Paz*). Overnight, the island lost its primary trading partner and source of subsidies, estimated at billions of dollars annually. Imports plummeted, oil supplies dwindled, and the economy contracted drastically. This shock forced the Cuban government to introduce limited market-oriented reforms out of necessity, such as legalizing the US dollar for a time, permitting some self-employment (*cuentapropismo*), and opening up sectors like tourism to foreign investment, primarily through joint ventures with the state.

Despite these initial openings, the core tenets of central planning remained firmly in place. The Ministry of Economy and Planning (MEP) continues to be a crucial institution, responsible for formulating the national economic plan. This plan dictates resource allocation, sets production quotas for state-owned enterprises (SOEs), manages imports and exports through state monopolies, and influences wage scales and pricing for many essential goods and services. Decisions are driven by national priorities set by the government, rather than primarily by market signals like supply

and demand or profit motives in the way a typical entrepreneur might expect.

This state dominance is the single most defining feature of the Cuban economy. State-Owned Enterprises constitute the backbone of industrial production, agriculture, foreign trade, banking, transportation, and communications. While the landscape is slowly diversifying, any prospective foreign entrepreneur must recognize that their primary partner, competitor, regulator, and often supplier or customer, will likely be an entity linked directly or indirectly to the Cuban state. Understanding the objectives, operating procedures, and decision-making processes within this state apparatus is therefore not just helpful, but essential.

Property rights in Cuba reflect this state-centric model. The constitution establishes socialist state ownership over the fundamental means of production, including land (though much is leased long-term), mineral resources, and strategic industries. Cooperative ownership, particularly in agriculture (Agricultural Production Cooperatives - CPAs, and Basic Units of Cooperative Production - UBPCs), also plays a significant role, operating under state guidance. Private property rights exist but have historically been limited, mainly concerning personal items, housing, and more recently, the assets of small private businesses. For foreign investors, this generally means operating through structures like joint ventures or contracts where the Cuban state partner retains ownership of underlying assets like land, granting usage rights instead.

One historically unique and often confusing feature was Cuba's dual currency system, which operated for nearly three decades until the beginning of 2021. The Cuban Peso (CUP) served as the domestic currency for salaries, local goods, and subsidized items, while the Cuban Convertible Peso (CUC), pegged notionally 1:1 to the US dollar, was used in the tourism sector, foreign trade, and state-run 'dollar stores'. This created distortions, complex accounting challenges, and inequalities. While intended to capture hard currency and insulate the domestic economy, it ultimately proved unwieldy.

In January 2021, Cuba embarked on a major monetary overhaul known as the "Ordering Task" (*Tarea Ordenamiento*). This complex process involved eliminating the CUC, unifying the exchange rate (initially at 24 CUP per USD, though informal rates quickly diverged), adjusting salaries, pensions, and prices, and significantly reducing state subsidies for many goods and services. The goals were ambitious: to increase transparency, improve the efficiency of state enterprises by making their true costs clearer, stimulate exports, and correct market distortions. However, the transition proved difficult, contributing to soaring inflation and shortages, challenges that continue to shape the economic environment.

Related to the state's directive role and historical currency setup is the pervasive system of price controls and subsidies. For decades, the Cuban government fixed

prices for a wide range of essential goods and services, often keeping them artificially low through state subsidies. The *libreta de abastecimiento* (ration book), introduced in the early 1960s, guaranteed a minimum amount of basic foodstuffs like rice, beans, sugar, and oil per person at heavily subsidized prices. While ensuring a basic level of sustenance, this system masked true production costs and limited consumer choice.

The *Tarea Ordenamiento* aimed to dismantle much of this intricate subsidy web, shifting towards targeted support for vulnerable individuals rather than general product subsidies. Prices for many goods and utilities rose sharply as subsidies were withdrawn, representing a significant shock to household budgets and business operating costs. While some price controls remain, particularly for essential goods still distributed via the diminishing ration system and certain key services, the trend is towards prices reflecting economic costs more closely, albeit often still set or heavily influenced by state authorities rather than pure market dynamics.

Beginning largely after Raúl Castro formally assumed the presidency in 2008, Cuba initiated a process termed the "updating" (*actualización*) of its economic and social model. This wasn't intended as a shift towards capitalism, but rather an effort to make the existing socialist system more sustainable and efficient. The government acknowledged the need for structural changes to boost productivity, diversify the economy beyond traditional pillars like sugar and nickel, reduce reliance on imports, and create more dynamic sources of employment and hard currency.

A cornerstone of this "updating" process has been the cautious but steady expansion of the non-state sector. The government significantly broadened the scope of permitted self-employment (*cuentapropismo*), allowing Cubans to operate small private businesses in hundreds of specified occupations, ranging from restaurants (*paladares*) and B&Bs (*casas particulares*) to tradespeople and tutors. This sector grew rapidly, providing new services, creating jobs, and becoming a visible feature of the Cuban streetscape, though often constrained by regulations, supply issues, and limited access to wholesale markets.

A more profound structural change occurred in 2021 with the formal authorization of private Micro, Small, and Medium-sized Enterprises (MSMEs, or *mipymes* in Spanish). This marked a significant ideological shift, formally recognizing private businesses as legal entities capable of hiring employees (beyond the family-based limits of *cuentapropismo*) and engaging in a wider range of economic activities. Thousands of MSMEs have since been approved, operating across various sectors from food production and construction to technology services and light manufacturing. This nascent private sector represents a potential new engine for growth and a potential partner or market for foreign businesses, though its relationship with the dominant state sector is still evolving.

Alongside the domestic private sector expansion, attracting foreign direct investment

(FDI) became a declared national priority. Recognizing the need for capital, technology, management expertise, and market access that the state alone couldn't provide, Cuba enacted Law No. 118 on Foreign Investment in 2014. This law, which we will explore in detail in Chapter 3, aimed to provide a more secure and attractive legal framework for foreign companies, offering tax incentives and outlining preferred sectors. The creation of the Mariel Special Economic Development Zone (ZEDM), west of Havana, was another major initiative designed specifically to lure large-scale foreign investment with enhanced logistical facilities and preferential regulations.

Agriculture, a critical sector given Cuba's high reliance on food imports, has also been a focus of reform efforts. Measures included distributing idle state land in usufruct (long-term leases) to individuals and cooperatives, aiming to boost food production. Farmers were granted more flexibility in selling surplus produce directly to hotels or markets, bypassing state intermediaries to some extent. However, challenges persist regarding access to inputs like fertilizer and equipment, bureaucratic hurdles, and pricing mechanisms, meaning agricultural productivity gains have often fallen short of national goals.

Even the large State-Owned Enterprises, the traditional heart of the economy, were targeted for reform. The government sought to grant them greater operational autonomy, moving away from micro-management by ministries and encouraging them to become more self-sufficient and efficient. This included initiatives linking wages more directly to productivity and results, although implementation has been complex and uneven. The goal is to make SOEs more competitive and less reliant on state subsidies, potentially transforming them into more dynamic partners for foreign investors, but progress remains slow in many areas.

Despite these significant reforms – the monetary unification, the expansion of the private sector, the push for foreign investment – many core characteristics of the Cuban economic system endure. Central planning, though perhaps adapting, still sets the broad parameters of economic activity. The state remains the overwhelmingly dominant player, owning strategic assets and controlling key sectors like foreign trade, energy, and banking. Bureaucratic processes associated with state control can still be slow and cumbersome, representing a significant operational reality for any business.

Furthermore, the Cuban economy operates under significant external and internal constraints. The comprehensive US economic embargo, in place for over six decades, undeniably hinders development by restricting access to finance, technology, and markets (a topic explored further in Chapter 16). Cuba is also vulnerable to global economic shocks, fluctuations in commodity prices (like nickel), and the impacts of climate change on tourism and agriculture. Internally, persistent challenges include low domestic productivity, aging infrastructure, periodic energy shortages, and a chronic scarcity of hard currency needed for imports. These factors create an operating environment marked by uncertainty and the need for resilience.

What does this complex mix of continuity and change mean for a prospective foreign entrepreneur? Firstly, it requires acknowledging that Cuba is not a standard emerging market. Business models must be adapted to accommodate the reality of state predominance and the mechanisms of economic planning. Success often hinges on understanding the state's priorities and finding alignment between your business objectives and Cuba's national development goals. Patience is not just a virtue but a necessity when dealing with approval processes and supply chains that may involve state entities.

Secondly, the emergence of a legal private sector (MSMEs) and the continued existence of self-employed individuals present both new opportunities and new complexities. Foreign businesses might find potential suppliers, clients, or even partners within this sector, offering more flexibility than traditional state channels. However, navigating the interface between the state-controlled economy and this growing private sphere requires careful attention to regulations and local dynamics. The rules governing these interactions are still evolving.

Finally, it's crucial to approach the Cuban market with a long-term perspective and a clear understanding of the inherent uncertainties. The pace of reform can be unpredictable, influenced by both internal political considerations and external pressures. Economic performance can fluctuate, and access to essential resources like foreign exchange or imported goods may not always be smooth. Flexibility, strong local relationships, and a thorough understanding of the specific regulations governing your chosen sector and business structure are paramount for navigating this unique and evolving economic landscape. This book aims to equip you with that understanding.

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