Chapter 10
Foreign Direct Investment in Vietnam and Cuba: Lessons Learned

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Introduction

Since the late twentieth century, foreign direct investment (FDI) has been a central element of economic globalization. FDI leads to increases in domestic capital in most recipient countries, but given its impact on economic growth, its contribution to domestic capital formation may be more important than what global figures suggest.

The essence of the argument that capital inflow benefits a recipient country assumes that the recipient's increased income exceeds that of the investor; in other words, as long as FDI leads to an increase in the national product and this increase does not exclusively go to the investor, the recipient country will benefit. Such benefits may be enjoyed by domestic workers through higher real wages, by consumers who pay lower prices or receive better quality products, and by the State, which gains greater access to financial flows and new technologies, as well as increased tax revenues and the potential to increase exports of goods and services.

Developing countries typically need all forms of external financing, and Cuba is not immune from this necessity. However, Cuba, unlike other countries, has no access to multilateral sources of financing, and bilateral credit is limited due to the external indebtedness of the Cuban economy.

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In the late 1980s, given the disappearance of its traditional sources of financing, and the inability to reactivate short term bilateral and multilateral credits, Cuba reconsidered its policy on foreign capital investment, expanding FDI's role in the economy. Yet because of numerous factors this dynamism was not sustained. Given Cuba's unfavorable macroeconomic indicators, and the technological deterioration and obsolescence of its productive capacities, an analysis of Vietnam's positive experience with foreign capital may prove valuable for application to the Cuban case, as reflected in the document guiding future changes in the Cuban economy, *Guidelines of the Economic and Social Policy of the Party*.

FDI in Vietnam

Vietnam is among the developing economies that have performed well in recent years. It is currently undergoing a massive transformation, and although it remains a planned, socialist, and self-sufficient economy, steps are being taken to make it market-based. It has the potential to be a successful model for development and the role played by foreign capital in this part of the world.

In the 1976–1987 period, Vietnamese economic growth had been limited by a number of factors, including excessive centralization and planning, inadequate management mechanisms, the US economic blockade, and high defense spending, among others. In the mid-1980s, Vietnam's economy had slow growth and suffered from hyperinflation, despite considerable assistance from the socialist countries (World Bank 1996).

After the country's reunification in 1975, Vietnam was considered one of the world's poorest countries, with a per capita income below 200 USD. In this context, a number of reforms were made in an effort to eradicate poverty and address long-standing obstacles such as underdevelopment, the consequences of the war, the US blockade, and border problems with neighboring countries.

In 1986, as a result of the 6th Congress of the Communist Party of Vietnam, the economy began to undergo significant changes with the introduction of reforms including the implementation of market mechanisms and economic restructuring. Factors such as the lifting of the blockade by the United States supported the implementation of reforms.

For example, in 1986 the authorities embarked on a reform program (*Doi Moi*) that started with small changes in the rural sector. The development strategy was intended to establish a *socialist-oriented market economy* capable of fitting into the dynamics of the global economy, to seek solutions to economic and social challenges, and to find alternative sources of funding to carry out the new strategy. The country was able to adjust to the collapse of the Council for Mutual Economic Assistance (CMEA) and the loss of Soviet aid without reducing production.

In a short time the reforms dismantled collective farms—reestablishing a system of family farms in the countryside, most prices were deregulated, the creation of new private companies was authorized and encouraged in several fields, trade and

investment regimes were liberalized, the exchange rate was unified, fiscal deficits were reduced, and financial discipline was imposed on state-owned enterprises. As a result of these measures, since 1991 economic growth has been around 8 %.

Vietnam began to rapidly integrate into the world economy mainly due to a substantial increase in the production capacity generated by economic restructuring, and reforms in institutions, development policy and management of the economy.

In 1988, the National Assembly adopted a policy of openness to the external sector and the first foreign investment legislation. Implementation of the economic reform plan prepared by the Vietnamese authorities was initiated in 1989. The plan was discussed with experts from the International Monetary Fund (IMF) although Vietnam was not a member at the time, since creditor countries continued to demand payment. Vietnam agreed to pay US$50 million, which was partially advanced by France and Japan.

Legislation protecting private property was approved and a new Constitution was adopted in 1990. In 1993, the Land Reform Act was passed, granting peasant families land-use rights for 20 years and in some cases up to 50 years.

The state monopoly on foreign trade was eliminated in 1991, facilitating trade with foreign companies. New sources of financing were sought through the development of policies favoring savings and investment, such as capital market development, higher interest rates, and individual hard currency savings in commercial banks. The country's external debt was renegotiated, and links with international agencies and financial institutions were activated, including the IMF and World Bank, and the country joined ASEAN.

Beginning in 1986, export growth in Vietnam increased to over 25 % a year. While domestic companies were mostly responsible for this growth, FDI played an important role by providing capital, technology, business management know-how and market access, and other less tangible benefits, such as new ideas.

In Vietnam FDI is viewed as a process controlled by the State to obtain capital and advanced technologies, and introduce new forms of business management to help improve production efficiency and quality. Combined with a more rational use of existing strengths and resources, the FDI process is designed to be consistent with the country's strategy for economic and social development.

The policy implemented to attract investment has enabled an increasing flow of capital. Thus, while very low figures were recorded in 1990, 6 years later FDI had exceeded $2 billion USD annually, and currently exceeds $8 billion a year, as shown in (Fig. 10.1).

The first FDI law was approved after Vietnam opened in 1987, and two amendments were subsequently enacted, in 1990 and December 1992, that added new forms of investment, extended the term for partnerships and introduced changes facilitating greater openness and flexibility for the foreign investment process.

Additionally, rules and regulations implementing the law were issued that covered basic forms of investment, contractual partnerships, joint ventures, wholly foreign-owned enterprises, companies operating in Export Processing Zones (EPZ's) and build-operate-transfer contracts.

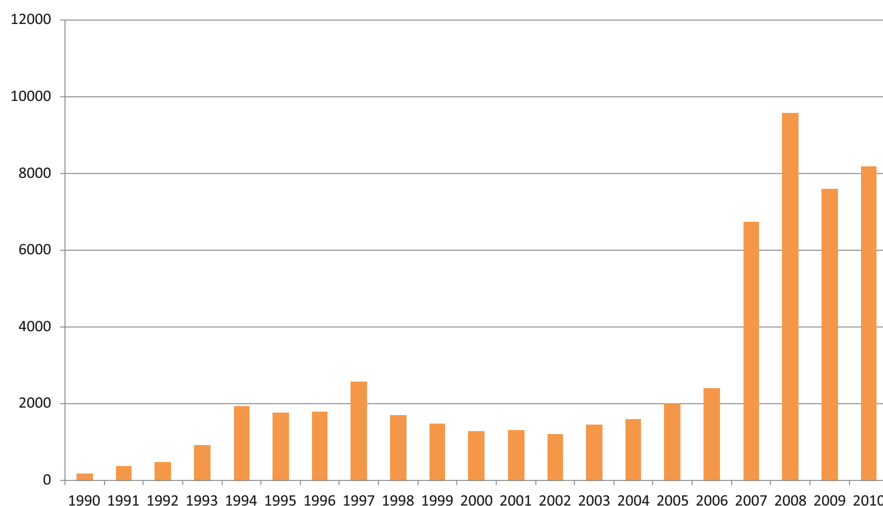

Fig. 10.1 Foreign Direct Investment in Vietnam, 1990–2010 (millions USD). *Source*: UNCTAD (2011) Report on the World Investment 2011 Non-Equity Modes of International Production and Development. Overview. New York

Table 10.1 Foreign Direct Investment Projects in Vietnam, 1988–2010

	Number of projects	Registered capital (millions of USD)
Total	13,544	213,025.0
Manufactured goods	7,860	93,660.7
Real estate, leasing	1,894	52,348.3
Mining and extractive	130	10,982.5
Hotels and restaurants	412	19,711.6
Construction	662	9,699.0
Transportation, warehouses, and communications	570	9,314.4
Agriculture, forestry, and fishing	749	4,397.7
Electricity, gas, and water	78	5,184.1
Recreation, culture, and sports	134	2,874.2
Health care and social work	78	1,037.4
Financial services	70	1,162.8
Wholesale and retail	447	1,439.6
Education and training	133	388.5

Source: Ministry of Planning and Investment, Foreign Investment Agency in Vietnam and Statistical Handbook for Vietnam, 2011. Hanoi, Vietnam

FDI has grown the fastest in the manufacturing sector, which accounts for 50 % of total investment. Equally important are real estate and mining projects and the role of investment in services, as well as increased investment in transportation, mail service and communications in general and tourism (Table 10.1).

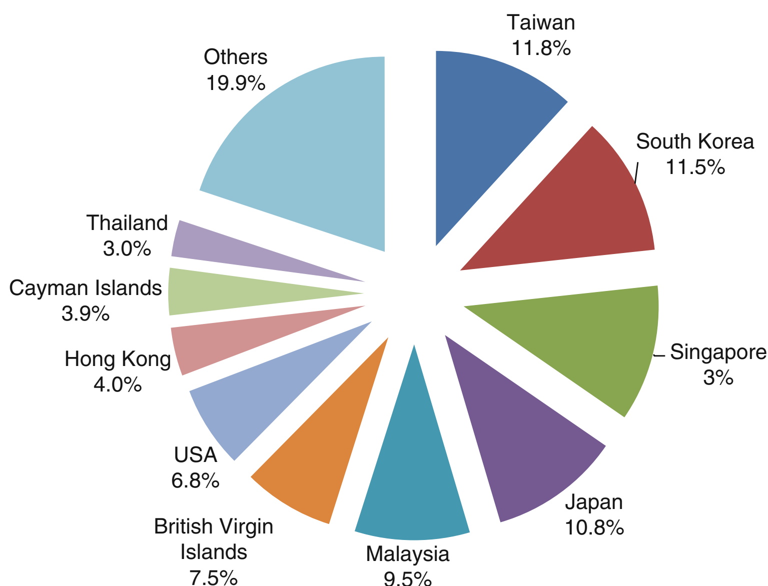

Fig. 10.2 Foreign Investment in Vietnam, 1990–2010. *Source*: Ministry of Planning and Investment, Foreign Investment Agency in Vietnam and Statistical Handbook for Vietnam, 2011. Hanoi, Vietnam

From 1990 to 2010, Taiwan, South Korea, Singapore, Japan, Malaysia, British Virgin Islands, USA, Hong Kong and Thailand were the principal sources of foreign investment in Vietnam (Fig. 10.2).

Similar to China, regional distribution of investment projects is not very equitable, with the Southeast, Central North and North Central Coast regions, and the Red and Mekong River deltas absorbing 90 % of the invested capital. Nevertheless, in 2010, with the exception of investment in oil and gas, around 58 regions benefited from direct investments of foreign capital. The most attractive place was Ho Chi Minh City, followed by Ba Ria, Vung Tau, and thirdly, Hanoi, the capital city.

Levels of FDI are asymmetrical between North and South Vietnam due to preexisting levels of development, which were in place even before the United States intervention, in which the South's Saigon regime was backed by USA.

Economic Development Zones Based on FDI

With the establishment of Special Economic Zones (SEZ's), Vietnam sought to promote the industrial sector and, in turn, attract more FDI to these areas, using tax and non-tax incentives. The ways in which an SEZ can be established in Vietnam are the following:

- *Economic Zones*: economic areas with defined geographical boundaries, separated from the general investment and business environment, and with favorable conditions for investors.
- *High-Tech Parks*: areas with defined geographical boundaries that specialize in research, development and high-tech applications.
- *Industrial Zones*: areas with defined geographical boundaries that specialize in manufacturing for export and related services.
- *Export Processing Zones* (EPZ's): industrial zones that specialize in manufacturing for export and related services.

According to the Investment Law, Decree 29/2008, these areas can only be authorized by the Prime Minister. All of the SEZ's enjoy tax incentives to attract foreign capital, such as the elimination of all restrictions on exports.

Driven by the overheated Chinese economy, numerous industrial plants have been established in Vietnam. Japanese and Korean companies have been attracted to newly created segmented parks and Malay-Vietnamese capital has invested in high-tech companies. Vietnamese free-trade zones have shown impressive growth, expanding from one park in 1991 (100,000 employees) to over 150 in 2009 (1,000,000 employees). More than 40 % of the total FDI in the country goes to free-trade zone projects.

Legal Regime Covering Foreign Investment

The first Foreign Investment Law, enacted by Vietnam's National Assembly in December 1987, established that the Socialist Republic of Vietnam welcomed and encouraged foreign and domestic organizations to invest capital and technology in Vietnam within the rubric of respect for national sovereignty and independence, full compliance with Vietnamese laws, equality and mutual benefit Vietnam (2006).

In the mid-1990s there was a massive influx of foreign direct investment, which made it necessary to revise and improve the law, leading to the introduction of Decree No. 24/2000 in July 2000 and Decree No. 27/2003 on March 19, 2003. In 2005, the National Assembly adopted the *Common Investment Law* that went into force in July 2006, which provided for equal treatment of foreign and domestic investors in the country. Under this Act, the State guarantees respect for property rights on capital invested. Moreover, foreign direct investment is encouraged in all sectors of the economy, except for those involving national security, public interests, the environment and historical and cultural heritage.

According to Article 4, Chapter II, foreign investors can conduct their operations as follows:

1. Joint venture:
   Company established in Vietnam by two or more parties, based on a joint venture contract or an agreement signed between the Government of the Socialist Republic of Vietnam and a foreign government, or constituted by a company

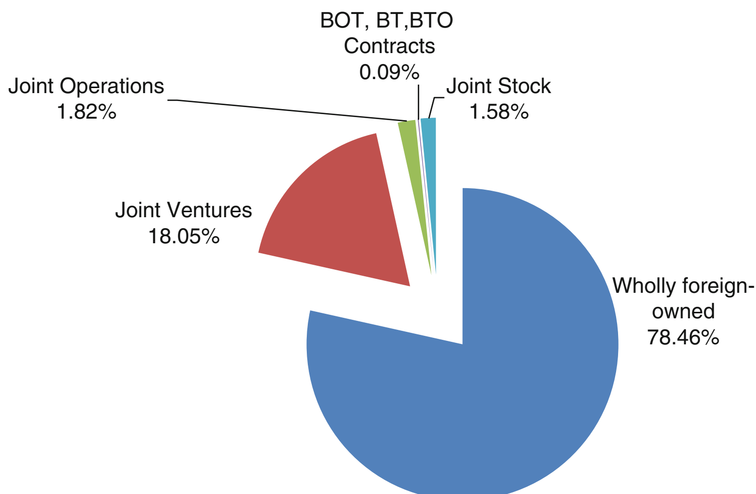

Fig. 10.3 Foreign Investment in Vietnam, Types of Investment, 2010. *Source*: Ministry of Planning and Investment, Foreign Investment Agency in Vietnam and Statistical Handbook for Vietnam, 2010. Hanoi, Vietnam

with foreign investment capital and a Vietnamese company, or a joint venture in cooperation with foreign investors under a joint venture contract.

2. Wholly foreign-owned company:
   Company established in Vietnam with 100 % capital invested by the foreign party.
3. Business cooperation based on one of the following types of contract:

   (a) *Build-Operate-Transfer Contract* (BOT)
   Document signed by a relevant State agency in Vietnam and the foreign investor for the construction and commercial exploitation of an infrastructure project for a given period. Upon expiry of this period, the foreign investor transfers the infrastructure without compensation to the State of Vietnam.

   (b) *Build-Transfer-Operate Contract* (BTO)
   Document signed by a relevant State agency in Vietnam and the foreign investor for the construction of an infrastructure project. Upon completion of construction, the foreign investor transfers the infrastructure to the Vietnamese State and the Vietnamese government grants the investor the right to commercial exploitation for a specified period so that the investment can be repaid and a reasonable profit can be obtained.

   (c) *Build-Transfer Contract* (BT)
   Document signed by a relevant State agency in Vietnam and the foreign investor for the construction of an infrastructure project. After the construction, the investor transfers the infrastructure to the State of Vietnam and the Vietnamese government creates the conditions for the investor to perform other projects so that the investment can be repaid and a reasonable profit can be obtained (Fig. 10.3).

The State of Vietnam does not allow foreign investment in sectors and regions that can harm national defense and security, historical and cultural relics, traditions and morality, and the environment.

Based on its development planning and guidance for each period, the government designates regions for investment promotion and issues a list prioritizing investment projects. Vietnamese private economic organizations can cooperate with foreign investors in sectors and under the conditions established by the Government.

In principle, investors can develop any type of investment project. However, there are areas in which certain forms of investment are not allowed, and others in which it is only allowed in the form of a joint venture or cooperation agreement.

The establishment of foreign capital is limited to joint ventures or business cooperation contracts (BCC) in the following areas:

- Mining, oil refining and gas, and mineral extraction.
- Air, railway and maritime transportation, public transportation, airport and port construction (except when the method is BT, BOT, BTO).
- Air and maritime services.
- Certain forms of reforestation.
- Tourism activities and travel agencies.
- Production of industrial explosives.
- Legal consultancy services (nontechnical).
- Culture, excluding technical document printing, packaging and labeling of goods, clothing, textiles or footwear, sports and entertainment and computer-animated cartoon production. Culture encompasses not only art, performing arts and entertainment but also advertising in general.

Investment in the form of a BCC is allowed between one or more foreign parties and a Vietnamese party—a specialized unit authorized to conduct business—in the following sectors:

- Establishment of public telecommunications networks, telecommunications and mail services (express, domestic and international).
- Media-related activities, radio and television.

Under the Common Investment Law, participation is limited to 30 % in those sectors and areas determined by the authorities. Thus, Vietnamese companies are limited to a maximum of 30 % of equity capital in some sectors.

With the renewal of the *Bankruptcy Act* (June 15, 2004), bankruptcy proceedings were simplified, allowing for the participation of other affected parties (non-creditors), and granting courts greater flexibility to deal with insolvency. Under this law, many inefficient enterprises and organizations can be closed down.

Land Law No. 13/2003/QH11—substituting for the July 14, 1993 law, it upheld the principle that title to the land belongs to the people, and the State (Government and People's Committee) is solely entitled to administer it. This law established regimes for authorized use, the rights and obligations of beneficial owners and administrative procedures for use, management and inspection.

Decree No. 181/2004/ND-CP of October 29, 2004 on the implementation of the Land Law clarifies administrative procedures, opens residential real estate to foreign investment, and addresses other matters related to land pricing.

The *Ministry of Planning and Investment* (MPI) is responsible for coordinating central and local government bodies that evaluate proposals and grant investment licenses. It is also responsible for monitoring approved projects' compliance with their license requirements, as well as improving the legal framework for foreign investment in Vietnam.

Wholly foreign-owned enterprises must operate as limited liability companies; the nonresident owner may accredit a duly authorized representative in Vietnam. Companies operating in EPZ's, which are limited liability companies, provide support services for export manufacturing and are themselves exporters.

Build-operate-transfer contracts are used to attract large amounts of capital, mainly for building infrastructure. Under these contracts, foreign investors construct and operate infrastructure works, and once the investment is recovered and a profit margin is earned, it becomes government property, without the government disbursing funds as part of the operation.

Notably, participation in FDI is restricted for native Vietnamese residents in the country, but there are no restrictions on foreign investors, except for immigrants with pending criminal cases. However, participation of Vietnamese living abroad is encouraged as their contribution to national reconstruction.

There are different approval processes depending on the value of the agreements and the areas contemplated for investment. There are three investment groups, A, B and C.

The *contract period* can be up to 50 years, but if necessary can be extended to 70 years with government authorization and the approval of the State Council. The law requires that Vietnamese citizens be given priority in the recruitment of personnel for joint ventures. Foreign hires are only permitted for jobs with high technical qualification requirements not available among nationals. A specialized employment agency is in charge of recruitment for foreign companies.

Tax regime. Companies with foreign capital investment and related foreign individuals or organizations pay a 15–25 % tax on profits. If profits are reinvested for 3 or more years, the company will be reimbursed the amount equivalent to the tax paid for reinvested profits.

Exemption from this tax can be granted for a maximum period of 2 years after the enterprise becomes profitable; this exemption depends on the investment area, the capital contributed, the exports resulting from the business, and its nature and duration.

Companies must also contribute to Social Security at a rate of 10 % of payroll.

Foreign individuals or organizations are also required to pay a tax on profits remitted abroad, depending on their contribution to the company. Domestic or foreign workers employed in any foreign investment company pay personal income taxes according to Vietnamese tax law. They also pay 10 % of their salary as a contribution to the local social security fund, in addition to the contribution made by the employer.

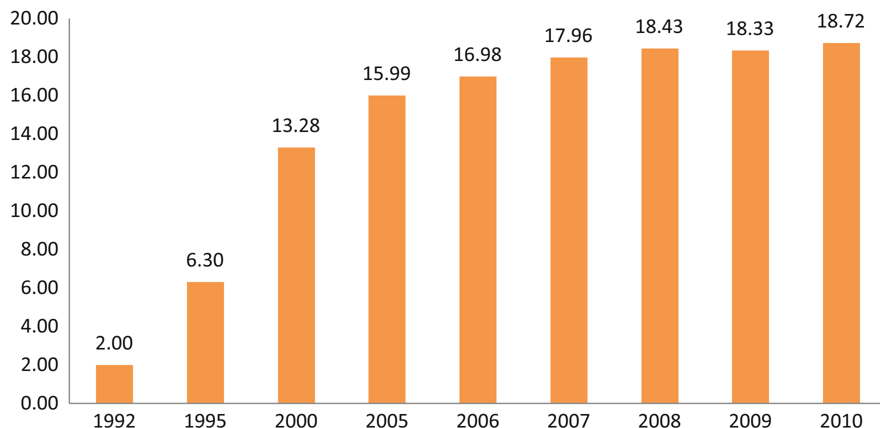

Fig. 10.4 Proportion of FDI Contribution to GDP (in percent). *Source*: Based on statistics provided by MAI THI THU, MSc. National Center for Socio-Economic Information and Forecasting. Ministry of Planning and Investment. Vietnam

Guarantees are offered to foreign investors to repatriate their share of business profits, technological transfer payments or other services. Permission is granted to foreign investors and workers to buy houses during their stay in Vietnam.

Recently, Vietnam has been viewed as an alternative to China, with its low-cost labor, sound and efficient infrastructure, competitiveness and stable environment, which helps attract foreign investment flows.

As a result of the Vietnamese reform process, economic indicators are positive where FDI is constantly increasing. FDI's impact on job creation has been similarly robust, with over two million jobs created by 2011, compared to only about 400,000 a decade before.

A period of recovery began after 1991, in which the average growth rate reached 7.5 %. Significantly, economic growth accelerated during the exact same period that trade relations with the former socialist countries experienced the most acute deterioration, even though those relations accounted for 46.3 % of exports and 73.5 % of imports in Vietnam. Courbet (1987).

Real income has increased by 7.3 % annually over the past 10 years. In 1993, when the World Bank resumed operations in Vietnam, per capita income was US$170. In 2007 it reached $620 and by 2010 it was $1,000. World Bank (2009).

According to Vietnam's General Statistics Office, industrial growth in 2008 was 8.7 % in the state sector, 24.1 % in the non-state sector, and 20.9 % in foreign investment for industrial production. The foreign investment sector has ultimately accounted for 37.2 % of Vietnam's industrial output and 57.4 % of total exports (Fig. 10.4).

As in the case of China, transition to a competitive market economy is driving Vietnam's growth. This is due to *private companies, which were insignificant in 1993, but now account for over 47 % of annual investments*. In recent years, state-owned enterprises have also grown, despite internal and external competition. More

than 75 % of state-owned enterprises are profitable, with rates of annual return on capital between 7 and 8 %.

There is no doubt about the country's economic achievements. But other problems persist, such as underdeveloped financial markets, weak competitiveness in the domestic market, and a growing imbalance in income distribution, which is widening the gap between higher-and lower-income sectors.

Some Considerations

This Asian economy has achieved a very high level of development as well as a significant share of foreign capital, either as a source of financing or in other forms, which contributes to the economy's growth and development. Of course, policies developed by counterparty governments also have a substantial influence, as well as incentives that can be offered to investors in order to attract higher investment levels.

Although the Republic of Vietnam is a communist country, the central government and party have sought to create a competitive economy at the international level that takes the form of a socialist market economy. Since the beginning of the *DoiMoi* in the 1980s, openness and economic integration with the region ASEAN in 1995 and the rest of the world WTO in 2007 have been given priority.

Compared with the three major powers in the region (Japan, India and China), Vietnam's economic importance is small, but in recent years it has become the fastest growing economy after China. Additionally, the country plays an important role in the industrial off-shoring schemes managed by the most advanced East and Southeast Asian countries. The government has improved social conditions, which has resulted in a reduction of unemployment and poverty levels, but it has not yet committed to reducing the high levels of corruption that are still prevalent. As for investments, Vietnam established equal treatment for foreign and national investors, decentralized certification processes to the provincial level, and focused on reducing pollution levels generated by domestic and foreign companies.

In order to improve investment policies implemented under the *Doi Moi* and create more favorable conditions for (foreign and national) investors, the government should, among other things, provide greater flexibility to investors in general as long as no laws are violated; regulate investment and protect national interests through specific laws and relevant regulations; simplify both the registration of foreign investments and certification procedures; and update the list of restrictions on the entry of foreign investment in the decrees established by the Investment Act.

FDI in Vietnam is part of a comprehensively conceived system that is subject to continuous adjustments; it plays an important role in the economic performance of the country, with a high correlation among its indicators, although it cannot be considered a panacea for development.

The Vietnamese experience with FDI provides a basis for comparative analysis of the Cuban case. Despite differences with Vietnam, FDI flows to Cuba have not contributed to the economic growth and development as was hoped.

Foreign Direct Investment in Cuba

Cuba's efforts to update its FDI policy in accordance with international requirements has managed to attract this type of investment to several sectors, however much remains to be done in terms of the legal framework and incentives to attract FDI. Cuba's FDI legislation is in Law No. 77 (1995) and Agreement 5290 (2004) of the Executive Committee of the Council of Ministers.

On April 18, 2011 at the Sixth Congress of the Communist Party of Cuba, the Guidelines of the Economic and Social Policy of the Party and the Revolution were adopted; provisions covering foreign investment included:

1. Ensure that while attracting foreign investment multiple objectives are met, including access to advanced technology, transfer of management skills, diversification and expansion of export markets, import substitution, supply of medium- and long-term external financing for production and working capital for its operation, and the generation of new sources of employment.
2. Promote the creation of Special Development Zones to support increased exports, effective import substitution, high-tech projects, local development and creation of new jobs.
3. Promote, where economically warranted and desirable, the establishment of companies and alliances abroad to best position Cuba's interests in foreign markets.

As a favorable destination for investment, Cuba continues to offer the same guarantees established in the 1990s, but according to many partners who have entered into contracts, this process has not been without difficulties and setbacks. However, the issues vary depending on the scope of the partnership, the area of operations, and the country concerned.

Among Cuba's advantages as an investment destination are the following:

1. Repatriation of tax-free dividends.
2. Income tax of 30 and 25 % of payroll.
3. Incentives are determined according to type of business, amount invested, and activity.

Cuba maintains strong bilateral relations, including a total of 62 agreements for reciprocal promotion and protection of investments with 71 countries and 11 agreements to avoid double taxation.

Article 12 of Act 77 contains the legal framework defining privileges and guarantees for foreign investors, labor and tax regimes, allowed applications for investment and company forms. It provides for the following types of entities:

(a) Joint Ventures.
(b) International economic partnership contracts, including insurance.
(c) Wholly foreign-owned companies.

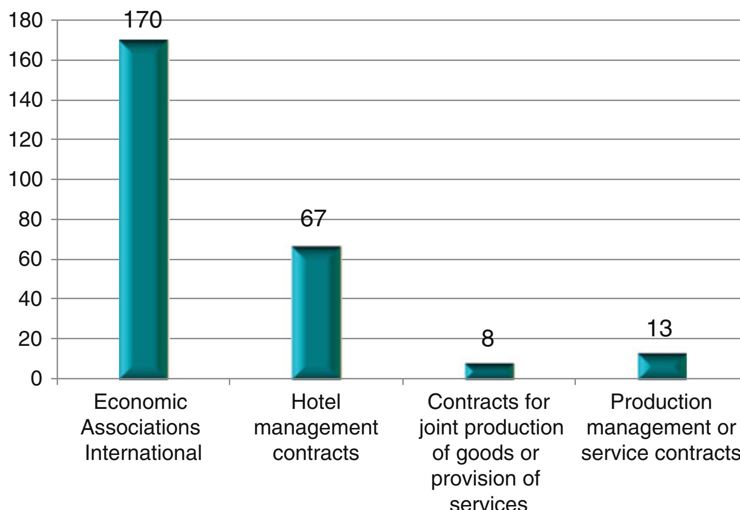

Fig. 10.5 Total Businesses Involved in Foreign Direct Investment in Cuba at the End of 2011. *Source*: Estimates based on working documents from the Ministry of Foreign Trade and Foreign Investment. 2012. Havana

Agreement 5290 of the Executive Committee of the Council of Ministers, dated November 2004, created new forms of foreign investment that increased the possible range for FDI activity in the country, leading to greater international openness.

The following new types of contract are permitted:

(a) Hotel management contracts.
(b) Contracts for joint production of goods or provision of services.
(c) Production management or service contracts.

Generally these various forms of business in 2011 were distributed as shown in (Fig. 10.5).

The number of Economic Associations with Foreign Capital (*AECE*) had been increasing until 2002, but beginning in 2003 there was a systematic decrease in their total number due to several factors, especially failures to comply with the approved lines of business, financial losses in some entities, failures to meet the agreed upon export target figures, and a shift to new foreign partners such as Venezuela, China and Brazil.

Beginning in 2010, the trend shifted away from a reduction in the relative number of these international associations, so that by 2011 the number of associations was similar to 2005. Figure 10.6 shows the overall trend away from creating international associations.

Cuba is subject to a foreign law that seeks to prevent the flow of FDI resources into the country, and has been assessed a "risk country" for foreign investment. Therefore, the foreign financing that reaches Cuba is of considerable importance to the economy, and has greater value than a qualitative comparison of nominal capital flows in the region may indicate.

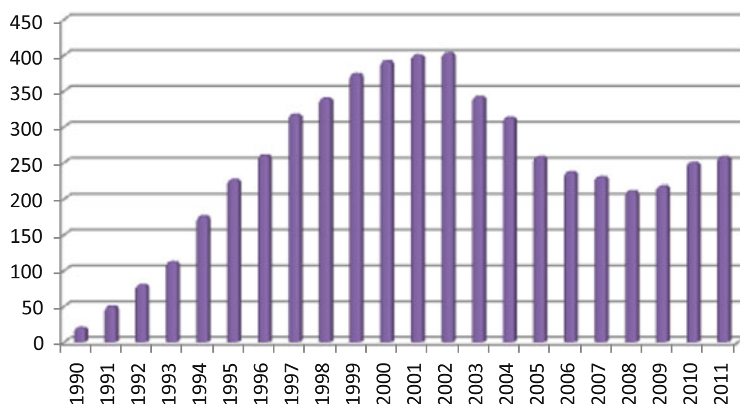

Fig. 10.6 Number of International Economic Associations in Cuba 1990–2011. *Source*: Ministry of Foreign Trade and Foreign Investment. Annual Reports. Havana

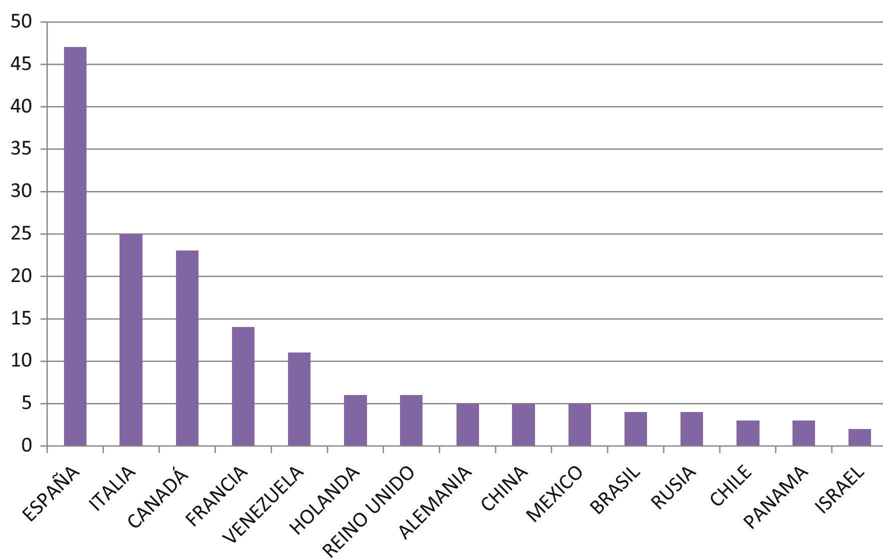

Fig. 10.7 International Economic Associations from Top 15 Investor Countries in Cuba in 2011. *Source*: Ministry of Foreign Trade and Foreign Investment. Annual Reports. Havana. Interviews with trade departments in the European Union, Latin America and China

Beginning in 2007, a large percentage of approved foreign companies originated with the Bolivarian Republic of Venezuela, and then other countries like Brazil were added. In general, Cuba's main foreign partners are Spain, Italy, Canada, France and Venezuela (Fig. 10.7).

By sector, the highest percentage of foreign investment is in tourism, oil and agribusiness, and to a lesser extent in other areas such as construction, transport and marketing. Given that one of Cuba's most important assets is human resources,

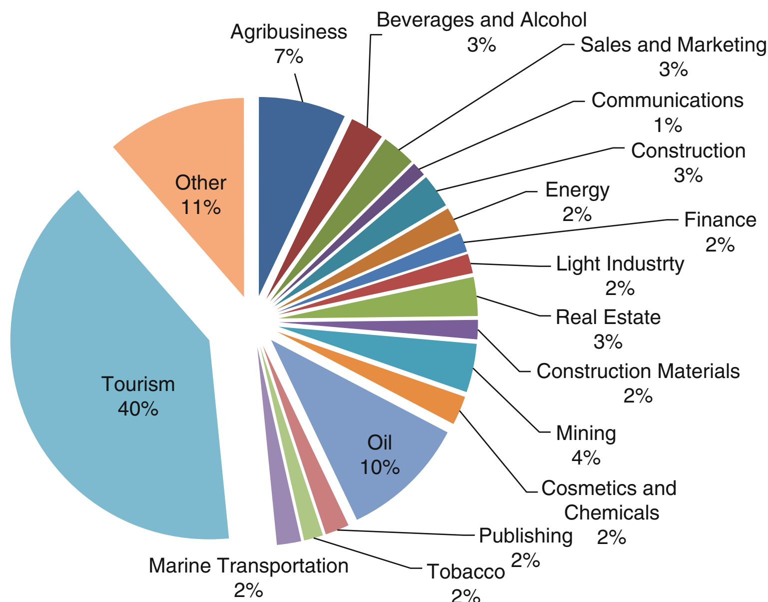

Fig. 10.8 Percentage Share of Businesses According to Sector, 2011. *Source*: Ministry of Foreign Trade and Foreign Investment. Annual Reports. Havana

significantly, there is still minimal activity in high value added or high-tech areas. In recent decades developing countries that have gained a greater share of world trade have done so through strong investment in advanced or medium-range technologies (Fig. 10.8).

The presence of foreign capital in Cuba has been very positive, since despite decreasing numbers, the operating entities have reached a mature stage with positive results. For example, International Economic Associations (IEA) have steadily increased their indicators for total sales of goods and services, which in the first 9 months of 2011 totaled more than 4.556 billion pesos, exports grew to more than 3.005 billion, while the country's direct income totaled about 561 million.

The government's rigorous application of selectivity policy in foreign investment is reflected in fewer International Economic Associations annually; at the same time, basic economic indicators continue to rise.

Foreign companies' sales are trending upward, with the exception of the drop in 2009; the highest percentage is found in oil production, communications services, and nickel, beverage and tobacco sales, among others (Fig. 10.9).

Almost all areas with the best economic or export results involve foreign capital in some form. This should serve as a compass so that further progress can be made with this type of business, even in areas that are sensitive for the population or in consumption areas.

The generation of hard currency export earnings has grown steadily by following the policy guidelines of the Party and the State regarding the promotion of Cuban

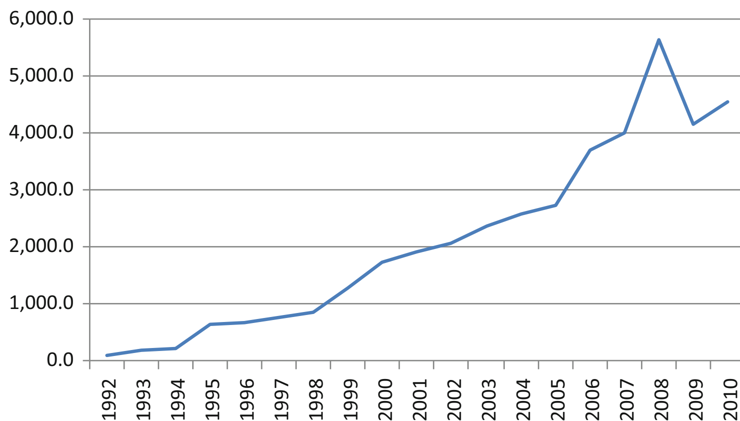

Fig. 10.9 Sales of goods and services by IEA (in millions of pesos). *Source*: Ministry of Foreign Trade and Foreign Investment. Annual Reports. Havana

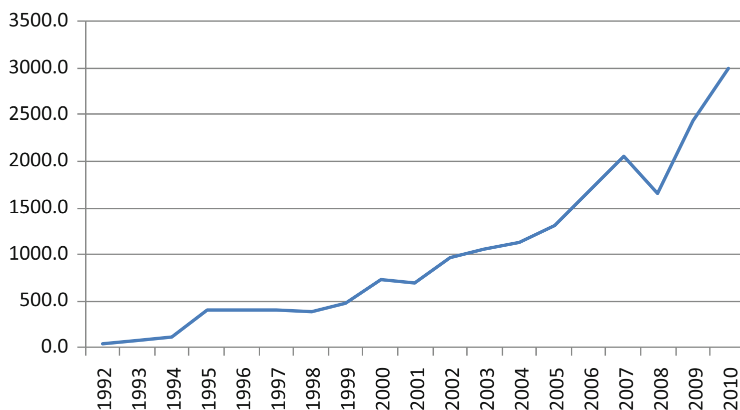

Fig. 10.10 Exports of Goods and Services from International Economic Associations (MMP). *Source*: Ministry of Foreign Trade and Foreign Investment. Annual Reports. Havana. Important Lessons for Cuba Based on Foreign Investment in Vietnam

exports. The policy seeks to maximize export income, given the high external dependency of the Cuban economy. The economy depends on acquisition of a wide range of products in the international market, including food products, which have experienced considerable price increases (Fig. 10.10).

Compared to Vietnam, there are major differences in the evolution of foreign direct investment in Cuba, but an important similarity between the two cases is that the economic reforms implemented in Vietnam emerged from economic conditions similar to the ones currently faced by Cuba. Like Cuba, the Vietnamese transformation involved changes within socialism, starting from a very underdeveloped country that failed to solve underdevelopment problems with central planning and the

classic European socialist model; in addition the reform was led by the Communist Party.

Principal features of the Vietnamese model:

1. Agricultural reforms played an important role by targeting food self-sufficiency, which resulted in increased production and productivity.
2. Inefficient public enterprises were closed down or transformed through the creation of cooperatives, privatization, or association with foreign capital in search of international competitiveness.
3. Positive impact on economic growth was achieved after opening the economy to diverse forms of ownership.
4. Notable economic growth and increased efficiency resulted from the expansion of monetary and commercial relations, especially the role of the market based on a strategic plan.
5. Substantial openness to foreign markets was allowed, particularly for large annual foreign capital inflows and the consequent impact on exports from the investing countries.
6. There was steady improvement in the macroeconomic climate in terms of increased average annual GDP growth, sustained increase in international monetary reserves, and other indicators.
7. Constant increases in individual consumption were achieved through consumption credits, wage increases and other consumer incentives.
8. In Vietnam economic growth has been accompanied by a strong institutional reorganization.
9. Vietnam is notable for rejoining international bodies, including the World Bank, as a result of which important credits have been granted.
10. Reforms in Vietnam involved profound transformations in other areas, especially in the country's financial system.
11. The Vietnamese were able to establish a strong relationship between FDI and exports, as well as between exports and increased international monetary reserves.

Factors Attracting Foreign Capital in Vietnam

1. The country implemented both incentives and restrictions on foreign capital, but decision-making was always pragmatic.
2. Legislation covering foreign direct investment in Vietnam has been regularly modified according to the progress of established enterprises.
3. Very favorable tax incentives were created that successfully encouraged foreign investment in designated regions or sectors.
4. From a structural point of view, FDI as a source of investment in Vietnam is clearly seen as a *complement to domestic sources of funding*.
5. The duration of partnerships with foreign capital has expanded over time.
6. Currently, companies with foreign investment have direct access to domestic and foreign markets, but at an initial stage "bridge companies" facilitated linkages to other entities within the country.

7. Companies with foreign capital participation in Vietnam freely contract labor.
8. In certain periods, income tax exemption is applied to encourage particular activities, especially infrastructure projects such as port construction or activities that facilitate access to state-of-the-art technologies.
9. The Vietnamese use build-operate-transfer contracts as a means of attracting large amounts of capital, mainly for infrastructure construction.
10. Participation of Vietnamese living abroad is encouraged "as their contribution to national reconstruction."
11. Vietnam offers extensive guarantees to foreign investors to repatriate their share of business profits, technological transfer payments or other services. Permission is granted to investors and foreign workers to buy homes while in Vietnam.
12. The foreign investment sector has come to account for 37.2 % of Vietnamese industrial output and 57.4 % of total exports.

What can Cuba learn from Vietnam's experience of a greater role for foreign capital?

1. Cuban authorities should bear in mind that external financial resources are scarce, and are flowing to developing economies, especially to Asian economies, not only due to the advantages provided by individual countries, but also because Southeast Asia is the most dynamic area in the world today, a trend that will continue in the coming years.
2. Cuban legislation on foreign capital is very expansive and includes elements that could lead to a massive influx of foreign capital. However, the government is still not willing to use this variable on a large scale, at least in the short term, although the national project of "economic and social guidelines" reflects the need for external resources via foreign direct investment.
3. The Cuban Ministry of Foreign Trade and Foreign Investment and legislation that protects foreign investment are not enough to stimulate investment; the Vietnamese experience shows that the rest of the country's institutions must be aligned with this objective, facilitating and rather than hindering the advance of these resources.
4. Activity such as infrastructure in which investment recovery periods are very long require tax exemption policies for a given period of time, or wholly foreign-owned companies should be permitted for a specific period.
5. It is best to limit the use of discretion in the approval of businesses, and all invitations to tender should be published.
6. Foreign capital inflow from Cubans living abroad should be encouraged, while Cuban private entrepreneurs should be allowed to partner with foreign entrepreneurs in small and medium enterprises.
7. Cuba's integration into international financial organizations could be analyzed and implemented.

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