EFFECTIVENESS OF ECONOMIC SANCTIONS IN THE CONTEXT OF GLOBALIZATION AND TRANSNATIONAL LINKAGES: THE CASE OF CUBA

By

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by

Paolo Spadoni
This document is dedicated to my wife Ines.
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This is a case study of the implementation and effectiveness of U.S. unilateral economic sanctions against Cuba. Since the communist island is subject to one of the most comprehensive U.S. embargoes in history, this study has great implications for the research on the role and usefulness of sanctions as a tool of foreign policy. It also sheds light upon a specific aspect that has been generally neglected by scholars of international relations and by the literature on the Cuban embargo, the influence of transnational actors in the globalizing post-Cold War world. In an increasingly interconnected global economy, a coercer state’s effective use of sanctions is undermined “from above” by multinational capital and “from below” by migrant workers’ remittances, mostly centered on family ties.

This study challenges the idea on the utility of unilateral economic coercion and enriches the debate on whether sanctions are effective by analyzing the impact on the Cuban economy of activities carried out by transnational players, which sustain huge
flows of capital and finance across national borders. Foreign investors and U.S.-based transnational actors, in particular, bear major responsibility for the failure of sanctions to achieve ambitious foreign policy goals with respect to Cuba. Similar dynamics in other cases of U.S. unilateral sanctions corroborate the argument that transnational activities by multinational corporations and migrant entrepreneurs constitute one of the chief reasons why economic sanctions rarely work in today’s global marketplace.
CHAPTER 1
INTRODUCTION

For more than four decades, the United States has maintained a comprehensive economic embargo on Cuba that severely restricts U.S.-based travel to the island and makes most financial and commercial transactions with Cuba illegal for U.S. citizens. During the Cold War, the Castro government weathered the economic impact of the embargo in large part because of generous subsidies offered by the former Soviet Union, mainly through cheap oil supplies in return for overpriced Cuban sugar. But when the special relationship between Havana and Moscow ended abruptly in the early 1990s, Cuba became much more vulnerable to U.S. economic pressures.

Since the early 1990s, Cuba has suffered debilitating blows that resulted from the demise of the Soviet Union and the disappearance of the economic and financial system in which the island was inserted, the Council for Mutual Economic Assistance (CMEA). At end of the 1980s, some 81% of Cuba’s external commercial relations were with CMEA member countries. In 1989, Cuba exported 63% of its sugar, 73% of its nickel, and 95% of its citrus to these countries. Similarly, imports from CMEA countries represented around 85% of Cuba’s total imports: 63% of food, 86% of raw material, 98% of fuel and lubricants, 80% of machinery and equipment, and 57% of chemical products (Alvarez Gonzalez and Fernández Mayo 1992: 4-5). The termination of traditional trade partnerships with the Soviet Bloc proved disastrous for the Cuban economy. Between 1989 and 1992, the total value of Cuba’s exports fell by around 61.1%, while the same figure for imports fell by around 72.5% (Mesa Lago 1994: 223).
Furthermore, Cuba lost the favorable and stable terms under which most of its trade took place. In addition to “coordinated supply plans” and exports, it is reported that Soviet subsidies and aid to Cuba averaged at $4.3 billion a year for the period 1986-1990 (Hernández-Catá 2001: 4). It should be emphasized that Cubans do not consider Soviet subsidies as financial aid but simply as credits and assistance to development. Whatever the interpretation of the Cuba-USSR preferential relationship (whose cornerstone was exports of Cuban sugar in exchange for relatively inexpensive Soviet oil and industrial machinery), it is clear that because the island lost the external support that had sustained its economy, it was forced to develop a new strategy for reinsertion into the global market economy.

After 1989, the Cuban economy went into recession, with the real gross domestic product (GDP) decreasing by more than 40% in the period 1990-1993. The beginning of what the Cuban government has called “special period in time of peace” (established in September 1990) stimulated a more pragmatic stance towards economic policy. Cuba has gradually moved away from strict central planning to a more mixed economy and opened the door to selected aspects of capitalism to foster a recovery, while at the same time ensuring the survival of the social system and the major accomplishments of the revolution (Haines 1997: 3).

Cuba’s opening to foreign investment in the early 1990s was perhaps the most significant change for a socialist country whose economy had previously been under exclusive state control and ownership. The Cuban authorities resorted to foreign investment as a way to assure the diversification and promotion of exports, acquisition of raw materials, insertion into new markets, acquisition of technology and capital, and
introduction of modern practices of management (Pérez Villanueva 1998: 98). Other measures were adopted: the promotion of international tourism (1991); limited capitalist-style reforms such as the legalization of the possession and circulation of U.S. dollars (August 1993), featuring remittances from Cubans living abroad and state-owned dollar stores and exchange houses open to the public; authorization of self-employment and the breakup of the state monopoly on land to establish agricultural cooperatives (September 1993); restructuring of the state bureaucracy (April 1994); and the creation of free farmers markets (September 1994).

Given the emergency situation of the Cuban economy, the end of Cuba’s active support of revolutionary forces in Africa and Latin America, and the end of its close ties with the Soviet Union, one could have expected the beginning of friendlier relations between Washington and Havana. However, just when Cuba was trying to reactivate its economy in the wake of the events that had taken place in Eastern Europe, the Cuban exile community in the United States successfully pressured the U.S. Congress to adopt a new set of economic sanctions against the island. The United States tightened its long-standing embargo by enacting first the Torricelli law in 1992 and subsequently the Helms-Burton law in 1996, in an attempt to undermine the Cuban government with additional economic sanctions. As Dominguez observes, “The Cold War had turned colder in the Caribbean. Cuba was the only country governed by a communist party whose domestic political regime the United States was still committed by law and policy to replace, albeit by peaceful means” (Dominguez 1997: 49).

**The U.S. Embargo Against Cuba in the Post-Cold War Era**

At a time in which the Cuban government was struggling for survival and opening the island to foreign investment, international tourism, and remittances to stimulate the
ailing economy, the United States reinforced its economic sanctions against Cuba. In October 1992, U.S. President George Bush signed the Cuban Democracy Act (CDA), also known as the Torricelli law. The bill prohibited foreign subsidiaries of U.S. companies from dealing with Cuba, barred any ship that had docked in Cuban harbors from entering U.S. ports for a period of six months, and called for a termination of aid to any country that provided assistance to Cuba. In order to encourage democratic changes on the island, the Torricelli law also permitted a calibrated reduction of certain sanctions in response to positive developments in Cuba.

On March 12, 1996, U.S. President Bill Clinton signed the Cuban Liberty and Democratic Solidarity Act, better known as the Helms-Burton law. Besides codifying the existing restrictions that collectively formed the U.S. economic embargo against Cuba, Helms-Burton aimed to halt the flow of foreign investment into Cuba by creating a riskier and more uncertain business environment as well as to complicate Havana’s access to external financing. The rationale for this legislation was that this plan might ultimately lead to the collapse of the Cuban government or at least seriously undermine the process of slow but constant economic recovery witnessed by the communist island since its lowest point in 1993. The attempt to undermine Cuba’s opening to foreign investment is linked to the possibility of lawsuits and the imposition of travel restrictions against foreign companies or other entities that “traffic” in U.S. properties expropriated during the early days of the Revolution. The right to sue foreign companies is also granted to Cubans who became U.S. citizens after the expropriation occurred, in an attempt to further increase the potential impact of the legislation.
In the last few years, economic sanctions against Cuba have been under fire in the U.S. Congress. An increasing number of lawmakers have pushed for a rapprochement with the Castro government and the lifting of restrictions on travel to and trade with the island. In October 2000, the U.S. Congress passed a resolution that allows direct commercial exports (on a cash basis) of food products to Cuba for the first time in almost four decades. However, in June 2004, Washington intensified again economic pressure on its communist neighbor by implementing more stringent rules on remittances, family visits, and U.S.-based educational travel to Cuba. The White House also said it will increase financial support of anti-Castro groups on the island.

There has been considerable debate about just how effective the U.S. economic embargo against Cuba has been in achieving its main goals. On the one hand, several scholars have concluded that U.S. unilateral economic sanctions with respect to Cuba do not work. They argue that sanctions have failed to promote significant changes in the Caribbean island or eventually hasten the demise of the Castro regime, while imposing unjustifiable costs on American firms in terms of forfeited businesses with Cuba. They also claim that a policy that respects the rights of Americans to trade with, invest in, and travel to Cuba would more effectively serve U.S. interests in post-Soviet Cuba by defending human rights, helping the Cuban people, and spreading the values of the American society (Peters 2000: 5).

On the other hand, supporters of the U.S. policy toward Cuba justify the existing economic sanctions by arguing that engagement with the island would be unlikely to induce the Castro government to implement political liberalization. In their opinion, the lifting of the embargo and the travel ban would guarantee the continuation of the current
totalitarian structures, lead to greater repression and governmental control, and delay a transition to democracy (Suchlicki 2000: 2). While recognizing that the embargo by itself would not produce liberalization, they say that economic sanctions are weakening the Castro dictatorship and call for complementary measures aimed to intensify regime destabilization. In fact, in their opinion, the major goal of the U.S. embargo at present is not behavioral change of the Cuban leadership, but regime change (López 2000: 347).

**Limitations of Current Research on Economic Sanctions**

The role and usefulness of economic sanctions as an instrument of foreign policy have been debated for decades, especially since the League of Nations was launched with grand hopes in 1919. Although military instruments are often thought to be the only effective means for achieving ambitious foreign policy goals, since World War I economic sanctions have come to be viewed as the liberal alternative to war. The rationale behind sanctions is that they will produce economic deprivations, triggering public anger and politically significant pressure. This in turn would lead to changes in the behavior of the target government, or its removal from power (Jonge Oudraat 2000).

While the first major wave of research on economic sanctions, during the 1960s and 1970s, reached a consensus that they were not as effective as military force, the conventional wisdom began to change in the mid-1980s. As a sign of an increasing optimism about the utility of economic pressure, a new wave of liberal scholarship began to argue that international institutions might constrain state behavior and have a significant impact on international outcomes (Martin 1992: 250-251). Neoliberals make the case that increased interdependence in the modern world will cause states to act in a more cooperative fashion, because it increases the costs of defection. In a world of prisoner’s dilemmas, states will go it alone unless they expect to be punished for
defecting (Keohane 1983: 97, Oye 1985: 14). In short, neoliberals assume that potent sanctions provide an incentive for cooperation (Drezner 1999: 35). As noted by Axelrod and Keohane, when sanctioning problems are severe, cooperation is in danger of collapse. For cooperation to be a stable outcome, countries must believe that it is best to avoid being the target of sanctions (Axelrod and Keohane 1986: 236).

The aforementioned optimism among liberals has not gone unchallenged. For instance, Pape (1997: 106) holds that there is little valid social science research supporting claims that economic coercion can achieve major foreign policy goals and that multilateral cooperation can make sanctions an effective alternative to military force. He claims that economic sanctions succeed in at most 5% of cases and challenges a previous work carried out by Hufbauer, Schott, and Elliot (HSE) in which sanctions had been demonstrated successful in about one-third of the cases analyzed (Hufbauer et al. 1990: 93). Pape (1997: 106-107) concludes that economic sanctions, despite the increasing multilateral cooperation of the early 1990s among superpowers, are unlikely to gain importance in the future mainly because the modern state is not fragile. According to him, target states are able to mitigate the impact of sanctions by shifting the burden to opponents and disenfranchised groups or through economic adjustments, while external pressures tend to increase the nationalist legitimacy of their rulers. Using bargaining theory and strategic interaction models, other scholars have demonstrated that sanctions have little impact on dispute outcomes and argued that they can seldom be effective policy instruments because the coercer and the target play against rational opponents trying to promote their own goals (Wagner 1988: 481-483; Tsebelis 1990: 20; Morgan and Schwebach 1997: 46).
It is worth emphasizing that the question of whether sanctions work may be separated from the question of whether they should be used, since answering one does not automatically provide an answer to the other. For instance, even if sanctions work less than 5% of the time as claimed by Pape, they can still be a reliable alternative to the use of force. Rational decision-making requires the comparative evaluation of policy alternatives not only in terms of favorable policy outcomes but also in terms of costs and benefits for both the coercer and the target as well as in terms of the difficulty of the undertaking. In short, sanctions might be preferable to military force even when they are less likely to achieve a given set of goals, provided that the cost differential is big enough (Baldwin 1999/2000: 80-86). Nonetheless, there seems to be at least a general acceptance among scholars that economic coercion is often unable to serve ambitious foreign policy goals by provoking major positive changes in the target country.

Economic sanctions can be imposed either by one state acting alone or by all states (or most of them) upon which the target government relies for external support. Multilateral comprehensive sanctions are usually thought to have a greater potential impact than unilateral ones, but they are rarely imposed due to the difficulty of reaching consensus among countries on another state’s behavior. On the other hand, unilateral coercive economic measures have been used frequently, especially by the United States. These foreign policy tools against target countries include the withdrawal of economic, military, and technological assistance; the seizure of assets in U.S. jurisdictions; restrictions on trade, investment, and travel; and pressures on international financial institutions to deny loans, credits, or grants.
My research is interdisciplinary and draws on notions of international and domestic (U.S.) law, international relations, transnationalism, history, and economics. It is a case study of the implementation and effectiveness of U.S. unilateral economic sanctions against Cuba. Since the communist island is subject to one of the most comprehensive U.S. economic embargoes in history, this study has great implications for the research on the role and usefulness of sanctions as instruments of foreign policy. It also sheds light upon a specific aspect that has been generally neglected by scholars of international relations and by the literature on the Cuban embargo, the influence of transnational actors in the globalizing post-Cold War world.

While many scholars evaluate the utility of economic coercion by analyzing the behavior of the target government, little attention has been given to transnational (non-state) actors whose practices may affect economic interactions and the overall effectiveness of sanctions in an increasingly interconnected global marketplace. This study focuses on non-state players such as multinational corporations, migrant entrepreneurs, international travelers, food exporters, and indirect investors. A twofold question will be addressed: if transnational linkages sustain flows of capital and finance across borders, mainly in the form of foreign investment and remittances, is it possible that economic sanctions (especially unilateral ones) might not work as a result of activities carried out by overseas investors and migrants? And even more important, what is the role played by transnational actors located in the same country that has devised sanctions as an effective tool to achieve far-reaching foreign policy objectives?

This is exactly the area where my project attempts to make its most important contribution. Although one of the reasons for the tightening of the embargo during the
1990s was to stimulate democratic reforms in Cuba, the prime objective of U.S. policy was to exert economic pressure on the Castro government (and eventually hasten its demise) by reducing the flow of hard currency to the Caribbean island. I hypothesize that, in spite of stiffened sanctions, the United States has not only been unable to stifle the flow of foreign investment into Cuba, but has actually contributed in a significant way to the recovery of the Cuban economy from the deep recession following the demise of the former Soviet Union. Interestingly, formal and informal activities by the Cuban-American community, the most vocal and influential group in the United States in favor of the embargo, have been a major factor in mitigating the overall impact of U.S. economic sanctions against Cuba.

**Propositions and Contributions of the Research**

Two main propositions are addressed in this study. The first one is that the Helms-Burton law has made foreign investment in Cuba more problematic, but largely failed to stem the flow of foreign capital delivered to the island and hinder the slow but steady recovery of the Cuban economy. There is little doubt that the Castro government has faced increasing difficulties to obtain external financing for its main economic activities and probably lost some deals because of Helms-Burton’s penalizing provisions against foreign firms that invest in or use U.S. expropriated properties. However, it appears that the overall process of foreign investment in Cuba has not been halted as many foreign companies continue to run profitable businesses on the island and take advantage of the absence of U.S. competitors.

The second proposition of this study is that, in spite of the tightening of the embargo, the United States has played and keeps playing quite an important role in the Cuban economy in several different ways. More specifically, large amounts of hard
currency have been channeled into the Cuban economy through U.S. visitors (especially Cuban-Americans) and remittances sent by Cuban exiles to relatives on the island. Smaller amounts were also channeled through U.S. telecommunications payments to Cuba, American food exports (sold in government-owned dollar stores), and U.S. investors who hold publicly traded shares of major foreign firms engaged in business activities with the government of Fidel Castro. The fact that a significant share of hard currency reaching Cuba is in violation of U.S. regulations also provides some evidence for the inability of the U.S. government to obtain compliance from its own citizens.

Based on available information on U.S. citizens’ activities with respect to Cuba, this study attempts to demonstrate the following: 1) Even with travel restrictions in place, legal and illegal visits to Cuba from the United States have increased constantly during the 1990s, consolidating U.S. citizens as the second largest group among foreign travelers to the island; 2) Cuba has become in recent years increasingly dependent on remittances from abroad, mainly sent from the Cuban American community in South Florida, and net hard currency revenues to the Cuban government from remittances are today greater than its profit from tourist activities and sugar and nickel exports combined; 3) The United States has played an important role in financing the development of Cuba’s telecommunications sector since a large portion of the island’s hard currency revenues from telecom services come from dollar charges applied to incoming calls (mostly Cuban American calls) from U.S. territory; 4) In the past three years the United States ranked first among Cuba’s sources of imported food and a share of U.S. products ended up in the island’s state-owned dollar stores where the elevated markup on prices generates significant amounts of foreign exchange revenues to the Castro government; 5) American
entities own equity interests of several foreign companies that have provided Cuba much-needed capital, technology, management expertise, and new markets for its main exports.

Overall, there is sufficient evidence to argue that the U.S. extraterritorial measures against foreign companies investing in Cuba have had little success. Furthermore, Washington’s policy toward Havana ended up throwing a lifeline to the same government it was supposed to undermine. The aforementioned activities are emblematic examples of gaping holes in the United States’ effort to economically isolate Cuba and provide a solid explanation of why the Cuban embargo has failed to achieve its main goal. My study, therefore, promises to make two significant contributions to the scholarship on economic sanctions.

First, it challenges the idea on the utility of unilateral economic coercion as a tool of foreign policy and enriches the debate on whether sanctions are effective by analyzing the impact on the Cuban economy of activities carried out by transnational players. While some scholars have focused on the effects of the Cuban embargo on U.S. entities in terms of forfeited businesses with the Cuban government, very few have examined the possibility that foreign investors and U.S.-based transnational actors bear major responsibility for the failure of sanctions to achieve ambitious foreign policy goals with respect to Cuba. In the post-Cold War context of economic globalization and transnational linkages, these actors deserve more attention from the academic community than they have received so far.

Second, this study provides concepts that can be used to examine not only the Cuban embargo but also other sanctions situations. Indeed, activities carried out by multinational corporations and other transnational actors (including individuals and
entities of the coercer state) might have had a positive impact on the economy of other countries that, like Cuba, are subject to U.S. economic sanctions. In particular, foreign direct investment, remittances sent from exiles, and secondary or indirect investment operations may undermine the ability of sanctions to squeeze economically these target countries. Mainly as a result of increasing migration flows, remittances have become the second largest source, behind foreign direct investment (FDI), of external funding for development countries (Solimano 2003: 5). In addition, money transfer and investment operations are facilitated by the rapid growth of Internet and other electronic transactions. In short, the flow of hard currency reaching Cuba from abroad, especially from the United States, exhibits patterns that may suggest a potential path for further research on the role and usefulness of economic sanctions.

Sources of Data

In addition to extensive documentary research in the United States, this study is based upon field research conducted in Cuba between 2000 and 2004. Data were generated from the following sources:

- In-depth interviews with key staff-members at the Cuban Ministry of Foreign Investment and Economic Collaboration in Havana (MINVEC), the Center for the Promotion of Investment (CPI), and the Cuban trade and investment consulting firm Consultores Asociados S.A. (CONAS). These interviews provided valuable information about the impact of the Helms-Burton law on specific foreign companies operating in Cuba and the status of foreign investment in the island’s most important economic sectors.

- In-depth interviews with economists at major centers of investigations located in Havana (Centro de Estudios de La Economia Cubana, Centro de Investigaciones de la Economia Internacional, Centro de Estudios Sobre Estados Unidos, Instituto Nacional de Investigaciones Economicas). I interviewed experts on the issues of remittances, tourism, external sector, and foreign trade. The main goal was to evaluate the role of the United States in the Cuban economy by obtaining detailed information on the following topics: 1) The number of U.S. nationals that visit Cuba every year and how they circumvent travel restrictions; 2) How remittances from the United States are sent to Cuba and how they are estimated; 3) How net
hard currency revenues to the government from remittances are calculated; 4) How the Cuban government obtains financing for commercial transactions with the United States and the share of U.S. food sales that are sold in dollar stores.

- In-depth interviews with Cuban correspondents for foreign press agencies and newspapers such as Reuters, Associated Press, Financial Times, Dallas Morning News, Sun-Sentinel, and Chicago Tribune. Foreign journalists were a precious source of information on both political and economic issues and provided suggestions about how to obtain relevant data and contact specific people.

- Archival research at Cuba’s public libraries on local newspapers articles (Granma, Juventud Rebelde, Trabajadores, Prensa Latina), governmental documents and declarations (speeches and press conferences), and publications related to Cuba’s business environment and economic developments (Anuario Estadistico de Cuba, Opciones, Economics Press Service, Enfoques, Negocios en Cuba, and annual reports of the Cuban Central Bank).

- Archival research in the United States on newspapers articles (New York Times, Miami Herald, Los Angeles Times, Washington Post, and Dallas Morning News), publications of organizations that monitor the Cuban business environment (Economic Commission for Latin America and the Caribbean, Economist Intelligence Unit, and U.S.-Cuba Trade and Economic Council), and financial reports of selected foreign companies that operate in the Cuban market. These sources provided relevant information on the island’s economic structure and macroeconomic indicators, developments of specific sectors such as tourism, nickel, sugar, and telecommunications, the Helms-Burton law and foreign investment trends, international trade and financing activities, and U.S. secondary or indirect investments in Cuba.

**Organization of This Study**

As previously observed, many scholars of international relations assess the effectiveness of sanctions by focusing on the economic adjustments introduced by the target country to cope with external pressure, neglecting the importance of growing transnational flows of capital and finance in the context of globalization. Chapter 2, therefore, explores the prevailing discourses on transnational linkages at both global and local levels in order to structure the proposed case study and identify theoretical assumptions relevant to its working hypotheses. Transnational business practices by non-state actors such as multinational corporations and migrant entrepreneurs will receive
special attention since foreign investment and remittances have played a major role in keeping afloat the Cuban economy in the post-Cold War era. Chapter 3 reviews the history of U.S. economic sanctions with respect to Cuba that were first enacted in the early 1960s and then intensified during the 1990s with the Torricelli law and the Helms-Burton law. A major contention is that the strengthening of the embargo was linked to self-interested groups in the Cuban American community seeking to serve their parochial interests and able to influence U.S. decision-makers. Regarding Helms-Burton, this section focuses on those articles aimed to create disincentives for foreign companies in Cuba along with some discussion of their controversial aspects. Chapter 4 analyzes the evolution of foreign direct investment in Cuba and describes the several different ways in which the Helms-Burton law affects foreign companies that intend to invest in the island and those already operating in the Cuban market. It also evaluates the impact of the legislation on the Cuban economy and the flow of foreign investment, as well as its effectiveness in forcing overseas firms to pull out of Cuba.

Chapter 5 tracks the flow of hard currency reaching Cuba from the United States in order to provide evidence of the importance for the Cuban economy of activities carried out by U.S. citizens (mainly Cuban Americans) and firms. More specifically, it analyzes the presence of U.S. visitors on the island, the flow of remittances from Cuban exiles, and payments to the Cuban government by American companies for telecommunications services. It also examines recent developments in U.S. food sales to Cuba and U.S. investments in foreign companies that operate in the Cuban market. Chapter 6 attempts to identify other cases of U.S. unilateral sanctions that may exhibit patterns similar to those seen in the Cuban case. Without performing detailed empirical analyses, this
section uses available information on remittances and foreign investment to support the argument that economic activities carried out by transnational actors might play a crucial role in the overall effectiveness of sanctions. The concluding section summarizes the main findings of the study, offers suggestions for a more effective U.S. policy toward the government of Fidel Castro, and identifies potential paths for further research on the role and usefulness of economic sanctions.
CHAPTER 2
TRANSNATIONAL LINKAGES AT GLOBAL AND LOCAL LEVELS

Transnational linkages are broadly defined as movements of information, money, objects and people across borders that are not controlled by organs of governments (Vertovec 2003: 642). The concept of “transnationalism” in the study of international relations came into prominent use in the early 1970s in the context of the growth of international organizations and particularly relations between non-governmental bodies. A number of scholars, mostly with a liberal background, began to question the prevailing state-centric view of international relations by analyzing the impact on interstate politics of transnational activities carried out by multinational businesses, revolutionary movements, non-government organizations (NGOs), trade unions, scientific networks and the Catholic Church (Keohane and Nye 1971).

More recently, the growing interconnectedness of the world as a consequence of globalization and technological change has stimulated a proliferation of literature concerning various types of transnational practices by private individuals and groups, including students, tourists, migrants, NGOs, and corporations. Transnationalism overlaps globalization but typically has a more limited scope. Whereas global processes refer to economic, political, and social activities that are largely de-linked from specific national territories, transnational processes tend to be anchored in and transcend one or more nation-states (Levitt 2001: 14). For instance, migration (which is embedded in globalization) is considered a transnational phenomenon since it refers to individuals who move across the borders of one or more nation states. Similarly, transnational
corporations (TNCs) operate across national boundaries but are centered in one home nation (Kearney 1995: 547).

The growing number of non-state participants in international activities and the expansion of capital, cultures, and people across borders have provoked discourses on the crisis of the nation state and the complex transnational linkages that bind societies together in today’s interdependent and shrinking world. As Guarnizo and Smith (1998: 3) observe, the nation state is seen as weakened “from above” by multinational capital, global media, and supra-national political institutions, and “from below” by informal economic channels, ethnic nationalism, and grassroots activism. However, while there is little doubt that transnational activities escape control and domination by the state, an analysis of power relations and economic interactions in the context of sanctions must take into account an additional element. The movement of capital sustained through transnational linkages could actually strengthen the target country by providing it with crucial financial resources to weather the impact of economic sanctions. Transnational hard currency flows (mainly foreign investment and remittances) are even more important in the case of communist Cuba, where the government controls a large share of the economy and thus greatly benefits from all capital inflows.

Transnationalism “From Above” and “From Below”

In order to describe the variations in the intensities, frequencies, and the scope of cross-border linkages, international relations scholars have introduced several different typologies of transnationalism as referred to continuous or occasional practices (Itzigsohn et al. 1999), the level of state and economy or the intimate level of family and household (Gardner 2002), global networks or kinship and diasporic ties (Faist 2000). Nevertheless, the substantial differentiation between transnationalism “from above” and “from below,”
based on who initiates and sustains linkages, seems to be the most common approach to the study of transnational processes. In this two-levels approach, activities initiated by TNCs and international organizations with a “global governance” agenda belong to transnationalism from above. Most local linkages between immigrants and their home-country counterparts, instead, are considered as transnationalism from below. It must be noted that such a distinction focuses on who initiates and determines the direction of any cross-border action in order to capture the dynamics of economic and power relations in the transnational arena. The “above” and the “below” of transnational action should not be equated exclusively with global and local structures or agents, since these categories are contextual and relational (Guarnizo and Smith 1998: 7 and 29).

Transnational businesses and organizations born of political and economic integration (the United Nations, International Monetary Fund, World Bank, and international NGOs) now vie with states for global influence and attempt to build a global neoliberal contextual space to regulate transnational flows of capital, trade, people, and culture. TNCs with largely jettisoned national origins, in particular, are seen as major players in the global economy. By establishing universal systems of supply, production, marketing, investment, information transfer, and management, they create the paths along which much of the world’s transnational activities flow (Vertovec and Cohen 1999: xxii). Since they are controlled by powerful elites who seek dominance in the world, TNCs are able to use their resources, range, and specialized flexibility to spread capital, imagery and information on an almost global scale. Moreover, as Sklair (2002) suggests, a transnational capitalist class has arisen alongside the TNCs. Comprised of TNC executives, globalizing state bureaucrats, politicians and professionals, and consumerist
elites in merchandising and the media, this new class pursues interests that are global, rather than exclusively local or national, and therefore control most of the world economy. In short, the homogenizing and elitist forces of transnationalism from above undermine the economic, political, and cultural networks of more local units, including nations, ethnic groups, and grassroots communities (Mahler 1998: 67).

Transnational corporations with enormous financial resources and capabilities have created considerable difficulties for the other international actors, primarily the nation-states and the labor unions. Although the behavior of a particular corporation (what we might call its “code of conduct”) will depend on the way its management decides to use the available resources, several scholars have documented how TNCs interfere in the domestic political affairs of sovereign nations (Kline 2003), tend to be labor abusive in their overseas investment destinations (Wang 2005), and frequently fail to uphold and promote environmental standards in developing countries (Cohan 2001). In order to raise public awareness of these harmful activities, the 2000 United Nations Global Compact called upon TNCs to assume greater responsibilities toward those living in the countries in which they operate, and to abide by standards in the areas of human rights, labor, and the environment (Nien-he 2004: 643).

In the context of economic sanctions, however, the coercer state is mostly interested in finding ways and means for controlling the positive effects of TNCs on the target country’s economy rather than ameliorating their damaging practices. For instance, one of the main goals of Washington’s policy toward Havana is to stifle the flow of foreign direct investment (FDI) into Cuba and hinder the growth of the island’s main economic sectors. Investment operations carried out by TNCs play a crucial role in
the development of receiving economies as they contribute capital for the acquisition of modern technologies, increase theoretical and business knowledge for the integration into global marketing, distribution, and production networks, and stimulate greater international competitiveness of national firms (Pérez Villanueva 2005: 162). In other words, FDI is an important catalyst for economic growth in developing economies, although such a positive impact may vary across countries depending on the level of human capital, domestic investment, infrastructure, macroeconomic stability, and trade policies.

A key contention of this study is that the attempts by states to control the activities of transnational corporations are doomed to failure for three main reasons. First, these firms have been growing very rapidly and exert a great deal of power in the globalized world economy. Through mergers and acquisitions, the leading TNCs are richer and more powerful than most of the nation-states that seek to regulate them. In 2000, the combined sales of the world’s top 200 corporations were far greater than a quarter of the world’s economic activity. Of the 100 largest economies in the world, 51 were TNCs and only 49 were countries (Anderson and Cavanagh 2000). Second, TNCs are headquartered in one country but they operate across borders in a number of political jurisdictions. This inevitably creates enormous legal and political difficulties for the parties since the firm is only partially within the control of an individual state and must deal with different and often conflicting national requirements. For example, when the U.S. Congress passed the Helms-Burton law in 1996 and threatened sanctions against foreign firms investing in Cuba, the European Union vowed to fight the legislation at the World Trade Organization, while Mexico and Canada passed antidote laws that prevent
their citizens from complying with U.S. regulations. Third, because of its hierarchical and highly integrated nature, a TNC has the capacity to shift its resources among jurisdictions in accordance with a central plan, which can easily escape national control (Bock 1979: 41). Modern corporations raise funds in international capital markets to help finance their expansion plans anywhere in the world, including in embargoed countries. In the light of the significant presence of U.S. investors in several major TNCs that engage in business activities with the government of Fidel Castro, one is left wondering if it makes any sense for the United States to keep using economic sanctions as a tool to achieve ambitious foreign policy goals.

While activities by TNCs complicate the efforts of governments to control their own economies and the global flow of capital, we must avoid confusing intentionality with consequences, as when actors are designated “resistant” or “oppositional” because their practices produce results that are at odds with the intention of states. Foreign firms that invest in communist Cuba might help the Castro government to withstand the economic pressure of the U.S. embargo, but their goals toward Havana are not necessarily different from those of the U.S. government. Many TNCs that are taking advantage of existing business opportunities in Cuba also realize that the introduction of political changes and profound economic reforms on the island would be extremely beneficial to them. The same distinction is valid for Cuban immigrants in the United States and the money they send to relatives who have remained in Cuba. Although the Cuban government is able to capture the vast majority of remittances through sales in state-run hard currency stores, the primary goal of Cuban Americans is to support family members, not Fidel Castro.
In contrast to transnationalism from above, in which transnational corporations play a crucial role, transnationalism from below is largely the terrain of grassroots collectivities (local households, kin networks, elite fractions, and other emergent local formations) that are marginal to the centers of power and rely almost entirely on social capital. The latter usually refers to the ability to secure resources by virtue of group membership and networks (Bourdieu 1986: 249). Thus social capital is a resource available through transnational linkages, making possible the achievement of certain ends that would not be attainable in its absence. In particular, migrants’ transnational practices are believed to reconfigure the existing power hierarchies by sustaining material resources that finance “good-will projects” in their country of origin and challenge multiple levels of structural control: local, regional, national, and global (Mahler 1998: 68). In addition to the big players in the global economy, migrant entrepreneurs who comprise the bulk of transnational communities are making an ever-greater impact by transferring huge amounts of money across borders in the form of remittances. The resulting capital flows help reduce poverty and may contribute to the economic growth of recipient countries.

Since the early 1990s, the rapid growth of international migration has ushered in a new era of transnational studies, mostly interested in the lived realities of migrants and their cross-border communities and activities. Instead of focusing on traditional concerns about their adaptation to receiving societies, this emerging perspective concentrates on the continuing relations between migrants and their places of origin and how this back-and-forth traffic builds complex social fields that straddle national borders (Basch et al. 1994: 6). In particular, the rebirth of the notion of diaspora has stemmed from academics
using it to describe practically any population that has originated in a land other than which it currently resides, and whose social, economic, and political linkages cross the borders of nation-states (Vertovec and Cohen 1999: xvi). In response to the process of globalization, migrants are thought to create transnational communities that are “neither here nor there” but in both places simultaneously. As they sustain economic activities that are grounded on the differentials of advantage established by state boundaries, these communities operate, to a large degree, in a way very similar to that of large transnational corporations. The crucial difference is that these enterprises emerge at the grassroots level and their activities are often informal (Portes 1997: 4).

It is worth emphasizing that migrants construct and maintain social networks that are rooted in place, even as the networks transcend place. The social groups, identities, beliefs, rituals, practices, and power relationships in both sending and receiving communities (as well as locations in transit) are critical to our understanding of the process and effects of transnationalism from below. Several scholars have challenged the image of transnational migrants as de-territorialized, free-floating people that are socially, politically, economically, and culturally unbound. While extending beyond two or more national territories, transnational practices are constituted within historically and geographically specific points of origin and migration established by transmigrants. In addition, transnational linkages between migrants and certain local and national contexts abroad are built within the confines of specific social, economic, and political relations, which are bound together by perceived shared interests and values. For instance, Guarnizo and Smith (1998: 13) argue that the context in which migrants’ transnational actions take place is not just local but also “translocal” (i.e. local to local), and that
relations between people across national territories would be unthinkable without a basic sense of shared meanings and social bounds. Similarly, Levitt (2001: 6-7) observes that individual actors cannot be viewed in isolation from the transnational social fields in which they are embedded. According to her, the economic initiatives, political activities, and sociocultural enterprises migrants engage in are powerfully shaped by the kinds of organized social groups within which they are carried out.

There is now a substantial and growing body of literature on the initiatives of migrants to establish durable transnational linkages with their societies of origin. Analyses of migrants’ connections with people and institutions in their homelands have focused on family obligations and marriage patterns, remittances, political engagement, religious practices, regular visits, media consumption and so on. In order to assess the effectiveness of economic sanctions against a target government, this study gives special attention to remittance practices and their significance for the economy of the recipient country. The practice by migrants sending money “home” to family and friends left behind is hardly new. But the volume of these money transfers has now become so important that in many cases they determine the development prospects of villages, towns, and entire countries. Whereas from an individual perspective remittances have purely personal consequences, in the aggregate they translate into a flow of capital that can constitute a crucial source of foreign exchange for receiving countries, into investments that sustain the home construction industry in these countries, and into new cultural practices that radically modify the value systems and everyday lives of entire regions (Portes 2003). Remittances that migrants send to their homelands have indeed become the prime topic of research in the field of migration and the most often-cited,
tangible evidence and measuring stick for the ties connecting migrants with their societies of origin (Guarnizo 2003).

It has been argued that the extent, intensity, velocity, and impact of transnational activities are enhanced by the advent of new space-and time-compressing technologies, which greatly facilitate rapid communication across national borders and long distances (Portes et al. 1999; Held et al. 1999; Kivisto 2001). Regardless of the migrants’ motivations to sustain economic connections with their countries of origin, technological improvements are believed to explain a good part, if not all, of contemporary migrant transnationalism. Improved modes of transportation and new electronic money transfer services have boosted the frequency of family reunions across national boundaries and provided cost-efficient ways to send remittances to relatives abroad, thus shortening the distance between sending and receiving countries. However, these connections cannot be fully understood without analyzing the growing family and kinship ties (mostly as a result of recent trends in international migration) that constitute a powerful agency for the cross-border transmission of capital, values, customs, and culture. Crucially, it is within the linkages established through family relations that most migrants engage in transnational activities (Goulbourne 2002: 160-161).

My findings suggest that the vast majority of remittances reaching Cuba from the United States arrive on the island in the luggage of friends or entrusted agents rather than through electronic transactions. Although such practices are surely aimed to circumvent the cap on money transfers to Cuba established by U.S. embargo laws and regulations, they also reveal the migrants’ commitment to support family members abroad, or what Portes (1998: 8) called “bounded solidarity,” no matter how difficult it might be to
accomplish this goal. Thus, to a large extent, it is social capital mainly built through family ties that sustains the transnational flow of remittances regardless of improved technology, not the other way around. As Eckstein (2005: 338) observes, the rapid growth of remittances to Cuba during the last decade hinges more on the strengthening of cross-border bonding and trust than on technological breakthroughs in wire transfer services.

Finally, whereas migration and family-based economic transactions undermine the autonomy of states, the latter have found ways to influence the volume and density of such activities and reap substantial benefits from them. As remittances constitute a significant source of foreign exchange earnings, some developing countries encourage international migration, hoping that money transfers from abroad will raise the welfare of their non-migrant residents and stimulate economic growth (Chandawarkar 1980). In embargo situations, the potential contribution of remittances at both the macro and microlevels provides great incentives for sanctioned states to stimulate these financial flows, and thus minimize the negative impact of economic sanctions on their economy. For instance, family remittances to Cuba have increased dramatically since Fidel Castro, amid a deep economic recession, legalized U.S. dollar holdings in September 1993 and allowed about 35,000 Cubans to flee the island the following year, most of them resettling in the United States.

What came to be known as the “Balsero Crisis” of 1994, ended with the United States agreeing to accept 20,000 legal migrants a year from Cuba and pledging to speed up the admission of another 4,000 to 6,000 who were already on a visa waiting list. Nevertheless, in a clear attempt to stem family contacts and the flow of remittances to the
communist island, Washington’s immediate response to these events was to impose a ban on money transfers to Cuba and terminate the general license for travel to the island by Cuban Americans (Morley and McGillion 2002: 75-78). Today, remittances from this last wave of Cuban migrants, and those who left Cuba in 1980 during the “Mariel Crisis,” generate in net terms more hard currency revenues to the Castro government than any other economic activity. In short, the encouragement of out-migration (coupled with domestic economic adjustments) by sanctioned states may be seen not only as an escape valve to release internal pressure on their governments, but also as an effective way to boost foreign exchange earnings at particularly critical times.

In summary, this section has presented an analysis of cross-border linkages from both above and below, contrasting the transnationalism from above of corporations to the transnationalism from below of international migrants. Such a distinction has been criticized by several scholars because it fails to recognize that certain agents may act simultaneously from above and from below depending on the nature of their actions (Schein 1998), downplays the role of states in co-opting and advancing transnational practices (Itzigsohn 2000), and privileges organized activities over more diffuse forms of mass action with no collective purpose (Mahler 1998: 72). Even so, the aforementioned typologies allow us to develop a research strategy that situates specific actors in regard to power hierarchies and examines different categories of transnational linkages along with the political, social, and economic factors that condition their creation and reproduction. Since global processes and micro-dynamics of migration are hypothesized to play a

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1 In 1980, after thousands of Cubans rushed into the Peruvian embassy in Havana seeking asylum, the Castro government opened the port of Mariel to allow all who wanted to leave the island to do so in an orderly fashion. While the exodus proceeded rather chaotically, approximately 125,000 Cubans left, most of them reaching the United States.
crucial role in the context of sanctions, the rest of this chapter provides further details on the activities of TNCs, international migration and the spatial expansion of social networks (family ties) that sustain monetary remittances across borders, and the economic impact of migrants’ money transfers to their countries of origin.

**Transnational Corporations and the Movement of Capital**

Transnational corporations are defined as “all enterprises which control assets (factories, mines, sales offices and the like) in two or more countries” (UNCTAD 1995: xix-xx). There are currently at least three major categories of corporations that operate internationally: 1) Relatively small TNCs with commercial activities only in a few countries; 2) Medium-size enterprises that function in regional markets such as the Americas, Europe, or Asia; 3) Large TNCs, also known as global corporations, that operate on a worldwide basis and concentrate the greatest economic and political power. As a result of technological advances and increasingly liberal policy frameworks, these actors have come to dominate the international economic system and, in some cases, they are more powerful than most states acting alone.

Today, TNCs are capturing global markets with foreign direct investment and creating global webs of production, commerce, culture and finance virtually unopposed. These actors are able to exert a significant influence over the domestic and foreign policies of governments worldwide and the destinies of individual economies in the developing world, order the agenda of the World Trade Organization, and set wage-levels that can cause the first world to bend to their demands (Macleod and Lewis 2004: 77). In addition, as they move across national boundaries and forge linkages between countries, TNCs encourage the intertwining of national economies, thus limiting the scope of government action and its controlling power (Suter 2004: 44). This particular aspect is
very important in the context of economic sanctions since laws and regulations of the coercer state are specifically designed to halt business operations by TNCs in target countries and the resulting flow of capital. Transnational corporations’ home bases are geographically concentrated in the industrialized countries of the North (mainly the United States, the European Union and Japan), but their practices are assuming an ever more stateless quality. As stated by Karliner (1997: 6), “this combination of stateless corporations and corporate states . . . allows a large TNC to hide behind the protection of a national flag when convenient, and to eschew it when it’s not.”

It should be noted that, among the major world powers, the United States is not only the country that has made more frequent use of economic coercion against other nations, but also the country with probably the lowest level of interdependence and cooperation between its government and corporations. Back in the late 1970s, Esterline (1979: 32) observed that the United States, unlike the other four major supernational actors of that time such as Japan, the European Community, China, and the Soviet Union, did not have a symbiotic relationship between government and private enterprises. In fact, the fundamental nature of U.S. policy on international investment was neither to promote nor discourage inward or outward investment through government intervention. While Esterline demonstrated that U.S.-based TNCs suffered disadvantages both abroad and at home because they operated in the absence of an American political-economic policy, his findings also suggested that the U.S. government’s control over the activities of its own corporations was virtually nonexistent, or at least very limited.

The current situation seems to confirm that American-based transnational enterprises continue to enjoy a high degree of autonomy in carrying out their operations.
Despite numerous attempts to limit corporations’ power and increase their accountability to the state, these TNCs maintain a strong grip on the domestic and foreign policies of their home country and, at the same time, use the accelerating process of globalization to gain independence from their government. Admittedly, all the major economic powers face great difficulties in regulating their corporations’ business practices as a result of the increasingly global nature of the international financial system and growing corporate mobility (Karliner 1997: 9-11). Nevertheless, such an attempt is particularly problematic for a country like the United States, which is the most open political system and the one most committed to the promotion of trade liberalization, privatization of state enterprises, deregulation, foreign investment, and legal security for property rights. Thus, the U.S. commitment to neoliberal economic policies seriously complicates its strategy to isolate target countries economically and undermine their governments through the imposition of sanctions.

Curiously, while direct investments in Cuba are prohibited for U.S. firms under the embargo, the United States allows individuals and entities subject to U.S. law to hold publicly traded shares of foreign-based TNCs that are engaged in business dealings with the government of Fidel Castro. In March 1994, because of efforts by the U.S.-Cuba Trade and Economic Council or USCTEC (a New York-based organization that monitors business activities between Washington and Havana), the U.S. Department of the Treasury issued an opinion according to which an American entity can make a secondary, non-controlling investment in a third country company that has commercial activities in

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2 The political power and lack of accountability of U.S. corporations are mostly derived from their economic power. In 2000, a total of 59 of the global top 200 TNCs were U.S.-based enterprises, including AT&T, Boeing, Lockheed-Martin, BellSouth, Kmart, Chase Manhattan, GTE, Mobil, and Texaco (Anderson and Cavanagh 2000).
Cuba as long as the majority of the revenues of this company are not produced from operations within the island (USCTEC 1998). The obvious difficulty for the U.S. government in limiting such practices is that the Cuban operations of most TNCs that invest in the island’s market represent only a small fraction of their global activities. Given the enormous economic interests at stake (non-controlling investments in leading TNCs may be worth billions of dollars), it would be extremely problematic for U.S. policymakers to prevent American entities from holding shares of these corporations just because of their ventures in Cuba. However, the ironic result for the United States is that these TNCs undermine the main purpose of the Cuban embargo by providing the Castro government with much-needed capital, technology, management expertise, and new markets for its main exports. Washington’s global economic interests and its policy goals toward specific target countries are clearly at odds in the context of economic sanctions.

Even more important, in a global economy driven by competition and the search for the best short-term return on investment, it is very difficult, if not impossible for the United States to dictate through the imposition of unilateral sanctions where foreign-based TNCs can or cannot invest worldwide. States have little chance of controlling the huge sums of capital that move electronically every minute from computer to computer, bank to bank, and country to country. In addition, transnational firms headquartered in foreign countries are able to devise effective strategies to circumvent U.S. restrictions. For instance, in order to avoid potential penalties under the Helms-Burton law, several foreign investors have developed roundabout methods to operate in Cuba, using offshore companies registered in fiscal paradises in the Caribbean and Central America to keep anonymity, reduce personal liability, and obtain easier access to capital funding. Other
corporations, instead, have simply decided to create legally distinct entities that are associated exclusively with their Cuban assets or reorganize their activities on the island in such a way as to escape the reach of the U.S. legislation (Spadoni 2001: 29-32).

Unilateral sanctions, especially when imposed by an economic power like the United States, may dissuade some TNCs from investing in a target country, but they are unlikely to stem the overall foreign investment process in that particular country. The reality is that relatively low levels of overseas investments, or just a few major business deals, may still provide sufficient resources for target states to resist changes and guarantee the survival of their governments.

In 2001, more than half of the world’s population in 78 countries, for the most part developing ones, was subject to some forms of U.S. unilateral coercive economic measures. Economic sanctions by the United States may include the prohibition on all dealings with a foreign country, trade restrictions, the withholding of financial assistance, a ban on participation in U.S. government procurement, and opposition by U.S. representatives in international financial institutions to loans or financial assistance to a particular country (Carter 2002). According to the United Nations’ General Assembly, the use of unilateral economic coercion “adversely affects the economy and development efforts of developing countries and has a general negative impact on international economic cooperation and on worldwide efforts to move towards a non-discriminatory and open multilateral trading system” (United Nations 1998). Even so, FDI flows into developing countries have increased significantly during the last decade. While American companies account for a substantial share of these capital flows, foreign-based corporations might have helped diluting the impact of U.S. coercive measures on several
target nations, especially those where U.S. direct investments are prohibited. Currently, the United States maintains comprehensive economic sanctions against Cuba, Iran, Sudan, and Burma (Myanmar). Sanctions against North Korea and the Federal Republic of Yugoslavia (Serbia and Montenegro) were significantly relaxed in late 2000, and those against Iraq and Libya were practically lifted in 2004.

Since the early 1990s, the continued liberalization of FDI regimes and trade has been a major factor for the substantial growth of TNC activities in developing nations. Worldwide, the number of countries that each year introduced regulatory changes aimed to create incentives for foreign investment and strengthen market functioning rose from just 35 in 1991 to 82 in 2003 (UNCTAD 2004: 8). As a result, net FDI flows to developing states jumped from about $40 billion in 1990 to $238.4 billion in 2000 and, after a sharp decline following the September 11, 2001 terrorist attack on the United States, peaked again at $255 billion in 2004. Whereas in 1990 foreign investment directed to developing countries accounted for little more than 20% of total capital flows worldwide, last year their share of global FDI was almost 42%. In 2004, Asia (mainly China) and Latin America were the leading recipients of foreign investment among developing regions. Africa also experienced a substantial increase in FDI, although its share of the total remained relatively low (ECLAC 2005: 31). Interestingly, the United Nations Conference on Trade and Development (UNCTAD) reports that, between 1990 and 2002, the FDI performances of sanctioned nations such as Sudan and Myanmar were among the best in the least developed countries. Foreign direct investment has continued to flow into these two countries after the United States imposed sanctions against them in 1997 (FDI to Sudan, in particular, has been growing considerably in recent years), and
today exceeds total official development assistance (ODA)\(^3\) from foreign governments (UNCTAD 2004: 5-6). Although FDI could have been higher without restrictions on U.S. investors, foreign-based TNCs have filled the gap by providing Sudan and Myanmar with crucial sources of financing and development tools.

A similar situation has occurred in Cuba, where FDI keeps pouring in despite serious hurdles created by the U.S. Helms-Burton law of 1996. It has been claimed by some scholars that foreign investment plays a negligible, or at least very limited role in the Cuban economy. Criticism mainly focuses on the cumulative amount of FDI delivered to the island, which is significantly lower than in many other developing countries (Werlau 2001: 290). However, the significance of foreign capital in Cuba cannot be measured from a simple quantitative comparison with other nations. Cuban authorities make no secret they resorted to foreign investment in the early 1990s out of necessity, and essentially against their will. By their own admission, the government policy is not intended to create a market economy and develop a real and substantial private sector, but aimed at establishing a state economy that regulates foreign capital so that the benefits of investment go to the entire society. In addition, Cuba’s business environment and its economic system present characteristics that are very different from those of most developing nations. Therefore, quantitative comparisons with other countries based on delivered FDI have a limited value (Spadoni 2002: 173). Foreign corporations’ investment activities in Cuba have had a positive impact on the island’s

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\(^{3}\) Official Development Assistance (ODA) consists of loans or grants administered with the objective of promoting sustainable social and economic development and welfare of the recipient country. ODA resources must be contracted with governments of foreign nations with whom the recipient has diplomatic, trade relations or bilateral agreements or which are members of the United Nations, their agencies, or multilateral lending institutions.
most important economic sectors and stimulated the competitiveness of Cuban products both domestically and internationally.

Overall, it is generally believed that foreign direct investment by TNCs play a key role in improving the economic performance of recipient countries. Transnational corporations are seen as development agents able to provide assistance to developing countries through an arsenal of economic, technical, and other managerial resources. Many analysts have demonstrated that the deployment of these assets accelerates recipient countries’ growth by augmenting domestic savings and investment, helping transfer of new technologies, increasing production, exports, and foreign exchange earnings, and fostering spillovers from TNCs to domestic firms through imitation, competition, and training (Findlay 1978; Grossman and Helpman 1991; Barro and Sala-i-Martin 1995; Campos and Kinoshita 2002; Ram and Zhang 2002; Baliamoune-Lutz 2004). These findings and the monumental transformation of the global economy under way have great implications for the research on economic sanctions. While the United States continues to use unilateral economic coercive measures as a way to curtail the resources (and change the behavior) of target governments, especially in developing countries, FDI flowing through transnational corporations has become the single most important source of foreign capital for these countries (Ramamurti 2004: 277). As they dominate the realm of global capital flows, promote economic growth and reduce poverty worldwide, and tend to escape control from nation states, TNCs could bear a major responsibility for the failure of economic sanctions to accomplish far-reaching foreign policy objectives.
Migration, Family Linkages, and Remittance Decisions

In the last decade, the dramatic growth of international migration and monetary remittances has stimulated extensive multidisciplinary inquiry on migrants’ long-distance economic relations with their homelands. Between 1990 and 2000, the number of migrants in the more developed regions (mainly Europe, Asia, and North America) increased by 23 million persons, or 28%. In 2000, around 175 million persons resided outside the country of their birth, and almost one of every 10 persons living in the more developed regions was a migrant from developing countries (United Nations 2002: 2). Whereas early scholars of migration believed that most migrants severed ties with their countries of origin as they assimilated into the country that received them, recent works have suggested that a large number of these individuals remain oriented toward the communities they come from (Levitt 1998). Remittances, the funds that transnational migrants send “home” to family members, have become a major source of foreign exchange earnings for many developing nations, and a key addition to their gross domestic product. They are often one of the main reasons why individuals decide to leave their home country to search for job opportunities abroad as well as an important consequence of the overall migration process.

It has been argued that migrants’ relationships with their places of origin are forged and sustained by complex and enduring transnational social networks. Rather than a movement of individual players, international migration is considered as a process leading to the formation of groups and communities that bring social units into contact across national boundaries. In his historical overview of immigration in the United States, Tilly (1990: 84) emphasized that, to a large degree, the effective units of migration are not individuals but sets of people linked by acquaintance, kinship, and
work experience. According to this perspective, migrating means enlarging one’s living space and making a more or less permanent commitment to maintain multiple relations (familial, economic, social, organizational, religious, and political) that span borders. Migrants carry out activities, from visitation to sending remittances, to making telephone calls, that are transnational in nature and connect them to two or more societies simultaneously (Glick Schiller et al. 1992: 1-2). In order to describe this constant contact between communities of origin and destination, recent studies have used terms such as “transnational migration circuits” (Rouse 1992), “transnational social fields” (Basch et al. 1994), “transnational communities” (Portes 1996), and “binational societies” (Guarnizo 1994).

As stated before, social capital mostly developed through family linkages is a powerful agency for the transmission of monetary remittances. The flow of these money transfers is not a random byproduct of migration by an individual, but an integral part of the family’s strategy behind migration. While the behavior of individual migrants should not be neglected, group decision-making and objectives in the context of the family play a crucial role in determining migration patterns and remittance flows. Using the tenets of portfolio investment theory, Stark (1991) demonstrated that the decisions to migrate and remit earnings to relatives left behind are often ordered by family needs for stable income levels, specialization (migration by some laborers, non-migration by others), and the need to jointly insure the family’s well-being. In some cases, families might even decide to allocate their labor assets over geographically dispersed and structurally different markets in order to reduce the risk of losing income in individual markets and allow family members to smooth its consumption. The general idea is that the main stimulus for
migration is the prospect of receiving remittances rather than the wage differential between two places. Once the migrants have successfully established themselves in other locations, they play the role of financial intermediaries and substitute for missing or imperfect markets (Gubert 2002: 268).

Although Stark focused on internal migration trends and practices in a number of developing countries, namely Botswana, India, and the Philippines, most of his findings are valid for international migrants in developed regions as well. In the 1980s and early 1990s, for instance, several scholars who analyzed return migration from England, Canada, and the United States to a group of English-speaking islands (West Indies) in the Caribbean found that many migrants had maintained very closed relationships with families at home during their years abroad. In those years, they visited relatives on a regular basis, continued as actors in key family decisions, and purchased properties and built houses in their countries of origin (Rubenstein 1982; Thomas-Hope 1985; Gmelch 1992). More recently, Crawford (2003: 107-108) showed how African Caribbean women migrating to Canada have utilized their extensive family and kinship connections to buffer the effects of social and economic instability in their home countries in the last three decades. According to her, these actors’ commitment to maintain their families from abroad is not simply a consequence of globalization but a continuation of African Caribbean family interactions across seemingly distant borders. Thus, what we might call “transnational families” are critical decision-making entities that shape international migration patterns and stimulate the flow of remittances across national boundaries. Individuals commit themselves to act together and develop strategies on how to share common income and improve their economic conditions. Seen in this light, coordinated
efforts and arrangements by all or most members of a family allow the overall group to enjoy more resources than it could obtain in the absence of cooperation.

Remittances are the exemplary forms of migrant transnationalism (Vertovec 2002: 4). They are usually associated with migrant workers’ transfers of a proportion of their income to their families in the country of origin. The importance of remittances as a private mechanism on income redistribution has given rise to a burgeoning literature on motives for and purposes of these money transfers. For some scholars, altruism could play a crucial role in the decision to remit. In the early 1970s, Becker (1974: 1079-1080) argued that migrants send remittances to their rural families because they care sufficiently about the well-being of their relatives. The altruistic behavior is the result of the family’s utility function, which is the same as that of one of its members. Resources are transferred voluntarily because all members have the same motivation to maximize family opportunities regardless of how selfish they are. The person making the transfers would not change the consumption of any member even with dictatorial power because his/her utility partly depends on the family’s welfare. Put it differently, “sufficient love by one member leads all other members by an invisible hand to act as if they too loved everyone.” In his study of remittance patterns in El Salvador and Nicaragua, the two countries with the largest and most permanent out-migrations from Central America in the 1980s, Funkhouser (1995: 138) also developed a function model that includes both the migrant’s own utility and that of the household in the source country, weighted by a factor of relevant importance. The altruistic motivation is demonstrated by the fact that the migrant receives nothing but the satisfaction of the household’s increase in consumption.
Pure altruism, however, cannot fully explain why migrants remit a portion of their income to relatives abroad. To a certain extent, remittances may also be triggered by selfish interests such as the aspiration to an inheritance or the desire to channel one’s investments through the trustworthy family both as purchasing agent and for subsequent maintenance. Based on a household survey conducted in Western Kenya’s rural areas, Hoddinott (1994) claimed that remittances are influenced not only by the migrant’s wages but also by the reward, or bequests of land, offered by the parents. As parents age, they may require both financial assistance and help with agricultural work and domestic tasks. Parental land holding, therefore, becomes an effective bargaining tool to induce children residing abroad to make available a portion of their earnings, especially when they have plans to return to their homelands. In addition, Ahlburg and Brown (1998: 136-138) argued that migrants may remit capital with the self-interested aim to accumulate physical assets (homes, farms, small businesses, financial deposits) and become good entrepreneurs in their home countries, or to encourage family, social and economic ties that keep alive the possibility of one day returning home, even if they are not planning to move in the near future. Using data from a survey of Tongan and Samoan migrants in Sidney, Australia, they concluded that migrants’ remittances are driven, at least in part, by the accumulation of physical and social capital and not, as is often thought, only by altruism and the need for family consumption support.

Finally, the flow of remittances could be the result of implicit contracts and/or loans among family members. Lucas and Stark (1985: 913-914) used an eclectic model labeled “tempered altruism” or “enlightened self-interest” to show how the migrant and the family have an implicit understanding to share mutual benefits and reduce risks by
allocating certain members as migrants and using remittances as a mechanism for redistributing gains. In this case, private transfers are the result of a mix of altruism and self-interest as they are part of, or one clause in, an inter-temporal, mutually beneficial contract arrangement between migrants and their families. In other words, there is a co-insurance contract based on altruistic social norms (family loyalty and mutual care) and self-seeking motives (inheritances and investments), which makes the cost of enforcing much lower than if dealing with non-family members. According to Poirine (1997: 589-590), instead, most remittances consist of the repayment of an informal and implicit loan resulting from the household paying for education and the cost to emigrate. While noting that surveyed migrants seldom admit openly to acting in such a calculating manner, he presented a “three waves theory” to explain the remittance flow over time. In the first stage, migrants send remittances home to repay an education-related loan taken out during their youth. In the second stage, they transfer money to finance the education of other family members until they are ready to emigrate. Then, in the third stage, the next generation of migrants pays back the former lenders who may have relocated home, or both groups help older family members build a house and set up businesses. This theory, which is particularly relevant to international migration from poor to rich countries, is based on the idea that the family savings or loan component is more important than the family co-insurance or altruistic components in remittances.

In the case of Cuba, the significant out-migration during the last two decades and the strengthening of transnational family linkages have stimulated increasing flows of remittances mostly from the United States (where the vast majority of migrants resettled), especially after Fidel Castro legalized the possession and circulation of the U.S. dollar in
the Cuban economy in 1993. There is little doubt that altruism is a critical component in
the Cuban migrants’ decisions to remit money to relatives left behind. Until the early
1990s, transnational connections between Cuban exiles in the United States and their
families on the island remained at minimal levels, mainly as a result of institutional
barriers imposed by the U.S. and Cuban governments and informal social pressures on
Cubans in both countries to avoid cross-border bonding. However, when the deep
economic recession of the early 1990s threatened the survival of the Cuban economy and
many islanders tried to reach out to the Cuban diaspora, financial assistance from
overseas relatives in the form of remittances witnessed a dramatic surge (Eckstein 2005:
320-321). This could be seen as altruistic because migrants began to transfer substantial
amounts of capital to their families abroad when they needed it most. Remittances to
Cuba may also be prompted by moral and financial obligations toward the family or by
self-seeking motives such as the migrant’s desire to raise his social status or prestige
within the homeland context. Attempts to accumulate physical capital through
purchasing agents or secure bequests in the country of origin play virtually no role as
determinants for remittances to communist Cuba. A very low number of Cuban residents
are permitted to hold private productive assets on the island and inheritance is extremely
limited under Cuban law.

It must be noted that both the U.S. and Cuban governments contributed to the
deepening of family linkages and to bonding of potential economic worth between
islanders and exiles during the 1990s. The Castro government shifted its stance toward
the diaspora and courted remittances by introducing reforms in its monetary policies,
increasing the channels for converting or spending U.S. dollars, and allowing more exiles
to visit relatives in Cuba. After 1998, the Clinton administration also encouraged
transnational connections by streamlining procedures for U.S.-based travel to Cuba,
facilitating family reunions with the resumption of direct flights between the two
countries, and easing limitations on money transfers to the island (Barberia 2002: 30).
Clinton’s policy changes, in particular, assume great importance for future U.S. attempts
to stem the flow of remittances to Cuba through the creation of new cross-border barriers.
Once formed, migrants’ connections with relatives abroad often become self-sustaining,
reflecting the establishment of formal and informal networks of information, economic
assistance, and obligations (Boyd 1989: 641). As Cuban exiles in the United States have
widely demonstrated their ability to circumvent U.S. sanctions, it is likely that large
amounts of remittances will continue to flow to Cuba despite the Bush administration’s
recent tightening of restrictions on Cuban American family visits and money transfers to
the island.

In short, migrants decide to remit money to their countries of origin for a variety of
reasons. Commitment to home rests upon complex emotional and social foundations and
manifests itself in the migrant’s willingness to financially support those left behind, share
the costs and benefits of migration, pay back a loan to relatives, invest in assets in the
home area and ensure their careful maintenance, and maintain social relationships that
facilitate an eventual return at some time in the future. Nevertheless, a common element
of most remittance decisions, whether they are triggered by self-interested or altruistic
motives, is that they occur in the context of family linkages that often span national
borders. The family is at the heart of contractual arrangements, bequests, loans, and
social norms like guilt, solidarity obligations, and loyalty. These resources constitute a
social capital that reinforces international migrants’ connections to relatives in the source country and sustains the flow of transnational monetary remittances.

**Economic Impact of Remittances**

The flow of remittances, which are typically in cash rather than goods, has increased dramatically worldwide during the last two decades. Official statistics tend to focus on capital flows from developed to developing regions, neglecting domestic as well as intra-regional money transfers. In addition, accurate quantitative assessments are complicated by the fact that a very large, unknown amount of money (unrecorded remittances could be larger than recorded ones) is usually transferred through informal mechanisms and to countries that do not provide statistics on these transnational practices. Even so, it is reported that global remittances to developing countries rose from $15 billion in 1980 to an estimated $93 billion in 2003, and were close to $100 billion in 2004 (Carling 2005: 9). They are currently the second-largest financial flow to developing countries after foreign direct investment, more than double the size of official development assistance. In terms of specific regions, Latin America was the largest recipient of remittances in 2003 (around 30% of the total), followed by South Asia, East Asia and Pacific, Middle East and North Africa, Europe and Central Asia, and Sub-Saharan Africa. Figures for the African region are extremely underrated due to the lack of comprehensive data for most of its countries. The United States is by far the leading source of remittances to developing nations, accounting for about one third of total money transfers in 2002 (World Bank 2004).

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Today, remittances constitute the fastest growing and most stable capital flow to developing countries, especially as compared to foreign investment. FDI flows are volatile components of external financing and tend to be affected by global macroeconomic cycles, raising incomes during booms and depressing them during downturns. Remittances, instead, are less influenced by these cycles and may actually increase during periods of crises, given that migrants send money home to their relatives in bad times to augment their income and thereby reduce the impact of the shock on welfare (Sander 2003: 6). For instance, whereas FDI flows to developing countries decreased by approximately 35% between 2001 and 2003, mostly as a result of the September 11, 2001, terrorist attacks on the United States, remittances rose by about 20% during the same period (World Bank 2004). The fact that migrants’ money transfers tend to be counter-cyclical seems to suggest that very often they serve as a critical source of both income and consumption smoothing strategies, especially for families in poor countries living close to subsistence levels. Remittances are less susceptible to economic downturns than FDI even when their main purpose is to accumulate physical assets abroad. As Ratha (2003: 161) states, “overseas residents are more likely to continue to invest in their home country despite economic adversity than are foreign investors, an effect that is similar to the home-bias in investment.”

The positive economic impact of remittances on individual households and local communities is widely acknowledged. For the most part, migrants transfer funds to relatives abroad with no strings attached and deliver capital resources on a massive scale directly into the pockets of those who need them most, increasing prosperity and satisfying the basic necessities of people living in economically peripheralized areas.
throughout the developing world (Ballard 2003: 14). These resources are primarily used to cover household expenses for food, medicines, clothing, children’s education, and other consumer goods. Therefore, it can safely be argued that remittances make crucial contributions to welfare enhancing and poverty reduction (Siddiqui and Kemal 2002: 14).

In a recent study on international migration trends and remittances for a group of 74 low and middle-income nations from each major region of the developing world, Adams and Page (2003: 21-22) found that international remittances (defined as the share of money transfers from abroad in a country GDP) have a strong, statistical impact on reducing poverty. On average, a 10% growth of the share of transferred funds in a country GDP will lead to a 1.6% reduction of the share of people living on less than $1 dollar per person per day, and to about a 2% decline in the depth of poverty in that particular country. Noting that official statistics greatly underestimate the actual level of international remittances (and their potential impact) because they report only funds transmitted through official banking channels, the authors conclude that migrants’ money transfers to their original communities appear to raise average income and lower both the incidence and severity of poverty.

Although the bulk of remittances are usually spent on consumer goods, a smaller but substantial part of them go into savings and investment. Once satisfied the recipient households’ immediate consumption needs, remittances increase the opportunity for additional savings that can be invested in home construction and repair and in more productive sphere, including agriculture. In two separate survey studies of Egyptian and Pakistani rural households, Adams offered evidence for the marginal propensity of families to invest money transfers from abroad in residences, land, and other rural assets
(Adams 1991: 715; Adams 1998: 170). In a similar vein, Alderman (1996: 362) demonstrated that a significant portion of international remittances to rural Pakistan tend to be saved and used for purchases of lands and buildings, adding that resources for non-durable goods (food and clothing) are mostly obtained through local remittances. Transferred funds may also be invested in financial assets, such as a bank savings deposit, which can be held either by the migrant in the host country or by his family members at home. In a comprehensive survey on the use of remittances in South Pacific countries in the early 1990s, Brown (1994) found that in more than 60% of households that received remittances some financial savings had been made out of family income, as compared to only 40% of households that did not collect money from relatives abroad. Hence, migrants’ transnational money transfers allow recipient families to channel increasing amounts of capital into productive investment in their domestic economies or into the build-up of financial assets to provide for long-term income security.

Remittances augment the income of recipient families and may help lifting them out of poverty, but their overall impact on receiving economies remains a highly debated topic. Several scholars have expressed negative views on the effects of these capital flows at the macro level and their role in spurring economic development. A common argument is that remittances contribute minimally or do not contribute at all to economic growth because they are largely spent on consumption, with little left over for productive use (Weist 1984; Rubenstein 1992). Even when a substantial portion of transferred funds are saved and devoted to investment, they are mostly used to purchase land or build new houses for family members rather than to set up businesses and improve agricultural technology and productivity (Ballard 2003: 2). Moreover, the benefits of remittances are
selective and tend to increase inequalities between households, adding to macroeconomic instability in poor countries. And they also have a propensity to be unequally distributed among nations in developing regions. In fact, to a large degree, money transfers from abroad “tend to go to the better-off households within the better-off communities in the better-off countries of the developing world since these households, communities, and countries tend to be the source of migrants” (Nyberg-Sorensen et al. 2002: 53)

Finally, it has been argued that regular flows of remittances lead to the development of a dependency syndrome, creating “moral hazard” problems between remitters and recipients that produce negative effects on economic growth. Given that remittances are often part of an insurance arrangement in a situation of imperfect monitoring, recipients have incentives to limit their job searches and reduce work efforts (thus earning less income) in order to be eligible for financial assistance (Gubert 2002: 285).5 This suggests that migrants’ money transfers provide short-term relief but could be detrimental for long-term development, as recipients would act in ways that tend to decrease expected output. Using a panel of aggregate data for 113 developing countries over a 29 years period (1970-1998), a recent study commissioned by the International Monetary Fund (IMF) found that remittances are negatively correlated with economic growth. The authors of the study claimed that such an outcome is mostly the result of moral hazard mechanisms and asymmetric information, which exert strong influences on the behavior of the recipients and inhibit productive investment. According to them, remittances do not act as a source of capital for economic development since they are frequently ill-spent in a context of growing dependency. Remitted funds may be used to

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5 The remitter may establish occasional contacts with the recipient through telephone calls, visits home, electronic mail, and letters, but he/she cannot directly observe the daily activities of remittance beneficiaries and how they utilize the transferred funds.
raise the family’s consumption and stock of wealth, but not necessarily the overall economy’s stock of wealth (Chami et al. 2003: 5-9).

Notwithstanding the potential negative consequences of remittances at the aggregate level, recent scholars in the field have become increasingly optimistic about their effects on receiving economies. This optimism was partly triggered by a re-evaluation of the nexus between consumption and investment, based on the idea that expenditures on health and education represent an investment in human capital (Carling 2004). However, remittances augment the foreign exchange reserves of receiving countries and produce macroeconomic benefits whether they are used for investment or simply for consumption, offsetting in both cases some of the losses that a developing nation may experience as a result of highly skilled workers migrating abroad (Ratha 2003: 164). Productive investments benefit the overall economy by contributing to output growth and creating new jobs. But remittances may generate positive multiplier effects even if they are totally consumed, provided that at least some of the funds are spent on domestic goods and services. Using input-output tables to assess the diffused impact of migrants’ money transfers on the Greek economy, Glytsos (1993: 154) showed that the spending of remittances on final consumer goods stimulates the development of domestic industries, leading ultimately to more production, higher employment, and increased capital formation and economic growth. He also contended that remittance leakages do not impose any serious burden on the balance of trade despite their strong import-generating effect. Research studies on Bangladesh, Pakistan, and Mexico have reported similar findings on the positive spillover effects of remittances operating
primarily through family consumption (Stahl and Habib 1989; Nishat and Bilgrami 1991; Durand et al. 1996).

The issue of whether migrants’ remittances to their countries of origin contribute to economic development remains a question that elicits many contradictory answers. While these capital flows certainly benefit recipient families, their impact on economic growth depends on a variety of factors, including the type of migrant workers who left home (the adverse growth effect of high-skilled out-migration is bound to be large), the receiving country’s regional economic position and its relationship to a more economically salient country, and how remitted funds are used by their beneficiaries (Solimano 2003: 16; Orozco 2003: 5). Nevertheless, even if remittances simply enhance the welfare of recipient households, with little or no impact on the overall economy, they would still play a crucial role in the context of economic sanctions. In order to intensify pressure on the economy of a target country and induce its government to comply with the requests of the sanctioning state (or eventually remove this government from power), the mechanism of economic sanctions requires the generation of massive shortages and popular discontent in the target territory that inevitably affect the lives of the civilian population. Because they increase the consumption of recipient families and help alleviating poverty, thus easing civilian pain, remittances to a sanctioned country may reduce the likelihood that its citizens will rally against their government. In other words, remittances could undercut the transmission mechanism of sanctions by which widespread social suffering is translated into demands for political and economic changes or into a call for the removal of authorities.
The flow of remittances and their benefits to large segments of the civilian population in terms of consumption are particularly important in the case of communist Cuba, where the social welfare state is supposed to satisfy popular needs such as the supply of food and other consumer goods, services, work, and increased standards of education and health care. When the Castro government’s supply of rationed goods to its citizens shrunk considerably in the early 1990s amid a deep economic recession, purchases of food products, clothing, medicines, and other items in state-owned dollar stores became the only relief from scarcity for many Cubans. Although Washington tried to capitalize on this precarious situation by strengthening the embargo against the island, the dramatic surge of remittances from the United States brought valuable hard currency into the hands of a large number of Cubans, and from there into the coffers of the Castro government. In practice, without remittances there would exist no hard currency stores for Cubans, since money transfers from abroad represent the main source of foreign exchange for the Cuban population. While remittances have not solved all the problems of the island’s economy and created inequalities that defy the revolution’s egalitarian precepts, they would seem to have minimized the impact of U.S. sanctions and undermined their main goals by improving the standard of living of many Cuban citizens, making them less prone to question their government and the inefficiencies of Cuba’s socialist system.

**Conclusion**

Business practices by transnational corporations and migrant entrepreneurs sustain hard currency flows across national borders that greatly complicate the attempts of

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\(^6\) Brundenius (May 2002) estimated that the Gini coefficient in Cuba increased from 0.22 to 0.41 between 1986 and 1999 as a result of unequal access to hard currency sources, with remittances representing one of the factors that contributed to the new inequality.
nation-states to promote changes in a target country through the imposition of economic sanctions. Because of their structure, size, and supra-national decision-making powers, TNCs are major players in the global economy and tend to escape control from national governments. Stimulated by the free play of market forces, especially maximum profits and earnings, TNCs capture global markets with foreign direct investment and may adversely affect the purpose of sanctions by delivering capital and other resources to embargoed nations. At a more local level, transnational linkages mainly built through family ties sustain the flow of remittances from migrants to their homelands. These capital flows are centered on the family whether they are triggered by altruistic reasons such as the care of migrants for those left behind, or by self-interested motivations such as the migrants’ desire to accumulate physical investments in their countries of origin. The positive effects of remittances on recipient families’ consumption patterns, in particular, might play a crucial role in the context of economic sanctions by preventing social suffering from translating into a pressure for political and economic changes.

Having presented the theoretical concepts of the transnational literature that are relevant to the working hypotheses of this study, the next chapter shifts to a review of the key events regarding U.S. sanctions with respect to Cuba. It also offers an analysis of the Helms-Burton law of 1996 and the potential implications for foreign companies that are engaged in investment activities within the communist island.
CHAPTER 3
THE U.S. EMBARGO AND THE HELMS-BURTON LAW

The Origins of the U.S. Embargo Against Cuba

On January 7, 1959, the United States recognized the new Cuban government led by Fidel Castro, but relations quickly deteriorated. The U.S. policy toward Cuba was initially a reaction to Cuba’s confiscation of American properties without compensation, its alliance with the Soviet Union, and its declared intention to spread the revolution to other Latin American countries (Fisk 2001: 93). While economic sanctions were established to punish Cuba for the expropriations, raise the cost of Cuban adventurism in Latin America, and raise the cost to the Soviet Union of maintaining its new relationship with the Castro regime, the United State’s ultimate goal was the economic and political isolation of Cuba (Peters 2000: 5). In the early 1960s, the embargo was not simply a unilateral measure on the part of the United States, but a more general Latin American attempt to contain the Communist threat. By 1964, all members of the Organization of American States (OAS) with the exception of Mexico had broken diplomatic and trade relations with Cuba.

Between 1959 and the first half of 1960, the Castro government expropriated 70,000 acres of property owned by U.S. sugar companies, including 35,000 acres of pasture and forests owned by the United Fruit Company in the Eastern portion of the island. It also took over U.S. oil refineries, after they refused to refine oil Cuba had acquired from the Soviet Union, and U.S. properties in key sectors such as telephone and electricity (Jatar-Hausmann 1999: 15). In response, the United States cancelled Cuba’s
portion of the annual U.S. sugar import quota in July 1960 and announced a complete ban on U.S. exports to Cuba (except for non-subsidized foodstuffs and medical supplies) later in October. On January 3, 1961, the Eisenhower administration officially broke diplomatic relations with the Castro government.

On September 4, 1961, just a few months after the famous speech of Fidel Castro in which he defined for the first time the 1959 revolution as socialist and declared himself a “Marxist-Leninist,” the United States promulgated the Foreign Assistance Act (FAA). The FAA granted the U.S. President specific authority to impose economic sanctions against Cuba and deny all U.S. foreign assistance to the Caribbean island. On February 7, 1962, the FAA was expanded and the Kennedy administration announced a total embargo of U.S. trade with Cuba. It should be noted that, since the prohibition of all U.S. exports to Cuba in October 1960, the embargo had become extraterritorial with regulations barring re-export to Cuba of any commodities or technical data that originated in the United States.

The legal foundations of the U.S. economic embargo with respect to Cuba are laid down in the Cuban Assets Control Regulations (CACR) promulgated in 1963 pursuant to the Trading with the Enemy Act (TWEA) of 1917. The TWEA, signed in the context of U.S. entry into World War I, allowed the President to prohibit, limit or regulate financial and commercial transactions with hostile countries in time of war. It was amended in 1933 to grant the President authority to exercise the powers of the act during periods of national emergency. The main reasons behind this amendment were to deny hard currency resources to sanctioned countries and their nationals as well as to preserve the assets of such countries and their nationals for possible vesting and use in the future
settlement of American claims against them. The CACR of 1963 froze all Cuban assets in the United States and prohibited all unlicensed financial, commercial, and travel transactions by Americans with Cuba or its citizens. The Office of Foreign Assets Control (OFAC), established by the U.S. Department of State in 1962, was responsible for issuing, interpreting, and applying economic sanctions regulations. With the CACR, the U.S. government aimed to isolate Cuba, protecting Cubans from having their assets in the United States confiscated by Cuban authorities, preserving Cuban assets for future disposition, and denying Cuba access to dollar earnings and financial facilities (Travieso-Díaz 1993).

On May 5, 1966, the U.S. Congress expanded the embargo by passing the Food for Peace Act. The act outlawed food shipments to any country that sold or shipped strategic or non-strategic goods to Cuba, except for specific circumstances in which the President could allow shipments of medical supplies and non-strategic goods. The Food for Peace Act was signed by President Johnson in November 1966, although he expressed some concern for certain provisions of the act that precluded food aid to countries that traded with Cuba and North Vietnam.

Well into the 1970s, the United States conditioned the reestablishment of normal relations with Cuba on the end of Castro’s effort to spread the revolution in Latin America as well as on the end of its military ties with the Soviet Union. Fears of a military threat from Cuban and Soviet expansion in the region were confirmed in the Cuban Missile Crisis\(^1\) and deepened later in the 1970s when the Cuban military became

\(^1\) In late October 1962, the Khrushchev-Castro attempt to deploy nuclear missiles on Cuban soil brought the world to the brink of a nuclear war. The Cuban Missile Crisis ended with the Soviet Union agreeing to remove its missiles from Cuba in exchange for the U.S. commitment not to invade Cuba and to remove U.S. missiles from Turkey and Italy (Nuti 1994).
involved in Angola and Ethiopia (Piczak 1999: 4). However, there was no formal condition regarding Cuba’s internal system or arrangements or demands that Cuba become a democracy and adopt a market economy.

The 1970s: Efforts Toward Normalization

In the mid-1970s, a more favorable international climate and some changes in the political scenario of the Western hemisphere promoted the active resumption of economic ties between several Latin American countries and Cuba and undermined the overall support of the OAS for the U.S. embargo. Castro’s decision to reach out to establish diplomatic relations with the same Latin American governments he had previously vowed to overthrow was a consequence of his failed attempt to export “armed” struggle in the region and growing pressures from the Soviet Union to adopt tactics less likely to provoke a confrontation between Moscow and Washington. On July 29, 1975, the OAS dropped multilateral sanctions against Cuba in recognition of Castro’s less aggressive policies in the hemisphere. Interestingly, the United States voted with the majority as an indication of its willingness to at least explore possible grounds for more formal negotiations with Cuba leading to normalization (Smith 1998).²

Contacts with Cuba had begun in the last months of the Nixon administration. In July 1974, a secret message was transmitted by the U.S. Secretary of State Henry Kissinger to Fidel Castro to determine if there was interest for changing the relations between the United States and Cuba. In 1975, Kissinger, now serving under President Gerald Ford, indicated that he was prepared “to move in a new direction,” and some expansion in commerce with Cuba was granted to subsidiaries of U.S. firms with

² In February 1973, the United States and Cuba signed an anti-hijacking agreement in which the two countries pledged to return or prosecute hijackers.
amendments to the CACR (Schwab 1999: 15). Overseas subsidiaries of more than a hundred large firms based in the United States could now apply for a specific license to trade with Cuba from third countries. This kind of commerce increased constantly during the 1980s and reached its highest level in 1991 (before the enactment of the Torricelli Law) to more than $770 million (Aguilar Trujillo 1998: 3). However, talks between Washington and Havana for a relaxation of tensions were drastically suspended in the autumn of 1975 when Cuba deployed troops in the civil war then raging in Angola. On December 20, 1975, Ford announced in a public speech that the Cuban involvement in Angola would preclude any possibility of restoring full diplomatic relations with Cuba in the near future.

Talks resumed during the first year of the Carter administration. In March 1977, the U.S. government dropped the ban on U.S. travel to Cuba by U.S. citizens, who were since then allowed to spend $100 in travel-related expenditures on Cuban goods during their visits to the island. In September of the same year, the two countries opened interest sections in each other’s capitals, physically located at the sites of their former respective embassies (Gonzalez 1995: 210). The United States arranged for the Swiss Embassy in Havana to assume its diplomatic and consular representation in Cuba while the Czechoslovakian Embassy in Washington provided the same service for Cuba. These offices dealt primarily with trade and consular issues and represented important channels of communication between the two countries. Although scholars disagree on the feasibility of positive U.S. overtures to the government of Fidel Castro in the late 1970s,

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3 Cuban and Soviet troops backed the Popular Movement for the Liberation of Angola (MPLA) in its effort to take power after Portugal granted Angola its independence.
it is widely believed that Carter has been the only U.S. President to make a concerted effort to normalize relations with the communist island.\textsuperscript{4}

According to Wayne Smith, who became the second head of the U.S. Interest Section in 1979, the establishment of interest sections, which were embassies in all but name, inaugurated a more flexible and pragmatic U.S. approach toward Cuba and a more flexible position of the Cuban government on the issue of compensation for expropriated U.S. properties. However, while recognizing its obligation under international law to compensate the original owners, the Castro government claimed damages resulting from the Bay of Pigs invasion\textsuperscript{5} and the U.S. economic embargo. Given that Havana would have been unable to pay back Americans unless the embargo was lifted, the United States and Cuba agreed informally to simultaneously negotiate both the issue of compensation and the removal of sanctions (Smith 1998).

Scarcely three months after the opening of interest sections, the Carter administration dropped its conciliatory stance, and normalization efforts came to a halt as the Cuban government begun sending military troops to Africa again. Fidel Castro’s involvement with the Soviet Union in the conflict between Somalia and Ethiopia put an abrupt end to negotiations that were still at a very preliminary stage and led the Carter administration to add two more conditions for progress toward normalization: the removal of Cuban troops from Africa (echoing President Ford’s 1975 public speech) and Havana’s greater respect for human rights (Smith 1998). The Carter administration could not accept the Cuban incursion in Africa because it was perceived as a strategic gain for

\textsuperscript{4} Schwab (1999: 17) argues that Carter’s attempt at achieving a \textit{modus vivendi} with Cuba demonstrated that accommodation was entirely feasible and that the problem was the traditional U.S. foreign policy.

\textsuperscript{5} On April 17, 1961, a group of 1,200 Cuban exiles backed by the U.S. Central Intelligence Agency (CIA) invaded Cuba on the South-West shore of the island (Bay of Pigs). The internal support anticipated by the CIA failed to materialize and the Cuban forces defeated the exiles after 72 hours of fighting.
both Cuba and the Soviet Union, and thus a setback for the United States in the East-West struggle (Gonzalez 1995: 210). In this context, a broad definition of the U.S. national security linking U.S. credibility to developments throughout the world returned to be pervasive in Washington. The process of rapprochement was frozen and then reversed in the 1980s with the election of Ronald Reagan and the new wave of revolutionary socialism backed by Soviet and Cuban troops in Central America, the Caribbean, and Africa (Zimbalist 1995: 26). The long-standing U.S. policy of hostility and isolation against Cuba and its Cold War intent on punishing and destabilizing the Castro government were resumed.

**The 1980s: Renewal and Intensification of Economic Sanctions**

Ronald Reagan reinstated the traditional hard-line toward Cuba. He intended to pursue the containment strategy with respect to Cuba much more vigorously than many of his predecessors as well as to revive the goal of rolling back Communism. Besides putting forward the same conditions for normalization imposed by former President Carter, the Reagan administration clearly aimed at undermining the tide of Soviet-Cuban advancements throughout the Third World, and especially in the Western Hemisphere (Erisman 1995: 132).

Throughout the 1980s, Cuba expanded its military presence abroad, supported logistically by the Soviet Union. Deployments reached 50,000 troops in Angola, 24,000 in Ethiopia, 1,500 in Nicaragua, and hundreds more elsewhere. Cuba also served in a non-combat advisory role in Mozambique and Congo. However, the focal point of U.S. attention and its main source of concern was Central America. The region, peripheral for Moscow earlier in the Cold War, had become a crucial area for Soviet and Cuban foreign policies in the Third World after the 1979 Sandinista victory in Nicaragua and the 1980
outbreak of civil war in El Salvador. In this regard, Washington realized that if it could not prevail in Central America, it could not expect to prevail elsewhere. The cases of Nicaragua and El Salvador highlight the U.S. strategy of containment and protection of political and economic interests. During the 1980s, Washington spent hundreds of millions of dollars to back Contra opposition forces and overthrow the Sandinista government, whose socialist convictions and close ties with Cuba and the Soviet Union unnerved U.S. officials. Moreover, the State Department embarked in its longest and costliest war ($6 billion in twelve years) since Vietnam by providing material assistance to the Salvadoran military against revolutionary insurgents (*Farabundo Martí National Liberation Front*) backed economically and militarily by Cuba and the Soviet Union (Seligson 1993: 261-262).

The regional security of the Eastern Caribbean also served as the target of the reassertion of U.S. hegemony within the context of the Cold War and the ideological challenge of Cuba. In 1983, U.S. troops invaded the Caribbean island of Grenada to overthrow its Marxist-leaning Revolutionary Military Council, considered too radical and too closely aligned with Fidel Castro. For Reagan, the Soviet-Cuban militarization of Grenada could only be seen as Soviet power projected into the region. Between 1980 and 1986, annual U.S. military aid to Grenada jumped from $200,000 to $20 million. The U.S. role in the region, fueled by the fear of nationalism and Cuban communism, was abetted by the extremely pro-U.S. governments in Jamaica, Dominica, Antigua, Barbuda, and St. Lucia (Schwab 1999: 22-24).

In line with a tougher position toward Cuba, the economic sanctions were renewed and intensified during the 1980s. On April 19, 1982, the Reagan administration
reestablished the travel ban prohibiting U.S. citizens (with the exception of officials, relatives visiting family, and professional activities) from spending money in Cuba, despite the fact that U.S. courts had upheld the constitutional right to travel. That same year, it warned U.S. subsidiaries in Third countries not to exceed the limits allowed by the Treasury Department. Finally, on August 22, 1986, the U.S Treasury Department announced new restrictive measures with respect to Cuba. These measures prohibited U.S. businesses from dealing with a list of foreign firms operating in the United States, Panama, and Jamaica, which were considered as “Cuban fronts intended to break the U.S. embargo” (Leyva de Varona 1994: 9). They also included lower limits on cash and gifts that Cuban Americans could send to relatives on the island and tighter regulations on companies that shipped food and care packages to Cuba from Cuban-Americans.

By the early 1990s, the U.S. strong response to Cuban and Soviet initiatives in Latin America and Africa, its tougher stance on economic sanctions against the island, and the collapse of the Soviet Union had provoked significant changes in the areas of major concern for the United States. First of all, Cuba had begun to pull back militarily from Africa and Latin America. The Castro government unilaterally removed its forces from Ethiopia, met the timetable of the 1988 Angola-Namibia accords by completing the withdrawal of its forces from Angola before July 1991, and ended military assistance to Nicaragua following the Sandinistas' 1990 electoral defeat. Furthermore, the signing of the peace agreements in El Salvador in early 1992 ended any hope that Central America would join Cuba in its socialism and opposition to the United States. Following the agreements, Fidel Castro stated at a conference in Havana: “Times have changed, we have changed. Military aid outside our border is a thing of the past. The most important
task is to see that the Cuban revolution survives. Abroad we intend to live by accepted
norms of international behavior” (Seligson 1993: 263). Second, a report of the State
Department on human rights violations acknowledged that Cuba had shown signs of
improvement in this regard. A significant number of political prisoners were released
while Red Cross officials were allowed into the prisons to interview inmates (Smith
1998).

Third, after the fall of the Soviet Union in late 1989 and the end of its special
relationship with Havana, the massive amount of aid that had allowed Cuba to weather
the U.S. embargo began to dry up. In February 1991, the Council for Mutual Economic
Assistance (the Soviet bloc) was disbanded and by the following year most Russian
military personnel stationed on the island had been withdrawn, except for some
technicians at the Lourdes electronic system facility near Havana. Without Soviet aid
and without the external markets for its main products, the Cuban economy went into a
deep recession while the government was no longer able to finance revolutionary
movements across the globe. Socialism had collapsed almost anywhere in Eastern
Europe and the Cold War was over. Cuba ceased to represent a threat to the U.S. security
interests (unless for a migration crisis that could overwhelm Florida or the potential use
of the Cuban territory to advance the drug trade) whereas its military forces, starved for
resources, went into decline (Peters 2000: 3). Although it was possible that Castro still
wished to support Marxist revolutionaries in the Americas, such an action appeared
highly improbable.

In short, three of the four conditions put forward by the United States (the end of
Cuba’s active support of revolutionary forces in Africa and Latin America, and the end of
its close ties with the Soviet Union) for resuming a constructive dialogue with Havana toward normalization had been met. On the fourth issue, the case of human rights, the Castro government had at least given a few timid, but encouraging signals. Therefore, the circumstances seemed to allow a possible relaxation of U.S. economic sanctions with respect to Cuba and the beginning of friendlier relations between the two countries. In addition, one might expect that the normalization of U.S. international relations following the collapse of the Soviet Union would favor new commercial exchanges with countries, including Cuba, that were once polarized by the superpowers’ confrontation (Roy 2000: 18). However, as we will see in the next section, things turned out quite different.

The 1990s: U.S. Approach Toward Cuba in the Post-Cold War Era

The collapse of the Soviet Union and its European proxies inaugurated a very difficult period for Cuba and an unprecedented economic recession that seriously threatened the survival of the Castro government. The Cuban authorities were forced to loosen up their centrally planned economy, establish more developed relations with the capitalist world, and introduce limited market reforms in areas including trade, foreign investment, and tourism. Instead of triggering improved relations between Washington and Havana, the situation of emergency of the Cuban economy led the United States to further tighten the embargo against the island.

In the early 1990s, supporters of the embargo benefited from important political changes in the United States with respect to Cuba. At that time, Cuba was low on the list of the first Bush administration’s priorities given the preoccupation with the fall of the Soviet Union and the problems still unresolved in the Central American region. The Clinton administration was also perceived not to have a Cuba policy or much less a secret plan to normalize U.S. relations with the island. With the executive branch effectively
leaving a policy vacuum, hard-liners within the U.S. Congress stepped up efforts to reinforce the U.S. embargo against Cuba (Fisk 2001: 94). In addition, the United States tried to capitalize on Cuba’s economic dilemma and frustrated economic adjustment. It is important to note that, up to 1989, the embargo placed conditions on the 15% of Cuba’s international trade that fell outside the socialist market. After 1991, the embargo placed conditions on more than 90% of that trade (Schwab 1999: 71-72). Under these conditions, it appears obvious that Washington was given an unparalleled opportunity to finally get the most of economic sanctions that had failed for thirty years to overthrow the government of Fidel Castro in Cuba.

Despite the collapse of the Soviet Union and the end of its close relationship with Havana, U.S. policymakers have continued to use the old Cold War palate while painting their Cuban enemy during the 1990s. At the level of political discourse, Washington denounced the lack of democracy in the island but also kept alive the “realist” approach that had dominated the old strategy of containment of communism. Cuba continued to be portrayed as a “backlash state” accused not only of spying for strategic military secrets and maintaining links with Colombian guerrillas, but also of engaging in terrorist activities and developing computer viruses and biological weapons (Landau and Smith 2001: 8-9). However, such a discourse conceals the fact that U.S. strategic beliefs, instead of being learned from history, were simply the result of domestic politics. Privately, a number of past and present administration officials conceded that Bush-Clinton policy was anachronistic, even absurd, and on occasion publicly canvassed the need for a more rational approach toward Cuba similar to the increasingly businesslike manner the United States adopted toward most other governments with which it had
disagreements, including even North Korea. The major obstacle remained the absence of political will in the White House to challenge entrenched interests of an increasingly important Cuban American constituency in Florida and New Jersey and its champions in Congress (Morley and McGillion 2002: 6). In other words, domestic political concerns dictated the U.S. approach toward Cuba and established the limits of Washington’s interest in engaging the Castro government.

During the post-Cold War era, the Cuban-American community has consolidated itself as one of the principal players in shaping the U.S. policy toward Cuba. Hoping for a possible return to Cuba under a different government, before 1980 Cuban exiles had been slow to apply for U.S. citizenship, which means the acquisition of the right to vote. The election of Ronald Reagan in 1980 represented an important shift in the role of Cuban exiles because it dramatically increased participation of Cuban-Americans in the U.S. electoral system. By the mid-to-late 1980s, this surge in electoral participation began to heavily influence the anti-Castro agenda of the U.S. government. Cuban-American voting blocs in two key electoral states, Florida and, to a lesser extent, New Jersey, fueled so-called “low politics” aimed to assure election. Both Republican and Democratic candidates for Congress and the Presidency became aware that supporting a hard-line against Cuba increased their chances to be elected. In addition, a powerful exile group lobbying for new sanctions emerged by the late 1980s in Washington with the increasing power of the Cuban American National Foundation (CANF). Several Cuban-Americans were also elected to Congress. In short, Cuban exiles were no longer mere agents or implementers of U.S. policy toward Cuba but directors of that same policy to which their personal interests were linked (Perez 2000: 4).
The Torricelli Law

In 1991, under the Bush administration, the Treasury department denied licenses for trade with Cuba to U.S. subsidiaries in third countries, or firms trading products containing U.S. components. German, Swedish, Japanese, Argentinean, and French firms were affected. In September of the same year, the Treasury Department announced tighter restrictions on the amount of money U.S. citizens could remit to family members in Cuba and on travel to Cuba. In September 1992, in the heat of the presidential campaign, a Democrat-controlled Congress approved the Cuban Democracy Act or CDA (better known as the Torricelli law). The Cuban American National Foundation, frustrated as Congress was by presidential inattention toward Cuba, played a crucial role in the passage of the bill. As noted by Richard Nuccio, special assistant of Bill Clinton, CANF’s enthusiasm for the legislation was based “on a perception that the Bush administration was doing nothing on Cuba, or at least nothing good from their point of view and now was the time to strike” (Morley and McGillion 2002: 42).

In February 1992, based on a draft proposal put to him by Mas Canosa (director of CANF), Robert Torricelli (D-NJ) introduced the legislation into the House to further tighten the trade embargo while simultaneously promoting greater interaction at a people-to-people level between Americans and Cubans. Subsequently, Robert Graham (D-FL) and Connie Mack (R-FL) submitted a virtually identical proposal into the Senate. The Bush administration initially opposed the CDA by claiming that it would create problems internationally for the United States while having little impact on the Cuban economy. However, given the lack of support for the bill from Bush, the CANF’s director Mas Canosa went looking for a White House aspirant who would. He found one in the person of Democratic presidential candidate Bill Clinton. In the spring of 1992 the two met in
Tampa, Florida. Clinton showed some willingness to endorse the bill and left the meeting with the notion he could at least neutralize Cuba as an election issue for Cuban Americans and thus concentrate their vote in November on the social and economic policies that were the Democratic candidate’s strong points. In April 1992, with his presidential campaign grasping for money, Governor Clinton attended a CANF-sponsored fund-raiser in Miami’s Little Havana and announced to cheers: "I have read the Torricelli bill and I like it." He also declared that the Bush administration had “missed a big opportunity to put the hammer down on Fidel Castro and Cuba." Clinton was rewarded with $125,000 and received an additional $150,000 at another CANF-sponsored event the same day in Coral Gables (Franklin 1993). Therefore, he left Miami with his campaign coffers $275,000 richer for the endorsement and with Bush suddenly outflanked in a key electoral state.

Locked in a bidding war over which candidate could be tougher on Cuba, Bush almost immediately changed his mind and announced his support for the CDA. In an election year, domestic political perceptions were all that counted when it came to Cuba policy (Morley and McGillion 2002: 50). Confronting a Democratic opponent committed to make inroads into the historically Republican Cuban American vote in Florida, and despite his initial objections, George Bush signed the law a few weeks before the November 1992 presidential elections. In short, Congress had seized the initiative on how the United States should deal with Fidel Castro, and both presidential candidates had signed onto CANF’s agenda of forcing a regime change on the island. The influence exerted by domestic politics, especially the electoral context linked to the partisan bidding for Cuban American votes in the pivotal state of Florida, was therefore the
“mobilizing incident” and the key for the passage of the Torricelli law (Dominguez 1997: 61). By signing the legislation, Bush sent a very sharp message about his order of priorities: the national interest took a back seat to the interests of the hard-line exile community in Miami and, of course, the President’s own domestic political advantage.

Analyzing U.S.-Cuba relations during the past 30 years, Leogrande (1998: 68) argues that temporary relaxation in tension followed by heightened hostility might be explained as a result of a two level game. According to him, national leaders are actually involved in two negotiations simultaneously: the international negotiation (level 1), wherein the leader seeks to reach agreement with other international actors, and a domestic negotiation (level 2), in which the national leader must persuade his domestic constituency to accept or “ratify” the level 1 agreement. For leaders, the problem is that rational moves in the level 1 game may prove impolitic at level 2, or vice versa. In the 1990s, as exemplified by the proposed reconstruction of the events that led to the passage of the Torricelli law, the problem has been that the salient domestic constituency was so hostile to Cuba, that it effectively vetoed any effort to relax U.S. hostility. This suggests that, in this issue area, domestic politics ultimately determined U.S. foreign policy. Stated in another way, the domestic political goals of U.S. policymakers have outweighed their foreign policy goals.

The Torricelli law was conceived as an effective instrument for exerting economic pressure on the Cuban economy while offering positive inducements to democratic reforms in Cuba. It established a two-track policy to reach out to the Cuban people while strengthening the embargo against the Castro government (Piczak 1999: 4-5). There is no doubt that the U.S. legislation irremediably reversed the policy direction toward
normalization that had emerged in the 1970s. Here are the main provisions of the Torricelli law of October 23, 1992.

- It prohibited foreign subsidiaries of U.S. corporations from engaging in any transaction with Cuba.
- It prohibited any vessel from entering a U.S. port for a period of 180 days if that vessel had handled freight to or from a Cuban port.
- It maintained strict limits on remittances to Cuba by individuals subject to U.S. law.
- It permitted humanitarian donations including medicines, medical supplies, instruments, and equipment, after onsite verification.
- It authorized the President to prohibit U.S. economic and military assistance, military sales, or debt forgiveness or reduction of debt owed to the United States, to any country that provides assistance to Cuba.
- It authorized telecommunications and mail services (the latter with certain limitations) between the United States and Cuba. Payments to the Cuban government for telephone services were also allowed.

The Torricelli law undoubtedly had an impact on the Cuban economy, in particular the section that intended to halt the shortfall in food imports from the defunct CMEA being made up by imports from U.S. subsidiaries. While in 1992 the Cuban trade with U.S. subsidiaries was about $760 million, in 1994 such trade dropped to less than $10 million. In addition, the growing process of merger and acquisition of firms taking place on a global scale (in which the United States was certainly the most active player) amplified the reach of the law (Aguilar Trujillo 1998: 9). Finally, the combined effects of U.S. economic sanctions, the end of preferential trade agreements with the Soviet Union, and unfavorable weather conditions pushed Cuban sugar production to a low of 4.2 million tons in 1993, while it had averaged 7.5 million tons a year between 1987 and
The country was now able to earn hard currency sufficient to pay for little more than its necessary food and fuel imports. Cuban imports, which had already plummeted to 2 billion pesos in 1992 from more than 8 billion pesos in 1989, fell by another 24% in 1993. By that year, Cuba was deeply embedded in an economic crisis that seriously threatened the survival of the Castro government (Cole 1998: 4).

Thanks to economic adjustments introduced between 1993 and 1994 and the opening to foreign investment, the Cuban economy slowly began to recover around the mid-1990s. While successful in aggravating the economic crisis of the Caribbean island, the Torricelli law ultimately failed to hasten the demise of the Castro government. The legislation also galvanized the international community against the U.S. sanctions with respect to Cuba. Table 3-1 shows the United Nations vote on resolutions calling for an end to the embargo against Cuba, which were presented between 1992 and 2004.

<table>
<thead>
<tr>
<th>Year</th>
<th>In favor</th>
<th>Against</th>
<th>Abstentions</th>
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<tr>
<td>1992</td>
<td>59</td>
<td>3</td>
<td>71</td>
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<tr>
<td>1993</td>
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<td>2</td>
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<tr>
<td>1995</td>
<td>117</td>
<td>3</td>
<td>38</td>
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<tr>
<td>1996</td>
<td>137</td>
<td>3</td>
<td>25</td>
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<tr>
<td>1997</td>
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<td>2</td>
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<td>2</td>
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<td>2001</td>
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<td>3</td>
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<tr>
<td>2003</td>
<td>179</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>2004</td>
<td>179</td>
<td>4</td>
<td>1</td>
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</tbody>
</table>

Source: United Nations data

6 The full and combined force of the collapse of Soviet-bloc communism and of the U.S. economic blockade came to be known in Cuba as the “double blockade,” between a one-time friend and an implacable foe: Moscow’s betrayal and Washington’s obsession.
Prior to the passage of the Torricelli law, Cuba had never been able to obtain a resolution condemning the U.S. embargo on the floor of the United Nations General Assembly. In November 1992, as a consequence of a widespread international concern regarding the extraterritorial character of the U.S. legislation, the General Assembly condemned the embargo by a vote of 59 to 3 (with 71 countries abstaining). Since then, the vote has been more lopsided with every passing year. In 1995, a total of 117 countries expressed disapproval of the embargo. The United States was left with Israel and Uzbekistan as its lonely partners in voting against the resolution. By 1998, the governments condemning the embargo were 157 (with only 12 abstentions). Instead of gaining international support for its policy toward Cuba, the United States became more isolated. As stated by Roy (2000: 102-103), “Washington had lost a public relations war.” The number of countries opposing U.S. economic sanctions against Cuba reached 167 in 2000, and peaked at 179 in 2003 and 2004.

The Helms-Burton Law

Washington enacted an even harsher package of measures against Cuba in 1996. The story of the Cuban Liberty and Democratic Solidarity Act (better known as the Helms-Burton law) is very similar to that of the Torricelli law. Approval of the bill coincided with the 1996 Republican presidential primary elections in Florida and preceded the general presidential elections of November of that year. Moreover, the conservative faction of the Cuban American community lobbied heavily for a much tougher line against Cuba. As recalled by Nicholas Gutierrez, a prominent Cuban

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7 It must be noted that both countries (like the United States) currently trade with Cuba; Israel is also a major investor in the island’s citrus sector.

8 The Cuban Liberty and Democratic Solidarity Act is widely referred to as the Helms-Burton law after its sponsors, Senator Jesse Helms (R-North Carolina) and Representative Dan Burton (R-Indiana).
American figure, “nobody lobbied the bill as methodically and in as well-funded a fashion as CANF (Kiger 1998: 52).

The only real difference was Jesse Helms’ new role within the U.S. Congress (Dominguez 1997: 62). The conservative Senator had been installed as chairman of the Senate Foreign Relations Committee after the Republican electoral victory in the Congressional elections of November 1994. Representative Dan Burton had also replaced Robert Torricelli as chairman of the House Subcommittee on Western Hemisphere Affairs. It was the same platform Torricelli had used to become one of Capitol Hill’s most influential voices on Cuba policy, and Burton moved to exploit it (Kiger 1998: 45). The new legislation, originally presented by Helms to the U.S. Senate in February 1995, was subsequently introduced by Burton into the House of Representatives. The Republican-controlled Congress, increasingly critical of President Clinton’s commitment to the maintenance of the status quo in Cuba policy, pressed ahead for continuing the policy of tightening sanctions on Cuba while simultaneously offering positive inducements to democratic change. Nevertheless, this time the act sought to build a two-track approach by expanding the target of possible sanctions to foreign companies who knowingly “trafficked” in U.S. properties expropriated by the Castro government without compensation in the early 1960s (Fisk 2001: 94-95).

The issue of the settlement of property claims had been largely neglected since then, at least as a possible reason for new punitive measures against Cuba. The severe economic decline of the Cuban economy in the early 1990s nurtured fears among U.S. legislators that the Castro government would seek to cure its capital crunch by selling properties expropriated from U.S. nationals. The increasing number of foreign
companies investing in Cuba since 1993 simply confirmed these fears and gave U.S. legislators a further pretext for tightening the economic embargo. The issue of human rights violations was raised as an important reason for their action, but the real goal of Helms-Burton was clearly to bring about collapse of the Castro regime by keeping international firms away from Cuba, thus denying the Cuban government needed capital (Arreola 1998). Indeed the law, engineered by hard-liners in Congress and leading figures of the Cuban American community (such as the prominent exile family Bacardi)\(^9\) had nothing to do with resolving the original U.S. claims. Not one of the 5,911 certified U.S. claimants lobbied on behalf of the Helms-Burton legislation. They were all against it. For them, it would have probably been better to engage in business activities in Cuba and satisfy their property claims through revenues from joint ventures with the Cuban government (Peters 2000: 12).

When the Helms-Burton legislation was first submitted in early 1995, President Clinton and Secretary of State Warren Christopher opposed it. The President, in particular, worried that the law limited his authority to conduct foreign affairs and feared retaliatory measures by the U.S. major trade allies such as Canada, Mexico, and the European Union, whose companies were trading with and investing in Cuba. Clinton noted in April 1995: “I support the Cuban Democracy Act, which passed in 1992 and which we have implemented faithfully. I think we should continue to operate under it. I know of no reason why we need further action” (Morley and McGillion 2002: 85). Given the opposition from the international community and the reticence of the State Department, the future for Helms-Burton seemed gloomy in late 1995 and early 1996.

\(^9\) Many Cubans on the island refer to Helms-Burton as the “Bacardi law,” due to the active involvement of the Cuban American family in the passage of the legislation.
The legislation had also lost the center stage because of the federal budget battle between Congress and President.

Since September 1995, the Clinton administration had quietly been trying to drum up opposition to the legislation in the U.S. corporate sector, hoping to create a counterbalance in the embargo debate to the conservative Cuban Americans (Kiger 1998: 54). But the tide turned drastically on February 24, 1996, when two small planes operated by Cuban exiles (belonging to the group Brothers to the Rescue) were shot down by Cuban forces over the Straits of Florida. This tragic event proved to be the key to the passage of Helms-Burton, especially because of its proximity to important election dates. Unable to obtain the enactment of the law until then, supporters in Congress and within the Cuban American community were successful in capitalizing on the outrage over the shoot-down. The latter transformed the dynamics of the whole debate: limiting its domestic political fallout became the overriding concern. Clinton tried to negotiate a milder version of the bill with its proponents in Congress and with prominent figures in the Cuban American community, but he was ultimately compelled to accept the initial version of the legislation. He even agreed to codify all existing embargo executive orders and regulations into law with no presidential waiver loophole, thus ceding a great deal of authority to Congress in dictating future shifts in Cuba policy (Morley and McGillion 2002: 107).

Early in March 1996, Congress rapidly approved Helms-Burton by overwhelming majorities in both chambers. President Clinton was forced (as was Bush four years earlier) to set aside the national interest in order to avoid a major electoral setback in the presidential elections of November 1996. He ended up changing his initial position and
signing the law on March 12, 1996, just 17 days after the two planes were shot down (Smith 1998). The passage of Helms-Burton simply demonstrates a proclivity in the White House to distort foreign policy to conform with short-term domestic political imperatives. Anti-Castro lawmakers, and especially an increasingly powerful Cuban American lobby, had established the domestic game as the major factor shaping U.S. policy toward Cuba. Being the only significant, organized group working on the Cuba issue, Cuban Americans dominated the field and played a crucial role in the tightening of the embargo. Although some polls showed that a majority of the American public in the first half of the 1990s favored a policy of engagement with the Castro government, the issue was not highly salient, and no domestic group stood to reap any significant gain from a normalization of relations with Cuba. As Putnam (1988) points out, when the political costs of an international agreement fall disproportionately on a domestic group that is cohesive and politically mobilized, and the benefits from the agreement are diffusely distributed, the mobilized group often has the power to block ratification (and eventually push foreign policy on a more confrontational ground). That description captures perfectly the political dynamics behind U.S. policy toward Cuba in the post-Cold War era.

The final text of the Helms-Burton law is composed of thirty-three sections grouped into four titles.10 The legislation aims to assert the property rights of U.S. nationals affected by the extensive process of nationalization undertaken by Fidel Castro

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10 The final text of the Helms-Burton law does not include two clauses of the original version that had attracted considerable international attention. First, the U.S. Congress did not attach a provision, which would have prohibited imports of sugar from third countries that import Cuban sugar. Instead, the Helms-Burton law simply reaffirms the old U.S. regulation that forbids the import of sugar from Cuba through third countries. Second, the U.S. Congress left out a clause that would have prohibited U.S. financial institutions from financing companies of third countries that “traffic” in expropriated properties, even if this financing was not used to support trafficking activities. Instead, Helms-Burton reiterates the existing regulation, which forbids U.S. nationals to fund transactions related to Cuba (Krinsky 1996: 26).
after January 1959. It also presents itself as an effective measure for promoting political change in Cuba and assisting the Cuban people in regaining democratic institutions (Groombridge 2001: 2).

Title I codifies the restrictions in effect as of March 1, 1996, that collectively form the U.S. economic embargo against Cuba. These restrictions include the Torricell Law of 1992, which calls upon foreign governments to restrict their trade and credit relations with Cuba. This title aims to multilateralize and strengthen the U.S. embargo to the extent possible. In fact, it prohibits Cuban participation in international financial organizations, restricts travel by U.S. residents wishing to visit family members in Cuba, and threatens sanctions against countries that provide anything that could be defined as “economic assistance” to Cuba (even in the form of favorable terms of trade).

Title II, labeled by some U.S. and Cuban scholars “a second Platt Amendment,” lays down a series of conditions demanded by Washington for re-engagement with some future Cuban government. The central one is that neither Fidel nor Raul Castro be part of that government. Basically, the law nullifies a “calibrated response” by eliminating the United States’ ability to respond positively to anything except the fall of the Castro government (Leogrande 1997). This is the first time that the objective of getting rid of Castro has been explicitly stated as American policy. Other conditions are: 1) a democratically elected government; 2) release of all political prisoners; 3) progress in moving toward a market economy; 4) progress in returning properties confiscated by the Castro regime to U.S. citizens, including properties of those who were Cuban citizens at the time of the expropriation; and 5) stop to jam Radio and TV Marti, even though they are operating in violation of the International Broadcasting Convention.
While the first two titles of Helms-Burton may seem designed primarily for Cuban consumption, both in the U.S. exile community and in Cuba, Title III and IV are the aspects of the legislation aimed at Cuba’s commercial partners. Title III allows U.S. citizens whose property was expropriated without compensation by the Cuban government, including those who were not citizens when the expropriation occurred, to sue in U.S. courts those foreign companies or individuals who “traffic” in that property. In order to make it more difficult for foreign companies to evade Helms-Burton’s reach, the authors of the law consciously left a margin of uncertainty in the interpretation of “trafficking.” This is broadly defined and includes selling, leasing, managing, and purchasing expropriated properties. It also includes the use of trademarks or licenses claimed by American firms. In short, any commercial activity in Cuba can in principle be considered as “trafficking” and could be affected by the implementation of the Helms-Burton legislation (Roy 2000: 64).

For the first two years after the enactment of the law, only claims that had been certified by the U.S. Foreign Settlement Commission (FCSC) could provide the basis for an action under Title III. Indeed, under the Cuba Claims Program completed in 1972, the FCSC determined the validity and amounts of claims by U.S. nationals against Cuba and certified them to the Secretary of State for use in a future negotiation of a claims settlement agreement with a “friendly” government in Cuba (Confidential Report 1999: 21). There are already 5,911 certified claims listed by the Settlement Commission for a total value of approximately $6 billion. Table 3-2 reports the largest 10 U.S. claims and their approximate amounts.
Table 3-2. Ten Largest Certified U.S. Claims ($U.S. million)

<table>
<thead>
<tr>
<th>Company</th>
<th>Certified Claim</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cuban Electric Company</td>
<td>$267 million</td>
</tr>
<tr>
<td>International Telephone and Telegraph Corp.</td>
<td>$131 million</td>
</tr>
<tr>
<td>North American Sugar Industries Inc.</td>
<td>$109 million</td>
</tr>
<tr>
<td>Moa Bay Mining Company</td>
<td>$88 million</td>
</tr>
<tr>
<td>United Fruit Sugar Company</td>
<td>$85 million</td>
</tr>
<tr>
<td>West Indies Sugar Company</td>
<td>$84 million</td>
</tr>
<tr>
<td>American Sugar Company</td>
<td>$81 million</td>
</tr>
<tr>
<td>Standard Oil Company</td>
<td>$72 million</td>
</tr>
<tr>
<td>Bangor Punta Corporation</td>
<td>$53 million</td>
</tr>
<tr>
<td>Texaco Inc.</td>
<td>$50 million</td>
</tr>
</tbody>
</table>

Source: U.S.-Cuba Trade and Economic Council

After two years, uncertified claims could also serve as the basis for action. The claim must exceed $50,000 in 1996 dollars, excluding interests, costs, and attorney fees. Regarding the impact of this specific provision, there are contrasting interpretations. Kiger (1998: 57-58), for instance, argues that it would exclude all but 75 of the certified claimants and probably most claims by Cuban-Americans. On the other hand, a declaration by the former U.S. Secretary of State Warren Christopher suggested a different scenario. Christopher affirmed that the implementation of Title III “would exponentially increase the number and value of U.S. property claims against Cuba from their current total of about $6 billion to as much as $100 billion” (Groombridge 2001: 4). If this is true, properties that were worth a few thousand dollars in the 1960s might be easily worth over $50,000 dollars today. Therefore, the Helms-Burton law would actually expand the process of settlement of property claims.

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11 Robert Muse, a Washington lawyer whose clients have included European firms with investments in Cuba, said he expects 430,000 lawsuits if Title III of the Helms-Burton law is implemented. He believes Cuban-Americans will bury U.S. courts in claims for lost homes, businesses, and farms (Cox 2001).

12 For instance, a Cuban family which owned a sugar plantation valued at $3,000 in 1962, is seeking compensation of close to $10 million from a Spanish firm (Sol Melia) that has built a hotel on that property.
Under Title III, a foreign company with investments in the United States might be victim of retaliation by U.S. claimants (backed by a court order) on its properties in this country, which can be obtained legally as compensation (McKenna and Kirk 1998: 6). However, the mere condition of “trafficking” in expropriated properties is by no means sufficient for the application of sanctions. In order to be subjected to the jurisdiction of U.S. courts in case of a controversy based on this title, a foreign company must have “systematic and continuous” business links with the United States whose amplitude makes reasonable a process of reclamation. This provision is not applicable to foreign companies that simply trade with and obtain financing from the United States. Furthermore, Title III can be applied only in a U.S. court of the state where the foreign company has business activities. More specifically, if a foreign enterprise has investment activities in Miami, it is subject to the jurisdiction of Floridian courts and not to the jurisdiction of courts in other U.S. states (Krinsky 1996: 29).

We can fairly assume that claims against foreign companies with no U.S. exposure (mainly no assets in the United States) and requests of compensation for violation of Title III are probably going to be ignored by foreign investors. Without operations in the United States, a company is not obligated to defend an action. However, a further question should be raised. Can the subsequent default judgment (in case the executives of the firm do not appear before the U.S. court) be enforced in courts of other countries? For example, in January 1997, Canada amended the 1985 Foreign Extraterritorial Measure Act (FEMA) by establishing that any court judgment linked to the Helms-Burton legislation would not be recognized in Canada.13 Yet, a few months earlier, a

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13 The amendment to FEMA allows Canadians who are sued in the United States to recover any amounts awarded if the other party has assets in Canada. Mexico passed a similar law in October 1996. The law
Canadian lawyer commented on this aspect: “With amendments to FEMA we could have a stronger case, but I am not going to give Canadians a guarantee that their assets would be protected” (Lacy 1996: 30).

Although Title III of Helms-Burton was due to come into effect on August 1, 1996, it has not been implemented so far because former President Bill Clinton used his discretionary power to waive it for period of six months (the last in January 2001). In fact, a clause included in the final draft of the law permits the President to delay it for national security reasons or to promote democracy in Cuba. Since July 2001, George W. Bush has also suspended every six months the application of the controversial Title III. Although the postponement can still be lifted in the future, Bush’s actions raise the likelihood that the full force of Helms-Burton may not take effect during his administration.

Title IV of the Helms-Burton law allows the U.S. government to deny entry into the United States to senior executives of foreign companies that are accused of trafficking in properties subject to U.S. claims. This provision also applies to close relatives of the executives such as their spouses and any dependent children. Unlike Title III, Title IV cannot be suspended. Determination of “traffickers” and application of sanctions are responsibilities of the U.S. Department of State.

Title IV seems deprived of a retroactive character since it focuses on trafficking activities initiated after March 12, 1996. Section 401(B)(2)(A)(i)(III) suggests that the exclusion from the United States would not be applicable if a company in possession of a confiscated property avoids making any change to the way it was conducting business.

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establishes that Mexican companies can be fined if they comply with the extraterritorial provisions of Helms-Burton and it provides for the non-recognition and non-enforcement of foreign judgments under such extraterritorial legislation.
activities in Cuba prior to the enactment of the Helms-Burton law. Improvements and investments in a confiscated property are permitted only if they are for routine maintenance (Lacy 1996: 29).

However, how is it established that renovations, upgrades, or other constructions have been undertaken just for routine maintenance? The extreme vagueness of the provision makes it very difficult for foreign executives to avoid the reach of Title IV. If you do business on a confiscated U.S. property, you might be easily identified as a “trafficker.” Just a few months after the passage of Helms-Burton, the U.S. Department of State sanctioned the executives of two foreign companies (a third one was sanctioned in 1997) trafficking in expropriated properties in Cuba. In addition, it has maintained pressures on several other firms by sending them “warning” letters regarding potential violations of the U.S. legislation and by threatening to deny them visa entry into the United States. In such a short period, it seems at least improbable that those foreign firms made enough changes to their activities in Cuba to justify the application of sanctions under Title IV.

Finally, the Helms-Burton legislation locks U.S. policy in place indefinitely. While most U.S. economic sanctions against the government of Fidel Castro were previously based on executive orders, which could be modified or rescinded at the president’s discretion, now they are embedded in law. A future lifting of the embargo and the beginning of normal relations with Cuba will be possible only after Helms-Burton has been repealed (Smith 1998). In recent years, though, there have been several changes in U.S. policy toward Cuba. Before the end of the 1990s, the Clinton administration eased some restrictions on U.S.-based travel to the island. In October 2000, the U.S. Congress
allowed an exception to the embargo by authorizing food sales to Cuba. In March 2003, the Bush administration relaxed limitations on family remittances by significantly increasing the amount of money that U.S. authorized travelers could carry to Cuba. Bush’s policy was reserved in June 2004, just a few months before the U.S. presidential elections, when remittance (and travel) restrictions were again tightened. Further details on these changes will be provided in chapter 5. The next chapter analyzes the evolution and the current situation of foreign investment in Cuba, the impact of Helms-Burton on potential and existing investors in the island’s market, and the most important cases of foreign companies affected by the U.S. legislation.
CHAPTER 4
IMPACT OF THE HELMS-BURTON LAW ON FOREIGN INVESTMENT IN CUBA

Cuba’s response to the deteriorating economic situation subsequent to the demise of its former benefactor, the Soviet Union, was the implementation in September 1990 of an economic austerity program called “special period in time of peace.” The program consisted of a series of measures intended to conserve energy and raw materials, stimulate food production, expand markets for exports and imports, and accelerate the development of international tourism. But the main novelty was the opening of the island to foreign investment in the search for the markets, technology, and financing that disappeared with the collapse of the socialist bloc. While it cannot be argued that foreign investment plays a fundamental role in the Cuban economy, it appears that foreign capital has helped Cuba to raise production of oil and electricity, find new markets for its main exports, boost international tourism, and increase domestic supplies to the tourist industry and the internal market in hard currency.

Following a cautious start during the worst years of the economic recession when a handful of hotel and oil exploration joint ventures were formed, foreign investment in Cuba gathered pace after 1993 as the economy began to show signs of a modest but constant recovery. Since then, and despite the passage of the Helms-Burton law in 1996, an increasing number of foreign companies have entered the Cuban market with investments in nearly all sectors of the island’s economy. However, after more than a decade of uninterrupted growth, the number of joint ventures with overseas firms fell
significantly in the past two years, raising questions on just how wide the Castro government’s welcome to foreign investment really is.

Although it should be noted that the level of interest for the Cuban market on the part of foreign investors has diminished, the recent decline of international economic associations (*Asociaciones Económicas con Capital Extranjero*, or AECEs)\(^1\) is not due to the impact of Helms-Burton but mainly to Cuba’s increasing selectivity toward foreign investment and its unwillingness to create a more attractive business environment. President Fidel Castro and other senior officials have never concealed their intention to keep foreign ownership and capital in the communist island at a minimum level. They keep saying that foreign investment is a complementary measure aimed to help strengthen and improve the country’s state-run socialist system, not destroy it. While acceptance of new investments is based on strict consideration of what they can bring to Cuba in terms of capital, technology, and markets, the Castro government has made clear that it wants to keep overall state control of the economy. Additionally, Cuba has done very little to solve recurring problems mentioned by overseas partners, which include excessive bureaucracy, project approval delays, payments problems, and restrictive labor legislation. On the contrary, recent moves by the island’s authorities to introduce foreign exchange controls for state-run enterprises and other centralizing economic measures

\(^1\) The term *international economic association* (or simply *economic association*) refers to the following: joint action by one or more national investors and one or more foreign investors for the production of goods, the offering of services, or both, for profit, in its two forms, which consist of joint ventures and international economic-associations contracts. *Joint ventures* imply the establishment of a legal status distinct from that of any one of the parties; the proportions of capital stock which should be contributed by the foreign investor and the national investor are agreed upon by both partners and defined as part of the authorization. *International economic associations contracts* do not imply a legal entity separate from those of the contracting parties; each contracting party makes separate contributions, which constitute a cumulative amount which they own at all times, and even though they do not constitute capital stock, it is in their interest to establish a common fund, as long as the portion of ownership belonging to each of the parties is well defined.
have lowered confidence among existing and potential investors about their ability to deal with bureaucratic hurdles and collect payments and arrears from the Cuban government. Given this situation, it is hardly surprising that the number of active AECEs in Cuba decreased for the first time in more than a decade.

Any attempt to carry out a comprehensive study of foreign investment in Cuba is hindered by the lack of reliable and detailed information on the activities of foreign firms and their contribution in terms of capital. Due to what Cubans call the “U.S. economic blockade” against the island, public disclosure of data on the presence of foreign capital in Cuba is practically limited to statistics on the evolution of international economic associations by year, by sector, and by country. This method of reporting the level of foreign investment in the country offers no idea of the value or strategic importance of the deals involved. Nonetheless, this chapter utilizes the best available information to date from a variety of sources (some of them confidential) in order to provide a quite detailed analysis of foreign business activities in Cuba and the effects of Helms-Burton on potential and existing investors, the flow of foreign capital, and the overall Cuban economy.

**Foreign Direct Investment in Cuba**

With the demise of the Soviet Union in the early 1990s and the plunge of its economy, Cuba’s need to find alternative finances, technology, and markets grew more urgent. As a result, the government moved actively to seek new long-shunned foreign investment and the first handful of joint ventures were signed in the hotel industry and oil exploration under Decree Law 50 of 1982. Regarding the latter, the limit of 49% for the foreign share of joint ventures and the low level of investment protection for overseas companies were certainly major dissuading factors for capital inflows. Cuban statutory
guarantees fell considerably short of providing the level of investment protection foreign firms would demand. According to Article 24 of Decree Law 50, if Cuba unilaterally terminated the activities of a joint venture, the Cuban National Bank simply guaranteed to foreign investors the ability to repatriate the proceeds of their share after liquidation. In addition, it was clear the intention of the Cuban government to maintain the most important sectors of the economy in national hands (Confidential Report 1999: 10).

The opening to foreign investment and international tourism, matched by increasing interest but also growing complaints from foreign companies, led the government to draw up an updated and more attractive legislation in 1995. The 1995 Law 77, while repeating some of the basic aspects of Decree Law 50, set out specific guarantees for foreign firms by establishing full protection and security against expropriation and opened all sectors of the Cuban economy (except public health, education, and armed forces) to foreign investment. It also abolished the limit of 49% of foreign shares for joint ventures and authorized for the first time the possibility of 100% wholly foreign owned investments. Finally, in an attempt to speed up and streamline the approval process of new agreements, the law introduced an article requiring that approval or denial of an investment must be given within 60 days of the presentation of the formal request.

After 1993, Cuba has intensified the promotion of foreign investment. Through visits to foreign countries, participation in international investment events, and meetings with potential investors, Cuban officials became very active in publicizing the advantages of business activities in the island (Pérez-López 1999). As a result, the number of international associations grew steadily and expanded to different sectors of the Cuban
economy such as mining, construction, light and food industry, agriculture, and services. An important change of policy toward foreign investment occurred in 1998 when the Cuban authorities declared their preference for AECEs that involved higher amounts of capital and loan financing. In fact, as a result of banking reforms and continued economic recovery, Vice President Carlos Lage announced that year the intention of the government to pursue a strategy of encouraging foreign investment in large development projects while limiting interest for smaller projects, unless they included the introduction of new technologies or new export markets. He added that Cuba’s government-operated banks were in a position to provide small amounts of capital (USCTEC 1998).

As shown in Figure 4-1, there were 313 active international economic associations in Cuba at the end of 2004, most of them joint ventures. The number of active AECEs, which had been increasing at an annual average of around 32% between 1993 and 1997, rose by just 5% per year between 1998 and 2002, and dropped by 15.1% in 2003 and by 8.5% in 2004. However, despite the lower number of associations, Cuban authorities...
argue that foreign investment is in a process of consolidation. In February 2002, Minister Marta Lomas stated: “While Cuba is often blamed for trying to detain foreign investment, what is happening in reality is the opposite. The country has been concentrating on businesses with results” (Economics Press Service 2002). Early in 2004, Lomas noted that the main economic indicators of AECEs were positive in 2003 and that the declining number of joint ventures with foreign partners was more suitable to Cuba’s current needs in terms of technology, financing, and market (Murguía Delgado 2004).

Indeed, several foreign investors are engaging in profitable operations and expanding their interests in the Cuban market. It is true that some major foreign companies have had problems in recent years, but none of them have pulled out of the country. For instance, Spain’s Sol Melia, the leader in Cuba’s tourist sector, revealed that the communist island had been one of the most affected destinations in the Caribbean in 2002 as a result of the downturn in tourism after 9/11. However, the company has an expansion plan for its Cuba division that includes the incorporation of a new 240-room hotel under management contract.² In addition, Brazil’s Petrobras, after ending oil explorations in 2001 (the wildcat well drilled off Cuba’s north central coast was a dry hole), said the decision was temporary and that it was still interested in prospecting for oil in deep-water areas in the Gulf of Mexico (OilOnline 2001). With only a few exceptions, not even those companies that have been targeted or sanctioned by the Helms-Burton law have divested themselves of their Cuban holdings. In short, 313 international economic associations remain active in Cuba and some must be making money.

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At the end of 2003 (Figure 4-2), the greatest share of economic associations with foreign capital was linked to the basic industry (64 agreements), followed by tourism (56), construction (47), agriculture (21), light industry manufacturing (20), and food industry (16). From previous years, there was an increase of AECEs in construction and, to a lesser extent, in the sugar industry. In contrast, joint ventures in many other sectors of the Cuban economy were in decline. Currently, the Cuban government’s foreign investment priorities include the promotion of new projects in tourism, mining, energy, oil, sugar derivatives, biotechnology, and industry of technology and information (CPI 2004).

Estimating the real value of foreign direct investment (FDI) in Cuba to date is not easy, mainly because the government refuses to provide updated overall figures. The secrecy is justified by the authorities of the island as a protective measure against the U.S. economic sanctions with respect to Cuba. Even the Havana embassies of the major investing countries are unable to give complete figures because, according to them,
In terms of the number of foreign direct agreements (Figure 4-3), countries of the European Union accounted for about 56% of the total in 2003. Spain confirmed its position as the first commercial partner for the island (98 agreements signed), followed by Canada (52), Italy (51), and France (15). Regarding the contribution of each country and sector to the total amount of foreign direct investment in Cuba, the only data available is for the years 1994 to 2003, as presented in Table 4-1.

Table 4-1. Annual Foreign Direct Investment in Cuba in $U.S. million (1994-2003)

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</tr>
</thead>
<tbody>
<tr>
<td>FDI</td>
<td>563.4(a)</td>
<td>4.7</td>
<td>82.1</td>
<td>442.0</td>
<td>206.6</td>
<td>178.2</td>
<td>448.1</td>
<td>38.9</td>
<td>100.0</td>
<td>90.0</td>
<td>2,154</td>
</tr>
</tbody>
</table>


(a) 1994 data are cumulative to that year. * Unofficial estimates

Cuban experts calculate that, since the authorization of the first joint venture in 1988 until 2003, the total amount of committed FDI was approximately $6 billion, of which approximately half had already been delivered (EFECOM, July 7, 2004). The Cuban Central Bank has not provided data on the external sector since 2001, when accumulated foreign direct investment was $1.964 billion (Table 4-1). Unofficial estimates from Cuban sources put the amount of FDI in 2002 and 2003 at $100 million and $90 million, respectively ($2.154 billion accumulated). These figures, if confirmed, represent a slight improvement from the disappointing result of 2001 (only $38.9 million in FDI), but they are still considerably lower than the average annual investment during the 1997-2000 period. Sectors with a significant presence of foreign capital are those linked to tourism, energy, oil, mining, telecommunications, and construction.
available are those of the U.S.-Cuba Trade and Economic Council as of March 1999. The total value of committed/delivered FDI through AECEs is estimated at $1,767.2 million. Leading countries are Canada ($600m), Mexico ($450m), Italy ($387m) and Spain ($100m). Leading sectors are telecommunications ($650m), mining ($350m), and tourism ($200m).³

![Figure 4-3. Associations with Foreign Capital by Country in 2003](image)

The results of foreign direct investment in Cuba in the last two years have been disappointing. The total number of active international associations declined by more than 20% as many joint ventures with foreign partners dissolved. Moreover, the amount of foreign capital delivered to the country showed only a modest recovery from the sharp decline experienced two years earlier. Nevertheless, a few new agreements with overseas companies were signed, some existing investors expanded their operations in the Cuban market, and the presence of AECEs operating abroad has become increasingly important.

A large number of AECEs, formed for the most part in the first half of the 1990s, dissolved because of the termination of the regular contract between the Cuban state and the overseas investor. These are generally small-and medium-size associations whose profits have been disappointing, in part because of the lack of adequate financing. In fact, although changing priorities of the Cuban authorities toward foreign investment might have played a role in this development, it is not a secret that the Cuban partner in joint ventures is often unable to honor its payment commitments. Other AECEs dissolved because of the anticipated withdrawal of the foreign partner. The existing restrictions on the operation of enterprises, excessive bureaucratic practices, and failures to achieve the planned results seem to be the most common causes.

Considering the Castro government’s increasing attention to the economic performance of businesses with foreign partners, it is conceivable that low levels of profits have played a major role in the recent surge of the number of dissolved AECEs. As noted by a Cuban official, “we (Cuba) do not accept enterprises that operate with losses, except those joint ventures carrying out important social functions.” In the last few years, Havana authorities have subjected not only each new joint venture proposal but also each existing joint venture to close scrutiny to verify whether satisfactory economic results and the state’s original objectives for establishing the enterprise have been achieved. As shown in Figure 4-4, the number of audits of AECEs increased from 7 in 1997 to 66 in 2001, for a cumulative total of 233 reviews during this period. In particular, the Cuban government has closely monitored the activities of joint ventures in sectors that have had a strong presence of foreign investment. In 2001, for instance, more than 50% of audits targeted AECEs in tourism (34%), basic industry (13%), and light

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industry (7%), the sectors where the majority of dissolutions took place in 2003. It is reported that in the first quarter of 2004 the program of joint venture reviews was monitoring 60 international economic associations (EIU, May 2004).

Information from Cuban official sources reveals the existence of many joint ventures with unsatisfactory economic results and corroborates the thesis that the Castro government is indeed trying to consolidate foreign investment by getting rid of unprofitable businesses. Interestingly, it is reported that at the end of 2002 more than 50% of the 403 active AECEs in Cuba did not generate economic results in terms of profits and losses for several different reasons. For the most part, these associations were in the process of dissolution, waiting for additional documentation to begin operations, or performing an undefined social function. Additionally, as presented in Figure 4-5, of the 191 active associations (or 47% of the total) that generated economic results, 149 (78%)...

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5 The Cuban government reports that, in addition to 66 investigations, about 250 control visits were realized to AECEs in 2001. In 2003, a total of 68 international economic associations operating in Cuba were dissolved. Tourism was the most affected sector with 21 dissolutions, followed by the basic industry (12), and light industry (7). Of the AECEs that have ceased to operate, 10 were with investors from Spain, nine from Canada, and six from Italy. Associations with foreign partners from the United Kingdom, France, and Mexico also experienced a decline.
operated with profits and 42 (22%) with losses. In short, only 37% of total active AECEs yielded economic gains to Cuba in 2002, while about 10% ran at a loss. It should also be noted that the beginning of the process of dissolution for several AECEs was a result of disappointing performances. Thus, it is conceivable that the government took steps to eliminate unsuccessful enterprises. We must remember that some foreign companies are willing to operate with losses as the size of their investments is relatively small and their main goal is to get a foothold in the Cuban economy before the lifting of the U.S. embargo.

Figure 4-5. AECEs with Profits and Losses in 2002
Source: Information provided by MINVEC, June 2004.

As previously reported, the amount of foreign direct investment in Cuba has decreased significantly since 2000. Only $38.9 million in FDI have been delivered to the island in 2001 and about $100 million a year since then. Cuban authorities blame the “world economic crisis,” the U.S. embargo and the deteriorating relationship with the European Union for such a trend, although they specify that the decline in FDI mirrors a general tendency throughout Latin America and the Caribbean (MINVEC 2004). However, some foreign investors argue that the situation is much worse in Cuba because of its business climate. According to a European businessman, “they (Cubans) insist you
be partner with a state-run company, that you hire workers at high rates through government-run labor agencies and then you run-up against the bureaucracy and the U.S. embargo and threats to boot” (Reuters, July 8, 2002). Canada’s Pebercan, which is involved in the exploration and development of oil and natural gas reserves in Cuba, notes in its 2003 information report that the company’s operations “could also be affected to various extents by factors such as government regulation of production, price controls, export controls, income tax, expropriation, environmental legislation, land improvements, water use, local land claims, and security.”

In July 2002, the European Union embassies in Havana released a document that included business complaints and suggestions about Cuba’s foreign investment regime. The document specified that it was essential for European investors to have greater judicial security and a stable, transparent and reliable legal framework in order to avoid discriminatory application of business laws against overseas firms. In fact, a major source of concern among foreign companies is that their partner on the Cuban side will invariably be the Cuban state, which makes both laws and policies and interprets them according to its needs and interests. Additional complaints included excessive utility costs due to the state monopoly on services, delays in payments, a repeated need to renew visas and work permits, and expensive dollar payments to Cuban workers recruited by a state-entity (while the government pays them in Cuban pesos) (AP, July 7, 2002). Soon

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8 Cuba’s labor code for AECEs has been denounced by several international labor organizations. Criticism mainly focuses on the system of payment of Cuban workers hired by foreign companies along with discriminatory practices of recruitment due to patronage, cronyism, and conformity of workers’ ideas and
after the release of the document, Foreign Investment Minister Marta Lomas met separately with diplomats and businessmen from each European country to discuss their complaints. While offering assurance that Cuba would work harder to unravel its complicated bureaucracy, Lomas made clear that the island was not considering changing the rules of the game and that foreign investors knew those rules when they arrived.

Rather than taking steps to make its business environment more flexible, Cuba has been moving in the opposite direction during the last two years. In mid-2003, the Castro government substituted the use of the U.S. dollar for the convertible peso or CUC (a local currency that was pegged at par with the dollar since 1994, but has no value outside Cuba) in the transactions of state-run enterprises. Although the AECEs were exempted from the measure, several foreign investors complained about their ability to do business with and collect payments from state companies as the latter must hand over their dollars to the Central Bank and buy them back for imports, debt payments, and local purchases from joint ventures (Frank, September 15, 2003). Moreover, Havana authorities tightened controls over the accounts of state banks and Cuban accounts abroad, reduced behavior to official ideology. The issue has gained importance since the opening to foreign investment in early 1990s and especially after the 1993 legalization of hard currency holdings and the expansion of state-owned dollar stores previously reserved for foreigners. Cuban workers in AECEs receive their wages in domestic currency at the official exchange rate of 1 peso per dollar. However, due to generalized shortages of goods available through the normal distribution system, they are increasingly compelled to buy dollars at the unofficial exchange rate (which is currently 24 pesos per dollar) in order to purchase the products they need in stores that deal only with foreign currency. In this regard, two Cuban exile groups (the Cuban Committee for Human Rights and the Independent Federation of Electric, Gas, and Water Plants of Cuba) filed a lawsuit in 1999 against 40 foreign companies accusing them to be part of an illegal scheme by the Cuban government to deprive Cuban workers of most of their salary. According to the lawsuit, foreign companies pay their workers up to $450 dollar a month each. But the employment agency pays the same workers an equivalent of $5 dollar a month, while the government keeps the rest. See Morton, Peter. “Two Canadian companies in Cuba lawsuit,” The National Post, June 29, 1999. Cuban authorities defend their labor code and justify the high charge made to foreigners by claiming that: 1) direct dollar payments by foreign companies to their workers would create too much difference between the latter and the rest of the Cuban work force; 2) direct payments in domestic currency by foreign companies should also include the cost of benefits for medical assistance, education, and housing that is instead assumed by the Cuban government; 3) it is fair for foreign companies to pay their workers more than in other emerging markets because Cuban workers are more efficient and qualified. Interview with two Cuban economists in Havana, June 7, 2001.
the number of Cuban agencies responsible for imports of a selected group of products (creation of purchasing committees or “comités de compras”), and established a fixed 10% markup price over the cost of production in the transactions between state firms.9

In recent months, Cuban officials have also begun to reassert central control over the tourist industry, Cuba’s most important economic sector and generator of hard currency (at least in gross terms). Unhappy about loose spending and corruption that have limited profits, they fired in late 2003 several top executives from the island’s largest tourism group Cubanacan. Early in 2004, they replaced the tourism minister Ibrahim Ferradaz with Manuel Marrero Cruz, who at the time of his designation was heading the army-controlled Gaviota tourism group. Apparently, these moves are part of a plan to merge most, if not all, activities of four major state-owned corporations that control 75% of the hotel rooms on the island (Frank, July 13, 2004). In November 2004, the Castro government eliminated the commercial circulation of the U.S. dollar in Cuba in favor of the CUC10 and, a few months later, ordered state enterprises to deposit all the hard currency (CUCs and other foreign currencies) they obtain through business activities into a single account at the Cuban Central Bank, then request bank permission to use it. In short, there is little doubt that Cuba’s shift toward a gradual but constant re-centralization of its economy and its increasingly regulated business environment will cause further concerns among existing and potential foreign investors.

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9 The formula for state enterprises of selling products to each other with a fixed 10% markup price over the cost of production had been adopted in the early 1990s and then removed due to unsatisfactory results. The reintroduction of this formula and foreign exchange controls aim to avoid excessively high prices applied by state firms that enjoy conditions of monopoly or quasi-monopoly in the Cuban market as well as to reduce costs in the tourist sector, reduce state firms’ dollar expenditures, and increase revenues to the government. See Triana Cordovi, Juan. “Cuba 2003.” Centro de Estudios de la Economia Cubana (CEEC), 2004.

In spite of this situation, the Cuban Ministry of Foreign Investment (MINVEC) reports that 17 new AECEs have been authorized in 2003 and 2004. In addition, a number of existing investors have expanded their activities on the island while some major foreign companies expressed their willingness to enter the Cuban market. In the last two years, the most important foreign investment operations in Cuba were linked to tourism, basic industry (nickel and oil), food and beverage industry, and telecommunications (Spadoni 2004: 120-123).

Another important FDI trend is that MINVEC has been promoting Cuban investments overseas in recent years in an effort to offset a diminishing flow of foreign capital invested in business activities on the island. In 1998, only 50 associations operated abroad over a total of 340 active AECEs (14.7%). By the end of 2002, there were 82 associations outside Cuba over a total of 403 active ones (20.3%).

![Figure 4-6. AECEs Operating Abroad by Geographical Area (percentage as of June 30, 2003)](image)

Source: Centro de Promocion de Inversiones (CPI), September 2003.

In 2003, Cuba’s investments abroad became even more important. Out of 360 active AECEs in mid-2003, 80 or about 22% were outside Cuba proper (Figure 4-6).

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11 Information provided by MINVEC, June 2004.
According to Havana’s Center for the Promotion of Investments (CPI), 55% of these associations (mostly joint ventures) operated in Latin America and the Caribbean, 27% in Europe, 11% in Asia, and 7% in Africa. The geographical distribution of AECEs is largely the result of Cuba’s attempt to internationalize its enterprises and increase exports through a new global investment strategy that seeks “to establish companies in developing countries employing Cuban high technology, specialists, and know-how with native manpower” (CTP 2003). In particular, the island has targeted neighboring markets in the Caribbean region. As observed by CPI, Cuba maintains relations with all Caribbean countries and has established diplomatic missions in most of them “as an expression of the great interest the country gives to the strengthening of the relations with the Caribbean area” (CPI 2003). Yet, recent information shows that, with the exception of tourist activities in Mexico and China, Cuba’s most important foreign investment operations abroad have focused on biotechnology and pharmaceuticals projects in East Asia (China, Malaysia, and India), Middle East (Iran), and Africa (Namibia). Given the island’s enormous potential in these sectors, the Castro government has begun to realize that investments overseas in knowledge-intensive industries and the penetration of new markets may generate good profits and provide alternative hard currency resources for the development of the Cuban economy.

In summary, the flow of foreign direct investment into Cuba is greatly inhibited by the island’s rigorous evaluation procedures, its increasing selectiveness toward FDI

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12 Since the early 1990s, Cuba has invested heavily in the development of its biotechnology and pharmaceuticals industries. It is well known that the island’s scientific knowledge base and the quality of its programs, laboratories, and products are extremely advanced by international standards. Cuba boasts more than 40 biotech institutions, clustered mostly in the fringes of Havana, and about 7,000 scientists. Vaccines and other medical products are exported to more than 50 countries, helping the industry to obtain about $100 million a year in hard currency revenues. See Sample, Ian. “Cuban cocktails.” *The Guardian*, March 30, 2004. Also see May Yee, Chen. “Cutting-edge biotech in old-world Cuba.” *The Christian Science Monitor*, April 17, 2003.
projects, and its heavily regulated business environment. Although Cuban authorities have continued to encourage foreign companies to discuss the formation of joint ventures (and important agreements were recently signed with Chinese and Venezuelan firms), many potential investors either withdraw during the process of negotiations because the terms offered by the Cuban partner are not sufficiently attractive or opt for lower levels of cooperation (EIU, February 2004). Overall, it can be expected that some major investors will continue to expand their operations in Cuba and receive substantial concessions from the Castro government, given the latter’s preference for well-established businesses and partners and for projects involving large amounts of foreign capital. It is also evident that Cuba wants to stimulate foreign investment without transgressing the limits that threatens the control of the fundamental wealth of the nation (Pérez Villanueva 2005: 194). However, a significant long-term upward trend in the flow of FDI reaching the island will occur only if Cuba promotes a gradual decentralization of its state-dominated economy by introducing profound internal reforms and taking steps to relax existing regulations on the activities of joint ventures and private enterprises.

**Other Forms of Investment**

Cuba’s increased selectivity toward foreign direct investment and its preference for large projects in recent years do not mean that small and medium businesses have been halted. They are simply being provided for through different mechanisms, such as cooperative production agreements, regulated by Cuba’s Executive Committee of the Council of Ministers on December 6, 2000 (Agreement N.3827). As with joint ventures, the government says the objectives of these agreements with foreign partners are to obtain capital, new technology and know-how, substitute imports, and gain access to markets. Furthermore, in addition to the increasing number of management contracts in
the tourist sector (promoted since the opening to foreign investment in the early 1990s),
Cuban authorities have encouraged administration contracts in industrial sectors with
foreign partners. This demonstrates that the search for technology and markets is
accompanied by a growing awareness of the value of management expertise.

Cooperative production originally aimed at solving three major complaints raised
by investors in Cuba: the length of negotiations, excessive bureaucracy, and costly dollar
payments to their Cuban employees. Until recently, the approval of a cooperative
production agreement was much more simple and faster (between one and three months)
than that of an international economic association, and the documentation required was
less rigorous.\(^\text{13}\) In fact, while the latter must be authorized by the Executive Committee
of the Council of Ministers or by a government commission designated for that purpose,
the former was simply approved by the Ministry of the Cuban entity. But early this year,
following a trend of increasing centralization of the island’s economy, Cuban authorities
ruled that cooperative agreements must now be approved by the central government like
AECEs. They also established that foreign individuals and companies involved in
cooperative investments can no longer perform import and export activities
independently from the Cuban government.

Cooperative production agreements can take many forms. For instance, instead of
purchasing equity, a foreign investor can provide capital and sell on credit raw material,
technology, and know-how to its Cuban partner in exchange for a fixed sum per product
produced (royalty), or buy the finished product outright for export. These agreements are
not too different from international economic association contracts regulated by Law 77.

\(^{13}\) The MINVEC reports that the average time of negotiations for AECEs in 2003 was 10.3 months, as
compared to 10.8 months in 2001 and 11.1 in 2000. Even so, this is still longer than elsewhere in Latin
America.
The main novelty, however, is that in cooperative production contracts, workers are paid directly by the government in local currency, and the foreign partner pays no taxes. With foreign companies avoiding to pay for labor in dollars, business operations contemplated by these agreements have been characterized by some investors as a sort of “Maquila,” in the style of U.S. assembly plants on the Mexican border (Frank, August 26, 2001). Although this is not generally the case, there is also a possibility that a foreign firm is engaged in both a cooperative production and an administration contract, thus having the control of an enterprise and a share of its revenues.

Sometimes, a cooperative production might represent the first step toward the creation of an international economic association. This is a way for the Cuban government to test the seriousness of a foreign company as well as its capacity to provide new markets and technological assistance. It is also a necessary process to increase the efficiency of existing installations and facilities. As noted by Jesus Pérez Othón, former Cuban Minister of Light Industry, “sometimes you have 90% of the equipment, but without that vital 10% you can’t make a new product that will succeed in the world market” (Pagés 2001).

Following the Agreement N.3827 of December 2000, the Cuban Ministry of Foreign Investment passed Resolution N.37 in 2001, which regulates the process of registration, control, and supervision of cooperative production agreements. The number of cooperative production agreements in Cuba increased from 198 in 2001 to 270 in 2002, and peaked at 313 at the end of 2003 (Figure 4-7). Not surprisingly, they were mostly linked to labor-intensive sectors such as metalworking (102 agreements signed) and light industry (83). There were also smaller numbers of these agreements in
construction (28), food industry (23), sugar (18), transportation (13), and fishing (11).

Spain was Cuba’s main partner in this modality, with 101 contracts, followed by Panama (58), Italy (47), Canada (14), and Mexico (14). Administration contracts in industrial sectors were just 11, of which eight in metalworking (CPI 2004).

In 2003, 43 cooperative production agreements were approved, demonstrating the willingness of small and mid-size companies to take advantage of new modalities of doing business in the communist island. Additional contracts signed in the first half of 2004 include the construction of a sugar mill in Venezuela using Cuban and Brazilian technology and Brazilian finance, a two-year technical assistance project to supply Cuban technology and know-how to Kenya's sugar industry, cooperation projects with India to develop renewable energy, and a multi-sector cooperation plan with Guyana (EIU, May 2004). However, Cuban official sources report that the number of these contracts with foreign firms has dropped dramatically last year. At the close of 2004, only 133 cooperative production agreements remained in operation in Cuba, a decline of about
57% from 2003 (MINVEC 2005). Some foreign analysts have argued that this development signals the Castro government’s intention to drive out small investors that contribute little to the island’s economy and corrupt local entrepreneurs by introducing such practices as commissions and kickbacks (Frank, February 2, 2005).

While cooperative productions with overseas partners have been actively promoted in recent years, foreign investment in Cuba’s free trade zones (FTZs) was virtually halted by Cuban authorities in 2003. Decree Law 165 of 1996 authorized the establishment of industrial parks and free trade zones in Cuba and granted a number of tax and operational incentives to companies making investments in these areas. The first FTZs were started in 1997.

![Figure 4-8. Free Trade Zones: Number of Operators and Export Values, 1997-2003](image)

Sources: Author’s calculations from MINVEC data, 2002-2004; Pérez Villanueva 2005.

There are currently three free trade zones in Cuba: Wajay and Berroa in Havana, and Mariel, located about 36 miles west of Havana on the northern coast. Their creation aimed to foster the island’s economic and social development by attracting foreign investment, stimulating and diversifying export activities (even though up to 25% of FTZ
output may be sold domestically with prior approval of the Cuban Government),
generating new jobs, and developing new domestic industries through the assimilation of
foreign technology and expertise. In effect, as shown in Figure 4-8, the number of
operators (local and foreign firms) in Cuba’s free trade zones increased from 34 in 1997
to 354 in 2000. These companies were mostly engaged in commercial activities and, to a
lesser extent, in services and manufacturing. But the number of operators has been
decreasing since 2000 as Cuban authorities stepped up control over businesses in FTZs. It
is reported that Cuban officials investigated 111 operators in 2001 and revoked licenses
to about 90% of them, mainly because of poor economic results, violations of established
rules for the movement of goods, and delays in the recruitment of Cuban workers
(MINVEC 2002). In 2003, no authorizations were granted for new activities in FTZs and
35 firms had their licenses revoked. By the end of that year, only 284 operators remained
in Cuba’s free trade zones (MINVEC 2004).

Cuba’s experience with foreign investment in free trade zones has been
unsuccessful. The total value of exports from FTZs grew from $300,000 in 1997 to
almost $60 million in 2002, but the obtained results were far from meeting expectations
(Pérez Villanueva 2005: 192). Additionally, Cuba was unable to attract major
international companies in its FTZs, the amount of invested capital was relatively small
and limited to low-technology sectors with little economic impact, and only a small
percentage of operators performed manufacturing activities (Marquetti Nodarse 2004). It
was therefore no surprise when the Castro government announced in 2004 that it will stop
promoting the development of FTZs in the island and give existing operators a period of
three years to find other business options in Cuba (MINVEC 2004).
The Effects of Helms-Burton on Potential and Existing Investors

I hypothesize that the Helms-Burton law might have produced a number of adverse effects on foreign investment in Cuba. These effects can be summarized as it follows:

- Low profile maintained by foreign companies operating in Cuba;
- Confusion among foreign investors, especially in the tourist sector, as a result of the broadly defined concept of “trafficking;”
- Loss of considerable time and money in verifying origins of expropriated properties;
- Disruption and delay of foreign financing for strategic sectors such as sugar and, to a lesser extent, tobacco;
- Creation of off-the-shelf companies in the Caribbean and Central America in order to disguise business activities in Cuba;
- Higher interest rates demanded by foreign lenders for providing credits to the island;
- Increasing power of negotiation with the Cuban government of foreign companies targeted by Helms-Burton;
- Spin off of Cuban interests by foreign firms in order to avoid running afoul of Title III of Helms-Burton.

The Helms-Burton law compels foreign firms to maintain a low profile in carrying out their business activities in the Caribbean island. Basic industry (oil, mining), tourism, telecommunications, and construction are the sectors where large (in terms of capital involved) expropriations have taken place, and where the pressure of the law should allegedly be stronger. The U.S. legislation has affected Cuba by discouraging some potential investors and deferring the investment plans of others. Yet, it has been less effective in forcing foreign companies already operating in the Cuban market to withdraw from their investments.
Business activities in the tourist sector demonstrate how the broad definition of “trafficking” creates confusion among foreign investors. In May 1996, Sagebien (1996: 43) stated: “Canadian concerns in Cuba are mostly management contracts, except for some equity positions in Canadian hotels. So I would imagine that the risk is lower than if they had direct ownership. Nevertheless, there are some vexing property questions based on broad definitions of trafficking, as well as some of the U.S. exposure of Canadian hotel concerns.” Since March 1996, several European and Canadian companies operating in the Cuban tourist sector have been targeted by Helms-Burton not only for equity positions in confiscated properties, but also for management activities. The U.S. Department of State has sent “warning letters” to Leisure Canada and Air Transat (Canada), Club Med (France), LTI (Germany), SuperClubs (Jamaica), and Sol Melia (Spain) advising them that their operations in Cuba could constitute “dealing in expropriated goods,” and they could face penalties under Title IV of Helms-Burton. Up to now no formal sanctions have been applied to them. However, these companies have become extremely cautious in developing new projects on the island.

Threatened U.S. sanctions might have also discouraged some potential investors from carrying out their plans in the Cuban tourist market. For instance, two Spanish hotel chains (Occidental Hotels and Paradores Nacionales) did not pursue planned investments in 1996 because of the legal implications of Helms-Burton. Finally, a possible lift of the waiver on Title III would grant Cuban-Americans the right to claim their lands and industries. In this case, most of the deals would fall under the reach of the Helms-Burton legislation, including the construction of new hotels. The lack of U.S.
exposure of foreign companies operating in Cuba would then become fundamental in avoiding possible retaliations.

In order to avoid problems with Helms-Burton, potential investors spend considerable time and money carrying out prior due diligence to verify that a project does not involve a confiscated property (Lapper 1999). Official records are consulted both in Cuba and the United States. Often, new investors announce publicly that their projects are linked to “clean” assets. In 2001, a Cuban official recalled that foreign investors were persistent in their inquiries on expropriated properties soon after the enactment of Helms-Burton. But he claimed that things had changed and companies felt more secure in Cuba. By that time, according to him, potential investors focused on the U.S. legislation when more important issues had already been addressed.\textsuperscript{14} Although some doubts remain on this declaration, it seems reasonable to believe that the Cuban perception of the Helms-Burton’s threat has evolved over time. After all, if we exclude the recent U.S. actions against the Jamaican tourist group SuperClubs (discussed later), Title IV has been applied only three times between 1996 and 1997 and Title III has never been applied. A consultant in Havana noted in 2001: “The first thing we do is to check the official record of the claims certified by the U.S. Foreign Settlement Commission. We do not check if the property was owned by some Cuban-Americans because Title III has always been waived.”\textsuperscript{15}

The Helms-Burton law has disrupted and delayed the flow of foreign financing into Cuba for strategic sectors such as sugar and, to a lesser extent, tobacco (SELA 1997). The sugar industry, in particular, accounts for most of the expropriations that occurred

\textsuperscript{14} Interview with a Cuban official in Havana, May 29, 2001.

\textsuperscript{15} Interview with a Cuban consultant in Havana, June 15, 2001.
after the 1959 revolution. Ten of the twenty-two highest claims belong to U.S. sugar companies and they are valued at slightly more than $500 million, or about 27% of the total amount ($1.8 billion) of certified claims (Alvarez and Peña Castellanos 2001: 113-114). Charges of trafficking have mostly been made for those companies that finance or trade sugar originating in expropriated lands, because direct foreign investment, at least until 2001, was not permitted in raw sugar production (only in the sugar cane derivatives production). Overseas banks, financial institutions, and companies that have been targeted by Helms-Burton are the ING Bank (Netherland), E.D. & F. Man (United Kingdom), Tabacalera and Bank Bilbao Vizcaya (Spain), and Redpath Sugar (Canada).

As a response to the U.S. legislation, some foreign firms (this is not the case of Redpath, which ceased to do business in Cuba) have decided to reorganize their sugar and tobacco operations in Cuba. “Territorial financing” directed to specific provinces has been abandoned for a more generic scheme of “national financing,” in some cases through fiduciary mechanisms. In this way, it is more difficult to establish a connection between foreign credits and expropriated properties. The Law of Reaffirmation of Cuban Dignity and Sovereignty (Law 80) enables the creation of “fiduciary companies” or investment funds to hold disputed properties. According to Article 6, “The Government of the Republic of Cuba is empowered to apply or authorize the necessary formulas to protect foreign investors against the application of the Helms-Burton law, including the transfer of the foreign investor’s interests to fiduciary enterprises, financial entities or investment funds.” The creation, in August 1996, of the Compania Fiduciaria S.A. seems directed at solving some of the problems related to the external financing.

The Cuban company participates in operations such as financial solutions for investment

16 Interview with news correspondent posted in Havana, June 11, 2001.
contracts, administration of external funds that are directed to specific activities, and
deposits of guarantees. In 1997, Compania Fiduciaria received its first $5.3 million for
the acquisition of supplies necessary for the development of the sugar production. At the
end of 1999, the company had received $367.8 million from banks and financial
entities.\footnote{These data are included in the 1997 and 1999 annual reports of Compania Fiduciaria S.A.} In addition to sugar production, these investments contributed to financing
important economic sectors such as textile, metal and machinery, and construction,
among others.

Besides the use of fiduciary mechanisms, a number of foreign banks have
developed circuitous routes using off-the-shelf companies in the Caribbean and Central
America (Panama, Curacao, and the Cayman Islands) to disguise their financial
assistance to firms with outstanding U.S. claims. As acknowledged by Peter Scott,
chairman of the British Beta Gran Caribe Ltd., “It is easy enough to buy companies off-
the-shelf in countries with closed ownership registers and create a trail of money transfers
which is extremely difficult to track” (Eade 1996). Even so, some foreign banks with
substantial interests in the United States have been less inclined to engage in procedures
aimed to bypass the U.S. legislation. Lastly, it must be noted that not only banks but also
many other foreign firms have created “shell” companies to disguise their real identities
and their business operations in Cuba.

The Helms-Burton law has created a more uncertain and riskier business
environment, resulting in foreign lenders providing credits to the island at higher rates.
Interest rates for bank loans and other financing for investment projects have been driven
to as high as 20% or more (Confidential Report 1999: 24). The final cost of foreign
credits is therefore particularly burdensome for Cuba, which was already obtaining short-
term loans at high interest rates. In fact, even before March 1996, Cuba ranked among the most risky countries for investment due to its economic indicators (especially trade deficit), high foreign debt, government intervention in the economy, and the U.S. embargo (Pérez Villanueva 2001).

It is conceivable that Helms-Burton has given some foreign companies increased power in negotiating their projects with the Cuban authorities. The acceptance of the “risk” of investing or expanding in Cuba might have been conditioned to important concessions in the contract. This seems the case of big companies that have been targeted by the Helms-Burton law, such as the Canadian Sherritt, the Spanish Sol Melia, and the Israeli BM Group.18

Finally, some foreign investors with assets or operations in the United States have decided to spin off their Cuban interests in order to prevent possible attacks under Title III of Helms-Burton. This strategy consists in creating a legally distinct and completely unrelated company, which is responsible for all the benefits and potential risks associated with the Cuban assets. Since no cross-ownership exists between the original company and the spun off entity, a possible lawsuit against the latter cannot lead to retaliation on the U.S. assets of the original company (Lacy 1996: 30). One firm that opted for this strategy is the Canadian Sherritt. A few months before the enactment of Helms-Burton, Sherritt spun off the Cuban operations by creating a new and legally separated company, Sherritt International Corporation. Although Title III has never been implemented, executives of the firm are quite confident that Sherritt International is safe from this title (Kiger 1998: 63-64). Yet, a case could be made against it as the two companies still maintain evident links (many executives and shareholders are the same).

Application of Title IV

Soon after the enactment of the Helms-Burton legislation, and in spite of a strong international opposition, the U.S. government pressed ahead with the implementation of Title IV of the law. In 1996, the U.S. State Department sent out letters to two foreign companies with investments in Cuba. Executives and senior officers of Canada-based Sherritt International Corporation and Mexico-based Grupo Domos were informed that they would be barred from entering the United States unless the companies divested themselves of their profitable operations in Cuba within 45 days, Sherritt in a nickel/cobalt ore processing plant and Domos in Cuba’s telephone system. In November 1997 similar sanctions were also applied against the executives of the BM Group, an Israeli-owned firm registered in Panama.

Sherritt International Corporation owns 50 percent of a nickel-cobalt mine in Moa Bay, in eastern Cuba, in a joint venture with the Cuban government. The U.S. sanctions against Sherritt were motivated by the fact that the company was making money off an American investment that was expropriated (without compensation) by the Cuban government. In fact, the United States said the mine, which was nationalized after the 1959 Cuban revolution, had been “stolen” from the U.S. Moa Bay Mining Corporation, now known as Freeport-McMoran Inc. based in New Orleans (Worsnip 1997). Deploring the U.S. decision to ban executives of Sherritt from entering the United States, the Canadian Trade Minister Art Eggleton said that Washington had reached “a new low” by getting down to the employee level of the company. Sherritt spokeswoman Patrice Merrin Best reacted even more firmly by announcing the intention of the company to strengthen its investments in mining and expand into real estate, sugar, electricity, and communication (XEN, February 6, 1998).
In the telecommunication sector, one of the most important agreements was the creation of the joint venture ETECSA in mid-1994 between the Cuban state-run telephone company EMTEL and Corporacion Interamericana de Telecommunicaciones (CITEL), in which the Monterrey-based Mexican company Domos held a 75% share and Stet International of Italy a 25% share. CITEL acquired 49% stake in EMTEL with a total investment of more than $1.5 billion and a concession of 55 years for the modernization of the sector (Pérez Villanueva 1999: 129). The application of Title IV against Domos originated from a claim of the U.S.-based ITT Corporation that owned the Cuban telephone company before the 1959 revolution.

The BM Group, in partnership with Cuba’s Union Nacional de Citricos, operates in Matanzas and the Isle of Youth and accounts for a substantial share of the island’s total citrus exports. The sanctions against the Israeli company seemed to stem from several U.S. claims on a 96,000-acre plantation in Jaguey Grande (Marquis 1997). But the U.S. government did not provide detailed information either on the exact location of the expropriated properties or on the names of the claimants. Asked to comment on why the BM Group was penalized at a press conference in Havana on May 13, 1998, Michael Ranneberger (director of the U.S. State Department’s Office of Cuban Affairs) simply said: “What was happening there was that we had documentary evidence that the BM Group was using lands that were owned by U.S. citizens, and those lands are being used along the national highway. I don't have the exact locations with me, but this has also been transparent.”

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Whereas Sherritt International and BM Group continued their business activities in Cuba in the face of U.S. pressure, Grupo Domos withdrew from its investment in 1997 by selling its stake in ETECSA to the Italian firm STET. In the case of Domos, the Helms-Burton legislation seems to have played a minor role, along with more important financial problems. It is reported that the Mexican company never was able to obtain the financing required under the investment agreement with ETECSA.20

Domos counted on a $350 million loan from the National Bank for Foreign Commerce controlled by then-Mexican President Carlos Salinas. The President and a group of important Mexican firms strongly supported the telecommunications project. When Salinas left the presidency in August 1994, the bank raised the interest rates, thus forcing Domos to delay its payments to the Cuban government.21 Management mistakes and the collapse of the Mexican peso in 1995 further more exacerbated the situation. In this context, the 1996 application of Title IV against executives of Grupo Domos gave the final blow to a company already vexed by untenable financial problems. Although Domos did not abandon its investment in response to Helms-Burton, the law did make it more difficult for the firm to acquire the necessary financing for its business activities in Cuba (Sagebien and Tsourtouras 1999). In early 1997, at the time of its withdrawal, the company was months behind on its payments for ETECSA and unable to obtain credit to honor the debt. Cuban exile groups and some U.S. officials celebrated Domos’ withdrawal and cited it as a proof that Helms-Burton was an effective tool in weakening


21 Interview with a Cuban economist in Havana, June 21, 2000.
Castro and the Cuban economy (Rohter 1997). However, it must be noted that in 2001 the Mexican firm was still performing minor activities in Cuba, in an attempt to recover the capital invested or, perhaps, maintain a foothold in the island’s economy for the time the embargo is lifted.

The strategy adopted by the Italian company STET International in filling Domos’ place in Cuba’s telephone system supports the thesis that financial problems were the major factor in Domos’ withdrawal rather than the Helms-Burton law. In May 1997, STET received a letter from the U.S. State Department asking if it was using ITT equipment. A STET official in Rome said the Italian firm was not concerned by Helms-Burton because it had documents showing the equipment STET used was not seized from the former U.S. owner (Tamayo 1997). Nonetheless, it is reported that, in addition to an initial investment of $300 million, STET agreed with ITT on the payment of a compensation of about $30 million for use of the confiscated property (Roy 2000: 113). If the Italian company was able to protect its investment in Cuba by reaching an agreement with ITT, the Mexican Domos could have probably done the same. Unfortunately, its precarious financial conditions did not allow this type of solution. The payment of compensation to the former U.S. owner is very important because it highlights a possible way for foreign investors to circumvent (or perhaps succumb to) the provisions of the Helms-Burton law.

Although Washington has continued to warn many foreign companies for potential violations of Helms-Burton, no formal sanctions under Title IV were applied or announced between November 1997 and May 2004. Last year, however, the Bush

22 Subsequently, the U.S. Department of State reinstated visa privileges for the executives of the Mexican company (Roy 2000: 165).
administration stepped up economic pressure (again in a presidential election year) on several foreign firms and banks doing business with Cuba as part of a broader attempt to further disrupt Cuba’s limited access to international financing and hasten the demise of Fidel Castro’s decades-long rule over the island. In June 2004, the Jamaican tourist group SuperClubs pulled out of two hotel contracts in Cuba after receiving U.S. notice in early May that it had a 45-days grace period before the application of visa restrictions on its top executives for travel to the United States. Curiously, SuperClubs not only withdrew from the 480-room Breezes Costa Verde resort in the Holguín province, a confiscated property, but also from a separate Cuban venture not on the disputed property, the newly opened 436-room Grand Lido Varadero. Some analysts claimed that the Castro government forced the Jamaican company out in punishment for its bowing to Washington’s demands (Hemlock 2004). Confidential sources in Havana added that Cuba took the decision because many other foreign hotel chains were interested in running the Grand Lido Varadero. The resort is now managed by Sandals, another Jamaican group, under the name of Princesa del Mar. SuperClubs still manages the 270-room Breezes Varadero and the 250-room Breezes Jibacoa in Santa Cruz del Norte, Havana province.

**Withdrawals from Investments in Cuba**

Cases of withdrawals from existing investments or planned ones as a result of the Helms Burton law are difficult to document because both the foreign company and the

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Cuban government usually prefer to avoid publicity. Moreover, an admission of the role of U.S. pressures in the decision to pull out from an investment or desist from pursuing a project might undermine the possibility for a foreign firm to resume business activities in Cuba in the future.

Clear cases of companies that have ceased to do business in Cuba because of the U.S. legislation are those of the Mexican Cemex and the Canadian Redpath. Cemex withdrew in 1996 from a cement production venture in Cuba after learning that it was going to receive a notification letter from the U.S. Department of State for violation of Title IV. The company did not renew a contract of administration for the plant Cemento Curazao N.V. in Mariel (total investment of $40 million), which had been expropriated from the U.S. firm Lone Industries of Stanford (Marquis 1996). While Cuban officials have never confirmed this version, it is believed that Cemex decided to sacrifice its operations in Cuba to protect larger interests (including several plants) in the United States (Sagebien and Tsourtouras 1999).

In 1996, the Canadian sugar refiner Redpath also halted its operations in Cuba from apparent fear of Helms-Burton. The company is a wholly-owned subsidiary of the U.K.-based sugar producer Tale & Lyle PLC, which has extensive interests in the United States. A key factor in the decision of Redpath was the company’s desire to continue selling sugar to Canadian food processors that export to the United States. In a clear reference to Redpath, Cuban authorities reported in 2001 that Helms-Burton had provoked the termination of a sugar contract with a Canadian refiner, resulting in annual losses for the island of about $30 million since 1996 (AFP, July 17, 2001). Until its
withdrawal, the Canadian company had been buying 100,000 tons of sugar a year from

A few months after the passage of Helms-Burton, U.S. officials cited the Spanish
hotel chain Paradores Nacionales as an example of a foreign company that did not pursue
a planned investment in Cuba because of the U.S. law. According to Spanish press
reports, Paradores Nacionales pulled out of a provisional framework agreement to operate
eight hotels on the island (Confidential Report 1999). The Spanish newspaper El Pais
explained Paradores’ decision as a combination of Helms-Burton and the change of
policy implemented by the new conservative Spanish President Jose Maria Aznar.
Apparently, Aznar’s Partido Popular Party did not want to be seen as actively promoting
tourism for Fidel Castro’s alienated regime through a state-owned company such as
Paradores (Ing 1996).

In July 1996, another Spanish hotel chain, Occidental Hotels, pulled out of a
contract to manage four hotels at the leading resort of Varadero after studying the legal
implications of the Helms-Burton law. The company, at the time Spain’s second largest
international hotel chain, had received an offer from the Cuban group Gaviota. The
contract, due to come into effect in the autumn of 1996, was worth about $900,000 a
year. Occidental’s executives claimed they did not receive any kind of threat from the
United States and there was no reclamation from Cuban exiles on the four hotels that
were part of the project. Furthermore, the chain had just one hotel in the United States in
association with the U.S. Marriott group. But after a deep evaluation of the possible risks
in pursuing its project, Occidental concluded that the juridical confusion and the many
legal loopholes created by Helms-Burton suggested the withdrawal from the planned
investment (ABC, June 14, 1996). At any rate, Occidental Hotels announced in January 2000 that it was analyzing opportunities for a new investment in the Caribbean island, including the construction of three hotels through a joint venture with the Cuban government (Europa Press, January 27, 2000). Currently, the company manages two establishments in Cuba, the Occidental Miramar hotel in Havana and the Occidental Grand Playa Turquesa in the Holguin province.

The psychological impact of the Helms-Burton legislation is underscored by two additional cases. In January 1998, British Borneo Petroleum Syndicate pulled out of Cuba amid political pressure from the United States. U.S. officials reported that Borneo was among three companies phoned by the U.S. State Department as part of a routine inquiry. The director of the oil exploration group denied the company had been warned for a possible application of Title IV, but he concluded that “political reasons” had influenced its decision to leave Cuba (Reuters, March 4, 1998).25 Another important case is that of the Canadian Bank of Nova Scotia. The bank backed away from providing loans to Canadians wishing to invest in Cuba largely out of fear of running afoul of Helms-Burton and possibly jeopardizing its investments in the United States (McKenna and Kirk 1998: 6).

**Reorganization and Relocation of Activities**

Several companies have reorganized their operations in Cuba in order to disguise their identity and avoid possible sanctions. For instance, before the enactment of the Helms-Burton law, the British sugar trader E.D. & F Man occupied an office, clearly marked with a company sign, in Havana’s Miramar district. After the law went into

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25 Curiously, just a week earlier British Borneo Petroleum had said that it had abandoned its oil exploration activities in Cuba for technical reasons and not because of political opposition from the United States. For further details see Reuters. “British Borneo denies U.S. Cuba warning”. February 25, 1998.
effect, this sign was taken down but Man continued its sugar operations in Cuba using a
different identity, that of Pacol S.A., registered in Paris (Fletcher 2000).

Other firms have taken the necessary steps to conform their activities to the
provisions of Helms-Burton (Werlau, 1997). This is the case of the Dutch banking group
ING, the first foreign bank to open a representative office in Cuba. ING had provided
pre-harvest financing for sugar production in two Cuban provinces, Havana and
Matanzas, during the 1995-96 season. In July 1996, citing Helms-Burton, the bank said it
would not be renewing its “territorial financing” although it would maintain its presence
in the island. More specifically, ING backed out of co-financing with the Spanish Banco
Bilbao Vizcaya packages for the Cuban sugar industry worth nearly $60 million a year.
The Dutch bank is understood to have taken this step as a protective measure to prevent
possible U.S. sanctions after it was discovered that 45 mills the group financed were
claimed by Americans. A more generic scheme of “national financing” (or general loans
to the sugar sector) was soon established through other European financial institutions,
with ING acting as guarantor. The Spanish firm Tabacalera adopted a similar decision.
From 1994 to 1996, Tabacalera had provided direct financing to the Cuban tobacco
industry to boost tobacco production and cigar exports to Spain, Cuba’s biggest single
market. In 1997, the company changed the structure of its relationship with the Cuban
industry to avoid the effects of Helms-Burton. Instead of directly financing the Cuban
crop, Tabacalera now guaranteed funds coming from other Spanish financial institutions
(Reuters, February 13, 1997).

In short, there is no doubt that the Helms-Burton law has had a negative effect on
the flow of foreign financing for strategic sectors such as tobacco and sugar. But the law
has created more problems for the Castro government rather than foreign companies. Foreign firms and banks, such as ING and Tabacalera, were able to reorganize their activities to avoid the reach of Helms-Burton and maintain their presence in Cuba. The Cuban government was forced to accept credits from other European investors at rates as high as 20 percent.

As a consequence of Helms-Burton, some foreign firms operating in expropriated properties have decided to relocate their activities. This is the case of Motores Internacionales del Caribe S.A. (MICSA), a Panamanian company selling Mitsubishi, Lada and other vehicles in Havana. MICSA received a “warning” letter from the U.S. Department of State on January 23, 1997, saying that the company could be in violation of the Helms-Burton law. The firm was accused of profiting from the Havana office it rented from the Cuban government, a property seized after the 1959 revolution (Kerry 1997). A Cuban-American jewelry storeowner in Miami had reportedly notified the Helms-Burton unit of the U.S. Department of State that his family’s house was being used to sell cars. He was in possession of photos of the house beneath signs for Mitsubishi and Motores Internacionales. Summoned in Washington, Mitsubishi’s executives declined any involvement with the property and dissociated themselves from the Panamanian firm. They argued that their cars were sold to a wholesaler in Japan before being sold to Motores Internacionales in Panama (Marquis 1997). MICSA’s executives, instead, defended their position by claiming that the company had rented the

26 If there are problems for companies that provide financing, especially to the sugar industry, they are mainly related to the inability of the Cuban government to make its payments. Loans are generally either repaid in sugar or guaranteed by sugar deliveries. However, successive low sugar harvests and reduced production have seriously complicated the repayment of the loans, thus creating a complex tangle of rolled-over payments and sugar delivery commitments (Confidential Report 1999: 63)
house in 1993, three years before the enactment of the U.S. legislation. In their opinion, the firm had no responsibility because it could have not violated a law that did not exist.

In this regard, it is important to recall the provisions of Title IV. A foreign firm that has begun to operate on a confiscated property before the enactment of Helms-Burton may avoid sanctions if it refrains from undertaking renovations, upgrades, and constructions other than for routine maintenance. For MICSA, and for all the other companies in a similar situation, it would have been very difficult to keep operating in that property without running afoul of U.S. law. While minor activities such as painting the local were clearly identified as part of routine maintenance, more important renovations such as fixing the infrastructure or improving the facilities could have easily been considered as expansion of interests, thus raising the likelihood of a violation of Title IV (EFE, January 24, 1997). The U.S. Department of State also exercised psychological pressure by notifying the Panamanian company that its business operations in Cuba were under inquiry and they were going to be closely monitored.

In February 1997, just a few weeks after receiving the warning letter, Motores Internacionales announced it was going to move to a larger location in Havana. The company claimed it changed location because it was expanding and needed more office space, not because of the U.S. threat (Reuters, February 22, 1997). However, it is conceivable that MICSA moved to another property in order to avoid further problems and possible sanctions under Title IV of the Helms-Burton law. It must be noted that the head of the company and his son were exempted from a potential travel ban because they held dual Panamanian and U.S. citizenship, but as many as eight members of the
executive board faced the possibility of being denied entrance into the United States (Marquis 1997).

Finally, some foreign companies have decided to make the necessary arrangements before entering the Cuban market. For instance, the U.K. largest tour operator, Thomson Travel Group, has allegedly communicated with the U.S. Department of State to make certain that its business activities do not violate the Helms-Burton legislation. It is also reported that a Canadian company specialized in hotel constructions, Leisure Canada, has investigated 443 properties in Cuba in order to find a place with no links with U.S. claims (De Palma 2000).27 In 1999 Leisure Canada launched a 10-year, $400 million venture to build 11 hotels in four locations around Cuba along with golf courses, spas and entertainment complexes.

**The Sol Melia Case**

A foreign company that has been repeatedly threatened by the Helms-Burton law is the Spanish group Sol Melia, the leader in the Cuban tourist sector and one of the world’s ten largest hotel chains.28 In July 1996, Sol Melia received a “warning” letter from the U.S. Department of State similar to the one sent to Motores Internacionales. The company was under inquiry for one of the hotels it managed and partially owned (equity interest) in the Cuban beach of Varadero, the Melia Las America. Before the revolution, the land on which the hotel had been built belonged, allegedly, to the U.S. billionaire Ireneel Dupont. Although the Dupont family never claimed the expropriated property, executives of Sol Melia had to explain to U.S. officials that their business was not

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27 Leisure Canada has, nevertheless, an important layer of protection against potential sanctions under Title III of the Helms-Burton legislation because it has no assets in the United States.

28 Sol Melia manages two hotels in the United States, the Hard Rock Hotel Chicago and the Paramount New York. It also owns the Paradisus resort in Puerto Rico (U.S. territory).
violating the provisions of Helms-Burton (Vicent 1999). After a brief investigation, the United States informed the executives that there was not enough proof of an infringement of the law, thus freeing the Spanish firm from a possible application of Title IV. Sol Melia said its inquiries had led it to conclude that it was beyond the U.S. law’s reach, mainly because it had concentrated its investments on new properties (Haines 1997).

Since July 1996, Sol Melia has significantly expanded its business interests in Cuba. It currently manages 23 hotels on the island with equity interests in four of them (Spadoni, March 14, 2005). While being “cleared” by Washington three years before, in 1999 Sol Melia’s Cuba business prompted one of the highest-profile scrutinies under Helms-Burton. This time, the controversy was mainly related to a plot of land in the province of Holguin on which the hotel Sol Rio de Oro (only managed by Sol Melia) had been built. In 1959, the land belonged to the Sanchez Hill family, a prominent Cuban family now living in the United States. The U.S. Department of State sent a second letter to Sol Melia on July 30, 1999, notifying the company that a new Title IV investigation had begun. The letter called for an agreement between Sol Melia and the former owner of the property in order to avoid possible sanctions. Washington also solicited details from the Spanish chain about two additional hotels in the province of Holguin (built on Sanchez Hill’s properties as well) and another one in Varadero (Ebro 1999).

Again, U.S. pressures against Sol Melia did not produce any concrete result. The threat of sanctions under Title IV of Helms-Burton was temporarily withdrawn while the agreement between the Spanish company and the Cuban family never concretized.29

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29 According to Spanish sources, the July 1999 letter announced an imminent notification to Sol Melia of the 45-day deadline in which a company must either disprove the charge or abandon its investment. However, the notification has never been sent. See Economics Press Service. “Siguen amenazas contra Sol Melia.” November 15, 1999.
Although Sol Melia keeps saying its involvement with Sanchez Hill’s properties predates the passage of Helms-Burton, it is believed to have offered $1 million to the Cuban family. But the latter reportedly wants $10 million for the right to use 28 acres of coastal land it once owned (Cox 2001).

Two factors have played a major role in Sol Melia’s successful attempt to avoid sanctions under Title IV of the Helms-Burton law. First, since the earliest warning letter in 1996, and especially after the second one in 1999, the Spanish government (backed by the European Union) has strongly supported Sol Melia’s operations in Cuba. In November 1999, during a visit to the island, the Spanish Prime Minister Jose Maria Aznar publicly criticized the tightening of the U.S. embargo against Cuba. Asked about his choice of accommodation at the Havana Melia Hotel, Aznar replied that he intended to show support for the position of Spanish entrepreneurs and demonstrate that he was against Helms-Burton (Bloomberg, November 16, 1999).

Second, in the fall of 1996 the European Union (EU) decided to enact a blocking measure against Helms-Burton. The EU response involved the establishment of a “watch list” of U.S. companies and individuals filing lawsuits against European firms and considered placing visa and work restrictions on U.S. businessmen. Even more important, EU officials have repeatedly warned Washington that implementing Title IV against Sol Melia and other European firms operating in Cuba would prompt a challenge

30 Interestingly, Sol Melia’s executives have denied on several occasions they have equity interest in Cuban hotels. In 1999, the spokesman of Sol Melia Carlos Forteza claimed that the firm had nothing to fear from investigations on its activities because it had management only, and not ownership, of the 14 Cuban hotels in which it operated. He added that nothing was going to change with respect to Cuba and that the company intended to expand on a management basis within the norms of international law and without violating any disposition. See Reuters. “Spain’s Sol Melia said unworried by Cuba inquiry.” August 23, 1999. In an interview with Travel Agent in January 2000, the president of Sol Melia Gabriel Escarrer reiterated the management distinction but he also underlined that all the contracts signed by his company until then were before the Helms-Burton appeared. See Travel Agent. “Guiding Sol Melia.” January 17, 2000.
to Helms-Burton law in the World Trade Organization (WTO) because of its extraterritorial character. As observed by Sir Leon Brittain, the former EU trade commissioner, the U.S. law “establishes the unwelcome principle that one country can dictate the foreign policy of the others” (Barnard 1996). To avoid a fight within the WTO, the United States and the EU reached a preliminary agreement in 1997, and a more extended understanding on May 18, 1998. The EU promised not to pursue retaliatory measures against the United States in the WTO and discourage investments in certain questionable properties. In exchange, the United States agreed to prolong the suspension of Title III, respect the current status of foreign investment in Cuba, and pressure the Congress for an amendment that would give the president the authority to waive Title IV (Roy 2000: 127,152).

While Sol Melia has maintained its operations in Cuba, several U.S. Congressmen have continued to push for the application of sanctions against the Spanish firm. In June 2000, U.S. Senator Jesse Helms sent a letter to the European Union’s foreign relations commissioner Chris Patten in which he rejected the 1998 understanding and reiterated his intention to persecute Sol Melia (Oppenheimer 2000). In November 2000, Helms asked the U.S. Department of State to formally determine that Sol Melia is trafficking in Cuba and ban the hotel chain’s top executives from entering the United States. Finally, Cuban-American Representatives Lincoln Diaz Balart and Ileana Ros-Lethinen have constantly tried to build support within the U.S. Congress for a more aggressive Cuba

31 The United States agreed not to make pre-May 1998 expropriations the target of lawsuits.

32 The U.S. Senator, who retired in 2003, claimed that Sol Melia had “tacitly acknowledged” trafficking by negotiating with the Sanchez Hill family. He added that U.S. officials had exceeded their authority under Helms-Burton by pushing for an agreement between Sol Melia and the Cuban family. For further details see Cuba Trader. “Helms demands Helms-Burton sanctions against Spanish hotel chain”. November 21, 2000.
policy. They have asked President Bush to sanction Sol Melia without further delay and remove the waiver on Title III of the Helms-Burton law. Overall, Title IV remains a potential threat for the Spanish company, but it is unlikely to be applied. The Bush administration pursued a Jamaica-based target (SuperClubs) because its government lacks political weight (Gedda 2004). As the EU repeatedly warned the United States of tit-for-tat retaliatory actions, Washington can hardly afford a major dispute with its main trading partner over Cuba that would implode the mechanisms of the WTO.

**Helms-Burton: Failure or Success?**

Cuban and U.S. officials have provided contrasting interpretations of the impact of the Helms-Burton law on foreign investment in Cuba. Since March 1996, and at least until 2001, Cuban authorities proudly insisted that economic associations with overseas companies and the flow of FDI continued to grow. At the same time, they claimed that the codification of the embargo had done significant damages to the Cuban economy (Roy 2000: 170). In particular, they acknowledged the problems related to the external financing and the “inhibitive” or “psychological” effect of Helms-Burton on potential foreign investors. For their part, some U.S. officials argued that the law was having a significant impact on foreign investment in Cuba.

In March 1999, then-Cuban Minister for Foreign Investment and Economic Collaboration Ferradaz declared that Helms-Burton had been unable to stop the foreign investment process. He said that out of more than 360 joint ventures with foreign capital operating in Cuba at that time, more than 50% had been formed after the passage of the U.S. law (Veloz 1999). On February 2, 2001, his successor Marta Lomas maintained that foreign investment in Cuba was on the rise, as demonstrated by 392 active international
associations at the end of 2000. She also claimed that 61% of AECEs received approval after Helms-Burton (Prensa Latina, February 2, 2001).

In spite of these declarations about the ineffectiveness of the U.S. law, in April 2000 the Cuban Ministry of Foreign Investment released the results of a study that attempted to quantify the damages of Helms-Burton to the island’s economy. The study reports that the U.S. law has caused damages to Cuba totaling $208 million. It also presents six specific cases of projects affected by Helms-Burton and the correspondent amount of capital lost by Cuba. The names of the firms are omitted, but the cases are well known. Regarding the projects that involve more capital, Cuban authorities argued that U.S. pressures disrupted the export plan of a joint venture in the construction industry (clearly referring to the withdrawal of the Mexican cement company Cemex), which resulted in a loss of sales of $138.1 million. Moreover, U.S. court decisions and the action by a foreign firm in the telecommunications sector (the Italian Stet’s payment of a compensation to the former U.S. owner ITT for the use of confiscated properties) provoked damages of $37.6 million. Finally, the acquisition of a foreign firm in the transportation sector by a U.S. company (the Italian cruise line Costa Crociere, bought in 1997 by the U.S. Carnival Corporation) prevented the completion of a project estimated in $19 million (MINVEC 2000).

On the U.S. side, Senator Jesse Helms stated in March 1997 that Helms-Burton was having a devastating effect on the Cuban economy by forcing many foreign investors to abandon their operations on the island. Congresswoman Ileana Ros-Lethinen also contended that dozens of companies had suspended operations in Cuba while others were postponing their investment plans. She offered a list of companies (mainly Mexican,
Canadian and European) that had left Cuba because of the uncertainty generated by Helms-Burton and the names of firms whose projects had been put in hold (Roy 2000: 160-161). In March 1998, Michael Ranneberger, then- director of the U.S. State Department’s Office of Cuban Affairs, claimed that U.S. pressures had forced at least nineteen foreign firms to either pull out of Cuba or alter their investment plans.33

Clearly, the Helms-Burton law has affected foreign investors’ behavior, forcing them to reorganize their business activities, double-check new properties, or eventually renounce to further expansion. It has also discouraged some potential investors from pursuing their plans in Cuba. But how effective has the U.S. law been in forcing foreign companies already operating in the Cuban market to pull out of the island?

![Figure 4-9](image)

**Figure 4-9.** Authorized and Dissolved Associations by Year of Dissolution (1988-2004)
Source: Author’s calculations from MINVEC data, 2001-2005.

Figure 4-9 presents data on authorized and dissolved international economic associations by year of dissolution. Between 1988 and 2004, a total of 595 AECEs were

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33 Statement of Michael Ranneberger (Coordinator for Cuban Affairs, Department of State) to the Subcommittee on International Economic Policy and Trade of the House International Relations Committee, March 12, 1998.
formed in Cuba, most of them joint ventures; at the end of 2004, only 313 or 53% remained active, sharply down from the 403 reported for 2002. The number of dissolved AECEs is 282, approximately 47% of the total constituted. Almost 85% of dissolutions occurred after the enactment of the Helms-Burton legislation. Dissolutions were generally due to the termination of the regular contract between the Cuban state and the overseas investor; less frequently, they were the result of an anticipated withdrawal of the foreign partner. However, except in very few cases, there is no evidence that Helms-Burton played a major role in forcing existing investors to pull out of Cuba or, eventually, to refuse the renewal of a contract. More important factors seem to have been the inability of the Cuban government to meet its payment obligations, its increasing selectiveness toward FDI projects and unwillingness to create a more attractive business environment, and the existing restrictions on the operations of state and foreign enterprises. Between 1996 and 1997, when the United States stepped up enforcement of Title IV of Helms-Burton, 125 new AECEs were formed and only 20 dissolved.

The U.S. Department of State, through applied sanctions or simply “warning letters” for potential violations of Title IV, has mainly aimed to disrupt the flow of FDI delivered to Cuba and exercise economic pressure by targeting major companies with a significant presence in the island’s market. Table 4.2 summarizes the impact of Helms-Burton on selected foreign firms operating in Cuba whose cases have already been discussed. Only the Mexican Cemex and the Canadian Redpath have clearly ceased to do

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34 Only 10 new international economic associations were formed in 2004, while 39 dissolved. Interestingly, the Cuban Ministry of Foreign Investment reports that other 67 associations operating in Cuba are in the process of dissolution (MINVEC 2005). Therefore, unless a significant number of new agreements are signed in 2005 (or perhaps most of the contracts of the AECEs in dissolution are renewed), it is possible that the total number of active AECEs will be about 250 at the end of this year. If this is the case, then Cuba would have lost more than one third of associations with foreign partners in just three years.
business in Cuba because of the U.S. law and to save their investments in the United States. A less clear case is that of British Borneo Petroleum that pulled out of Cuba in late 1997 because of unspecified “political reasons” along with poor results of its oil exploration activities. Grupo Domos withdrew from its investment in the Cuban telephone system but did not abandon the island. And the Jamaican group SuperClubs pulled out of two hotel contracts in June 2004, but still manages two hotels in Cuba.

In all the other cases presented in Table 4-2, we can see that U.S pressures failed to prompt a general pull out. In order to avoid the effects of Helms-Burton, some foreign firms have taken specific steps such as the reorganization and relocation of their activities (E.D. & F. Man, ING Bank, Tabacalera, MICS), the spin off of their operations (Sherritt Int.), and the payment of compensation to the former owner of the property (STET Int.). Other investors have simply continued to operate and expand in Cuba undeterred by sanctions or U.S. inquiries (BM Group, LTI, and Sol Melia). A Cuban official observed in 2001: “Foreign companies carefully analyze the potential risks of their operations in Cuba and undertake the necessary preliminary arrangements to avoid running afoul of the Helms-Burton legislation. But they feel quite safe once entered the Cuban market.”

Although it is virtually impossible to gauge the psychological impact of Helms-Burton on foreign firms, data from the Cuban Central Bank on foreign direct investment in Cuba (see Table 4-1 on page 91) show a significant increase after March 1996. About $1.3 billion in FDI was delivered to the island in the 1996-2000 period, compared to $568 million in the 1990-1995 period. Even if the alleged inaccuracy of these numbers

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Table 4-2. Impact of Helms-Burton on Selected Foreign Firms Operating in Cuba

<table>
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<tr>
<th>Company</th>
<th>Country</th>
<th>Type of Operations in Cuba</th>
<th>Nature of Impact (Outcome)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BM Group</td>
<td>Israel</td>
<td>Joint venture in citrus sector</td>
<td>Application of Title IV (remained in Cuba)</td>
</tr>
<tr>
<td>British Borneo</td>
<td>U.K.</td>
<td>Oil explorations</td>
<td>Halted operations for “political reasons” and poor results (pulled out)</td>
</tr>
<tr>
<td>CEMEX</td>
<td>Mexico</td>
<td>Cement production venture in Mariel</td>
<td>Not renewed contract of administration because of H-B (pulled out)</td>
</tr>
<tr>
<td>E.D. &amp; F. Man</td>
<td>U.K.</td>
<td>Sugar trader</td>
<td>Reorganized operations to disguise its identity (remained in Cuba)</td>
</tr>
<tr>
<td>Grupo Domos</td>
<td>Mexico</td>
<td>Joint venture in telecommunications (ETECSA)</td>
<td>Application of Title IV (withdrew from investment but remained in Cuba)</td>
</tr>
<tr>
<td>ING Bank</td>
<td>Holland</td>
<td>Pre-harvest financing for sugar production in 2 provinces</td>
<td>Changed financing scheme (remained in Cuba)</td>
</tr>
<tr>
<td>LTI</td>
<td>Germany</td>
<td>Manages and markets three hotels in Cuba (under the brand name Maritim)</td>
<td>Received warning letter (remained in Cuba)</td>
</tr>
<tr>
<td>MICSA</td>
<td>Panama</td>
<td>Car seller (Mitsubishi)</td>
<td>Relocation of activities because of H-B (remained in Cuba)</td>
</tr>
<tr>
<td>Redpath</td>
<td>Canada</td>
<td>Sugar refiner</td>
<td>Halted purchases of sugar from Cuba (pulled out)</td>
</tr>
<tr>
<td>Sherritt Int.</td>
<td>Canada</td>
<td>Nickel/cobalt ore processing plant</td>
<td>Spin off and application of Title IV (remained in Cuba)</td>
</tr>
<tr>
<td>STET Int.</td>
<td>Italy</td>
<td>Filled Domos’ place in Cuba’s telephone system</td>
<td>Payment of compensation for use of confiscated property (remained in Cuba)</td>
</tr>
<tr>
<td>Sol Melia</td>
<td>Spain</td>
<td>Leader in Cuba’s tourist sector</td>
<td>Repeatedly threatened by Title IV (remained in Cuba)</td>
</tr>
<tr>
<td>SuperClubs</td>
<td>Jamaica</td>
<td>Manages and markets two hotels in Cuba</td>
<td>Application of Title IV (withdrew from investment but remained in Cuba)</td>
</tr>
<tr>
<td>Tabacalera</td>
<td>Spain</td>
<td>Financing for tobacco production and cigar exports</td>
<td>Changed financing scheme (remained in Cuba)</td>
</tr>
</tbody>
</table>
must be considered, Cuba’s claim that FDI flows have actually increased after the enactment of Helms-Burton appears correct. In July 2000, however, Marta Lomas acknowledged that only 40% of the total amount of capital pledged since 1990 ($4.3 billion) had been approved after March 1996 (EFE, July 10, 2000; Granma, July 11, 2000). This might suggest that the increased amount of FDI during the 1996-2000 period was partially due to agreements signed before the passage of Helms-Burton.36

While the flow of FDI delivered to Cuba has dropped significantly since 2001, companies from China, Venezuela, and Canada have recently pledged a substantial amount of capital for new investment projects on the island. In November 2004, China announced a $500 million investment in an unfinished nickel plant (Las Camariocas) in the eastern Holguín province and signed a letter of intent to explore and develop nickel reserves in central Camagüey (San Felipe), in a project that might be worth more than $1 billion (Frank, November 23, 2004). Early in 2005, China signed an agreement with the Castro government to jointly produce oil on the coast of western Pinar del Rio Province (Frank, January 31, 2005). Venezuela is considering off-shore oil explorations in Cuba’s Gulf of Mexico waters and has announced plans to upgrade an idled oil refinery at Cienfuegos and build a lubricants plant on the island (Boadle, April 29, 2005). In March 2005, Canada’s Sherritt agreed to invest about $225 million to increase nickel production at the Pedro Soto Alba plant in the eastern Cuban region of Moa. (Bloomberg, March 4, 2005). In sum, the capital involved in these various projects in Cuba could represent more than one third of the total amount of FDI ($6 billion) committed by foreign investors in more than a decade.

36 Interview with a Cuban economist in Havana, June 4, 2001.
Admittedly, the flow of FDI into Cuba remains low, especially if compared to other emerging markets in Latin America. However, whereas Helms-Burton might have had a psychological impact on potential foreign investors and prevented the completion of some projects, Cuba’s overall performance seems to be more a consequence of its limited and sometimes ambiguous commitment to FDI and its heavily regulated business environment. It must be remembered that the Castro government reluctantly resorted to foreign investment in the early 1990s out of necessity and said on several occasions it wants the minimum of foreign ownership on the island. There is some space in Cuba’s ideology for joint ventures with foreign capital, but they are welcomed as long as they contribute to the overall economic pie. In other words, Cuba is in a class of its own and its economic success ought not be measured in terms of delivered foreign investment and against the performance of other countries (San Martin 2001).

The main indicators of international economic associations have shown steady growth since the opening to foreign investment in the early 1990s and the impact of FDI on the Cuban economy, in spite of Helms-Burton, has become increasingly important. This development appears to confirm that Cuban authorities have been concentrating over the years on investments with positive economic results.

As shown in Figure 4-10, total sales of international economic associations increased from about $200 million in 1993 to more than $2 billion in 2002. During the same period, exports of goods and services generated by AECEs rose from approximately $90 million to $963 million, and domestic market sales from around $113 million to $1.1 billion. The Cuban Ministry of Foreign Investment also reports that direct income from international associations (which refers to dividends of the Cuban partners in AECEs plus
revenues from workers’ salaries and taxes) reached $310 million in 2002 (MINVEC 2004). As for 2003, Minister Marta Lomas stated that even with fewer companies there was an increase in exports, domestic sales and profits. She added that 60% of the total inputs of AECEs were bought in the domestic market (EFE, January 25, 2004). In 2004, total sales and exports of AECEs peaked, respectively, at $2,287 million and $1,345 million (MINVEC 2005).

![Figure 4-10. Main Indicators of AECEs, 1993-2002](image)

Source: Information provided by MINVEC, June 2004.

A small number of joint ventures has a large economic impact, as many projects with foreign partners in Cuba remain relatively small. According to MINVEC, 30 major AECEs (names were not specified) accounted for 81% of total sales, 71% of domestic sales, and 92% of exports of international associations in 2002. Furthermore, 4 major joint ventures (Corporacion Habanos, Havana Club Internacional, Compañia Azucarera Internacional, and ETECSA) accounted for 47% of total sales, 14% of domestic sales,
and 85% of total exports of goods and services of AECEs that year. The much lower impact of these enterprises on domestic market sales is not surprising as their revenues come, for the most part, from export-related activities.

Corporacion Habanos is a cigar distribution joint venture signed in late 1999 and 50% owned by the Spanish-French conglomerate Altadis. Havana Club Internacional is a 1993 rum distribution joint venture between the French company Pernod-Ricard and Cuba Ron S.A. Compañía Azucarera Internacional is a 2001 joint venture between Cubazucar and an unknown foreign partner (allegedly Paris-registered Pacol, S.A., a firm connected to the British sugar trader E.D. & F Man) for the commercialization of Cuban sugar in the world market (Frank, March 7, 2002). ETECSA is a 1994 telecoms joint venture in which Italy-based Telecom Italia (through its subsidiary Stet International) has a 27% interest. The majority of ETECSA’s revenues come from dollar charges applied to incoming international calls, which are considered as exports of telecommunications services. If we also consider the volume of export operations by Moa Niquel S.A., a 1994 joint venture between Cuba’s Union del Niquel and Canada’s Sherritt International, 5 major enterprises account for almost all export revenues generated through AECEs. In short, the increasing number of dissolutions of international economic associations will have little negative effect on the overall economic performance of FDI in Cuba as long as the big players continue to operate and invest in the communist island.

Interestingly, Cuba’s foreign partners in the five most important joint ventures on the island have been targeted by, or could be potential targets of Helms-Burton. In addition to the previously analyzed cases of Sherritt, Stet International, and E.D. & F. Man, the Spanish/French group Altadis has been the target of a lawsuit filed by New

37 Information provided by MINVEC, June 2004.
York-based General Cigar Holdings Inc. in November 2000. The lawsuit focuses on an alleged jawboning of Altadis with U.S. retailers to buy its non-Cuban products now, if the retailers hope to buy Cuban cigars once the embargo is lifted. However, General Cigar also contends that Cuba’s Habanos (partially owned by Altadis) is using its warehouse in Havana that was confiscated by the Castro government after January 1959 (Hemlock 2000). Similarly, the Cuban family Bacardi has accused Pernod Ricard of using its expropriated distillery in Santiago de Cuba to produce the rum Havana Club. The French firm denied that by claiming it simply markets the rum, which is produced in two distilleries in Santa Clara and Santa Cruz built in the 1970s and 1980s (Luxner 1997).  

![Figure 4-11](image)

**Figure 4-11. Exports of AECEs, 1995-2002 (as percentage of Cuba’s total exports of goods and services)**

Sources: Author’s estimates from MINVEC and ECLAC data, 2003-2004.

Cuba’s reiterated claims that incoming foreign direct investment is not crucial (only complementary) to the economic development of the country appear questionable. For

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38 Pernod Ricard is also engaged in a legal battle with Bacardi over the rights to sell Havana Club rum in the United States once the economic embargo against Cuba is lifted. A 1998 U.S. law, known as “Section 211,” prohibits the U.S. government from honoring trademarks confiscated by the Cuban government.
instance, as reported in Figure 4-11, the share of export revenues generated through AECEs in Cuba’s total value of exports of goods and services increased significantly in recent years. In 2002, AECEs accounted for almost 23% of the country’s total dollar revenues from all sources. If we consider that FDI in Cuba between 1993 and 2002 represented just 8.7% of the gross fixed capital formation (Pérez Villanueva 2005: 173), the performance of enterprises with foreign participation appears remarkable. In 2004, exports of AECEs accounted for more than 25% of the island’s total exports of goods and services.

It should also be noted that export revenues generated by AECEs are derived to a great extent from products rather than services. The latter may include the sales of joint ventures in the tourist sector (where dollar revenues are mostly linked to management contracts rather than AECEs) and international calls in telecommunications. Today, exports of goods are certainly less important for the Cuban economy than during the 1980s, but they are still a precious source of hard currency for the country. Assuming that all export revenues from AECEs in 2002 are from goods, their share of Cuba’s revenues from all product exports would be about 68%. If we add exports from FTZs ($59.9 million in 2002) and those of cooperative production contracts, the importance of FDI in Cuba’s total earnings from goods is even more pronounced.

Other indicators shed light on the role of foreign investment in the Cuban economy. By the end of 1997, joint ventures with foreign capital already accounted for the following shares of economic activity: 100% of oil exploration; 100% of metallic mining;

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39 Gross capital formation refers to capital used for the production of goods and services.

40 The percentage is calculated from data of Cuba’s National Statistical Office (ONE), according to which the island’s total earnings from product exports in 2002 was $1402.3 million.
100% of the production of lubricants; 100% of the production of soap, perfumes, personal hygiene products, and industrial cleaners; 100% of telephone services (wire and cellular); 100% of the export of rum; 70% of the production of citrus fruits, juices, and concentrates; 50% of the production of nickel; 50% of the production of cement; 10% of all rooms for international tourism and an additional 39% under administration contracts with foreign firms (Pérez Villanueva 1999: 119).

Since 1997, the importance of foreign capital has grown. In the oil sector, Cuban authorities announced that overseas companies have invested around $1.2 billion so far (Luxner 2004), raising crude oil production from 0.7 million tons in 1990 to 4.1 million tons in 2003.\(^{41}\) Two Canadian companies, Sherritt (50%) and Pebercan (15%), produced approximately 65% of Cuba’s total national oil output in 2003.\(^{42}\) Crude oil extracted through exploration activities with foreign firms (along with the introduction of top level technologies) has enabled the Cuban government to increase domestic production of electricity and natural gas. For instance, the Energas plant constructed with Sherritt in Matanzas in 2000 uses the natural gas released during oil extraction for producing electricity and naphtha. Today, nearly 100% of the country’s electricity is generated with domestic fuel.

In the nickel sector, the impact of FDI over production has been significant. Total foreign investment in nickel has amounted to over $400 million, increasing production from 26,900 tons in 1994 to 72,000 tons in 2003. The Pedro Soto Alba plant, operated by

\(^{41}\) This is almost 45% of the island’s annual consumption of 9.2 million tons in 2003. See CEPAL. “Política Social y Reformas Estructurales: Cuba a Principios del Siglo XXI.” April 2004.

Sherritt, produced 32,042 tons in 2003 (44% of total production).\textsuperscript{43} In the cement sector, FDI has taken a prominent role thanks to a 50/50 joint venture (Cementos de Cienfuegos S.A.) signed in 2000 between Cuba’s Cemvid and Spain’s Pailas de Cemento S.A. for the modernization of the island’s largest cement plant in Cienfuegos.\textsuperscript{44} In tourism, there were 19,960 rooms under management contracts with foreign firms at the end of 2003, representing about 49% of the 40,963 available rooms in Cuba (rooms under joint ventures accounted for 11-12% of the total).\textsuperscript{45} Finally, foreign participation has a substantial influence over the production and marketing for the five largest export sectors (in terms of gross U.S. dollar revenues) such as sugar, nickel, tobacco, rum, and fishing. According to the Cuban Central Bank, these sectors accounted in 2001 for more than 32% of Cuba’s total dollar revenues from all sources.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{chart.png}
\caption{Exports and Domestic Market Sales of AECEs, 1995-2002 (as percentage of total sales of AECEs)}
\end{figure}

\textbf{Figure 4-12.} Exports and Domestic Market Sales of AECEs, 1995-2002 (as percentage of total sales of AECEs)

Source: Author’s estimates from MINVEC data, 2004.

\textsuperscript{43} CubaNews. “Sherritt urges rapid nickel expansion while price is high.” v.12, i.4, April 2004.


\textsuperscript{45} CubaNews. “Canada still top source of visitors to Cuba.” v.12, i.3, March 2004.
Foreign investment has not only helped Cuba find new markets for its main products but also increased the competitiveness of Cuban production and, therefore, the contribution of import substitution to overall economic expansion. If we analyze sales of international economic associations since 1995 (Figure 4-12), we can see that the share of exports has been decreasing whereas the domestic market has gained importance. While in 1995 exports represented almost two-thirds of the sales of AECEs, in 2001 they had dropped to around 36%. On the other hand, sales in the domestic market have grown steadily, accounting for about 64% of total AECE sales in 2001. The significant increase of exports of AECEs in 2002 was mainly the result of the creation of Compañía Azucarera Internacional and its sugar activities and, to a lower extent, higher revenues from nickel exports. Nonetheless, domestic market sales still accounted for more than 53% of total sales that year. Of course, we are left without knowing the composition of these sales and their impact on import substitution. Even so, if AECEs have sold in the domestic market goods and services worth more than $5 billion between 1995 and 2002, it is conceivable that such an impact has not been negligible.

In the oil sector, foreign capital has doubled Cuba’s refinery capacity and allowed the country to save more than $450 million in oil imports during 2001 (Pérez Villanueva 2005: 183). Moreover, the proportion of domestically produced goods provided to the tourist industry has increased from 12% in 1990 to 69% in 2003. Ten years ago, practically all products for hotels and restaurants had to be imported. The development of mixed enterprises in tourism has stimulated the formation of new joint ventures in other sectors (in particular food industry, agriculture, and services) to supply them at low prices. Triggered by a substantial increase of nickel prices in the international market, exports by international economic associations accounted for about 59% of total sales of AECEs in 2004.
Finally, the share of domestic goods sold to the network of hard currency stores on the island has reached 49% in 2003 (ONE 2004), mainly because of foreign direct investment and cooperative production agreements in food processing and light manufacturing industry.

![Figure 4-13. Cuba’s GDP, 1989-2004 (Annual Growth Rates)](source)

*Preliminary figure for 2004.

Overall, the Helms-Burton law has been unable to detain the flow of foreign capital delivered to Cuba and force major foreign investors to halt their operations on the island. Given the importance of these operations for the Cuban economy, it is not surprising that the law has also failed to undermine the process of economic recovery of the communist island (Figure 4-13). The Castro government was able to achieve what it had hoped in the early 1990s: using FDI in selected economic activities to stimulate the development

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of the country while maintaining national state control wherever possible over investment, areas of business, and strategic sectors.

During the deep economic recession that started in 1990 (beginning of the “special period”) and reached the lowest point in 1993, Cuba’s GDP contracted by 40.1%. Since then, the economic performance of the country has been positive, although the growth rate has fluctuated substantially from year to year. While decreasing at an average annual rate of 10% between 1990 and 1993, Cuba’s GDP averaged about 3.3% during the last decade and 3.7% per year since the enactment of the Helms-Burton law in 1996. The economic recovery clearly remains incomplete and far from satisfying the needs of the country. Yet, the island has steadily recuperated from the severe domestic crisis caused by the collapse of the Soviet Union and managed rather effectively the external pressure of Helms-Burton. Even some scholars who favor the use of unilateral economic sanctions and hold a more negative view of Cuba’s economic performance recognize that the latter “probably has more to do with the economic errors of Cuban socialism than with the Helms-Burton legislation” (Kaufman Purcell 2002: 16). The Cuban economy is expected to grow about 4% in 2005 thanks to an increase in external financing, the expansion of nickel and oil productions as well as international tourism, and some export diversification (EIU, February 2005).

**Conclusion**

There is little doubt that the Helms-Burton legislation has complicated the business operations of foreign investors in Cuba. Possible links with expropriated properties and the extreme vagueness of the concept of “trafficking” have forced foreign companies to

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48 While clawing back most of the ground lost in the early 1990s, the Cuban economy is still below its 1989 level.
keep a low profile, resort to expensive legal assistance, and disguise or eventually reorganize their activities on the island. In addition, financing for investments in Cuba has become much more expensive and difficult to obtain.

The confusion and the higher risk introduced by the U.S. law might have convinced some potential investors to withhold their projects or look elsewhere for less problematic business environments. It is also conceivable that certain foreign firms with operations in the United States have stayed out of Cuba because of the U.S. policy toward the island, reinforced by Helms-Burton. However, the overall investment process clearly has not been halted. First, U.S. pressures have been largely ineffective against foreign firms with little or no U.S. exposure. Second, those companies that have verified that their projects do not involve confiscated properties have moved forward with their investments (McKenna and Kirk 1998: 9). Third, a number of small enterprises entered the Cuban market with the conviction that, because of their size, they can avoid scrutiny of the Helms-Burton law’s restrictions (Campbell 1996: 498).

Several foreign companies are engaging in profitable activities in Cuba, expanding their operations on the island, and taking advantage of the lack of U.S. competition. The flow of foreign direct investment remains low, if compared to other Latin American countries, but this seems more a consequence of Cuba’s limited and sometimes ambiguous commitment to FDI rather than of Helms-Burton. In any case, the main

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49 In January 2001, asked to comment on the poor presence of Great Britain in the Cuban market, a British officer gave one of the rare admissions of this particular problem for foreign companies. He reported that Great Britain is the second biggest investor in the world and most of its investments are in the United States; he added that U.S. threats for possible sanctions have put a brake on the British participation in economic activities on the island. See Opciones. “Gran Bretagna: Funcionario considera factible incremento de relaciones bilaterales”. January 28, 2001. More recently, Valentin Diez Morodo, president of the Mexican Foreign Trade, Investment and Technology Council (COMCE), said that Mexican entrepreneurs have reduced their investments in Cuba in part because of fear of the Helms-Burton law. See EFE. “Empresarios mexicanos no invierten en Cuba por temor a EEUU.” January 4, 2005.
economic indicators of international associations have shown a constant progress since the early 1990s, thus supporting Cuba’s claims that the government has concentrated on investments with results. Foreign investment has helped Cuba find new markets for its main products, increased the competitiveness of Cuban production, and stimulated import substitution. Finally, AECEs and new forms of investment such as cooperative production agreements have boosted domestic supply to the tourist industry and to the increasingly important internal market in hard currency.

In summary, the Helms-Burton legislation has met with some success, but missed its main targets. The law has been moderately effective in dissuading some foreign companies from entering the Cuban market, but it largely failed to force foreign firms operating on the island to withdraw from their investment. It also failed to hinder the process of economic recovery of the communist nation and detain the flow of foreign capital delivered Cuba.

The presence of foreign direct investment in Cuba has been particularly strong in all the industries that have experienced the highest growth over the past decade, namely oil, electricity generation, telecommunications, nickel, and tourism. Substantial amounts of hard currency reaching Cuba from the United States, especially in the form of remittances, also played a major role in reactivating the island’s economy after the deep recession of the early 1990s. The next chapter provides an analysis of U.S. financial flows in the Cuban economy in the context of tightened U.S. economic sanctions against the government of Fidel Castro.
CHAPTER 5
U.S. FINANCIAL FLOWS IN THE CUBAN ECONOMY

During the 1990s, the United States reinforced its decades-long economic embargo against Cuba with the enactment of the Torricelli law in 1992 and the Helms-Burton law in 1996. Although one of the stated goals of additional sanctions was to offer positive inducements to democratic reforms in Cuba, the key objective of U.S. policy was to intensify economic pressure on the Castro government (and eventually hasten its collapse) by curtailing the flow of hard currency to the communist island. A spokesman for the U.S. Treasury Department recently admitted that sanctions against Cuba were mainly intended to “deprive the Castro regime of the financial wherewithal to continue to oppress its people” (Kirkpatrick 2003).

There has been considerable debate about just how effective Washington’s unilateral sanctions against Cuba have been in denying hard currency earnings to the Castro government. In light of the available information, it could be argued that the United States has not only been unable to foster fundamental political reforms in Cuba, but actually has contributed to the recovery of the island’s economy from the deep recession of the early 1990s. Despite the tightening of the embargo, significant amounts of hard currency have been channeled into the Cuban economy through U.S. visitors (mainly Cuban-Americans), remittances sent by Cuban exiles to their families on the island, U.S. telecommunications payments to Cuba, American food exports (sold in government-owned dollar stores), and U.S. investors who hold shares of foreign companies doing business with the government of Fidel Castro.
This chapter begins with an analysis of international tourism in Cuba and the presence of U.S. visitors on the island. It continues with an examination of the importance for the Cuban economy of remittances sent from Cuban exiles and payments to the Castro government by U.S.-based companies for telecommunications services. Finally, it provides a brief review of recent developments in U.S. food sales to Cuba and U.S. investments in foreign companies that operate in the Cuban market. Overall, this chapter demonstrates that the United States has played and continues to play quite an important role in the Cuban economy and that a substantial portion of hard currency reaching Cuba is in violation of U.S. regulations.

**International Tourism and U.S.-Based Travel to Cuba**

Since the late 1980s, Cuba has targeted tourism as a priority sector because of its ability to generate foreign exchange. International tourism is today, at least in gross terms, the single most important source of hard currency for the Cuban government. Cuba is again emerging as one of the Caribbean’s most popular holiday destinations.\(^1\) The tourism industry, which was relatively small prior to 1990, has grown at an astounding 13.2% annually (as measured by the average increase in the number of tourist arrivals) since the legalization of the dollar sector of the economy in 1993, with a period of small decline following the September 11, 2001, terrorist attacks on the United States and a strong recovery in the past two years.

Even more important, there has been a significant improvement in the integration between local industries and the Cuban tourist sector. While ten years ago the overwhelming part of the inputs to the sector had to be imported, local corporations and

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\(^1\) In 1990, Cuba ranked 23rd among the 25 top tourist destinations in Latin America and the Caribbean. By the end of 2004, the island occupied the eighth place. See Hernández-Basso Minerva. “Dos millones de visitantes cierran el tercer lustro turístico.” *Opciones*, December 30, 2004.
especially joint ventures with foreign firms currently supply a wide range of products (69% of total inputs) such as mineral waters, soft drinks and alcoholic beverages, processed meat, omnibuses, air conditioners, telephones, and electronic equipment. It is estimated that between 100,000 and 150,000 Cubans work directly in the island’s tourism industry, with some additional 200,000 indirect workers (Brundenius, July 2002: 2).

Figure 5-1. International Tourism in Cuba, 1993-2004
* Calculations of the author

Figure 5.1 reports data on gross revenues from international tourism, number of tourist arrivals and gross revenues per tourist from 1993 to 2004. According to official figures, arrivals rose from 546,000 in 1993 to over a million in 1996, and broke the 2 million mark for the first time in 2004 (up 7.5% from 2003). Similarly, gross revenues from tourism increased from $720 million in 1993 to more than $1.9 billion in 2000, making the tourist industry, as Cuban officials often describe it, the “engine” of the island’s economy. For 2004, the National Statistical Office (ONE) reported that gross
revenues from tourism were about 2.3 billion, up 18% from the previous year. In terms of tourist expenditures, gross revenues per tourist per year increased from $948 in 1991 to $1475 in 1995. Since then, however, annual gross revenues per tourist have decreased steadily, and in 2001 they were $1037, just 9% above the 1991 level. This suggests that if there are not other avenues for the economy to grow in the future outside of tourism, the Cuban economy might plateau once the tourist sector reaches its maturity. In 2004, gross revenues per tourists were approximately $1151, only 11% above the 2001 level and about 22% below the 1995 level.

Restrictions on travel from the United States to Cuba have been a key component of U.S. policy toward the Castro government for most of the last forty years, although they have changed many times since 1963. During the 1990s, President Clinton repeatedly made changes to travel regulations in response to actions by the Cuban government. As a reaction to the balsero crisis of the summer of 1994, he banned family visits by Cuban-Americans, who were previously allowed to visit their close relatives on the island, except in cases of “extreme humanitarian need.” In 1996, after the shooting down of two U.S. planes flown by Cuban exiles, he suspended direct flights between the two countries (Robyn et al. 2002: 2). However, in 1999, as part of a new policy aimed to promote people-to-people contacts, he streamlined travel procedures for students, athletes, artists, and other groups and individuals to visit Cuba. Clinton’s policy, inaugurated in the wake of Pope John Paul II’s historic visit to Cuba, also allowed resumption of charter flights from Miami to Havana as well as new direct flights from New York and Los Angeles. These changes were mainly intended to facilitate family
reunions between Cuban-Americans and their families on the island (Eckstein and Barberia 2001: 12).

In order to travel to Cuba, individuals subject to U.S. law must be authorized by a general license (which requires no written authorization) or a specific license (which requires approval) from the Office of Foreign Assets Control (OFAC) of the Department of the Treasury. Prior to the new rules introduced in the summer of 2004, the majority of individuals traveling under a general license were Cuban-Americans who visited their families on the island. Others who could travel without specific documentation from OFAC included U.S. government officials, full-time journalists, professional researchers, and academics. Alternatively, a specific license was required for businessmen, free-lance journalists, and members of religious organizations.

In March 2003, the Bush Administration introduced regulations on travel (and remittances) that allowed more Cuban-Americans to visit relatives on the island once a year (a specific license was nonetheless required for more than one visit per year) and forbade trips to Cuba that combined non-credit educational activities with people-to-people contacts, which had become a loophole for groups to travel to Cuba when the educational aspect was barely evident. The rules eliminated the previously established requirement that Cuban-American visits take place only in cases of a self-defined “humanitarian purpose,” such as a sick or dying relative, thus easing the conditions under which U.S. citizens of Cuban descent could travel to Cuba (Lexington 2003). On June 30, 2004, the Bush administration implemented new measures against Cuba aimed to stem the flow of hard currency reaching the island and to hasten the end of Fidel Castro’s rule. In addition to further restrictions for U.S.-based educational travel to the island,
these measures prohibit Cuban-Americans from visiting relatives in Cuba more than once every three years (a specific license is now required for every trip), limit their stay to just 14 days, and reduce the amount they can spend during their visits from $167 to $50 per day.

Table 5-1. U.S. Visitors to Cuba, 1990-1998 (thousands)

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<tbody>
<tr>
<td>U.S. citizens not of Cuban descent</td>
<td>7.4</td>
<td>11.2</td>
<td>10.0</td>
<td>14.7</td>
<td>17.9</td>
<td>20.7</td>
<td>27.1</td>
<td>34.9</td>
<td>46.8</td>
</tr>
<tr>
<td>Cuban-Americans*</td>
<td>2.6</td>
<td>4.6</td>
<td>14.6</td>
<td>19.4</td>
<td>33.5</td>
<td>39.3</td>
<td>58.3</td>
<td>71.7</td>
<td>94.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>10.0</td>
<td>15.8</td>
<td>24.6</td>
<td>34.1</td>
<td>51.4</td>
<td>60.0</td>
<td>85.4</td>
<td>106.6</td>
<td>141.7</td>
</tr>
<tr>
<td>Rank**</td>
<td>7</td>
<td>7</td>
<td>6</td>
<td>6</td>
<td>5</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
</tbody>
</table>


* Estimates of the author
** The rank refers to the position of the United States among nations whose citizens visit Cuba

Table 5-1 reports data on U.S. visitors to Cuba for the period between 1990 and 1998. Notwithstanding the travel restrictions, the number of U.S. visitors to the island has increased significantly during the 1990s. According to official Cuban statistics, which include only U.S. citizens of non-Cuban origin, travelers from the United States rose from about 7,000 in 1990 to more than 46,000 in 1998. Regarding Cuban-Americans, the actual number of visitors grew from approximately 2,600 in 1990 to almost 40,000 in 1995. Between 1996 and 1998 (when Clinton banned direct travel), visits by Cuban-Americans to Cuba almost doubled from 58,300 to 94,900. In short, whereas in 1990 about 10,000 U.S. citizens traveled to Cuba, representing the seventh largest group among foreign travelers, in 1998 this number jumped to more than 140,000.

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2 Eckstein and Barberia (2001: 13) argue that there is contradictory information about Cuban-American visits to Cuba. According to the authors, while Cuban sources report that individuals of Cuban descent visiting the island between 1994 and 1996 were about 20,000 per year, U.S. sources estimate that the actual number was approximately 40,000 in 1994 and 100,000 per year between 1995 and 1998.
By 1995, the United States was already the fourth largest source of visitors to the island after Canada, Italy, and Spain.³

Table 5-2. Tourist Arrivals by Origin, 1999-2003

<table>
<thead>
<tr>
<th>Country</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>276,346</td>
<td>307,725</td>
<td>350,426</td>
<td>348,468</td>
<td>452,438</td>
</tr>
<tr>
<td>United States</td>
<td>182,445</td>
<td>200,298</td>
<td>203,989</td>
<td>219,346</td>
<td>229,529</td>
</tr>
<tr>
<td>U.S. citizens (ncd)*</td>
<td>62,345</td>
<td>76,896</td>
<td>78,789</td>
<td>77,646</td>
<td>84,529</td>
</tr>
<tr>
<td>Cuban-Americans**</td>
<td>120,100</td>
<td>123,400</td>
<td>125,200</td>
<td>141,700</td>
<td>145,000</td>
</tr>
<tr>
<td>Italy</td>
<td>160,843</td>
<td>175,667</td>
<td>159,423</td>
<td>147,750</td>
<td>177,627</td>
</tr>
<tr>
<td>Germany</td>
<td>182,159</td>
<td>203,403</td>
<td>171,851</td>
<td>152,662</td>
<td>157,721</td>
</tr>
<tr>
<td>France</td>
<td>123,607</td>
<td>132,089</td>
<td>138,765</td>
<td>129,907</td>
<td>144,548</td>
</tr>
<tr>
<td>Spain</td>
<td>146,978</td>
<td>153,197</td>
<td>140,125</td>
<td>138,609</td>
<td>127,666</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>85,829</td>
<td>90,972</td>
<td>94,974</td>
<td>103,741</td>
<td>120,866</td>
</tr>
<tr>
<td>Mexico</td>
<td>70,983</td>
<td>86,540</td>
<td>98,495</td>
<td>87,589</td>
<td>88,787</td>
</tr>
<tr>
<td>Others</td>
<td>373,591</td>
<td>424,095</td>
<td>416,493</td>
<td>358,090</td>
<td>406,500</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,602,781</td>
<td>1,773,986</td>
<td>1,774,541</td>
<td>1,686,162</td>
<td>1,905,682</td>
</tr>
</tbody>
</table>


³ In 1995, Canada was the most important source of visitors to Cuba (143,541), followed by Italy (114,767), Spain (89,501), and the United States (59,972). In 1998, Canadian travelers to Cuba numbered 215,644, followed by Italians (186,688), Germans (148,987), and individuals from the United States (141,678).

In the last few years, the presence of the United States in the Cuban tourist market has become increasingly important. Table 5-2 presents data on arrivals to Cuba from selected countries for the period between 1999 and 2003. In 1999, an estimated 182,000 U.S. citizens (about 120,000 were Cuban-Americans) traveled to Cuba, more than from any other country except Canada. Since then, visits from the United States have increased continually, consolidating U.S. citizens as the second largest group among foreign travelers. For instance, tourists from some European countries such as Germany and Spain have declined significantly since 2000. Instead, approximately 125,000
Cuban-Americans and 79,000 U.S. citizens of non-Cuban origin visited Cuba in 2001, representing about 11.5% of total arrivals to the island. About 50,000 were tourists who traveled via third countries, with or without their government’s authorization (Economist, January 4, 2003). As observed by a Canadian official, “U.S. tourists are quite visible among visitors arriving in Cuba on flights from Montreal, Toronto, Kingston, Nassau, and Mexico City” (USITC 2001).

What’s more important, U.S. travelers are “believed to spend about $200 million a year in Cuba” (Oppenheimer 2002). Thus, even with sanctions in place, the United States is a valuable source of hard currency for the Cuban tourism industry, providing almost 11% of its total gross revenues in 2001. While the total number of international arrivals to Cuba declined by 5% in 2002, Cuban-Americans were one of the few groups of foreign travelers to the island (including tourists from the United Kingdom) that registered a substantial growth that year. A record number of around 230,000 U.S. citizens visited Cuba in 2003. For U.S. citizens not of Cuban descent, arrivals peaked at about 85,000 (an increase of 8.9% over 2002), with an additional 145,000 Cuban-Americans visiting their families in 2003. Yet, Bush’s most recent restrictions on U.S.-based travel to the island seem to have had a significant impact on the number of trips taken to Cuba from the United States. The U.S. State Department reveals that, from July to December 2004, the number of reservations on charter flights to Cuba plummeted by more than half as compared to the same period in 2003. The decline was particularly marked during Christmas time, when a 75% drop took place (Lorente 2004).

There is no doubt that the increasing numbers of U.S. visitors to Cuba in the last few years have been triggered by Clinton’s people-to-people contacts policy, inaugurated
in January 1999. However, it is important to take into consideration that many individuals from the United States visit Cuba through third countries without U.S. travel permits, technically violating U.S. economic sanctions prohibiting spending money for unlicensed purposes. Licensed travelers are currently allowed to spend up to $167 per day for hotels, meals, and ground transportation. Since 1994, the number of individuals subject to U.S. law traveling to Cuba, but not authorized from OFAC to do so, has increased on average 19% to 21%, while legal visits rose just by 9% to 11%. For instance, it is reported that approximately 22,000 U.S. citizens visited Cuba in 2000 without authorization from OFAC (USCTEC 2002). Other estimates put the number of illegal visits to Cuba by U.S. citizens between 40,000 and 50,000 per year, representing up to one fourth of total U.S. travel to the island. Cuban authorities, eager to accept U.S. visitors paying in dollars, do not stamp the passports of Americans, leaving no official trace of their presence (Sullivan 2001). One 33-year old artist from Minneapolis said she was visiting Toronto when she saw there was a flight to Havana. So she bought a ticket and spent a week touring the city. Another U.S. citizen from Minneapolis said he headed illegally for Cuba by way of Cancun, Mexico. He brought gifts for locals and spent about $2,000 in cash during his stay because the travel ban prohibits Americans from using credit cards on the island (Moreno 2003).

Since President George W. Bush took office in 2001, OFAC has been cracking down on those who travel to Cuba without permission. During the Clinton administration, OFAC took steps to levy fines (the average fine is $5,500) on between 46 and 188 Americans a year. That figure jumped to 700 in 2001 (Houston Chronicle,

4 Licensed travelers can spend additional money for telephone calls and for transactions directly related to the activities for which a license was issued.
March 9, 2003).\(^5\) However, these fines affect fewer than 3% of the total number of violators per year, and they target primarily U.S. citizens of non-Cuban descent. As noted by U.S. Representative Jeff Flake (R-Arizona), “U.S. authorities pay no attention to Cuban-Americans even as they harass and level fines against Americans who go to the island. While being allowed to travel for a self-defined humanitarian need, “their relatives always seem to get sick around the same time, like Christmas and other major holidays” (Eaton 2003). In addition, there are several cases of Cuban-Americans who are able to visit Cuba twice a year without asking OFAC for a specific license. Asked to comment about how she was able to visit Cuba twice in 2000 to meet a newborn nephew and to take a vacation on the beach, a Cuban-American replied: “Coming to Havana is very easy. Although I am a U.S. citizen, I am required to have a Cuban passport. So I use my (U.S.) passport to enter and leave the United States and the third party country, while using my Cuban passport for the rest of the journey” (IPS, November 1, 2001). In short, whether they target U.S. citizens of non-Cuban descent or Cuban-Americans, travel restrictions are unable to stem illegal travel to Cuba. Even admitting that the threat of prosecution might have discouraged some potential travelers, it is virtually impossible for the U.S. government to prevent its citizens from visiting Cuba and spending money there in violations of U.S. regulations.

**Remittances to Cuba**

As a result of the deep economic recession that threatened Cuba’s survival in the early 1990s, the Castro government decriminalized both the possession and the use of hard currency (especially U.S. dollars) in August 1993. The government also legalized

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dollar-denominated remittances under its 1994 monetary reform program. Since then, family remittances, mainly sent from Cuban-Americans, have become an important source of supplemental income for many Cubans. Even more important for the purpose of this study, these practices have significantly boosted the domestic dollar market in Cuba. As observed by Jatar-Hausmann (2000), the legalization of the use of foreign currency encouraged more family remittances, and the high prices at government-owned dollar stores acted as a hidden sales tax on remittances, effectively allowing the Cuban authorities to obtain access to that money. In light of this development, several scholars contend that money sent from abroad has been the single most important factor in reactivating the Cuban economy in the second half of the 1990s.

Pedro Monreal, an academic from the island, argues that in recent years Cuba has become increasingly dependent on remittances and donations from abroad. He specifies that, in strict terms, the Cuban economy cannot be qualified as an economy that depends fundamentally on remittances because other important activities such as tourism and mining have emerged. Nevertheless, he concludes that the importance of money sent from abroad is beyond question. In fact, in net terms, remittances are the biggest source of foreign exchange for the country, more than tourism and sugar (Monreal 1999: 50).

Many of those who analyze data on revenues from tourism (about $2.3 billion in 2004) believe that the tourism industry is the main generator of hard currency for the Cuban economy. However, it must be noted that these are gross figures. In net terms, revenues are significantly lower. In March 2001, Carlos Lage estimated the cost per dollar of gross income from tourist activities at $0.76.\textsuperscript{6} This indicator is very high and

refers only to the direct cost in dollars, not the indirect cost incurred by the state in the tourist sector. Also consider that domestically produced goods for tourism have an imported (indirect) component in dollars, which implies that the cost per dollar of gross income would be even higher. Direct and indirect costs per dollar have been estimated by some economists at more than $0.80, which would mean for the country a net result of just $0.20 for every dollar of gross income from tourist activities (Economics Press Service, May 2001). Such an estimate has been recently confirmed by Cuban Vice Minister of Tourism Marta Maiz. In May 2003, in an interview for the Cuban magazine Bohemia, Maiz said that in 2002 “income from tourism was $52.2 million less than in 2001, with a cost of USD 80 cents for every dollar captured by the country (Fariñas and Tesoro 2003).

Americans can send no more than $300 every three months to friends and relatives in Cuba. Prior to the OFAC regulations regarding travel and remittances to Cuba enacted in March 2003, a cap of $300 in remittances was also applied to licensed travelers to Cuba, who were required to produce the visa recipient’s full name, date of birth, and the number and data of issuance of the visa or other travel authorizations issued. A licensed traveler was authorized to carry only remittances that he or she was authorized to remit and could not carry remittances made by others. Since 1999, the U.S. government has also authorized several companies in the United States to legally transfer money to Cuba by relying on local individuals in Cuba who are contracted to deliver the money. The three most established businesses are Western Union, MoneyGram, and El Español. Within the limit of $300 per trimester, senders in the United States (who must be at least 18 years old) can send smaller amounts, such as $100, more than once in that period. But
they have to pay a fee (around $24 dollars in February 2004) each time the money is transferred.

The OFAC regulations of March 2003 allowed U.S. authorized travelers to Cuba to carry as much as $3,000 in household remittances, up from $300 each quarter. The increased amount of remittances was intended to help up to 10 households per traveler (San Martin 2003). However, the new measures on remittances implemented by the Bush administration on June 30, 2004, reestablish the cap of $300 dollars for licensed travelers and limit money transfers only to immediate relatives, excluding aunts, uncles, and cousins, all of whom were formerly on the list of cash recipients. Additionally, these measures ban U.S. citizens from including clothing and other such items in their gift parcel deliveries to Cuba; the parcels’ contents are limited to food, medicines, medical supplies, and receive-only radio equipment.

Estimating the flow of remittances to Cuba is difficult, given the lack of reliable information. Official counts (as reported by the Economic Commission for Latin America and the Caribbean, or ECLAC) make inferences from “net current transfers” in Cuba’s balance of payments, which are mostly made up of remittances and, to a lesser extent, of donations. Nonetheless, it is unclear how the Cuban government records remittances under net transfers. Some Cuban economists contend that these data include only transactions thorough official mechanisms, such as Western Union, Transcard, and

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7 The OFAC amendments not only increased the limit on the amount of remittances that could be carried to Cuba by an authorized traveler, but also introduced the following technical changes: a) authorized licensed remittances to be made from blocked inherited funds; b) restricted quarterly remittances from being sent to senior-level Cuban government officials or senior-level Cuban Communist Party officials; c) simplified rules on authorization for certain emigration-related remittances.

8 An ever-increasing number of Cubans are turning to the Transcard (sold by a Canadian company) as a fast, efficient, and less costly alternative to receiving remittances via Western Union. Individuals outside of Cuba can establish accounts in any Transcard office throughout the world and designate a Cuban
other services, excluding a variety of informal money transfers from abroad carried out through entrusted entrepreneurs (mules), as well as friends and relatives visiting the island.\(^9\) Other economists argue that Cuban authorities use formal transfers only as a reference, to which they add estimates on the basis of sales in dollar stores, exchanges of dollars for pesos in money exchange houses (\textit{casas de cambio}, or CADECA), and hoarding (money that people guard in the house for preservation or future use). But they quickly recognize that figures should be interpreted with caution. According to these economists, calculations exclude sales in tourist outlets (where Cubans also buy products) and make use of unreliable surveys to estimate the level of hoarding in Cuba.\(^{10}\) Finally, some scholars claim that figures under net transfers are calculated as the turnover of dollar shops minus dollar earnings accounted for by official payments of dollars, mainly through incentive schemes (Barberia 2002: 13).

Whatever the method used by the Cuban government to record transactions under “net current transfers,” it appears that official counts of remittances highly underestimate the amount of money sent from Cubans abroad to their families on the island. Although it is virtually impossible to provide accurate estimates of remittances to Cuba, the best way to proceed is to analyze the main sources of hard currency for the Cuban population and its possible uses as presented in Figure 5-2.

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\(^9\) Interview with a Cuban economist in Havana, June 9, 2003.

\(^{10}\) Interview with a Cuban economist in Havana, May 20, 2003.
Figure 5-2. Main Sources of Hard Currency and Possible Uses for the Cuban Population


(a) CUC-only stores since November 2004  (b) Exchanges of CUCs for pesos since November 2004

* A thicker arrow indicates a larger amount of hard currency received and used by the Cuban population.

It should be noted that dollar stores no longer exist in Cuba as the U.S. dollar was taken out of circulation on November 8, 2004. Cuban citizens may continue to possess U.S. dollars, but using the latter in commercial transactions or retail is now prohibited. Cubans must rely on the convertible peso or CUC for purchases of goods in hard currency stores or purchases of regular pesos in money exchange houses. The CUC, pegged to the U.S. dollar since its introduction in 1994, was revalued by 8% against all international currencies in April 2005 (Spadoni, April 18, 2005). In this study, the convertible peso is referred to as hard money to distinguish it from the regular peso, which circulates in Cuba at a current rate of 24/25 pesos per CUC. Technically, however, the CUC is not a hard currency because its value is not recognized outside the island.
Experts believe that remittances benefit as many as 30% of Cuba’s 11 million citizens and constitute, without any doubt, the most important source of hard currency for the population of the island (Johnson 2003). Several jobs in the tourist sector can also bring significant amounts of hard currency tips to Cuban workers, such as cab drivers, waiters, bartenders, and other hotel employees. Similarly, many Cubans in the private sector can earn the equivalent of hundreds of dollars per month for services such as house rental, restaurants, and taxis. Finally, Cubans who work in joint ventures, embassies, foreign offices, and in certain key industries such as tourism, nickel, oil extraction, and tobacco, receive relatively small payments in hard currency. In short, jobs that can earn hard currency salaries or tips from foreign businesses and tourists have become highly desirable in Cuba.

As to the potential use of hard currency, prior to November 2004 the large majority of Cubans used dollars to make purchases in government-owned dollar stores (mainly for food and clothes) or exchanged them for regular pesos in CADECA. Currently, those Cubans who receive dollars or other currencies from abroad must exchange them for CUCs in order to carry out these transactions. Relatively small amounts of hard currency are utilized to make purchases in free farmers’ markets, make tax payments and contributions, and open accounts in local banks. The level of hoarding also may be quite significant, but the lack of information makes it impossible to assess reliably the extent of this practice.

11 Cubans with contracts abroad such as musicians, technicians, and other professionals may also obtain salaries in hard currency. However, very few people are included in this category and the amount of dollars generated by these activities, while significant at the individual level, remains negligible overall.

12 Interestingly, some Cuban economists argued that the level of hoarding in Cuba could be as high as $500 million in 2003. Interview with a Cuban economist in Havana, May 20, 2003.
Using available information on sales in dollar stores and dollar purchases by CADECA, it is possible to estimate the level of remittances to Cuba. As noted before, remittances are the most important source of hard currency for the Cuban population, but they are not the only one. Thus, in order to estimate the amount of money sent from Cubans abroad to their families in the island, we must consider other ways by which Cubans procure hard currency. Table 5-3 offers a sample calculation of remittances for the year 2001. Figures for sales in dollar stores are based on official data provided by the Cuban government, while the other amounts are estimates based on conversations with Cuban economists.

Table 5-3. Calculation Sample of Remittances in 2001 ($U.S. million)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales in dollar stores</td>
<td>1,220</td>
</tr>
<tr>
<td>Dollar purchases by CADECA</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,320</strong></td>
</tr>
<tr>
<td></td>
<td>From this amount subtract:</td>
</tr>
<tr>
<td>Income of the private sector of which</td>
<td>70-80</td>
</tr>
<tr>
<td>• House-rental</td>
<td>45-50</td>
</tr>
<tr>
<td>• Restaurants, taxis, and other services</td>
<td>25-30</td>
</tr>
<tr>
<td>Tourism-related tips (4-5 dollars a day x 100,000 direct workers in the tourist sector)</td>
<td>145–180</td>
</tr>
<tr>
<td>Contracts abroad, payments to workers, incentive payments in dollars and convertible pesos, etc.</td>
<td>25-30</td>
</tr>
<tr>
<td><strong>Total remittances</strong></td>
<td><strong>1030-1080</strong></td>
</tr>
</tbody>
</table>

Sources: ONE. “Ventas de la producción nacional con destino a tiendas y turismo”, 2002; Estimates of the author based on conversations with Cuban economists.

Total sales in dollar stores in 2001 were about $1.2 billion, with an additional $100 million of dollar purchases by CADECA. From this amount, we must subtract the dollar income of Cubans who provide services such as house rental,13 restaurants, and taxis.

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13 It is reported that in 2003 there were 2,705 people with licenses who, charging dollars, rented rooms to foreigners in Havana, where 80-85% of all Cuba’s dollar-based renters are located. In addition, there were

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This amounts to about $70 to $80 million. We must also deduct tourism-related tips (assuming that direct workers in the tourist sector earn on average $4 to $5 dollars a day, the total amount would be approximately $145 to $180 million), contracts abroad, and incentive payments in dollars and convertible pesos (about $25 to $30 million).

As shown in Table 5-3, total remittances to Cuba in 2001 were an estimated $1,030 to $1,080 million, substantially higher than the amount reported by sources like ECLAC that rely on Cuban government balance of payments data. If ECLAC figures (just $730 million for 2001) are correct, then the level of transactions in dollar stores and CADECA ($1,320 million) implies that, in addition to remittances, Cubans should receive about $600 million a year in hard currency revenues. This is highly improbable. Admittedly, hard currency sources unrelated to remittances may not be negligible (to be fair, we can also subtract purchases by diplomats, foreign residents, and some tourists from dollar-store sales), but they can hardly make up for the difference between the amount of money transfers calculated by ECLAC, and the sum of sales in dollar stores and transactions in exchange houses. Cuban economists estimate that foreign exchange income from activities unrelated to remittances can, at best, represent about 20% of all dollar revenues of the Cuban population.\footnote{14}

Using sales in dollar stores and dollar purchases by CADECA as a reference, Table 5-4 provides estimates of remittances to Cuba for 1995 to 2003. Figures from ECLAC are also included for comparison. Since the legalization of dollar holdings in 1993, money remittances to Cuba have increased significantly. ECLAC reports that individuals\footnote{an estimated 5,200 unlicensed renters around the country who charged dollars or other foreign currencies. See Grogg, Patricia. “Landlords on the verge of a nervous breakdown.” Inter Press Service (IPS), July 4, 2003.}
of Cuban descent sent more than $500 million to their relatives on the island in 1995. This figure topped out at $740 million in 2000. Almost 90% of remittance dollars arriving in Cuba came from the United States (Orozco 2002: 1). Sales in dollar stores have experienced a similar expansion, but they increased at much higher rates between 1997 and 2001. In 1997, the total value of sales in dollar stores was $867.4 million, while in 2001 it reached $1,220 million. This suggests that the actual amounts of remittances to Cuba for the period 1997 to 2001 might have been much higher than those reported by ECLAC. Whereas remittances, as calculated by ECLAC, increased only 9% during this period, sales in dollar stores rose by more than 40%. Purchases by CADECA also grew by approximately 25% between 1998 and 2001.

Table 5-4. Sales in Dollar Stores, Dollar Purchases by CADECA and Remittances to Cuba, 1995-2003 (U.S. Million)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales in dollar stores</td>
<td>537</td>
<td>744</td>
<td>867</td>
<td>1,027</td>
<td>1,109</td>
<td>1,203</td>
<td>1,220</td>
<td>1,320</td>
<td>1,380</td>
</tr>
<tr>
<td>Dollar Purchases by CADECA*</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>75</td>
<td>82</td>
<td>90</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Net Current Transfers</td>
<td>646</td>
<td>744</td>
<td>792</td>
<td>813</td>
<td>799</td>
<td>740</td>
<td>813</td>
<td>820</td>
<td>915</td>
</tr>
<tr>
<td>ECLAC estimates of remittances</td>
<td>537</td>
<td>630</td>
<td>670</td>
<td>690</td>
<td>700</td>
<td>740</td>
<td>730</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Author’s estimates of remittances</td>
<td>537</td>
<td>640</td>
<td>750</td>
<td>880</td>
<td>950</td>
<td>1,030</td>
<td>1,050</td>
<td>1,130</td>
<td>1,180</td>
</tr>
</tbody>
</table>

Sources: ONE. “Ventas de la producción nacional con destino a tiendas y turismo.” 2002 and earlier editions; Cuban Central Bank, 2002; ECLAC, 2002 and 2003.

*Estimates of the author based on conversations with Cuban economists.

The author estimates that remittances were $750 million in 1997, $950 million in 1999, and more than $1 billion since 2000. The assumption of significant undercounts in the calculation of remittances is also consistent with the growth of Cuban-American visits to the island after Clinton’s inauguration of the people-to people contact policy in early 1999 (see Table 5.2). We should remember that a large part of money transfers is
undertaken in the “gray area” of the informal tourist sector. Unofficial estimates for 2002 put total sales in dollar stores at $1.320 million and remittances to Cuba at about $1,130 million (up by almost 8% from the previous year). Further evidencing such an increase are reports that many new items were sold in dollar stores in 2002, including construction materials (mainly cement), freezers, and food products. Only CIMEX, the corporation that runs more hard currency outlets than any other Cuban firm, announced sales of more than $600 million that year.\footnote{15} CIMEX officers also revealed that Western Union, which provides money-transfer services to Cuba solely from the United States, registered a record of $50 million in remittance transactions in December 2002 alone.\footnote{16} In 2003, sales in dollar stores and remittances totaled about $1,380 million and $1,180 million, respectively.\footnote{17} CIMEX sold products to dollars stores for a total value of approximately $740 million, followed by other major Cuban corporations such as TRD Caribe ($250 million in sales) and Meridiano-Cubarse ($180 million).\footnote{18}

Accurate estimates of remittances to Cuba are inevitably complicated by the existence of well-developed informal mechanisms for money transfers. Instead of making use of formal wire transfer services (fees charged by U.S. based companies remitting to Cuba are the highest among all operators engaged in legal money transfer to

\footnote{15} Interview with a Cuban economist in Havana, June 18, 2003. At the end of 2000, the dollar market in Cuba was composed of more than 5,500 establishments, including stores, restaurants, cafeterias, bars, and other commercial services. For further details see: Marquetti Nodarse, Hiram. “El Proceso de Dolarizacion de la Economia Cubana: Una Evalucion Actual.” Centro de Estudios de la Economia Cubana (CEEC), April 2004.

\footnote{16} Interview with a Cuban economist in Havana, May 20, 2003.

\footnote{17} The Economist Intelligence Unit reports that sales in dollar stores peaked at around $1.3 billion in 2003. Economist Intelligence Unit (EIU). “Country Profile Cuba 2003/2004.” October 2003. Cuban sources notes that the total value of sales could have been higher. For instance, Hiram Marquetti Nodarse, an academic from the island, observes that, “according to estimates for the end of 2003, total sales in retail stores operating in dollar exceeded $1,350 million.” Marquetti 2004.

\footnote{18} Interview with a Cuban economist in Havana, June 22, 2004.
Latin American countries), it is known that a huge flow of remittances arrive on the island in the luggage of friends, relatives, or entrusted agents. The latter, usually referred to as “mules,” are entrepreneurs who travel frequently to the island as tourists and without a license to operate as a business. They carry both money and packages of goods to Cuban relatives of the senders for cheaper fees than the ones charged by official agencies. A November 2001 survey carried out by the Inter-American Development Bank (IADB) shows that only 32.1% of U.S. citizens of Cuban descent use Western Union to transfer remittances, while more than 46% prefer to send money with persons who are traveling to the island. In terms of the volume of the economic transactions, it is estimated that informal mechanisms capture up to 80% of the total flow of money transfers to Cuba from the United States (Orozco 2002: 4-5).

Some analysts have attempted to estimate the amount of remittances sent to Cuba by tracking the activities of money transfer companies operating on the island from the United States and Canada, and by carrying out extensive interviews with officials of those companies, travel agents, and other entrepreneurs. Recent figures from IADB, which do not differ significantly from the author’s estimates, put the total amount of remittances to Cuba at $930 million in 2001 and $1,138 million in 2002, an increase of about 22% over the previous year (IADB 2003). These findings are extremely surprising in light of the economic downturn of the U.S. economy following the terrorist attacks of

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19 In February 2004, the cost of sending $200 in remittances to Cuba from the United States through formal transfer services was 12.11%, as compared to an average cost of 7.9% for the entire Latin American region (IADB 2004).
September 2001. The IADB also reports that remittances to the island were $1,194 million in 2003, up around 5% from 2002 (IADB 2004).

There is some evidence that money transfers from the United States oftentimes violate the limit of $1,200 per year on remittances to Cuba. Whereas more than 50% of Cuban respondents in the November 2001 IADB survey said they send less than $100 per transaction, interviews with mules said that, on average, they carry more than $200 per individual package. Given that most of the “mules” travel twice a month using different routes, it is likely that transactions with these entrepreneurs frequently exceed the $1,200 annual cap on remittances for U.S. citizens. As further proof, Cuban sources indicate that the number of U.S. citizens of Cuban descent sending money back home might be as high as 520,000 (Aguilar Trujillo 2001: 98). If we divide the author’s estimates of remittances (to be more precise, we can deduct 10% because not all remittances come from the United States) by the estimated number of Cuban-Americans who regularly send money to their families, we can see that money transfers to Cuba from the United States were on average $1,817 per person in 2001, $1,955 in 2002, and $2,042 in 2003. Confirming these results, some experts have argued that Cuban Americans currently send an annual average of $2,000 per person to Cuba using non-traditional channels such as “mules” or other entrusted agents (Economics Press Service, February 2004).

It is well known that many Cuban-Americans use services in foreign countries to engage in “special” transactions that circumvent the cap on remittances. Asked to comment about his remittance activities, a Cuban exile from New Orleans revealed in

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1997 that he had sent $200 dollars back home to Cuba every month for the past 15 years using a Canadian company (Hegeman 1997). Unlimited informal transactions are currently facilitated by the emergence of a new web-based money transfer service, Cash2Cuba, which reduces commissions and increases the speed of transfers to Cuba. The service, based in Canada, facilitates informal practices by providing registered Cuban recipients a card to make cash withdrawals. More specifically, the remitter can send money that the recipient in Cuba withdraws in cash at banks or official exchange businesses with a local credit card issued by the Cuban corporation CIMEX. Merchandise can also be purchased by credit card in Cuba’s retail stores in hard currency (Arreola 2002). In its first month of operation in December 2002, Cash2Cuba reported a volume of transfers of $320,000 and 10,000 registered users (EIU, February 2003).

As stated before, U.S.-based travel to Cuba appears to have dropped considerably last year, mainly as a result of President Bush’s new restrictive measures on Cuban American visits and remittances to the island implemented in the summer of 2004. With fewer U.S. citizens traveling to Cuba, and tightened rules on money transfers, one would expect a sharp fall in hard currency flows reaching the island from abroad. A recent study by ECLAC, instead, suggests that remittances to Cuba have increased in 2004, thus raising doubts on the overall effectiveness of U.S. policy. According to ECLAC, net current transfers in Cuba's balance of payments were about $1 billion in 2004 (ECLAC 2004: 128), up almost 10% from 2003 ($915 million). Although official counts as reported by ECLAC remain questionable for the reasons previously discussed, there are at least three plausible explanations for such potential development.
First, many U.S. citizens of Cuban descent anticipated Bush's restrictions, which were announced in early May but went into effect two months later, by delivering more money to their relatives on the island. For instance, it is conceivable that many Cuban-Americans who traveled to Cuba in early summer, to beat the June 30 deadline, carried enough remittances to satisfy their family members' needs for the rest of the year. Prior to the deadline, U.S. authorized travelers to Cuba could carry as much as $3,000 in remittances. The cap was then reduced to just $300. In addition, those Cuban-Americans who had planned family visits to Cuba, but were unable to travel because of the new rules, found themselves with additional money to remit to their relatives. It cannot be excluded, therefore, that some exiles tried to remit not only the amount of dollars they can usually afford to transfer, but also part of the money they saved on a trip that never came. And since U.S. regulations allow American citizens to send only $300 every quarter to immediate family members in Cuba, stiffened rules on travel and money transfers might have stimulated illegal remittances through unofficial mechanisms.

Finally, the potential growth of remittances to Cuba could have been triggered by money sent either by the increasing number of Cubans residing in Europe or by U.S. citizens who use businesses located in third countries, such as Canada-based Transcard and Cash2Cuba, to circumvent U.S. restrictions. In August 2004, the Castro government launched a new money-transfer service (SerCuba) that allows people in the United States or elsewhere to forward remittances to Cuban nationals via Spain and Italy or through the company's Web site (Bachelet 2004). In late December 2004, the Swiss company AWS Technologies inaugurated its own Web site for money transfers to the island, through which any user can send funds to relatives in Cuba by using a credit card (EFECOM,
December 24, 2004). In sum, ECLAC’s latest figures on money transfers to Cuba are preliminary estimates that should be taken with caution. Yet, if confirmed, they highlight an extremely worrisome scenario for the United States. If remittances were indeed higher in 2004, then U.S. policy would have succeeded in keeping Cuban families apart while doing little to stem the hard currency flowing into the hands of Cuban nationals, and from there into the coffers of the Castro government.

Limitations on remittances are perhaps the most contradictory element of current U.S. policy toward Cuba. While being part of a series of U.S. restrictions intended to squeeze the Castro government economically, remittances were Cuba’s fastest growing hard currency source during the 1990s. To put things into perspective, Figure 5.3 provides rough estimates of Cuba’s four largest sources of hard currency revenues (net figures) in 2001 and 2002. The total amounts are based on the author’s data, figures released by the Cuban Vice President Carlos Lage and Cuban Vice Minister of tourism Marta Maiz, and calculations of some Cuban economists.

Remittances are a source of fresh capital for the Cuban population, but in terms of revenues, they do not constitute a net benefit for the Castro government. The latter obtains access to remittances mostly through sales in dollar stores (now CUC-only stores), and obviously there are costs involved in procuring the goods exchanged in these transactions. In selling products at dollar stores, the Cuban government applies an ideal mark-up (hidden tax) of 240%. This means an item that costs $1 dollar to produce domestically (or import), with a 240% tax, would sell for $2.4 dollars (Eckstein 2003: 17). Thus, net revenues of dollar stores are about 58% of total sales. Some remittances also end up in CADECA, farmers’ markets, and hoarded stashes. Nova González (2001),
an economist from the island, has estimated that net revenues from remittances are about 63-64% of the total amount of money sent to Cuba.

Figure 5-3. Rough Estimates of Cuba’s Main Sources of Hard Currency in 2001 and 2002 (net revenues in $U.S. million)

* Net revenues are calculated as 64% of total transfers from abroad ($1050 in 2001 and $1130 in 2002)
** Assuming the cost per dollar of gross income from tourist activities at $0.80 or 80 cents.
*** Considering average costs and international market prices, net revenues from sugar are estimated as 40% of gross revenues

From Figure 5-3, we can see that net hard currency revenues to the Cuban government from family remittances (about $723 million in 2002) are today greater than its profit from tourist activities ($354 million), sugar ($176 million), and nickel ($84 million) exports combined. Calculations based on preliminary figures for 2003 are even more striking. While net revenues from remittances peaked at $755 million, net profits from tourist activities might have been lower than the previous year, even if gross revenues increased by 13%. In fact, some Cuban economists estimate that, in 2003, the
cost per dollar of gross income in the tourist sector increased from $0.80 to $0.83, which would mean a net result of just 17%, or $340 million (Economics Press Service, December 2003).

These figures are not surprising. Unhappy about loose spending and corruption that have limited profits, Cuban authorities fired several top executives from the island’s largest tourism group, Cubanacan, in late 2003. Early in 2004, they replaced the Tourism Minister, Ibrahim Ferradaz, with Manuel Marrero Cruz, who at the time of his designation was heading the Gaviota tourism group, one of the country’s major hotel corporations (Frank, May 30, 2004). It is reported that Gaviota, which is linked to the Cuban Defense Ministry, managed to obtain in its establishments an average cost per dollar of gross income of just $0.64 in 2003. Cuban authorities hope to achieve similar efficiency levels in the other tourist groups, whether they own three-, four-, or five-star hotels.21 As for nickel exports, net profits should have been higher in 2003 since gross revenues increased from about $500 million to $650 million. However, net profits from sugar exports were significantly lower as total production dropped by almost 40% and generated only $300 million in gross revenues, compared to $430 million in 2002.22 In sum, although the accuracy of these estimates should be taken with caution, the importance to the Cuban economy of money sent from abroad is undisputable. Even if remittances are intended to provide the Cuban population a much-needed source of additional income, they end up in the hands of the Cuban government, thus allowing the

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21 Interview with a foreign correspondent stationed in Havana, May 26, 2004.

latter to meet the most urgent needs of the country and pay unavoidable short-term debts with high interest rates.\textsuperscript{23}

Finally, it should be noted that recent currency changes in Cuba will increase the foreign exchange liquidity of the Castro government and practically neutralize the negative impact of the Bush administration’s latest economic measures against the island. In November 2004, Havana’s authorities banned the circulation of the U.S. dollar in Cuba in favor of the convertible peso and applied a 10\% commission on dollar/CUC exchanges. In order to avoid the 10\% charge, which was announced a few weeks earlier, Cubans rushed to exchange an estimated $500 to $600 million\textsuperscript{24} they hoarded at home for CUCs or opened accounts in local banks as hard currency deposits made prior to November 14, 2004, can be withdrawn at any time either in dollars or convertible pesos without having to pay the 10\% commission.

Cuba’s decision in early April 2005 to reevaluate the CUC by 8\% against all international currencies will also generate significant amounts of hard currency revenues to the island’s government. First, the raised value of the CUC means that the government will obtain an 8\% growth of its net profits from remittances and tourist activities. As gross revenues from international tourism were about $2.3 billion in 2004 and the flow of remittances from abroad more than $1 billion, such an increase might be worth almost $300 million a year. Second, this currency change stimulated many Cubans who still hoarded U.S. dollars at home to exchange them for CUCs before the new measure went into effect. Those Cubans who had not turned in their dollars in November 2004, probably decided that an additional 8\% reduction in their purchasing power was too

\textsuperscript{23} Interview with a Cuban economist in Havana, June 5, 2003.

\textsuperscript{24} Interview with a Cuban economist in Havana, November 7, 2004.
much to ignore. In brief, whereas Washington is using new restrictions on U.S.-based travel and remittances to deny hard currency resources to the Castro government, the latter is squeezing more profits out of these resources.\footnote{While there is a possibility that remittances to Cuba from the United States will decline as a result of the recent devaluation of the U.S. dollar against the convertible peso, Havana’s authorities seem confident that Cuban exiles will send a bit more money to make up the difference. During a television broadcast in early April 2005, President Fidel Castro claimed “many Cubans abroad obtained good jobs due to Cuba’s free and excellent educational system, so they not only could send more dollars but should out of gratitude, even if the state took 20 percent off the top.” See Frank, Marc. “Dollar’s purchasing power dwindles in Cuba.” \textit{ABC News}, April 7, 2005.} According to Cuban officials, the island's balance of payments account (which refers to international trade in goods and services, transfer payments and short-term credit) registered in 2004 its first surplus since 1994 and is expected to exhibit another surplus in 2005 (AP, March 29, 2005).

\textbf{U.S. Telecommunications Payments to Cuba}

The development of the telecommunications sector has been a high priority for the Cuban government since the early 1990s. The telecom industry, which had received only minimal investment since 1959, was in need of modern digital technology and foreign capital as the island’s entire phone network still operated on analog systems. During the last decade, this sector of the Cuban economy has been the target of some of the biggest investments by foreign companies. In particular, two major joint ventures with foreign partners were established to expand and digitalize fixed-line service and develop a dollar-priced cellular phone service. Nevertheless, it must be stressed that telecommunications services remain state monopolies. Cuba simply allowed foreign investors to participate in those monopolies (Peters 2001: 4).

In mid-1994, Mexico’s Grupo Domos and Italy-based Telecom Italia (through its subsidiary Stet International Netherlands) entered in a joint venture (ETECSA) with the Cuban telephone company Emtel for the modernization and expansion of Cuba’s
telephone system. ETECSA has a monopoly on Cuba’s fixed line communications and international switching. Mostly due to financing problems, Grupo Domos withdrew from its investment in 1997, while Telecom Italia increased its stake in ETECSA to 29%. The remaining four shareholders were three separate Cuban government-owned or -controlled corporations with a combined 59% share and a Panamanian-registered corporation, Utisa, with a 12% share. At the end of 2002, Telecom Italia’s shares in the company were valued at $469 million (USCTEC 2004).

In February 1998, Sherritt International Communications, a wholly-owned subsidiary of Canada’s Sherritt International, purchased a 37.5% interest in the Cuban cellular carrier Telefonos Celulares de Cuba (Cubacel) for approximately $38.25 million (Reuters, February 28, 1998). During the first quarter of 2000, the Canadian corporation paid an additional $4 million to increase its ownership to 40%.26 Until 2003, Cubacel and another small Cuban carrier, state-owned Celulares del Caribe (C-Com), had exclusive rights to frequencies in the island’s dollar-priced cellular phone market, which was only available to tourists and other foreign visitors. However, in late 2003, ETECSA took over both Cubacel and C-Com in a major business operation aimed to create an integrated fixed-mobile telecommunications operator and to expand the wireless service to the local population. Sherritt International sold its 40% interest in Cubacel for $45.1 million. As a result of the merger, Telecom Italia’s investment was reduced to 27% of the share capital of the new integrated operator.27 ETECSA now has a monopoly on Cuba’s entire telecommunications sector.


Cuba’s telecommunications indicators have improved significantly in recent years, although they are still among the lowest in Latin America.\textsuperscript{28} Specifically, phone density increased from 3.18 telephone sets per 100 inhabitants in 1994 (when ETECSA was established) to 6.40 in 2003 (Hoffmann 2004: 190),\textsuperscript{29} and it is projected to reach 12 to 14 within four or five years. While in 1995 only 4% of all lines were digital, by 2003 about 80% of Cuba’s telephone network was digitalized. In addition, the communist island currently has an estimated 20,000 cellular phone subscribers, 270,000 personal computers, more than 750 Internet sites, and more than 480,000 e-mail accounts (Rosabal 2004).

For the purpose of this study, it should be emphasized that the United States has played an important role in financing the development of Cuba’s telecommunications sector. As observed by the Cuban Minister of Information Technology and Communications, Ignacio Gonzales Planas, in January 2004, “a portion of the revenues derived from telecom services is being systematically set aside for investments that enhance this infrastructure” (Rosabal 2004). While basic residential phone service in Cuba is relatively inexpensive as consumers pay in regular pesos, ETECSA collects dollar revenues from two additional business areas: business and tourist activities, and international service. Curiously, while U.S. policy prohibits American companies from investing in the improvement of Cuba’s telecommunications sector, a significant portion

\textsuperscript{28} Worldwide statistics on telecommunications indicators for the period between 2001 and 2003 are available on the website of the International Telecommunication Union (ITU) at: http://www.itu.int/ITU-D/ict/statistics/ (last visited November 2005).

\textsuperscript{29} The development of the telecommunications sector in Cuba still presents profound spatial disparities between its capital, Havana, and the rest of the island. At the end of 2003, about 47% of main line telephones were concentrated in Havana. The latter had a phone density of approximately 15 telephones per 100 inhabitants, as compared to just 4.2 telephones per 100 inhabitants in the rest of Cuba.
of ETECSA’s hard currency revenues, which are used to upgrade telecommunication services, come from dollar charges applied to incoming calls from the United States.

Prior to the enactment of the Cuban Democracy Act (CDA), or Torricelli law, of October 1992, phone service between Cuba and the United States was available but U.S. payments to the island were made to a blocked account pending future changes in U.S. embargo policy. As the CDA authorized the U.S. President to allow payments to Cuba under specific licensing on a case-by-case basis (a change that took effect in late 1994), a number of U.S. carriers successfully negotiated agreements to provide telecommunications services between the two countries, consistent with policy guidelines that were developed by the Department of State and the Federal Communications Commission. While none of the existing licenses permit payments from a blocked account, there are currently eight licensed U.S. carriers engaged in transactions incident to the receipt or transmission of telecommunications between Cuba and the United States: AT&T Corporation, Sprint Communications Company, WorldCom Inc., LTXC Corporation, TeleCuba Inc., Telefonica Larga Distancia de Puerto Rico, iBasis Inc., and Catalyst Network.

The Cuban and U.S. governments agreed to pay each other $60 cents for every minute of traffic originating in their respective territories (Peters 2001: 7). There are currently about 49 minutes of conversations originating in the United States (mostly calls from Cuban Americans to family members in Cuba) for every minute from the island.30 Therefore, U.S.-based carriers end up paying Cuba as much as $86 million per year to settle charges under traffic agreements. As shown in Table 5-5, between 1995 and 2002, U.S. telecommunications payments to Cuba totaled $478.3 million (an average of almost

30 Personal conversation with Philip Peters, Vice President of the Lexington Institute, May 17, 2004.
$60 million a year), representing about 67% of the island’s total investments in its fixed-line telecommunications sector ($712.2 million).

Table 5-5. U.S. Telecommunications Payments to Cuba and ETECSA’s Investment, 1995-2002 ($U.S. Million)

<table>
<thead>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Payments to Cuba</td>
<td>50.4</td>
<td>63.7</td>
<td>72.8</td>
<td>86.0</td>
<td>15.2*</td>
<td>77.9</td>
<td>55.7**</td>
<td>56.6**</td>
<td>478.3</td>
</tr>
<tr>
<td>ETECSA’s Investment</td>
<td>14.7</td>
<td>29.1</td>
<td>110.6</td>
<td>133.5</td>
<td>94.8</td>
<td>107.0</td>
<td>132.0</td>
<td>90.5</td>
<td>712.2</td>
</tr>
</tbody>
</table>

* ETECSA suspended direct dial telephone service between U.S. and Cuba. Service was reinstated in 2000.
** Payments by U.S. companies to third countries, as ETECSA suspended direct-dial service between the United States and Cuba in 2001. This was due to the enactment of a U.S. law that allowed the distribution (for non-commercial purposes) of U.S.$93 million held in U.S. financial institutions on behalf of Cuba (to be used to settle commercial claims against the Cuban government).

Finally, a major operation recently announced by official media in Havana will help Cuba receive increasing amounts of hard currency from the United States for telecommunications services. In early March 2004, ETECSA said it will begin to offer cellular phone service in regular pesos (no longer reserved only to foreigners at dollar prices) to up to 300,000 local residents as new technology makes it easier and quicker to install wireless systems than fixed-line systems (Frank, March 1, 2004). Cellular phones will be distributed to Cubans through a joint venture between a Chinese company and the Swedish-based Ericsson group. Like the fixed-line network, the peso-priced wireless system will be subsidized, for the most part, through expensive dollar charges placed on incoming calls from the United States, where many Cuban residents have relatives.

While having a very limited range (similar to that of cordless phones), the new cellular phones are set up to receive calls from abroad and will be offered only to Cubans who do
not have a fixed-line phone. As Hoffmann aptly states, “mobile phones will come as an addition to their already existing main line telephone connections, not as an alternative to it” (Hoffmann 2004: 196). By raising the number of users receiving international calls, the government of Fidel Castro is planning to obtain the hard currency needed to modernize its telecommunications sector, increase the island’s telephone density, and provide better service to the Cuban population.

**U.S. Food Sales to Cuba**

In the last few years, economic sanctions against Cuba have been under fire in the U.S. Congress. As a result of growing skepticism on the utility of economic coercion, as well as lobbying efforts by U.S. business and agricultural communities (in particular food exporters), an increasing number of lawmakers have pushed for a relaxation of the 40-year-old embargo and the beginning of a new trade relationship with the Castro government. In October 2000, the U.S. Congress passed the Agriculture, Rural Development, Food and Drug, Administration, and Related Agencies Appropriations Act, 2001. Title IX of the bill (Trade Sanctions Reform and Export Enhancement Act, or TSRA), signed into law by President Clinton a few weeks later, includes provisions that allow sales of U.S. food and agricultural products to Cuba for the first time in nearly forty years. It should be noted that a clause inserted in the final version of the bill prohibits U.S. companies and financial institutions from providing credits for such transactions, thus obligating the Cuban authorities to complete their purchases only with cash payments or through financing provided by a third-country company. Enraged by that restriction, the Cuban government initially said it would not buy any food until the embargo was completely lifted.

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31 Interview with a foreign correspondent stationed in Havana, May 26, 2004.
Indeed, for about a year after the passage of the U.S. law, Cuba refused to buy “a single grain of rice” from the United States. But after hurricane Michelle caused widespread damage to the island in November 2001, the Castro government began to take advantage of the law and buy American food to replenish its reserves. The first contract between a U.S. firm and the Cuban government, worth about $40 million, was signed on December 16, 2001. Since then, Cuba has purchased approximately $820 million of American food products.32 Table 5-6 reports the values of Cuba’s food imports from the United States in 2003 compared to total Cuban imports of the same products.

Table 5-6. Cuba’s Food Imports from the United States in 2003 ($U.S. million)

<table>
<thead>
<tr>
<th>Product</th>
<th>Imports from U.S. (USCTEC)</th>
<th>Total Imports (ONE)</th>
<th>U.S. Imports vs. Total Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soybean Oil</td>
<td>50.8</td>
<td>52.6</td>
<td>96.5%</td>
</tr>
<tr>
<td>Poultry</td>
<td>37.2</td>
<td>76.0</td>
<td>48.9%</td>
</tr>
<tr>
<td>Wheat</td>
<td>36.7</td>
<td>93.8</td>
<td>39.1%</td>
</tr>
<tr>
<td>Corn</td>
<td>35.6</td>
<td>49.3</td>
<td>72.2%</td>
</tr>
<tr>
<td>Soybeans</td>
<td>34.5</td>
<td>34.6</td>
<td>99.7%</td>
</tr>
<tr>
<td>Soybean Oil Cake</td>
<td>21.5</td>
<td>41.6</td>
<td>51.7%</td>
</tr>
<tr>
<td>Rice</td>
<td>10.8</td>
<td>85.1</td>
<td>12.7%</td>
</tr>
<tr>
<td><strong>Total Imports</strong></td>
<td><strong>256.9</strong></td>
<td><strong>710.0</strong></td>
<td><strong>36.2%</strong></td>
</tr>
<tr>
<td><em><em>Total Imports</em> (USCTEC)</em>*</td>
<td><strong>327.1</strong></td>
<td><strong>948.0</strong></td>
<td><strong>34.5%</strong></td>
</tr>
</tbody>
</table>


*USCTEC reports that data from Cuban sources may present multi-year cumulative values and include transportation, insurance, and currency transaction fees

The United States is becoming an increasingly important trading partner for Cuba, ranking first among the island’s sources of imported food since 2002, the first full year of U.S. sales under TSRA (Snow 2003). In 2003, according to the U.S.-Cuba Trade and Economic Council, the Cuban government bought $256.9 million worth of American

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food products, including poultry ($37.2 million), wheat ($36.7 million), corn ($35.6 million), and soybean products ($106.8 million). One company alone, Illinois-based Archer Daniels Midland, reported agricultural exports to Cuba valued at about $128 million in 2003, accounting for approximately 50% of all TSRA-authorized exports to the island (USCTEC 2004). Cuba has signed contracts with 84 other U.S.-based firms from 24 different U.S. states.

It is important to note that, by the end of 2003, the United States had already won more than one-third of total Cuban food imports. According to Cuban official figures, which include transportation, taxes, and other additional costs, U.S. food sales ($327.1 million) represented 34.5% of all agricultural goods ($948 million) that the island imported that year. Cuban authorities estimate that the U.S. share could rise to about 60% with a complete lifting of the embargo (Jordan 2003). In 2004, Cuba’s imports of U.S. food products were $380.2 million, up by around 48% from 2003. Cuba has become the 22nd largest food market for the United States (Siegelbaum 2005), and probably the safest one because of the cash-in-advance provision.

To some extent, the Castro government’s decision to buy products from the United States may be seen as part of a political attempt to encourage anti-embargo forces in the U.S. Congress. Even so, Cuba’s economic considerations in terms of price competition were also a factor in the decision. As recognized by a senior official in Havana, “the proximity of U.S. Gulf ports saves freight and warehousing storage costs, which give U.S. exporters the equivalent of up to 20% price advantage” (Frank, October 15, 2002).

American food sales to Cuba have already affected the island’s key trading partners, among them Canada, France, and Spain. Canada’s official statistics report that
wheat and poultry exports to Cuba were down by 79.2% and 60.9%, respectively, in 2002. More specifically, Canada exported to Cuba about $14.9 million of wheat and $12.4 million of poultry in 2001. In 2002, Canadian sales of wheat and poultry dropped to $3.1 million and $4.8 million, respectively. In 2004, Canada exported only $1.7 million of wheat and less than $1 million of poultry to Cuba. Similarly, the French government declared that in 2002, food and agricultural sales to the island decreased by 39.3% from 117.2 million euros in 2001 to 71.2 million euros. For wheat alone, French sales were down by approximately 47%. In 2004, France’s food and agricultural exports to Cuba were just 23.9 million euros, about 66% below their 2002 level. Finally, the Spanish government reports that the total value of all exports to Cuba dropped by 23.7% in 2002 and that the island’s purchases of food products from Spain plunged by more than 40% that year (Europa Press, June 13, 2003).

As shown in Table 5-6, the value of U.S. poultry ($37.2 million) and wheat ($36.7 million) sales to the Castro government ranked second and third, respectively, among all U.S. agricultural products exported to Cuba in 2003. By that year, the United States had already captured a significant share of Cuba’s poultry (48.9%) and wheat (39.1%) markets. In 2004, as U.S. sales of these two products increased by 58% and 57%, respectively, the negative impact of U.S. food exports to Cuba on the island’s key trading partners continued. For instance, wheat sales to Cuba declined substantially last year.35

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33 For further information see Statistics Canada, June 29, 2003 at: http://strategis.ic.gc.ca


How do U.S. food sales generate hard currency revenues for the Cuban government? This is quite simple. Although the majority of U.S. commodities exported to Cuba go into ration stores, about 5% end up in local hard currency shops (Veloz, November 2, 2003). Just as an example, it is reported that the variety of products exported to Cuba by Indiana-based Marsh Supermarket and sold at government-owned retail stores continues to rise. Since October 2002, Marsh brand cereals, gelatin desserts, instant pudding, pie filling, and hot cocoa mix have been available in Cuba, with additional items reaching the local hard currency market since January 2003 (USCTEC 2003). As stated previously, the price mark-up for imported food in state-run hard currency stores is about 240%. Therefore, the 5% of U.S. food sales ($1.2 billion, including fees, between December 2001 and April 2005),\textsuperscript{36} worth approximately $60 million, that reached Cuba’s retail stores would sell for about $144 million, thus generating as much as $84 million in hard currency revenues for the government of Fidel Castro. In other words, since December 2001, U.S. trade activities with Cuba have generated a growing amount of foreign exchange revenues for the island’s government, once generated by products imported from other countries.

In March 2005, however, the Office of Foreign Assets Control (OFAC) reinterpreted the cash-in-advance provision for U.S. food sales to Cuba and banned fairly smooth operations that had allowed Cuban officials to pay for the shipment within 72 hours of its arrival at Havana's port. Arguing that the delay is the equivalent of an extension of credit to Cuba, OFAC established that payments must occur before the goods leave the United States. More restrictive payment procedures, which raise costs and create severe logistical problems, mainly aim to disrupt commercial practices that are

increasingly at odds with the Bush administration's attempt to squeeze economically the communist island. Forced to spend more of its scarce foreign exchange, and fearing possible confiscations of its shipments before they leave American ports to pay for pending U.S. settlements against Cuba, the Castro government has warned that it could halt purchases of U.S. food (Boadle, February 24, 2005).

The new export rules, therefore, have implications well beyond the mere interpretation of cash payments. By jeopardizing U.S. food sales to Cuba, OFAC's unilateral action clearly defies the will of Congress and sparks a rift between the White House and Capitol Hill on the general direction of U.S. policy toward the island. The passage of TSRA in 2000 represented a change of strategic beliefs and policy preferences with respect to Cuba. Many Republicans and Democrats in Congress began to realize that incremental sanctions had done little to undermine the Castro government, while hurting U.S. companies in terms of forfeited business with the island. They successfully pushed for a relaxation of trade restrictions that would benefit U.S. producers and enhance American influence on Cuba.

Just to cite a few emblematic examples, U.S. Senators Max Baucus (D-MT), Pat Roberts (R-KS), Byron Dorgan (D-ND), and Arlen Specter (R-PA), who had previously supported a strengthening of sanctions against Havana, have become leading advocates in Congress for the removal of trade and travel restrictions on Cuba. Baucus and Roberts, who had voted for Helms-Burton, now argue that the Cuban embargo is a “hopelessly ineffective tool” (Senate Record, July 26, 2000) and that agricultural exports to the island “help U.S. farmers, feed hungry people and spread the seeds of democracy” (Senate Press Release, April 11, 2002). Dorgan and Specter's rethinking of U.S. policy toward Cuba is
even more evident. In 1992, then-U.S. Representative Dorgan was one of the co-sponsors of the Torricelli bill, and he also voted for Helms-Burton four years later. In September 2001, after successfully leading the effort in Congress to lift the ban on U.S. food sales to Cuba, he declared: “We are really shooting ourselves in the foot with a continued embargo that does not work and, in a bizarre way, actually helps Fidel Castro keep his hold on power…Using food and medicine as a weapon is, in my view, entirely immoral” (Newsweek, September 7, 2001). Similarly, in June 1995, Specter commended the authors of Helms-Burton for introducing it and noted that it was very important “to put the maximum pressure on Fidel Castro, the dictator of Cuba, to try to achieve his ouster at the earliest possible time” (Senate Record, June 14, 1995). More recently, though, Specter has made clear that the United States should not wait for a change of power in Cuba to cultivate exchanges that can benefit both countries (AP, June 3, 1999).

In short, it is likely that OFAC’s new rules on cash payments for U.S. food exports to Cuba will galvanize anti-embargo forces in Congress. Facing a potential drop of multimillion-dollar sales, a bipartisan group of 22 U.S. Senators (including Baucus, Roberts and Dorgan) has introduced a new legislation, in February 2005, that would ease trade restrictions with Cuba by defining cash in advance as payment before delivery, allowing direct transactions between Cuban and U.S. banks, and facilitating U.S. travel to the island for business purposes (Bauza and Lorente, February 8, 2005). As the greatest leverage to seek a relaxation of sanctions lies in the hands of worried but delighted Cuban officials who are threatening to choke off purchases worth almost $400 million in 2004, the Bush administration's latest attempt to increase economic pressure on its communist neighbor could easily backfire in Congress.
U.S. Indirect Investments in Cuba

The presence of American investors in foreign firms that trade with or invest in Cuba is an increasingly important and largely unexplored aspect of U.S.-Cuba economic relations that defies the logic of economic sanctions and undermines their main goals. Under the embargo, direct investments in Cuba are prohibited for U.S. entities. But the U.S. Department of the Treasury authorizes individuals and firms subject to U.S. law to invest in a third-country company that has commercial activities in Cuba, as long as they do not acquire a controlling interest of that company and provided that a majority of the revenues of the third-country company are not produced from operations within the communist island (USCTEC 2000). Thus, if the investment is an indirect one, a U.S. entity should have no problem in building a Cuba-related stock portfolio.

In order to give a sense of the importance of U.S. indirect business connections with Cuba, Table 5-7 provides data on the presence of U.S. shareholders in selected foreign companies that operate in the island’s market. As observed by John Kavulich, “U.S. companies have affiliations with and U.S. citizens have investments in Sol Meliá, Unilever, Accor, Alcan, Fiat, Daimler Chrysler, and Nestlé among many other companies, which have commercial activities within Cuba.” He also notes that “most of the largest U.S. financial institutions and investment banks provide services for companies that have commercial activities within Cuba” (Reuters, July 28, 2001). Obviously, Table 5-7 is just a sample based on public information, and the presence of American investors in certain companies could be even higher than that reported. The key aspect is that, in an increasingly globalized world, the nationality of a specific firm may become almost irrelevant.
<table>
<thead>
<tr>
<th>Year</th>
<th>Company</th>
<th>Country</th>
<th>Type of Operations in Cuba</th>
<th>Presence of U.S. Investors (%)</th>
<th>Major U.S. Investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>Hotetur</td>
<td>Spain</td>
<td>Management contracts in 3 hotels</td>
<td>26%(a)</td>
<td>Florida-based Carnival Corporation</td>
</tr>
<tr>
<td>2000</td>
<td>Iberia Airlines</td>
<td>Spain</td>
<td>Two Joint ventures in cargo terminal + aircraft maintenance</td>
<td>2%</td>
<td>Texas-based American Airlines Inc.</td>
</tr>
<tr>
<td>2000</td>
<td>Mitsubishi Motors</td>
<td>Japan</td>
<td>Exporter of vehicles</td>
<td>10.41%</td>
<td>California-based Capital Research and Management Co.</td>
</tr>
<tr>
<td>2000</td>
<td>Sol Meliá</td>
<td>Spain</td>
<td>23 Management contracts and 4 equity interests in tourist sector</td>
<td>16%</td>
<td>---</td>
</tr>
<tr>
<td>2000</td>
<td>Telecom Italia</td>
<td>Italy</td>
<td>Joint venture in telecommunications</td>
<td>3%(b)</td>
<td>New York-based Lehman Brothers Holdings Inc.</td>
</tr>
<tr>
<td>2001</td>
<td>Alcan</td>
<td>Canada</td>
<td>Exporter of aluminum products</td>
<td>23%</td>
<td>---</td>
</tr>
<tr>
<td>2002</td>
<td>Fiat Group</td>
<td>Italy</td>
<td>Exporter of vehicles</td>
<td>20%</td>
<td>Michigan-based General Motors Corporation</td>
</tr>
<tr>
<td>2002</td>
<td>LG Electronics Investment</td>
<td>South Korea</td>
<td>Exporter of refrigerators, washing machines, air conditioners, televisions</td>
<td>6.6%</td>
<td>New-York based Goldman Sachs Group</td>
</tr>
<tr>
<td>2003</td>
<td>Accor</td>
<td>France</td>
<td>Several management contracts in tourist sector</td>
<td>16%</td>
<td>---</td>
</tr>
<tr>
<td>2003</td>
<td>Repsol YPF</td>
<td>Spain</td>
<td>Oil exploration in Gulf of Mexico waters</td>
<td>21.7%</td>
<td>---</td>
</tr>
<tr>
<td>2004</td>
<td>Altadis</td>
<td>Spain/France</td>
<td>Joint venture in tobacco sector (cigars)</td>
<td>25.9%</td>
<td>New York-based Chase Manhattan Bank</td>
</tr>
<tr>
<td>2004</td>
<td>Nestlé</td>
<td>Switzerland</td>
<td>Mineral water and soda-bottling joint venture</td>
<td>20%</td>
<td>---</td>
</tr>
<tr>
<td>2004</td>
<td>Souza Cruz</td>
<td>Brazil</td>
<td>Joint venture in tobacco sector (cigarettes)</td>
<td>5.5%(c)</td>
<td>---</td>
</tr>
<tr>
<td>2004</td>
<td>Sinopec</td>
<td>China</td>
<td>Oil production in Pinar del Rio province</td>
<td>14%</td>
<td>Texas-based Exxon Mobil Corporation</td>
</tr>
</tbody>
</table>

Sources: Compilation of the author based on data from U.S.-Cuba Trade and Economic Council (2000-2002) and financial reports of individual companies (Leisure Canada, Sol Meliá, Accor, Repsol, Souza Cruz, and Sinopec). (a) In 2000, Carnival Corporation owned 26% of U.K.-based Airtours PLC, which owned 50% of Hotetur. (b) In 2000, Lehman Brothers owned 3% of Italy-based Olivetti S.p.A. Telecom Italia is a subsidiary of Olivetti. (c) In March 2004, U.K.-based British American Tobacco (BAT), which also has U.S. capital, held 75.3% of the shares of Souza Cruz.
Here are some details of specific U.S. indirect business links with Cuba as reported by the U.S.-Cuba Trade and Economic Council and by financial reports of individual companies. Interestingly, the potential application of the Helms-Burton law against several foreign firms investing in Cuba could affect U.S. entities that hold publicly traded shares of those firms.

In 2000, individuals subject to U.S. law held approximately 16% of the shares of Spain-based Sol Meliá, the largest hotel company in Spain and the leader in Cuba’s tourist sector with equity interests in 4 hotels and 23 management contracts. In addition, Texas-based American Airlines Inc. owned about 2% of Spain-based Iberia Airlines, and California-based Capital Research and Management Co. owned 10.41% of Japan-based Mitsubishi Motors (USCTEC 2000). Iberia Airlines has a joint venture (Empresa Logistica de Carga Aérea S.A.) with the Cuban company Aerovaradero S.A. in a new freight terminal in the vicinity of the José Martí International Airport, and another joint venture (Empresa Cubano-Hispana de Mantenimiento de Aeronaves IBECA S.A.) for aircraft maintenance (Comellas 2002). Mitsubishi sells automobiles, spare parts, and accessories to Cuba through the Panamanian company Motores Internacionales del Caribe S.A.

In 2000, New York-based Lehman Brothers Holdings Inc. purchased 3% of the shares of Italy-based Olivetti S.p.A. Telecom Italia S.p.A., a subsidiary of Olivetti, has a joint venture (ETECSA) with the Cuban telephone company EMTEL for the development of Cuba’s fixed-line and mobile telephone systems. In terms of capital invested, ETECSA is one of the most important joint ventures operating in Cuba. Also in 2000, Florida-based Carnival Corporation increased indirect minority presence in Cuba
with the purchase by United Kingdom-based Airtours PLC of 50% of Spain-based Hotetur Club S.L. Carnival Corporation owns 26% of the shares of Airtours PLC (USCTEC 2001). Hotetur Club has management contracts in three hotels in Cuba, the Deauville in Havana, the Hotetur Palma Real, and the Hotetur Sun Beach in Varadero.\(^{37}\) In 2001, U.S. investors held approximately 23% of Alcan of Canada, which exports aluminum products to Cuba (Reuters, July 28, 2001).

In 2002, New York-based Goldman Sachs Group had a 6.6% interest in South Korea-based LG Electronics Investment, Michigan-based General Motors Corporation had a 20% interest in Italy-based Fiat Group, and California-based Robertson Stephens Inc. owned about 30% of the shares of Canada-based Leisure Canada (USCTEC 2002). LG Electronics has a strong presence in the Cuban market. A variety of its products, including refrigerators, washing machines, air conditioners, and televisions are assembled and sold on the island. The Fiat Group established a dealership on the island in 1995 (Agencia Cubalse Fiat) in conjunction with Cuba’s government-operated Cubalse S.A. Since then, the Italian company has sold thousands of vehicles every year to Cuba, including automobiles, industrial vehicles, and agricultural machinery. Leisure Canada is developing five-star hotels, timeshare condominiums, and PGA golf courses in Cuba, with an estimated plan of investment of $400 million. Curiously, Leisure Canada announced in one of its brochures that the company is positioned to capitalize on the current growth of Cuban tourism, and the future growth fueled by the United States, following the inevitable normalization of U.S.-Cuba relations. It also specifies that it is

\(^{37}\) Additional information on Hotetur hotels in Cuba is available at: http://www.hotetur.com (last visited November 2005).
perfectly legal for U.S. potential investors to purchase shares of the Canadian company, and that U.S. investment banks already control over 20% of Leisure Canada.\footnote{On June 11, 2003, Leisure Canada reported that the company had created a hotel brand (Mirus Resorts and Hotels) to use on properties within Cuba. For instance, the Canadian firm has been given the right to manage the Monte Barreto hotel in Havana under its own new brand. According to the company, “the development of a hotel brand that can quickly transfer to a North American hotel chain, once the doors to Cuba open, further establishes Leisure Canada’s vertically integrated gateway to Cuba” (USCTEC 2003). Also see Leisure Canada’s website at: http://www.leisurecanada.com (last visited November 2005).}

In December 2003, U.S. investors held 16% of the shares of the French group Accor.\footnote{At the end of 2002, U.S. entities held more shares (16.7%) of the French group Accor than any other international investor. As of December 31, 2003, only investors from the United Kingdom owned more shares of Accor (16.8%) than U.S. entities. Other major international investors in the French group were from Germany (5.3% of the shares), Belgium (4.9%), Luxembourg (3.7%), and Switzerland (2.3%). For further information see Accor’s website at: http://www.accor.com (last visited November 2005).} The Accor group manages several hotels in Cuba with establishments that operate under the Novotel, Sofitel, Coralia, and Mercure Brands. For instance, Accor runs the Sofitel Sevilla hotel in Havana, the Mercure Cuatro Palmas hotel in Varadero Beach, and the Sofitel Casa Granda Hotel in Santiago de Cuba. The French group, which will complement its actions with the Coralia Club Bucanero Hotel in Santiago de Cuba, expects to run over 15 facilities on the island under the consortium’s different brands.\footnote{“Accor: Big groups turn eyes toward Cuba.” Directorio Turistico de Cuba, 2003. It is reported that the Novotel Miramar in Havana, run by Accor since 2000, is now managed by the Spanish group Occidental Hotels & Resorts. See “Hoteles-Occidental entra en Cuba y baja ventas un 11% en 2002.” Granma Internacional, June 9, 2003.}

In 2004, U.S. investment funds and individual shareholders owned more than 25% of the French-Spanish conglomerate Altadis (Expansión, April 28, 2004),\footnote{In late April 2004, New York-based Chase Manhattan Bank held 15.057% of the shares of Altadis. In addition, the U.S. investment funds Fidelity International Limited and Franklin Resources Inc. Delaware owned 5.84% and 5.003% of the French-Spanish group, respectively.} about 20% of Switzerland-based Nestlé (Judd 2004), and 5.5% of Brazil-based Souza Cruz. United Kingdom-based British American Tobacco, or BAT, which also has significant U.S. capital, owned 75.3% of the Brazilian company. In April 1995, Souza Cruz signed a
joint venture (BrasCuba S.A.) with Cuba’s Union del Tabaco. With an initial investment of $7 million, BrasCuba renovated an existing cigarette factory in Havana and started producing and selling several brands of cigarettes for the domestic market as well as for external markets. Today, after nine years of operations on the island, Brascuba has a virtual monopoly of cigarettes in Cuba’s hard currency stores and for exports (Spadoni 2002: 167). Altadis has invested almost $500 million in a 50-50 joint venture with Cuba's Habanos S.A. for the exclusive right to market Cuban cigars internationally.

Nestle owns several mineral water bottling plants in Cuba and has a joint venture (Los Portales S.A.) with the Cuban company, Coralsa, that produces and markets the highest selling soft drinks and mineral waters on the island (Pérez Villanueva 2005: 188).

Finally, U.S. indirect business links with Cuba have become even more important in recent months, mainly thanks to new operations on the island by multinational oil companies. American entities own approximately 22% of Spain-based Repsol YPF, a substantial amount of shares of Brazil-based Petrobras, and even about 14 percent of communist China's Sinopec. Between June and July 2004, Repsol spent about $50 million drilling for oil in Cuba’s virgin Gulf of Mexico waters. Repsol’s search yielded signs of high quality crude oil, but its first well was not commercially viable. The firm said it would continue studying the area and could begin drilling again next year (Marx

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42 The Havana factory used by BrasCuba had been nationalized in 1960, and it belonged to the American Tobacco Company. Executives of Souza Cruz said they are not worried for the expropriation because in 1994 American Tobacco Company was bought by Brown Williamson, another subsidiary of BAT. See AP. “Capitales extranjeros en Cuba, pero todavía manda el socialismo.” July 10, 2001.

43 The most important U.S. investors in Sinopec are Texas-based Exxon Mobil Corporation, New York-based J.P. Morgan Chase & Co., and New-York-based Morgan Stanley. For further information on Sinopec and Repsol YPF shareholders see: http://english.sinopec.com; http://www.repsolypf.com (last visited November 2005). As for Petrobras, it is reported that, in September 2004, the Brazilian oil firm issued $600 million in global notes in the international capital markets. More than half (54%) of the issue was placed with U.S. investors. “Petrobras raises US$ 600 million in the international market.” Available at: http://www2.petrobras.com.br/atuacaointernacional/petrobrasmagazine/negoc_eng.html (last visited November 2005).
2004). Petrobras is also considering exploration in the same area and has announced it will invest $20 million to build a lubricants plant in Cuba. In early 2005, Sinopec, China's second-largest oil company, signed an agreement with Cuba's state-run Cubapetroleo (CUPET) to jointly produce oil on the coast of western Pinar del Rio province.

It is quite difficult to offer a comprehensive analysis of U.S. indirect business connections with Cuba, given that private companies are not required to make public the list of their shareholders. Such an endeavor is also complicated by the fact that with millions of dollars moving around the world via electronic transactions, the real origin of financing for specific business operations is often unknown. As Pérez Villanueva reminds us, “there are many companies in Cuba that are based in the Bahamas, other Caribbean islands, Spain or Britain, and you really can’t tell if these companies receive U.S. funds attracted by the high interest rates we (Cubans) pay” (Reuters, July 28, 2001).

Nevertheless, the information presented in Table 5-7 shows that U.S. entities hold publicly traded shares of several major foreign firms engaged in business activities with the government of Fidel Castro. While profits from the Cuba-related stock portfolios may not be particularly significant for some U.S. investors in terms of their global revenues, American investments in foreign companies that operate on the island are just another example of gaping holes in the United States’ effort to economically isolate Cuba. As multinational corporations headquartered in a foreign country can rely on U.S. capital to help finance their business activities on the island, one is left wondering if it makes any sense for the United States to keep using economic sanctions as a tool to achieve ambitious foreign policy goals. And if we consider that some of these foreign
firms have provided Cuba much-needed capital, technology, management expertise, and new markets for its main exports, then the importance for the Cuban economy of U.S. indirect business operations on the island appears evident. Cuba's front door may be closed to U.S. investors, but the back door is wide open.

**Conclusion**

From the analysis presented in this chapter, we can fairly argue that, in spite of the tightening of the embargo, the United States has contributed in a significant way to the recovery of the Cuban economy following the deep recession of the early 1990s. While intended to stimulate democratic reforms and exercise pressure for regime change in Cuba by stemming the flow of hard currency to the Caribbean island, U.S. economic sanctions have achieved neither of these goals. Admittedly, the role of the United States in the Cuban economy would have been much more important in the absence of sanctions. However, even with restrictions in place, substantial amounts of hard currency have been channeled into Cuba through direct and indirect means of travel, remittances and, to a lower extent, telecommunications payments, food sales, and secondary investments. Washington’s policy toward Havana ended up throwing a lifeline to the same government it was supposed to undermine.

Even more importantly, formal and informal activities by the Cuban-American community, the most vocal group in the United States in favor of the embargo, have been a major factor in keeping afloat the Cuban economy. For instance, of approximately 220,000 U.S. citizens who traveled to Cuba in 2002, with or without their government’s approval (they were the largest group of foreign visitors after Canadians), more than 60% were Cuban-Americans. Furthermore, remittances sent from U.S. citizens of Cuban descent to their relatives on the island, mainly through informal mechanisms, have been,
in net terms, Cuba’s most important source of foreign exchange during the past decade. As argued by Eckstein (2003: 16), “the remittance economy reflects a society that is transnationally grounded, able, willing, and wanting to operate according to its own networks and norms, in defiance both of U.S. and Cuban official regulations that interfere.” Finally, between 1995 and 2002, U.S.-based carriers paid the Castro government, on average, about $60 million a year for telecommunications services, mostly as a result of international calls by Cuban-Americans to family members in Cuba.

Overall, this study has demonstrated that the ability of U.S. unilateral economic sanctions to place a sufficiently large financial burden on Cuba, and stimulate political changes on the island, is greatly inhibited by transnational linkages that sustain hard currency flows across national borders. Without performing detailed empirical analyses, the next chapter applies some of the conceptual tools drawn from the Cuban case to other cases of U.S. unilateral sanctions. It mainly focuses on remittances to and foreign direct investment in specific target countries, as activities carried out by migrant entrepreneurs and multinational corporations have played a crucial role in mitigating the negative impact of the U.S. embargo on the Cuban economy.
CHAPTER 6
TRANSNATIONAL LINKAGES IN OTHER CASES OF U.S UNILATERAL SANCTIONS

Since the end of the Second World War, the United States has been the dominant user of economic sanctions as a foreign policy tool. In order to promote political changes in specific countries, Washington has applied a variety of restrictions on U.S. citizens and entities’ dealings with target governments, including the suspension of foreign aid or limitations on exports of narrow categories of goods and technologies (limited sanctions), limitations on more broadly defined categories of trade or finance (moderate sanctions), and prohibitions of most trade and financial flows (extensive sanctions). The United States has also imposed or threatened sanctions against foreign companies or institutions that invest in or provide financial supports to certain countries.

The success or failure of economic sanctions obviously depends on their scope and the goals they are intended to achieve, as well as on the size of the target country and its relationship with the sender. According to Elliott (1997), sanctions are most likely to be effective when they are imposed quickly and decisively to maximize impact, their goals are relatively modest, the target country is economically weak and much smaller than the sender, and when the sanctioner and target conduct substantial trade prior to the imposition of restrictions. However, there seems to be general acceptance among scholars of international relations that economic sanctions, mainly when they are unilateral, are often unable to achieve ambitious foreign policy objectives such as changing the behavior or governments of target countries (Wagner 1988; Hufbauer et al.)
1990; Pape 1997; Drury 1998). The United States, above all, is no longer as dominant in the world economy as it was in the aftermath of the Second World War and at least until the early 1970s. In addition, the utility of economic coercion and the leverage of a single country have declined significantly in the last few decades as a result of the effects of globalization. In an increasingly interdependent global economy, it is easier for target governments to minimize the impact of sanctions by tapping international trade and capital markets and finding alternative suppliers of goods and capital (Schott 1998). Thus, there is little reason to assume that the success rate of unilateral sanctions will show any substantial improvement in the near future.

As the Cuban case demonstrates, the utility of sanctions is greatly affected by the existence of multiple ties and interactions linking people, firms, and institutions across national borders. Multinational corporations and migrant entrepreneurs, in particular, engage in economic activities that sustain transnational flows of hard currency and provide target states and their citizens with desperately needed sources of external financing. This chapter explores the role of corporate and migrant transnationalism in other sanctions situations. It begins with a brief historical overview of U.S. unilateral sanctions and their success rate. It continues with a more detailed analysis of Washington’s comprehensive sanctions programs against Sudan, Myanmar (Burma), and Iran. Although U.S. restrictive measures have certainly hurt the latter’s economies and lessened investor confidence, the relatively sizable flows of foreign direct investment and remittances to these countries and their potential impact on economic growth suggest that business activities carried out by transnational actors might have played a major role in the overall effectiveness of economic coercion.
Effectiveness of U.S. Unilateral Economic Sanctions

During the last sixty years, the United States has made extensive use of unilateral economic sanctions against a broad range of countries for a wide variety of reasons. Besides joining some multilateral attempts and participating in sanctions taken by the United Nations Security Council, Washington has frequently resorted to unilateral coercive measures including the blocking of assets and prohibitions on trade to and investment in a target country, the withholding of financial assistance or U.S. government procurement, and the opposition by U.S. representatives in international financial institutions to loans or financial aid to that country (Carter 2002). However, since the demise of the Soviet Union in the early 1990s, there has been a significant decline of new cases of U.S. unilateral actions against target countries. While the United States remains the most active sender in absolute terms, broad coalitions revolving around the United Nations are playing a bigger role in sanctions diplomacy (Hufbauer 1999).

To reliably assess the usefulness of economic sanctions as a foreign policy tool, one must first conceptualize them and take into account the specific goals they set out to accomplish. According to Pape (1997: 93-94), “economic sanctions seek to lower the aggregate economic welfare of a target state by reducing international trade in order to coerce the target government to change its political behavior.” Pape’s view is that effective economic coercion should alter objectionable actions of other countries and force them to make concessions either directly, by placing a strong economic burden on a target government, or indirectly, by stirring popular pressure for change or eventually a popular revolt that overthrows that government. Thus, he concluded that the aggregate Gross National Product or GNP (and Gross Domestic Product or GDP, as the two terms
tend to be used almost interchangeably)\(^1\) loss of a target country over time is the most important indicator of the intensity of economic sanctions (Pape 1997: 94), and arguably a sign of their success.

Other scholars, instead, contend that the concept of sanctions should encompass all aspects of “economic statecraft” rather than being limited to economic coercion aimed to change the policies of the target government. Baldwin (1985: 32) noted that the goal of the sender could be to redirect the course of ongoing trade relations (trade dispute), engage in economic warfare to weaken the adversary’s military capabilities, make a symbolic statement about its own identity and moral beliefs, show its disapproval of what the target country is doing, and satisfy domestic political interests. While recognizing that policymakers may have an incentive to publicly portray their goals as less ambitious than they really are in order to facilitate a claim of victory at a later date, Baldwin argued that sanctions could be considered successful when they achieve one of these policy objectives (Baldwin 1999-2000: 89).

Regardless of the specific conception of economic sanctions’ goals and success, there is substantial evidence about their declining utility as a tool of statecraft, particularly when they are imposed unilaterally. The most cited and comprehensive database on the effectiveness of sanctions is that compiled by Hufbauer, Schott, and Elliot (HSE), who found sanctions to be successful in about one-third, or 34% of the 115 cases initiated between 1914 and 1990. More specifically, episodes involving the destabilization of a target country, usually small and shaky, succeeded in 52% of the cases, and those involving modest objectives and attempts to disrupt minor military

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\(^1\) The GDP is the primary indicator of the status of the economy. It refers to the total final value of goods and services produced in a national economy over a particular period of time, usually one year. The GNP does not include goods and services produced by foreign producers.
adventures were successful 33% of the time. Nevertheless, efforts to impair a foreign adversary’s military potential or change its policies in a major way reached their objectives in only 20% and 25% of the cases, respectively, leading the authors to observe that economic sanctions “are of limited utility in achieving foreign policy goals that depend on compelling the target country to take actions it stoutly resists” (Hufbauer et al. 1990: 92-93). It should be emphasized that the overall success rate found by HSE and the standards utilized to arrive at such figure have been disputed both as being too lenient (Pape 1997, 1998), and too strict (Baldwin 1985; Van Bergeijk 1997).

Table 6-1. Effectiveness of Economic Sanctions Against Target Countries

<table>
<thead>
<tr>
<th>Total number</th>
<th>Number of successes</th>
<th>Success ratio* (as % of total)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All cases** (multilateral and unilateral)</td>
<td>170</td>
<td>49</td>
</tr>
<tr>
<td>1914-99</td>
<td>12</td>
<td>6</td>
</tr>
<tr>
<td>1914-44</td>
<td>41</td>
<td>18</td>
</tr>
<tr>
<td>1945-69</td>
<td>67</td>
<td>16</td>
</tr>
<tr>
<td>1970-89</td>
<td>50</td>
<td>15</td>
</tr>
<tr>
<td>1990-99</td>
<td>68</td>
<td>17</td>
</tr>
<tr>
<td>Unilateral U.S. sanctions</td>
<td></td>
<td></td>
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<tr>
<td>1945-99</td>
<td>16</td>
<td>11</td>
</tr>
<tr>
<td>1970-89</td>
<td>40</td>
<td>5</td>
</tr>
<tr>
<td>1990-99</td>
<td>12</td>
<td>2</td>
</tr>
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* Percentages may differ slightly in some periods from calculations based on the numbers in the other columns because assessments are not yet complete for several new cases.

** The U.S. was involved in about 70% of the cases, usually as the leading sanctioner and often alone.

Table 6-1, which combines HSE figures with more recent findings, provides evidence for the declining effectiveness of sanctions by showing their success rate at different periods of time during the twentieth century. Sanctions (both multilateral and unilateral) launched between 1914 and 1944 succeeded in half of the cases, and those initiated between 1945 and 1969 contributed to positive foreign policy outcomes, from
the perspective of the sender government(s), in 44% of the cases. Between 1970 and 1989, however, the success rate dropped to just 26% of all cases. During the 1990s, economic sanctions continued to perform poorly as they were about as successful (29%) as those imposed over the previous two decades (Hufbauer and Oegg 2002).

The results for U.S. unilateral coercive attempts, those in which American policymakers received little or no cooperation from other countries, are even more striking. Since the end of the Second World War, the United States acted as the only sanctioner against target countries in 68 occasions, representing about 45% of all cases of economic sanctions initiated since then. Whereas their success rate in 16 episodes between 1945 and 1969 was about 70%, U.S. unilateral economic sanctions succeeded in only 13% of the 41 cases launched during the 1970s and 1980s, and in about 17% of the 12 cases initiated during the 1990s. In contrast, cases involving the United States as part of a sanctions coalition were successful 23% of the time over the last three decades (Elliott and Oegg 2002). As observed by Elliott (1997), “if sanctions are to have any chance at all of producing favorable outcomes, they must be multilateral, they must be carefully formulated, and they must be vigorously enforced.”

In effect, comprehensive multilateral sanctions applied by a group of countries or by an international organization should be more likely to reach major policy goals than unilateral ones, as they inflict higher costs on the target government. In this regard, Stremlau noted: “Washington, along with most everyone else, has learned important lessons about the efficacy of sanctions in the post-Cold War era. The most important is that the broader the international support, the more likely that the regime will be effective” (Stremlau 1996). The crucial problem, especially for a dominant user of
sanctions like the United States, is that multilateral agreements are difficult to achieve due to diverse security interests of potential coalition countries, and often requires watering down the sanctions imposed (Hufbauer et al 1990: 96; Hufbauer 1999).

During the 1990s, the United Nations and European Union countries have been resorting to economic coercive measures with much more frequency than in previous decades. Since the end of the Cold War, the UN has imposed mandatory sanctions 11 times as compared to only twice (against Rhodesia and South Africa) prior to 1990, and EU countries 19 times as compared to just 9 in the previous two decades. Yet, most United Nations actions are weakly enforced arms embargoes, and several European sanctions involve relatively minor aid cutoffs (Elliott and Oegg 2002). As the fairly limited scope of these measures seems suitable for the achievement of modest policy objectives, the use of unilateral sanctions (even if they rarely work) could be in some cases the only option available to U.S. policymakers to pursue major foreign policy goals. And when the U.S. goals are more modest, they could simply be pursued unilaterally from the outset since there is less need for international cooperation. After all, HSE found that, in general, “the greater the number countries needed to implement sanctions, the less likely it is that they will be effective” (Hufbauer et al 1990: 95).

In the post-Cold War era, the United States has continued to rely on unilateral sanctions as a tool of foreign policy. To some degree, the declining number of new cases of U.S. unilateral actions in the last decade is due to the fact that, by 1989, Washington already had sanctions in place against a large number of target countries. During the 1990s, high profile cases were launched against India and Pakistan (nuclear sanctions), and some existing sanctions programs (notably with respect to Cuba, Libya, Iran, Burma,
and Sudan) were strengthened. Nevertheless, the decline of new initiatives is also the result of growing concerns among U.S. policymakers and corporate leaders about the effectiveness of unilateral sanctions in an increasingly interdependent global economy and their costs for American businesses (Carter 2002). Furthermore, U.S. efforts to combat terrorism and drug trafficking, promote human rights, reduce ethnic conflicts and protect the environment led to a proliferation of “smart sanctions” that target specific individuals and organizations rather than entire countries (Cortright and Lopez 2002).

Before proceeding with the analysis of specific cases of U.S. unilateral sanctions, namely against Sudan, Myanmar and Iran, it is useful to discuss some potential effects of globalization on the utility of economic coercive measures. On the one hand, globalization and the growing interdependence of countries make the latter’s economies more vulnerable to comprehensive and fully enforced multilateral sanctions. Today, this kind of foreign pressure is potentially more harmful to target countries than it was a few decades ago as the world’s economies are increasingly connected through international trade in goods and services, transnational capital flows (foreign direct and portfolio investment, loans and aid), and cross-border remittances by migrant entrepreneurs (Van Bergeijk 1995: 448). However, as mentioned above, comprehensive multilateral sanctions are extremely rare due to the difficulty of building consensus on a target.

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2 In a rapidly changing global economy, Washington’s unilateral economic sanctions are not only decreasingly useful, thus undermining the credibility of U.S. leadership, but also increasingly costly to the sender. It is reported that U.S. sanctions against 26 target countries cost the United States as much as $15 billion to $19 billion in forgone merchandise exports in 1995, that would mean a reduction of more than 200,000 jobs in the export sector and a consequent loss of about $1 billion annually in export sector wage premiums. Hufbauer Gary Clyde, Elliott Kimberly Ann, Cyrus Tess and Winston Elizabeth. “U.S. Economic Sanctions: Their Impact on Trade, Jobs, and Wages.” Washington D.C.: Institute for International Economics, April 1997. A recent study also found that U.S. sanctions against 8 countries (Afghanistan, Cuba, Iran, Iraq, Libya, North Korea, Sudan, and Yugoslavia) cost the United States about $9 billion in forgone merchandise export in 1999. For more details see Hufbauer, Gary Clyde and Oegg, Barbara. “The Impact of Economic Sanctions on U.S. Trade: Andrew Rose’s Gravity Model.” Washington D.C.: Institute for International Economics, April 2003.
government’s behavior. For instance, the United States has been unable to convince other nations that Iran’s behavior, including its support for terrorism, subversion, and opposition to the Middle East process, calls for the enactment of strong economic penalties (Haass 1998: 6).

On the other hand, the same transnational linkages that could enhance the impact of multilateral coercion on a target country also make the latter less vulnerable to unilateral sanctions with little or no international cooperation. With the declining dominance in the world economy of the United States, most American unilateral sanctions simply transfer business from U.S. companies to foreign competitors in the same market. Interestingly, HSE revealed that in several episodes either provoked or derived from East-West rivalry during the Cold War, adversaries of the sender country (referred to as “black knights”) assisted the target, thus eroding the chances of sanctions success. They argued that, with the end of the Cold War, “black knights may in the future be less likely to appear on the sanctions scene to rescue target countries” (Hufbauer et al. 1990: 96-97). But in the late 1990s, Schott (1998) observed: “Too often the economic impact of our (U.S.) sanctions is offset by alternative suppliers of goods and capitals whose governments agree with our goals but not the tactics to achieve them.”

In other words, transnational actors such as multinational corporations and migrant entrepreneurs, usually based in countries that share the same objectives of most U.S. sanctions, could be the black knights in today’s global marketplace as their activities sustain huge flows of capital across national borders, including to target nations. And in

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3 It should be noted that the world export shares of several leading export countries, not only the United States, have decreased during the last decade. Between 1993 and 2002, the seven top exporters (United States, Germany, China, Japan, France, United Kingdom, and Italy) lost 5% of their combined share in world exports. This trend is not due to a decline in the exports of leading nations, but to a significant and rapid expansion of exports of other countries (Askari et al. 2005: 43-44).
some cases, as the importance of Cuban American remittances in the Cuban economy suggests, rescuers might be located in the same country that has placed economic coercion at the center of its foreign policy. Although the fundamental assumption of most research on sanctions is that they are an activity between states (Morgan and Bapat 2003: 65), transnational actors’ practices and their economic impact on target nations should receive greater attention in a growingly interconnected global economy.

The Case of Sudan

Since June 1989, Sudan has been governed by what is in effect an alliance between the two main forces that had backed the military coup of that year, the Islamist-oriented military leadership and the National Islamic Front (NIF), which espouses an Islamist platform (Niblock 2001: 199). Lieutenant-General Omar Hassan Ahmed al-Beshir took power as president of the Revolutionary Command Committee soon after the coup and was sworn in as national president in 1993. He was elected in March 1996 for a five-year term and re-elected in December 2000.

The Sudanese leaders of the so-called Salvation Revolution of 1989 abolished all the existing executive and legislative institutions of government, suspended the Constitution, arrested many prominent civilian politicians, restricted freedom of the press, and banned all political parties and partisan political activity.4 Above all, this turn of events exacerbated the ethnic and religious struggles that had plagued Sudan since its independence from Great Britain in 1956. As the new Islamic military junta set out to merge religious indoctrination and conversion with education, social services, economic development, and political mobilization, the traditionally fierce conflict between the

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4 The National Congress (NC), known as the National Islamic Front (NIF) until it changed its name in 1998, is Sudan’s ruling party.
Muslim Arab north and the African Christian south worsened dramatically. Furthermore, the government’s attempt to enforce Arabization and Islamization along narrowly sectarian lines led many Muslim groups to join the opposition under a single, multiethnic command. By 1999, this new force, called the National Democratic Alliance (NDA), included several armed and unarmed groups operating all over the country. In Connell’s words, “What started in the 1950s as a battle between the Arabized, Islamic north and the non-Muslim, African south has become a contest between an extremist Islamic movement that controls the country’s center and a diverse alliance of peoples and political groups that challenge it from the periphery” (Connell 2001). In effect, even if the conflict in the south came to a formal close on January 9, 2005, with the signature of a peace agreement between southern rebels and the central government (and the promise to establish soon a new Government of National Unity), another violent crisis erupted in February 2003 when the non-Arab Muslims in Sudan’s Western Darfur region mobilized and took up arms against the Khartoum regime.

Over the past 15 years, the Sudan’s civil war has been characterized by an incremental ferocity. It has displaced more than four million people, leading to widespread malnutrition and starvation, caused the deaths of nearly two million, and forced 600,000 into exile (USCRI 2005). The prevalence of extensive human rights violations, in particular the denial of religious freedom and the persecution of people with different religious beliefs, was one of the main reasons behind the United States’ decision to impose comprehensive unilateral sanctions on Sudan in 1997 (Hufbauer et al. 2001). However, sanctions were also applied because of the Sudanese regime’s active support for international terrorism and its efforts to destabilize neighboring governments.
Sudan has been on the United States list of state sponsors of terrorism since 1993, after being accused of providing sanctuary, safe passage, military training, and financial support to radical Islamic groups primarily of Middle Eastern origin such as Egypt’s Islamic Jihad, Iran’s Hezbollah, and the Palestinian Hamas. The Saudi-born Osama Bin Laden’s residence and activities in Sudan during the 1990s, the Khartoum regime’s connections with Iran, and its alleged involvement in the attempted assassination of Egyptian President Hosni Mubarak in June 1995 in Addis Ababa (Ethiopia) were additional elements cited by Washington to proclaim Sudan as a player in the world of international terrorism (Ousman 2004: 92).

Soon after the assassination attempt in Addis Ababa, Egypt, with the collaboration of Ethiopia and strong support from the United States, sought international condemnation of Sudan’s behavior and put forward a resolution before the UN Security Council. In an attempt to force the Sudanese government to abandon its terrorist activities and extradite three Egyptian suspects involved in the attack on President Mubarak, the United Nations imposed sanctions against Sudan in April 1996. But these penalties fell well short of what Washington had favored. (Niblock 2001: 206). They simply required all states to reduce the number of Sudanese embassy and consular staffs and restrict the entry or transit in their respective territories of member of Sudan's government, civil service and armed forces. Whereas the United States favored stronger sanctions (and was one of the few nations to honor the diplomatic ones) to lower the risk of further instability in the Eastern African region, the Middle East and within Sudan, Egypt managed to block more severe measures that “would have threatened Sudan's territorial integrity and victimized

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its people” (Mideast Mirror, April 29, 1996). And some of the major Security Council members, namely Russia and China, refused to support any kind of penalties against the Khartoum regime. Another UN resolution adopted in June 1996 that established a ban on Sudanese aircraft never went into effect because the Council failed to set a date for its entry into force.\(^6\) Being unable to build support for vigorous multilateral sanctions on Sudan, the U.S. government was left with no choice but to pursue unilateral measures.

On November 3, 1997, President Clinton signed executive order 13067, imposing comprehensive economic sanctions on Sudan. Then U.S. Secretary of State, Madeleine Albright, specified that penalties had been applied because the UN Security Council measures had failed to stimulate a favorable response from the Sudan regime (EIU, November 1997). Washington’s sanctions establish that goods and services of Sudanese origin may not be imported in the United States either directly or through third countries without a license, ban all U.S. exports to Sudan (except regulated sales of agricultural commodities, medicine, and medical devices), and prohibit U.S. investment there. They also block all Sudanese assets in the United States and forbid U.S. banks from extending loans to Sudan. Licensed U.S. money service businesses are allowed to send and receive personal remittances to and from Sudan, provided that such transfers are not processed through a bank owned or controlled by the Khartoum government.

According to a U.S. State Department official, economic sanctions against Sudan were “more a statement of principle than anything else” (EIU, November 1997). They simply expressed disapproval of Khartoum’s behavior and harbored little hope of

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\(^6\) Since then, even Egypt and Ethiopia have supported ending the sanctions against Sudan (Reuters 2001). On September 28, 2001, the UN Security Council adopted Resolution 1372, by a vote of 14 in favor to none against, with one abstention (the United States), in which it decided to lift the diplomatic sanctions imposed in 1996.
exercising a strong economic pressure on Sudan due to the relatively minor trade and financial dealings between the latter and the United States (EIU, November 1997). Yet, as previously observed, the public proclamation of achievable goals, even when they are less impressive than the real ones, is a common tactic used by policymakers to avoid criticism for an eventual failure. Indeed, Albright admitted that U.S. sanctions aimed to deprive the Khartoum government “of the financial and material benefits of U.S. trade and investment, including... in Sudan's petroleum sector” (Mideast Mirror, November 6, 1997). Considering the wide scope of U.S. restrictions, and Washington’s subsequent attempts to discourage foreign companies from investing in the Sudanese market, it is conceivable that the actual objectives of U.S. policy were far more ambitious than the stated ones. In December 1997, for instance, Albright met with Sudanese opposition figures in Uganda and called for a change of regime in Sudan (Mideast Mirror, December 16, 1997).

Table 6-2. Sudan: Foreign Direct Investment, Remittances, and GDP Growth

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<tbody>
<tr>
<td><strong>FDI ($U.S. Million)</strong></td>
<td>22</td>
<td>371</td>
<td>371</td>
<td>392</td>
<td>574</td>
<td>713</td>
<td>1349</td>
<td>628</td>
</tr>
<tr>
<td><strong>Remittances ($U.S. Million)</strong></td>
<td>174</td>
<td>686</td>
<td>664</td>
<td>638</td>
<td>730</td>
<td>970</td>
<td>1218</td>
<td>818</td>
</tr>
<tr>
<td><strong>GDP Growth (annual % change)</strong></td>
<td>4.7</td>
<td>5.7</td>
<td>6.5</td>
<td>6.9</td>
<td>6.1</td>
<td>6.0</td>
<td>6.0</td>
<td>6.2</td>
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As exemplified in Table 6-2, the overall impact of U.S. unilateral sanctions on Sudan’s economy has been negligible. Official figures show that both foreign direct investment and remittances to Sudan have increased substantially since the imposition of U.S. penalties in November 1997. Between 1990 and 1997, the country received an annual average of just $22 million in FDI and $174 million in remittances. Since then,
FDI has averaged $628 million per year, and remittances about $818 million per year. Not surprisingly, the annual rate of growth of the Sudanese economy also experienced an improvement in recent years.\(^7\) The GDP grew at an average rate of 6.2% between 1998 and 2003, as compared to 4.2% between 1990 and 1997. Mainly driven by a remarkable performance of the oil industry, Sudan’s GDP increased by 7.3% in 2004, and is projected to expand by more than 8% in 2005 (EIU, June 2005).

The bulk of FDI into Sudan is concentrated in the oil sector and, to a lower extent, power generation and telecommunications. While Sudan has extensive oil reserves, estimated to be at 563 million barrels in early 2004, the exploitation of these resources has been delayed for a long time because of the civil war and the high-risk nature of investment deterring potential foreign financiers. Since the mid-1990s, however, several foreign companies have entered the Sudanese market as the Khartoum government actively courted overseas investors to complete an oil export pipeline and develop its southern oilfields. Commercial export of oil, which began only toward the end of 1999, currently accounts for over 70% of Sudan’s total export revenues (Middle East 2005: 18). Companies from China, Malaysia and India are the most important foreign investors in the African country. Oil activities in Sudan, in fact, are dominated by the Greater Nile Petroleum Operating Consortium (GNPOC), a joint venture comprised of China National Petroleum Corporation or CNPC (40%), Malaysia’s Petronas Carigali (30%), India’s ONGC Videsh (25%), and Sudan’s Sudapet (5%). GNPOC, formed in March 1997, is estimated to spend $350-450 million per year on oil exploration and development, and

\(^7\) Just to give an idea about the growing importance of foreign capital inflows in Sudan’s economy, foreign direct investment and remittances combined represented 10.7% of the country’s GDP in 2001, more than 12% in 2002, and approximately 16% in 2003.
slightly less on operating costs. Over the past two years, CNPC, ONGC Videsh and Petronas won additional contracts to conduct new oil explorations, build new pipelines, upgrade existing refineries, and open retail outlets in Sudan. As a result of these operations, the Sudanese government should receive an average of $1.2 billion per year in oil revenues until the end of the decade (U.S. Department of State, March 2004).

The imposition of comprehensive U.S. sanctions against Sudan in late 1997 is hardly coincidental. At a time in which Khartoum was granting oil concessions to a number of foreign companies, Washington moved rapidly to prevent U.S. corporations from entering the Sudanese market. A few years later, given that U.S. unilateral measures had had no serious economic impact on Sudan, and being unable to obtain cooperation from allies and trading partners, American policymakers tried to impose secondary sanctions on firms located in third countries. As the State Department Spokesman James Rubin said in early 2000, “We are very concerned that investment in Sudan’s oil sector strengthen the capacity of the Khartoum regime to maintain and intensify its brutal war against its own people” (Oil & Gas Journal, February 2000).

The June 2001 House version of the Sudan Peace Act, aimed to persuade the Sudanese government to enter into peace negotiations with the southern rebels, included a provision that prohibited any entity engaged in the development of the oil sector in Sudan from raising funds in any capital market in the United States. Although the Senate

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8 The GNPOC venture is exploring and developing oil reserves previously identified by the U.S.-based Chevron Corporation. The latter operated in southern Sudan between 1975 and 1990, when it was forced to abandon the country due to the eruption of fighting between central government and rebel forces.

9 These figures do not take into account the early 2005 peace agreement in Sudan, which entitles the government of the south to half of the revenues from the country’s burgeoning oil industry.

10 The Sudan Peace Act of October 21, 2002, requires the U.S. president to make a determination and certify within six months of enactment, and every six months thereafter, that the government of Sudan and the southern rebels are negotiating in good faith and negotiations should continue.
omitted this provision in its version of the bill (enacted in October 2002 without the capital market restrictions), some Western oil companies withdrew from their investment in Sudan under increasing U.S. pressure. But they were quickly replaced by Asian firms. In 2003, Canada-based Talisman Energy Inc. sold its 25% stake in GNPOC to India’s ONGC Videsh for over $750 million, and Sweden-based Lundin Oil sold its 40% stake in a southern block to Malaysia’s Petronas for $140 million (EIU, September 2003). Thus, the Khartoum regime experienced little difficulty in finding new foreign partners willing to take up positions in the country’s oil sector. And even if the capital market sanctions proposed by the House had been enacted, foreign investors in Sudan would still be able to sell stocks and raise funds in non-US capital markets (Hufbauer and Oegg 2002).

Washington’s economic sanctions against Sudan not only prohibit U.S. direct investment there, but also greatly complicate money transfers to the African country from the United States by establishing that financial institutions linked to or owned by the Khartoum regime cannot process these transactions. It is difficult to assess the impact of U.S. penalties on the flow of remittances reaching Sudan from abroad due to the lack of comprehensive and reliable statistics. Official figures on remittances to Sudan, as recorded by its central bank, show a notable increase in recent years. But these figures are likely to grossly underreport remittance levels, as informal transfers (funds are often sent by hand or picked up in neighboring countries) are estimated to account for about 85% of total remittance receipts (Sander and Munzele Maimbo 2003: 13).

A substantial portion of remittances to Sudan is sent from Egypt and the oil-rich Arab countries (mainly Libya, Iraq, Saudi Arabia, and Qatar), where many highly skilled and white-collar Sudanese workers have migrated since the early 1980s. Nevertheless,
the exodus of refugees to neighboring African countries, the United States, Canada, and Europe also increased after the military coup of 1989 (Abusharaf 1997: 520). Thus, it is possible that remittances from these nations are making a growing contribution to the total flow of money transfers to Sudan from abroad, improving the recipients’ well being and stimulating the overall development of the country. A recent study on southern Sudanese Dinka men and women who resettled to the United States (San Diego, California) found that these refugees rely heavily on remittances to support an ever-increasing number of kin afar. In fact, “the amount of money they have available to them at any given time is significantly lower than the sum of their remittance obligations and other financial responsibilities” (Riak Akuei 2005: 8).

After almost eight years since the enactment of U.S. unilateral sanctions on Sudan, several important problems in the African country remain unresolved. The comprehensive peace accord of January 2005, which brought an end to the decades-old civil conflict between the Arab-dominated government in Khartoum and African-led rebels in the south, is certainly a positive development, and arguably a success for the United States. However, while sharing power in the national government, the current regime will retain the largest share of seats in government, parliament, and other political bodies during a six-year interim period, after which the south will hold a self-determination ballot on whether to remain part of a unified Sudan. Even more important, the ongoing crisis in Sudan’s Western Darfur region continues to dominate the political scene. About 400,000 people died between February 2003 and April 2005, 250,000 as a result of diseases in internally displaced and refugee camps, and 150,000 as a direct consequence of violence (EIU, June 2005). Finally, Sudan has recently shown some
willingness to cooperate with international counter-terrorism efforts, but it continues to reject calls for the extradition of three suspects in the assassination attempt on Egyptian President Mubarak in 1995 and for the end of its support to Islamic terrorist groups (Hufbauer et al. 2001).

As the analysis in this section reveals, foreign direct investment and remittances have practically nullified the overall impact of U.S. unilateral sanctions on Sudan’s economy. Hence, it cannot be excluded that the limited success of U.S. policy toward the Khartoum regime might be the result of activities carried out by transnational actors. Further research on this potential outcome should focus on the operations of foreign investors in Sudan’s key sectors such as oil, energy, and telecommunications, and the flow of remittances from the oil-rich Arab countries and the United States. Moreover, the U.S. House of Representatives’ attempt to impose capital market sanctions with respect to Sudan raises the need for an examination of the presence of U.S. shareholders in foreign companies that have invested in the Sudanese market.

The Case of Myanmar (Burma)

Since 1962, Burma has been ruled by highly authoritarian military governments dominated by members of the majority Burman ethnic group, which accounts for about 70% of the country’s population. On September 18, 1988, amid violent student demonstrations and workers’ riots in response to the worsening ethnic conflict and economic situation, General Saw Maung, commander of the Burma Army, seized

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11 Since its independence from Great Britain in 1948, Burma has witnessed a series of civil wars between the central government and ethnic minority militias, located for the most part in the eastern half of the country. By the 1980s, mainly as a result of increasing military control, “there was no major ethnic group that did not have some element of its population in revolt” (Steinberg 2001: 185). This situation was further exacerbated by the government’s sweeping demonetization program of 1987, mainly aimed to combat inflation and eliminate the growing black market by declaring illegal all high-denomination banknotes (and no compensation was to be paid for them). The action rendered 60-80% of money in
power in a military coup. Soon after the coup, the new regime dissolved the previous single legal party, the Burma Socialist Program Party (BSPP) of General Ne Win, banned the constitution, and established a new ruling junta called the State Law and Order Restoration Council (SLORC). In an effort to “restore order”, it also initiated a brutal suppression of popular discontent that killed over 2,000 dissenters and forced some 10,000 students and young people to flee to Thailand, where many sought refuge, or to the Indian and Chinese borders (Steinberg 2001: 2-3). In 1989, the SLORC changed the country’s name from Burma to Myanmar, and that of its capital from Rangoon to Yangon.\textsuperscript{12}

After almost two years of martial law, the people of Myanmar clearly expressed their will in the relatively free national parliamentary elections that were held on May 27, 1990. Voters overwhelmingly supported antigovernment parties, with the National League for Democracy (NLD) led by Aung San Suu Kyi winning more than 60% of the popular vote and 82% of the parliamentary seats (Smith 2001: 17). It should be noted that the NLD won the general elections even though its leader, who had become the most important and influential figure of the democratic opposition in Myanmar, was under house arrest. But the SLORC refused to allow a new parliament to form on the basis of the election results. Rather than releasing Aung San Suu Kyi (she is currently under house arrest after being detained and released several times over the last decade)\textsuperscript{13} and

\textsuperscript{12} Both the United States and the opposition in Burma do not recognize the name Myanmar or the military regime that represents it.

\textsuperscript{13} Under normal circumstances, Aung San Suu Kyi, the daughter of General Aung San, who negotiated Burma's independence from Britain in 1948, would have assumed the office of Prime Minister because of...
transferring power to the elected civilian government, the military junta arrested thousands of NLD members and continued to violate human rights by preventing pro-democracy forces to convene for the approval of a new constitution and limiting the activities of ethnic minorities. In November 1997, the State Peace and Development Council (SPDC) replaced the SLORC as the dominant political entity in Myanmar, but this change did not transform the fundamental nature of executive recruitment, which remains a “designative” act within the military apparatus. In 2000, Myanmar became the only country to be sanctioned by the International Labour Organization for the use of forced labor and for providing safe haven to drug traffickers (Thawnghmung 2003: 39).14

While maintaining a strict control over Myanmar’s society, after 1988 the SLORC-SPDC government abandoned some of the economic policies of the previous socialist regime and embarked on a gradual process of economic liberalization. This process aimed to improve living standards and spur economic growth by expanding the role of the private sector, limiting the scope and extent of state intervention, and stimulating the country’s integration with the global economy (Collignon 2001: 84). The new set of market-oriented economic reforms, implemented in the late 1980s and in the first half of the 1990s, included the promotion of foreign investment (under the Union of Myanmar Foreign Investment Law of November 30, 1988), the reduction of restrictions on exports of agricultural products (with the exception of rice), and the expansion of the private sector in manufacturing and trade activities. In addition, the government legitimized foreign exchange transactions, simplified the tariff system and reduced duties, and

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14 Myanmar is one of the most important trading houses for narcotics in the Asian region. It is number two in worldwide heroin production after Afghanistan, and is becoming a leading manufacturer of amphetamine-type-stimulants (ATS) to meet growing demand, mainly in Southeast Asia.
implemented a modest program of privatization of small state economic enterprises (ADB, November 2001).

Some scholars, though, argued that the private sector in Myanmar was never allowed to work effectively due to the omnipresent role of the state and the lack of autonomous institutions. In fact, the military has attempted both to co-opt and to control the economy through the formation of a number of state-owned corporations that dominate key economic sectors (namely energy and heavy industry) and participate in joint ventures with foreign companies, through a network of military procurement factories, and through an endless list of regulations and hortatory statements (Steinberg 2001: 135). The 1995 World Bank assessment of economic reforms in Myanmar is emblematic in this regard: “The stringent restrictions on private sector participation in economic activity have been reduced, and a range of fiscal incentives extended to domestic private businesses. Despite the many legislative measures that have been implemented, however, the earlier biases have not yet been redressed in all areas, and the picture that emerges is one of patchy reform rather than of coordinated systemic change” (World Bank 1995). The military’s intention to retain a substantial degree of economic control is also demonstrated by the fact that Myanmar’s transition toward a market-based economy has taken more steps backward than forward over the last ten years. Liberalization efforts began to stall in the second half of the 1990s and, more recently, some reversals took place when the government decided to raise import taxes (imports of non-essential goods had been prohibited in 1996) and ban exports of several agricultural commodities (EIU, August 2004).
The immediate reaction of the United States to the military coup of September 1988 in Yangon, and the ensuing massacre of unarmed demonstrators in the streets of the capital, was the suspension of all U.S. arm sales and assistance, except humanitarian aid, to Myanmar (Lintner 1988: 17). The European Community took a similar decision with respect to its development aid. And a few months earlier, the two largest foreign aid donors to Myanmar, Japan and West Germany, respectively, had already suspended all assistance to the Asian nation on the grounds that the military government was violating basic human rights. Therefore, Washington was initially able to build considerable international support for its attempt to stimulate democracy and the respect of human rights in Myanmar (and force the latter to undertake anti-narcotic activities) through the imposition of aid sanctions against Yangon. Yet, U.S. subsequent efforts to significantly expand economic penalties on the Burmese regime did not receive the same degree of international cooperation.

Whereas the United States suspended Myanmar’s eligibility for benefits under Generalized System of Preferences (GSP) in 1989, and placed additional restrictions on U.S. financing to the Asian nation in the mid-1990s, Japan resumed development aid to the Burmese government in 1995. That year, Japan first provided $10 million in agricultural assistance to Myanmar as a “carrot” to encourage the liberation of opposition leader Aung San Suu Kyi. Then, after her release from house arrest in July, rewarded the

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15 In the aftermath of the military coup, Washington stopped a scheduled delivery of ammunition for the Burmese army’s U.S.-made carbines and M-79 grenade launchers.


17 The U.S. Generalized System of Preferences (GSP), a program designed to promote economic growth in the developing world, provides preferential duty-free entry for more than 4,650 products from 144 designated beneficiary countries and territories.
Burmese generals with an additional $16.25 million grant to fund repairs to a nursing school in Yangon (Barr 1995).

While refusing to lift aid sanctions on Myanmar until further strides toward restoring democracy had been made, even the United States and the European Union began to develop different strategies on how to promote such an outcome. Between 1996 and 1997, the EU introduced a visa ban (following a similar U.S. ban) on members of the Burmese military regime and withdrew Myanmar’s GSP privileges due to the country’s forced labor practices. The United States, instead, attempted to build international support for investment sanctions on Myanmar and imposed “secondary boycotts” against those countries that supplied goods or capital to the military regime of Yangon. It should be noted, however, that secondary sanctions were not applied by the U.S. federal government but by state and local governments. In June 1996, for instance, the Commonwealth of Massachusetts passed a legislation that barred state agencies from buying goods or services from both U.S. and foreign companies doing business in the Burmese market (AP, June 25, 1996). Eleven U.S. cities, including San Francisco, Oakland, and New York, followed this initiative by adopting similar laws.

Unable to convince or force other nations to place restrictions on investment activities in Myanmar, and facing a challenge at the World Trade Organization from the European Union and Japan over the Massachusetts law (declared unconstitutional by the U.S. Supreme Court in 2000), Washington decided, once again, to act unilaterally. On May 20, 1997, President Clinton imposed a comprehensive ban on new U.S. investment in Myanmar, and prohibited U.S. persons from purchasing shares of foreign firms whose profits are predominantly derived from business operations in that country. Clinton’s
decision was met with skepticism and hostility from Southeast Asian nations that had invested heavily in the Burmese market. It also generated some anxiety among traditional American allies such as the EU, Australia, and Canada, which feared the possibility of further secondary boycotts against their companies in case of failure of U.S. policy to bring about democratic changes in Myanmar (Hadar 2001: 418).

In order to evaluate the economic impact of U.S. unilateral sanctions, Table 6.3 presents data on foreign direct investment and remittances to Myanmar, and the country’s GDP annual growth, before and after 1997. It must be emphasized that, until recently, Washington had no restrictions in place on money transfers to people in Myanmar. Yet, in July 2003, President Bush issued an executive order freezing the U.S. assets of senior Burmese officials and severely limiting all remittances to the Asian nation. He also signed a legislation banning the import of Burmese products. In explaining the sanctions, Bush stated: “By denying these rulers the hard currency they use to fund their repression, we are providing strong incentives for democratic change and human rights in Burma” (U.S. Department of State, July 2003). Currently, U.S. individuals are authorized to send a maximum of $300 in remittances per Burmese household every three months, regardless of the number of individuals comprising the household, and provided that no beneficiary is a person whose property is blocked in the United States.

Washington’s unilateral measures against the Burmese regime have had little impact on the flows of foreign direct investment and remittances to Myanmar. They also seem to have had no discernible adverse effect on the Asian nation’s overall economic performance, although official GDP data provided by its military junta are deemed as highly unrealistic by international observers (Dudley 2003: 4). Between 1990 and 1997,
Myanmar received an annual average of $222 million in FDI and $54 million in remittances. Since then, FDI has averaged $248 million per year, and remittances about $88 million per year. Furthermore, according to Yangon, the Burmese economy has witnessed a notable improvement since the imposition of U.S. investment sanctions in May 1997. While Myanmar remains one of the poorest countries in the World, its GDP grew at an average rate of 11.2% between 1998 and 2003, as compared to 5.5% between 1990 and 1997. The Economist Intelligence Unit, however, estimates that the country’s real GDP growth was significantly lower in recent years (EIU, August 2005).

Table 6-3. Myanmar: Foreign Direct Investment, Remittances, and GDP Growth

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<tr>
<td>FDI ($U.S. Million)</td>
<td>222</td>
<td>684</td>
<td>304</td>
<td>208</td>
<td>192</td>
<td>191</td>
<td>128</td>
<td>284</td>
</tr>
<tr>
<td>Remittances ($U.S. Million)</td>
<td>54</td>
<td>137</td>
<td>97</td>
<td>77</td>
<td>86</td>
<td>82</td>
<td>52</td>
<td>88</td>
</tr>
<tr>
<td>GDP Growth (annual % change)</td>
<td>5.5</td>
<td>5.8</td>
<td>10.9</td>
<td>13.7</td>
<td>11.3</td>
<td>12.0</td>
<td>13.8</td>
<td>11.2</td>
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As shown in Table 6-3, the flow of FDI into Myanmar increased substantially in 1998 ($684 million), soon after President Clinton’s decision to apply investment penalties on the Asian country. This is mostly due to the fact that, in early 1997, several U.S. firms anticipated the imminent ban on new investment in Myanmar by signing contracts with the Burmese regime, mainly in the oil and gas sector. Even some European companies, warned by American officials that Myanmar “is not a good place to do business if you do so in the U.S.” (Bardacke 1997), rushed to complete agreements with the government of Yangon. Given that Washington’s restrictions allowed existing business deals to be

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18 Myanmar has a population of 52 million and a GDP per capita of just around $300 dollars. See “Myanmar makes achievements in absorbing foreign investment.” Xinhuanet, May 26, 2003.
fulfilled, but not to be modified and expanded, U.S. firms secured contracts worth $339 million in February 1997 alone,\(^\text{19}\) compared with a total of just $21.4 million in 1995 and 1996 combined (Hadar 2001: 416). For instance, California-based Unocal and France-based Total signed a major production-sharing agreement with Myanmar Oil and Gas Enterprise (MOGE) to expand offshore natural gas exploration in the Andaman Sea and build a gas pipeline between Myanmar and Thailand (Richardson 1997).

By April 30, 1998, Myanmar’s military junta had approved 26 U.S. investment projects worth about $582 million (Steinber 2001: 154). Since then, new U.S. investment has been zero, and European countries have largely stayed away from the Burmese market. Moreover, a number of existing foreign investors pulled out of Myanmar as a result of U.S. sanctions. Facing the threat of market boycotts at home under the Massachusetts law, American companies such as Apple Computers, Kodak, Hewlett-Packard, Levi Strauss, and Pepsi Cola left the Asian nation in 1996. Additional firms that pulled out between 1997 and 1998 include the U.S. corporations Texaco, Compaq Computers, Liz Claiborne, Amoco, and Reebok, and European companies such as Heineken, Ericsson, Seagrams, Carlsberg, and Phillips Electronics (Boyd 2002). But FDI has continued to flow into Myanmar in recent years as major investors from Western countries were quickly replaced by entities from East Asian nations. Just to cite a few examples, Texaco sold its share in an offshore oil and gas field to Malaysia’s Petronas. A Chinese firm, instead, won a contract for a port development project in Yangon after a U.S. engineering company (which had done preliminary work) renounced to a formal bid because of U.S. sanctions (Preeg 1998).

\(^{19}\) In terms of capital involved, U.S. contracts represented almost half of all foreign investment projects ($694 million) authorized by the Burmese regime in February 1997.
Since 1997, new foreign investment in Myanmar has come almost exclusively from Asian countries. Currently, the bulk of FDI is centered in the oil and gas sector and, to a lower degree, manufacturing, tourism, real estate, and mining. In stock terms, according to official figures, the most important foreign investors are from Singapore (about $1.6 billion in 66 projects as of March 31, 2004), United Kingdom ($1.4 billion), Thailand ($1.3 billion), and Malaysia ($660 million). And FDI data published by Myanmar’s military junta do not include substantial Chinese investment in mining, manufacturing, and infrastructure projects in the northern region of the country (McCarthy 2000: 243). As a further proof of the growing importance of Asian firms in the Burmese market, it is reported that in 2002 and 2003, apart from a $27 million British project in transportation, new investment in Myanmar came primarily from South Korea ($32.3 million in oil and gas and $2.6 million in fisheries), Thailand ($22 million in oil and gas), and China ($2.8 million in manufacturing). Thus, the economic impact of U.S. investment sanctions will remain minimal as long as Asian companies are willing to sign major business deals with the Yangon regime. As many nations continue to invest in Myanmar and import the country’s high-value products such as natural gas and timber, U.S. officials have recently admitted that “some countries' governments are unlikely to do more than offer public support for a democratic transition (in Burma)” (U.S. Department of State, May 2004). Even the European Union, which adopted a Common Position in October 2004 prohibiting EU firms from investing in Burmese state-owned enterprises, omitted from its

20 It should be noted that these figures do not refer to the capital actually invested in Myanmar but only to the value of investment projects approved by the Burmese government. In 1999, the U.S. Department of State estimated that only about 28% of approved investments had been realized (Steinber 2001: 153).

list a number of Burmese entities in key sectors such as oil, gas, timber, and telecommunications (BCUK, December 2004).

Finally, official flows of remittances to Myanmar over the past decade and a half were substantially lower than FDI levels, but the U.S. decision in July 2003 to stem these transactions suggests that money transfers from abroad could play quite an important role in the Burmese economy. That year, former U.S. Secretary of State Colin Powell stated: “It's time to ban remittances to Burma so that the SPDC cannot benefit from the foreign exchange” (Powell 2003). Washington’s latest restrictions against Yangon, in effect, virtually ban all dollar remittances to Myanmar because U.S. banks are no longer allowed to clear money transfers to that country. Nevertheless, the Asian nation’s military junta quickly reacted by instructing all government organizations and private businesses to use euros rather than dollars for international transactions (BBC, August 15, 2003). In addition, a large share of overseas remittances to Myanmar, mostly coming from Thailand, are sent through unofficial mechanisms due to the government’s strict control over foreign exchange. The most popular method of transferring funds is the Hundi system (Vicary 2004: 35), an underground payment system that relies on the pervasive social network of migrants to offer door-to-door service. With about one million Burmese people currently working abroad (EIU, October 2002), it cannot be excluded that remittances might help keep Myanmar’s economy afloat despite renewed U.S. pressures.

So far, U.S. unilateral sanctions against the Yangon regime, and additional coercive measures implemented by the European Union, have done little to promote democratic changes in Myanmar. While these sanctions certainly hurt the country’s already troubled
economy, there is no sign of meaningful political and economic reforms. Notwithstanding its promises to restore democracy and “systematically hand over state power to the public,” the Burmese government continues to strengthen the role of the military and deny freedom to political prisoners, use forced labor on a large scale, engage in narcotics production, and resist economic liberalization (EIU, August 2005). As investors from China, Thailand, South Korea, and India increased their presence in the Burmese market, and arguably helped the survival of the current military regime, further research should explore the effects of FDI activities, mainly in the natural gas sector, on Myanmar’s economic performance. A comprehensive survey of Burmese people working abroad, especially in Thailand, would also shed light on the methods and size of remittances to Myanmar, and their role in mitigating the economic intent pain of U.S. sanctions.

**The Case of Iran**

The United States has maintained various economic penalties against Iran since 1979, following the country’s Islamic revolution and the seizure of the U.S. embassy in Tehran that year. Washington’s incremental sanctions on the Iranian regime over the past 25 years are one of the most emblematic examples of a U.S. unilateral attempt to achieve ambitious foreign policy objectives with little or no multilateral assistance. Since the early 1990s, the European Union has favored a policy of engagement or “critical dialogue” with Iran (and encouragement of moderate forces there) as the more effective route to changing the latter’s questionable behavior, especially its alleged support for international terrorism, its efforts to undermine the Middle East peace process, and its

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22 Between 1998 and 2002, Myanmar’s annual revenues from natural gas exports were about $200 million, or 11% of the country's total export earnings. See “Natural gas contributes much to Myanmar's economy.” *Xinhuanet*, September 3, 2002.
drive for nuclear weapons. The UN Security Council, instead, has never applied economic sanctions on Teheran, mainly because of China and Russia’s disagreement with the U.S. evaluation of Iran’s behavior. Beijing and Moscow’s arm sales to and extensive energy-related interests in Iran also played a role in this regard (Clawson 1998: 89-90).

The Iranian revolution of 1979, carried out by Islamic rebels under the leadership of the Ayatollah Ruhollah Khomeini, overthrew the regime of Mohammad Reza Shah Pahlavi, a staunch and powerful ally of the United States (Alikhani 2000: 20). The revolutionaries dismantled the shah’s secular monarchy, put an end to the country’s symbiotic relation with Washington, which had helped sustain the latter’s economic and political interests in the Persian Gulf region, and established the Islamic Republic of Iran. On November 4, 1979, militant Islamic students stormed the U.S. embassy in Teheran and took 52 Americans in hostage. The Khomeini government did nothing to prevent this action, voiced its support for the occupation, and branded America as the “Great Satan.” The students demanded that Pahlavi, who had fled the country and was at the time receiving treatment for cancer in the United States, stood trial in Iran. Washington responded to these developments with a series of economic measures, including the freeze of $12 billion of Iranian assets (mainly deposits and securities held by U.S. banks and their overseas branches), and a ban on imports of Iranian products. After almost 15 months of intense negotiations, and a U.S. failed attempt to free the embassy staff in 1980 in which eight U.S. soldiers died, the crisis ended in January 1981 with the release of the American hostages. Most Iranian assets were immediately unfrozen and bilateral trade between the two countries resumed (O’Sullivan 2003: 48-49).

23 Once his course of medical treatment in the United States had finished, Pahlavi lived for a short time in Panama and then went to Egypt, where he died in Cairo on July 27, 1980.
Throughout the 1980s, Iran’s support of terrorist groups and its hostile stance toward the United States and other countries of the region triggered new U.S. coercive measures against the Khomeini regime. In January 1984, due to the alleged Iranian involvement in the bombing of a U.S. Marine base in Beirut, Lebanon, three months earlier,24 the State Department added Iran to the list of nations sponsoring terrorism, thus imposing more stringent controls on U.S. exports to that country. Over the next few years, following the beginning of the Iran-Iraq war and the action by a fundamentalist Shiite faction with ties to Iranian leaders that took several Americans hostage in Beirut in 1985 (many were released after almost three weeks in captivity), President Ronald Reagan imposed a number of restrictions on U.S. trade with Teheran.

In 1984, Reagan banned U.S. exports to Iran of five substances that could be used to produce chemical weapons and denied license applications for exports of aircrafts, helicopters, and other related parts (Fleming 1984). Then, in 1987, he prohibited U.S. sales of additional types of potentially militarily useful goods (including inboard and outboard motors, mobile communications equipment, electrical generators, and hydrofoil vessels) and banned all imports from the Middle Eastern nation. As a result, Iranian exports to the United States, mainly oil, came virtually to a halt, but U.S. pressures on other nations to curtail their oil purchases from Iran failed to produce any meaningful results. An American plan to send a senior official delegation to the capitals of friendly consuming countries such as Japan, Italy, and West Germany was dropped because U.S. officials recognized that cooperation was unlikely to be obtained (Johns 1987). By 1989, when Khomeini passed away and was replaced by Ali Akbar Hashemi Rafsanjani,

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24 In October 1983, a suicide bomber detonated his truck at the U.S. Marine base in Beirut, Lebanon. The death toll was 241 Americans, including 220 marines, 18 navy personnel, and 3 army soldiers. Almost simultaneously, a similar attack on the base of French peacekeepers killed 58 paratroopers.
Washington’s relations with Teheran had remained tense, although President George Bush unfroze $567 million of Iranian assets that year hoping to receive Iran’s help for the release of the remaining U.S. hostages in Beirut (Reuters, November 9, 1989).25

During the 1990s, the United States intensified its economic sanctions with respect to Iran. In October 1992, the U.S. Congress passed the Iran-Iraq Arms Non-Proliferation Act, which extended to Iran the same export and licensing prohibitions that had been imposed on Iraq after its invasion of Kuwait in 1990. The legislation banned the export of any goods, technology, or expertise contributing to the acquisition by Iran (or Iraq) of nuclear, chemical, biological, or advanced conventional weapons. It also called for sanctions, including the suspension of government contracts and U.S. military and financial assistance, against any foreign government or person conducting operations contrary to this policy. Indeed, Washington’s threats prevented some Western countries from supporting the Iranian government’s attempt to develop nuclear capabilities. Yet, they were unable to convince other nations, mainly Russia, to sell Teheran weapons or equipment that could have military use. In early 1995, for instance, Russia signed a major deal ($940 million) to complete a commercial nuclear power plant near the Iranian town of Bushehr despite U.S. warning that such a project would contribute to the proliferation of nuclear weapons by helping Iran assemble an atomic arsenal (Schwarzback 1997: 62)26

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25 Two American hostages in Lebanon, Robert Polhill and Frank Reed, were released in late April 1990. Terry Anderson, the Associated Press’ chief Middle East correspondent, was the last U.S. hostage in Beirut to be freed in December 1991.

26 The United States and some other Western countries had serious doubts about the official Iranian assertion that a nuclear power plant worth nearly $1 billion was going to be used only for electricity generation and not for military purposes. Iran’s exploitation of its enormous reserves of natural gas and other fossil fuels, in fact, represented a more cost-effectively solution to the country’s serious shortage of electrical generating capacity.
Between 1995 and 1997, as a consequence of Iran’s active pursuit of weapons of mass destruction and its continuous sponsorship of international terrorism, the United States implemented additional economic measures that significantly expanded its sanctions program against Teheran. The U.S. effort to change Iran’s behavior through economic warfare had long been frustrated by the fact that American firms were among the biggest buyers of Iranian oil. More specifically, oil purchases by U.S.-owned corporations such as Exxon, Mobil, and Coastal generated revenues for the Iranian regime worth billions of dollars a year, thus undermining the whole purpose of Washington’s sanctions. It should be noted that these companies could easily circumvent the 1987 U.S. ban on all imports from the Middle Eastern nation by shipping Iran’s crude to refineries in Europe or Asia. In other words, they were able to make large profits even if the oil never entered the United States (Lippman 1995). Besides, the Iranian government had just begun negotiations with several foreign corporations aimed to attract foreign direct investment for its petroleum industry and stimulate the overall economy. In March 1995, therefore, President Clinton issued an executive order barring U.S. individuals and firms from financing, supervising, and managing oil development projects in Iran. A few months later, he announced that American companies could no longer sell Iranian oil to third countries and virtually banned all direct U.S. trade with Iran by imposing further restrictions on U.S. exports of goods, technology, and services to that country (Fayazmanesh 2003: 222).

Washington’s unilateral economic sanctions had an immediate negative effect not only on U.S. purchases of Iranian oil but also on the potential involvement of American

27 By the end of 1994, the value of Iranian oil purchased by subsidiaries of U.S. companies, and then sold to a third country, had reached an estimated $3.5 billion a year (Lelyveld 1995).
companies with petroleum development in Iran. Clinton’s executive order, in particular, blocked a major investment by Houston-based Conoco Inc. in two Iranian oil and gas fields in the Persian Gulf. The termination of Conoco’s contract, signed in early March 1995 and valued at about $1 billion, sent a strong discouraging signal to other American oil firms that had been eager to increase their business dealings with Iran (Southerland and Devroy 1995). However, U.S. officials remained aware that such restrictions had little chance of exercising significant economic pressure on Teheran as long as other countries were willing to purchase Iran’s oil and invest there.

In effect, French, German, and British officials called U.S. sanctions the wrong approach and reiterated their commitment to a policy of “critical dialogue” with the Iranian regime, or to joint rather than unilateral action on trade (Farbash 1995). Similarly Japan, the largest buyer of Iranian oil, refused to join the U.S. embargo on trade with Iran, arguing that efforts to isolate the latter economically and diplomatically would only worsen its behavior (Sanger 1995). By August 1995, several European and Asian countries had increased their imports of Iranian crude. And a month earlier, France-based Total had become the first foreign company to invest in Iran since the 1979 revolution by signing a $600 million deal to develop the same two oil fields that Conoco had planned to exploit (Southerland 1995). Frustrated by the lack of international cooperation, and given that Iran was actively courting foreign companies to invest in its energy sector, the United States, then, decided to extend the reach of its unilateral measures by imposing secondary sanctions on firms located in third countries.

On August 5, 1996, Washington enacted the Iran and Libya Sanctions Act (ILSA), which requires the U.S. President to impose economic penalties on foreign firms that
make substantial investments in Iran’s oil and gas sector. In a message to America’s allies, Clinton observed: “You cannot do business with countries that practice commerce with you by day while funding or protecting the terrorists who kill you and your innocent civilians by night. That is wrong” (Mitchell 1996). Finally, on August 19, 1997, Clinton issued a new executive order practically banning all trade (direct and indirect) and investment activities with Iran by a U.S. citizen or company (Clawson 1998: 89).

Meanwhile, campaigning for improved human rights, freedom of the press, domestic tolerance, and economic reforms, moderate leader Mohammed Khatami had been elected President of Iran by a wide margin on May 23, 1997 (Kinzer 1997).

There is little doubt that Washington’s comprehensive unilateral sanctions on Iran have had some notable economic impact on that country. After Clinton barred American firms from selling Iranian crude to third countries in June 1995, Teheran incurred a loss of many millions of dollars over a three-month period during which it was forced to sell oil at a discount of 30 to 80 cents per barrel in order to find alternative buyers (O’Sullivan 2003: 66). In addition, U.S. sanctions caused an immediate decline of Iran’s non-oil exports, led foreign lenders such as commercial bankers and government export credit agencies to reduce their loans to Teheran, and prevented American oil corporations from signing investment contracts with the Iranian regime (Clawson 1998: 93-94). To make things worse, ILSA created a riskier investment environment in Iran and limited the latter’s ability to attract FDI. Nevertheless, U.S. coercive measures did not deliver a fatal blow to Iran in the sense of triggering its economic collapse or depriving it for long of capital and goods essential to its broader development. By the end of 1995, the Iranian

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28 ILSA establishes that a variety of sanctions (including the denial of U.S. loans, credits, and procurement) must be applied against foreign firms investing over $40 million in one year in Iran's oil and gas sector. After one year, the annual investment limit triggering sanctions drops to $20 million.
regime had already located substitute markets for its energy products. Since then, it has been able to secure deals with several foreign firms to exploit its oil and gas fields, helped by the fact that penalties under ILSA were never applied due to international opposition (Frank, February 1, 2001). Even more important, and perhaps related to these economic developments, sanctions have not persuaded Iran to change the behavior to which Washington objects.

Table 6-4. Iran: Foreign Direct Investment, Current Transfers, and GDP Growth

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<tr>
<td>FDI ($U.S. Million)</td>
<td>-17</td>
<td>26</td>
<td>53</td>
<td>24</td>
<td>35</td>
<td>39</td>
<td>55</td>
<td>276</td>
<td>120</td>
<td>78</td>
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<tr>
<td>Current Transfers</td>
<td>1839*</td>
<td>471</td>
<td>400</td>
<td>500</td>
<td>508</td>
<td>539</td>
<td>850</td>
<td>1,305</td>
<td>1,200</td>
<td>722</td>
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<tr>
<td>($U.S. Million)</td>
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<tr>
<td>GDP Growth (annual</td>
<td>5.9</td>
<td>7.1</td>
<td>3.4</td>
<td>2.7</td>
<td>1.9</td>
<td>5.1</td>
<td>3.7</td>
<td>7.5</td>
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<td>change)</td>
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Table 6-4 gauges the economic impact of U.S. unilateral sanctions against Teheran by presenting data on foreign direct investment in Iran and its GDP annual growth before and after 1995. It also includes balance of payments figures on current transfers, which are mostly made up of remittances from abroad, to show the importance for the country’s economy of other kinds of external financial flows. Between 1990 and 1995, the flow of FDI into Iran was nearly zero because its government did not accept new foreign investment. During this period, the annual average of current transfers was about $1.8 million. Since the imposition of U.S. investment sanctions in 1995, FDI has

29 The International Monetary Fund (IMF) does not include annual figures on remittances to Iran in its balance of payments series. It does, however, estimate the annual average of remittances to Iran between 1990 and 2003 in a recent report, which will be briefly analyzed later in this section.

30 The negative sign of FDI flows into Iran between 1990 and 1995 is mainly the result of disinvestments from existing projects.
averaged $78 million per year, and current transfers little more than $700 million per year. Both indicators, however, have increased in recent years. Furthermore, Iran’s GDP grew at an average rate of 4.7% between 1996 and 2003, as compared to 5.9% between 1990 and 1995. Over the past decade, the country’s economic performance has been mixed with erratic fluctuations, but the situation has improved substantially since 2002. Mostly driven by soaring revenues from oil exports, Iran’s GDP increased by 5.5% in 2004, and is projected to expand by approximately 5% in 2005 (EIU, May 2005).

Between 1996 and 1998, foreign enthusiasm for investment in Iran was hindered by the threat of sanctions under ILSA. Although the Iranian regime had offered eleven oil projects to potential foreign investors before the passage of the U.S. legislation (O’Sullivan 2003: 72), only a few of those deals had been concluded by mid-1998. In terms of capital involved, the most important one was the $2 billion contract that France’s Total, Russia’s Gazprom, and Malaysia’s Petronas signed with Teheran in late 1997 to develop the Iranian South Pars natural gas field (Owen and de Jonquie’re’s 1997). Nevertheless, the deterring effect of ILSA virtually ended in May 1998, when the Clinton administration, fearing a possible trade war with Europe (and a split with Russia), waived the imposition of economic penalties against the aforementioned firms and promised additional waivers for future European investments in Iran (Lippman 1998). As ILSA lost its momentum and the likelihood of being sanctioned by Washington appeared increasingly remote, a number of European companies, including UK’s Premier Oil, France’s Elf Aquitaine, Italy’s ENI Spa, and the Anglo-Dutch Royal Dutch/Shell group, signed contracts worth billions of dollars to exploit various Iranian oil fields after the 1998 waiver (Bahree 1999; Molavi 1999).
Curiously, while overseas oil companies have become involved in several multibillion projects in Iran since the late 1990s, figures on the amount of foreign direct investment delivered to the country remained relatively low. This is due to the fact that large oil deals are framed as servicing agreements or buy-back contracts rather than FDI. These contracts are arrangements in which the foreign contractor funds all investments, receives remuneration from the state-owned National Iranian Oil Company (NIOC) in the form of an allocated production share, and then transfers operation of the field to NIOC after the contract is completed. If the buy-back oil projects are included, foreign capital is clearly playing a crucial role in the development of Iran’s energy sector (EIU, May 2003), and arguably of its overall economy. In fact, buy-backs averaged a remarkable $1.2 billion per fiscal year (March 21-March 20) between 2000 and 2004 (IMF, September 2004). As a sign of an improved economic situation, in mid-2002 Iran issued its first international bond since the 1979 Islamic revolution. Despite Washington’s regulations making Iranian securities untouchable to U.S. financial entities, Teheran sold almost 500 million euros (and later offered an additional 125 million euros) worth of five-year government bonds, with European investors, mainly from the United Kingdom, Germany, France, and Switzerland, buying 42% of the issue. About 53% of the issue was sold to investors in the Middle East, and the remaining 5% to Asian banks (IMF, November 2003).31

In addition to the recent flows of buy-back and portfolio investments, Iran has attracted sizable amounts of remittances from expatriate Iranian workers. Official figures on “current transfers” to the country, whose main component is remittances, indicate that

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31 Iran’s international bond issue, launched on July 10, 2002, was lead-managed by Germany’s Commerzbank and France’s BNP Paribas (Dinmore and Ostrovsky 2002)
the latter have grown significantly since 2001. According to the International Monetary Fund (IMF), Iran was among the 20 largest recipients of remittances in the world between 1990 and 2003, receiving an annual average of about $1.2 billion worth of these funds during this period (IMF, April 2005). It must be emphasized that Washington’s regulations allow U.S. depository institutions to handle non-commercial family remittances involving Iran, provided the transfers are routed to or from non-U.S., non-Iranian offshore banks. Furthermore, all transactions ordinarily incident to American travel to Iran are permitted under U.S. law. Thus, given that about one third of the three million Iranian workers currently residing abroad are in the United States (Killgore et al. 2000), it cannot be excluded that formal and informal U.S.-based remittances might represent a critical source of foreign exchange for Iran, helping reduce poverty there and improve the country’s development prospects. For instance, it is reported that substantial sums of investment capital from the Iranian diaspora enter Iran’s economy informally each year, contributing to major construction projects in Teheran and elsewhere (EIU, May 2003). Iranian workers living in the United States, who know the Iranian territory and maintain close family connections there, are the most likely source of these investments (Killgore et al. 2000).

In sum, U.S. comprehensive unilateral sanctions against Teheran have inflicted some damage on Iran’s economy, but largely failed to hurt the country’s finances enough to reduce its ability to sponsor terrorism and acquire weapons of mass destruction. Without international cooperation, and despite the threat of secondary sanctions against firms located in third countries, the chief result of U.S. tighter trade and investment restrictions was to surrender business to American companies’ European and Asian
competitors. Buy-back and portfolio investments in Iran, in particular, simply reveal the
more globalized international competition that exists today, which makes unilateral
sanctions less likely to advance major foreign policy goals. There is also some evidence
that large flows of remittances from abroad, mainly from the Iranian diaspora in the
United States, helped buoy Iran’s economy and allowed for increased physical
investments in the country’s real estate sector.

In the light of these developments, it comes as little surprise that the Iranian regime
has not changed its behavior on any of the issues of major concern for the United States.
American officials recently acknowledged that “Iran remained the most active state
sponsor of terrorism in 2004” (U.S. Department of State, April 2005). Moreover, the
election of conservative Mahmoud Ahmadinejad as the new Iranian president in August
2005 will likely reinforce Teheran’s support for Islamic terrorist groups and its effort to
develop nuclear weapons (Wright 2005). Further research on U.S. sanctions with respect
to Iran should provide a more specific assessment of the positive impact of foreign
investment on the country’s oil sector and the socioeconomic effects of remittances from
overseas workers. While U.S. coercive measures have attempted to promote political
changes by increasing economic pressure on the Iranian regime, external financing by
corporations and migrant entrepreneurs could bear a major responsibility for fostering
Iran’s economic growth or eventually smoothing crises that Washington’s sanctions had
prompted. Along with an analysis of U.S.-based remittances to Iran and their economic
benefits, the proposed research should also focus on U.S. indirect or secondary
investments in the Iranian oil industry, given that American investors own shares of all
major European companies that have become engaged in oil development projects in Iran.32

Conclusion

The globalizing world economy of the post-Cold War era, in which countries are growingly connected through transnational linkages that sustain capital flows across national borders, clearly poses a wide array of obstacles to the successful use of unilateral sanctions against target governments. Although the United States, usually acting alone or with little international assistance, continues to rely on economic coercive measures to confront states that sponsor terrorism, pursue weapons of mass destruction, resist democratization, and engage in violations of human rights, the inability of these attempts to produce major changes in line with Washington’s interests has become increasingly evident. Mainly intended to deny foreign exchange resources to hostile regimes and thus alter their questionable behavior, U.S. sanctions often ended up transferring business from American firms to foreign competitors in the same market. Multinational corporations located in third countries moved in quickly to displace U.S. trade and investment, or eventually took advantage of a target government’s strategic decision to allow foreign investment as a way to cope with increased U.S. pressure. In addition, remittances from overseas workers have come to represent an important channel through which rising global migration flows affect the socioeconomic welfare of developing countries, including embargoed ones, despite regulations that may interfere. In short, while the Soviet Union frequently served as a “black knight” during the Cold War,  

32 For further information on the presence of U.S. investors in European oil companies that have signed buy-back contracts with the Iranian regime see the financial reports of UK’s Premier Oil (www.premier-oil.com), France’s Total (www.total.com) and Elf Aquitaine (www.elf.com), Italy’s ENI Spa (www.eni.it), and the Anglo-Dutch Royal Dutch/Shell group (www.shell.com) (last visited November 2005).
replacing the United States as an alternative source of financial aid to sanctioned nations, multinational corporations and migrant entrepreneurs might perform a similar function in today’s global marketplace.

The three case studies analyzed in this chapter reveal how difficult it is for the United States to obtain multilateral support for its sanctions policies even when most other nations share the same U.S. objectives. They also demonstrate that without international cooperation U.S. sanctions remain for the most part toothless. Washington’s comprehensive measures against Sudan, Myanmar (Burma) and Iran produced some negative effects on the targeted economies, but they mostly failed to exercise enough economic pressure to change their leaders’ behavior. When the latter began to lure foreign capital to develop their extensive oil and natural gas reserves, several European and Asian companies seized the opportunity and launched major investment operations in these countries. And the U.S. subsequent threats to impose penalties on third parties that invest there achieved only limited success. Furthermore, substantial flows of family remittances to these countries, mainly to Sudan and Iran, mitigated the economic intent pain of U.S. sanctions and undermined their main goals. It cannot be excluded that transnational activities carried out by American citizens and companies also played a role in this regard. As previously observed, a large portion of remittances to Iran is coming from the United States and U.S. investors own shares of all major European corporations investing in Iran’s oil industry.
CHAPTER 7
CONCLUSION

Economic sanctions are foreign policy tools used by governments to constraint business activities across national borders and lower the aggregate economic welfare of a target state, thus coercing the latter to change its political behavior. Over the past century, sanctions have been imposed on many occasions for a variety of political purposes. Until the early 1960s, they were usually deployed to force a target country to withdraw its troops from border skirmishes and desist from military adventures, or eventually to destabilize a hostile regime and hasten its demise. Since then, however, several other foreign policy goals have been pursued, including efforts to protect human rights and promote democracy, stem nuclear proliferation, and fight international terrorism (Hufbauer et al. 1990: 5-7). Throughout the whole period, the United States has been the dominant user of economic sanctions, acting alone in most cases and occasionally as part of a coalition of states.

The usefulness of sanctions as an instrument of foreign policy has declined steadily over the last few decades. Between 1914 and 1969, economic coercive measures were at least relatively effective at achieving modest and narrowly focused policy objectives. Their utility, yet, proved more elusive in exercising enough pressure to significantly alter the behavior of a target country, especially when the sender’s goal was to compel the target to take actions it stoutly resisted. The success rate of sanctions, mainly when they are applied unilaterally, has dropped considerably since the early 1970s as the globalizing world economy makes capital and goods of the coercer state more easily replaceable by
those from other sources. And successful cases have become even more rare in the post-
Cold War era due to a remarkable acceleration in the pace of globalization and the
expansion of transnational linkages. Transnational practices by multinational
corporations and migrant entrepreneurs play a fundamental role in this regard.

In recent years, the liberalization of most countries’ investment regimes, the
integration of national capital markets, growing international migration and transnational
family ties, and advances in information and communications technology have spurred
massive capital flows across national borders in the form of foreign direct investment
(FDI), portfolio investment, and remittances. Currently, FDI from multinational
corporations and remittances from overseas workers are crucial sources of external
financing for many developing countries (Soubbotina 2004), including embargoed ones.
These transnational activities tend to mitigate the impact of economic coercion against
target states by providing the latter with the financial wherewithal that sanctions are set to
deny. To sum up, if sanctions achieved very limited success during the 1970s and 1980s,
they are even less likely to be effective in today’s global marketplace in which a target
country can readily obtain the resources it needs by promoting foreign investment,
stimulating remittances, or tapping international capital markets.

Intuitively, comprehensive multilateral sanctions, if properly applied and enforced,
should produce a far greater economic impact than unilateral ones because they make it
caller for a target country to find alternative suppliers of goods and capital. But
concerted efforts are difficult to undertake due to diverse security interests of potential
coalition countries as well as their different views on the target’s behavior and the best
strategy to promote political changes. As one state is usually the driving force behind the
call for economic penalties, it will often have to make concessions and water down the sanctions in order to obtain international cooperation. Therefore, unilateral measures could be in some cases the only option available for a leading user of sanctions like the United States to pursue ambitious foreign policy objectives. Former U.S. Undersecretary of State Stuart Eizenstat, for instance, observed a few years ago: "If we are unsuccessful in building a multilateral regime, and important national interests or core values are at issue, we must be prepared to act unilaterally. We cannot permit other countries to veto our use of sanctions by their failure to act." (Paulson 1999)

Unable to rally other states to the defense of its national security interests, the United States initiated several new cases of unilateral sanctions during the 1990s and significantly expanded some existing sanctions programs, mainly against Cuba, Sudan, Myanmar (Burma) and Iran. And when allies and trading partners refused to cooperate with U.S. policies and increased their trade and investment relations with these target countries, Washington tried to extend the reach of its sanctions by threatening or imposing penalties against firms located in third countries. The forty-three year old American embargo against Cuba is perhaps the most emblematic example of a failed U.S. attempt to generate critical economic pressure on a target government and induce major changes in its behavior (or eventually hasten its demise) through the use of comprehensive unilateral coercive measures, including restrictions on investment, trade, travel, remittances, and the application of secondary sanctions.

After the fall of the Soviet Union in 1989 and the end of the special relationship between Moscow and Havana, the United States intensified its economic sanctions on Cuba. In 1996, in particular, U.S. President Bill Clinton signed the Cuban Liberty and
Democratic Solidarity Act, popularly referred to as the Helms-Burton law. The objective of the law is to discourage foreign investment in Cuba through the threat of lawsuits and the imposition of travel restrictions against foreign firms or other entities that “traffic” in U.S. properties expropriated during the early days of the revolution. There seems no question that Helms-Burton, at the very least, has made it more difficult, potentially risky and, in terms of obtaining financing, more expensive to invest in the communist island. As a result of this, it has had a deterrent “chill” effect on potential new investment there, but largely failed to force major foreign companies already operating in the Cuban market to pull out of the country, detain the flow of foreign capital delivered to Cuba, and hinder the island’s slow but constant economic upturn following the deep recession of the early 1990s. After all, there is a particularly strong presence of FDI in all the Cuban industries that have exhibited the best economic performance over the past decade. Hence, it is not surprising that U.S. sanctions also failed to promote a democratic change in the behavior of the Cuban government and undermine Castro’s hold over the political apparatus.

The United States, however, has not only been unable to stymie the recovery of the Cuban economy from its post-Soviet crisis, but has actually contributed in a significant way to that recovery. Despite tighter U.S. sanctions, mainly aimed to deny foreign exchange earnings to the Castro regime, American citizens and companies have channeled substantial amounts of hard currency into Cuba through direct and indirect practices involving travel, remittances, payments for telecommunications services, food exports, and secondary investments.
More specifically, U.S. citizens were the fourth largest group among foreign travelers to the island between 1995 and 1998, and the second largest one after Canadians between 1999 and 2003. More than 60% of U.S. visitors were Cuban Americans traveling to Cuba with or without their government’s approval. Even more important, remittances from abroad (estimated at more than $1 billion a year and mostly sent through informal mechanisms) are today, in net terms, the most important source of hard currency revenues for the Castro government. The vast majority of these funds are sent by Cuban exile community in South Florida, the most active group in the United States supporting the embargo, to relatives on the island. South Florida cash to Cubans may indeed make the life of the latter more bearable, but it also benefits Havana’s authorities which capture the vast majority of remittances through transactions in exchange houses and then through sales in state-owned hard currency stores, where the elevated price mark-up (240% on average) acts as a hidden tax on spending. Additional profits are generated by U.S. food exports to Cuba that are sold in these outlets and expensive dollar charges placed on incoming calls from the United States (mainly calls from Cuban Americans to family members in Cuba). Finally, American entities hold publicly traded shares of several major foreign firms that have invested in the Cuban market. In brief, FDI operations in Cuba by companies located in third countries are just one of the potential reasons why Washington’s sanctions against Havana have not worked. The analysis presented in this study suggests that such an outcome might be the result of transnational activities carried out by actors of the same country that has devised unilateral sanctions as an effective tool to increase economic pressure on target governments and change their questionable behavior.
In light of this situation, two possible options are available to U.S. decision-makers for a more successful policy toward Cuba. The first option is to strengthen current restrictions on travel and remittances by significantly reducing the number of U.S. citizens authorized to visit the island and the amount of money that Cuban Americans can legally send to their families. In order to be effective, these measures should increase the level of scrutiny for potential violations on travel and money transfers as well as hold citizens of Cuban descent to the same standards as any other American. While such a policy may be unpopular and quite expensive to implement, it makes no sense to make exceptions for a specific group of U.S. citizens that channel into Cuba more hard currency than any other group.

In effect, recent rule changes on travel and remittances introduced by the Bush administration on June 30, 2004, aim to deny hard currency resources to the Cuban government by targeting Cuban American activities. The new regulations allow Cuban Americans to visit relatives in Cuba only once every three years, instead of annually, reduce the authorized per diem to $50 from $167, and limit remittances only to immediate relatives. However, these measures will have limited impact on the Cuban economy for two main reasons. First, following Washington’s announcement of tightened rules on Cuba, Fidel Castro raised prices in hard currency stores, put an end to the circulation of the U.S. dollar on the island in favor of the convertible peso (CUC) and applied a 10% fee on dollar/CUC exchanges, and then decided to re-evaluate the CUC by 8% against all international currencies. With an average price increase of 15.4% (and therefore a higher markup) in retail outlets, and higher profits from remittances collected in exchange houses, net revenues to the Cuban government will be largely unaffected by
a potential decline of U.S. financial flows reaching the island. If U.S. officials are genuinely committed to implement measures aimed to squeeze the Cuban economy, then they should cut remittances altogether or at least reduce drastically the annual cap on money transfers.

Additionally, Cuban exiles may circumvent restrictions by traveling to the island through third countries and delivering remittances, as they always did, through mules or other informal mechanisms. As a result of this, illegal remittances to Cuba, and probably unlicensed trips there, will raise considerably. Indeed, although the U.S. Department of the Treasury recently said that the total number of U.S. citizens legally visiting Cuba had dropped by about 60% between July 2004 and June 2005 as compared to the previous year (Cancio Isla 2005), preliminary figures from Cuban sources reveal that remittances from abroad increased in 2004. The reality is that, even with tightened enforcement and perhaps additional restrictions, U.S. policy toward Cuba could be effective in halting hard currency flows only if Cuban Americans are prepared to respect the rules. If Cuban exiles are, in fact, willing to do “whatever it takes” to intensify pressure on the Castro government, then they should stop visiting relatives on the island, stop sending money to them, and even stop calling them.

A second option, which is not necessarily more politically viable, but is certainly less expensive than the first one, is to promote a rapprochement with Havana and a gradual removal of the major provisions of the embargo in recognition that economic

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1 Mainly as a result of stiffened rules on remittances and family visits by Cuban Americans, U.S. officials estimate that these measures, if properly enforced, could deprive the island of up to $150 million a year. See Associated Press. “U.S. Begins New Sanctions Against Cuba.” July 1, 2004. Some Cuban exiles, in a more optimistic view, calculate that the reduction of U.S. financial flows in the Cuban economy could be between $200 and $250 million a year. See BBC Mundo. “Cuba: La Efectividad de las Medidas.” July 1, 2004.
sanctions have not achieved their main goals. The elimination of Washington’s restrictions on trade, investment, and travel with respect to Cuba would serve U.S. political and economic interests by improving the living standards of the Cuban population and allowing American firms and citizens to enter the island’s market and influence its society. It would also increase pressure on the current government in Havana by preventing Fidel Castro from using his traditional argument that the United States promotes economic deprivation in Cuba and seeks to constrain Cuban sovereignty.

In short, unless significant steps are taken in one of the proposed directions, the United States will have no choice but to wait until Castro passes from the scene by natural causes, and hope his successor will be less resilient than him, or perhaps more inclined to introduce extensive democratic reforms. To conclude, consider a recent quote by U.S. president George W. Bush that exemplifies the great irony of economic sanctions with respect to Cuba. In May 2002, Bush stated: “The sanctions the United States enforces against the Castro regime are not just a policy tool, but a moral statement. It is wrong to prop up a regime that routinely stifles all the freedoms that make us human.”

If this is the case, then the findings of this study demonstrate that U.S. policy toward Cuba in the post-Cold War era has been nothing other than a “wrong” policy.

It should be noted that other instances of U.S. unilateral sanctions highlights transnational dynamics that are similar to those seen in the case of Cuba. In particular, there is evidence that sanctioned countries such as Sudan, Myanmar and Iran have been quite successful in attracting relatively sizable amounts of foreign investment despite Washington’s comprehensive measures imposed on them. In recent years, they have

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granted concessions to a number of Asian and European investors to develop their extensive oil and natural gas reserves as a way to offset the potential negative effect of U.S. restrictions on American firms’ involvement. Thus, it cannot be excluded that foreign corporations have delivered much-needed capital to the aforementioned target countries and stimulated their economies at a time in which U.S. measures were beginning to exercise some significant pressure. Reflecting a familiar pattern in the recent history of U.S. unilateral initiatives, the United States’ subsequent attempts to threaten penalties on companies located in third countries were largely unable to force the latter to curtail their business relations with Sudan, Myanmar, and Iran. Moreover, the significant flows of overseas remittances to these countries provided them with additional resources to weather the economic intent pain of U.S. coercive actions. Finally, the magnitude of U.S.-based remittances reaching Iran and the presence of American shareholders in all major European oil companies investing there suggest that transnational activities carried out by citizens and firms of the coercer state also played a role in the failure of Washington’s sanctions to change Teheran’s behavior.

Overall, in an increasingly interconnected global economy, a coercer state’s effective use of sanctions as a tool of foreign policy is undermined from “from above” by multinational capital and “from below” by migrant workers’ connections with their places of origin. Multinational corporations, which tend to escape governmental control because of their size and supra-national character, channel substantial amounts of capital and other resources into embargoed nations as they search for the best returns on their investments and take advantage of the diminished international competition created by the imposition of sanctions. They also raise funds in capital markets to finance their
global investment activities, including those in target states. At a more local level, huge flows of cross-border remittances by migrant entrepreneurs, mostly centered on family ties, mitigate the economic impact of sanctions by reducing social suffering in the recipient countries and stimulating physical investments there. Given the findings presented in this study, further research on the usefulness of sanctions in the context of globalization and transnational linkages should examine the specific impact of foreign investment on key industries of sanctioned states, with a focus on economic performance in terms of production and export earnings, and the role of secondary or indirect investment operations by entities of the coercer country. It should also provide a more detailed assessment of the positive effects of overseas remittances on the consumption patterns of recipient families, which presumably make the latter less likely to pressure their governments for political and economic changes, and the mechanisms through which money transfers from abroad promote economic development in beneficiary countries. The proposed research might offer additional evidence to corroborate this study’s main contention that transnational activities by multinational corporations and migrant entrepreneurs constitute one of the chief reasons why economic sanctions, especially unilateral ones, rarely work in today’s global marketplace.
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BIOGRAPHICAL SKETCH

Paolo Spadoni was born in Rimini, Italy, in 1968. He graduated from the University of Urbino, Italy, with a *Laurea* in political science. He holds a master’s in Latin American studies from the Center for Latin American Studies at the University of Florida, and a PhD in political science (international relations) from the Department of Political Science at the University of Florida. He lives in Gainesville, Florida, with his wife, Ines Aviles-Spadoni.