


# “Socialism with Cuban Characteristics: The Emergence of Foreign Direct Investment in Cuba”

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## ***Abstract***

The world continues to become more connected place, especially in the field of trade, economics, and international investment. As the global economy evolves so do financial systems to adopt more free market principals. Cuba remains as one the last strongholds of Communist ideology in the 21st century, but the government has started to allow for more Foreign Direct Investment which raises the question as to what economic model Cuba will use in the future. The introduction of free market activities like FDI, and also the growth of private markets, have created a drastic shift in the identity of the Cuban economy. This shift has led me to question how Cuba got here. What factors influenced the Cuban economy and government to create this push towards free market activities to ultimately allowing Foreign Direct Investment? At the moment there is no one economic model that is similar to the current Cuban economic status. Some scholars try to compare the Cuban model to the Chinese model, but the Cuban economy does not have the market prowess and consumer power that the Chinese market hold. I will attempt to conduct a historical analysis using a case comparison using Mill's method of difference, focusing on three distinct periods of the Cuban economy to try to provide an understanding as to what factors can lead to socialist actors partaking in free-market activities. These findings can be used to examine how economic actions by socialist states might show signs of lack of belief in communist economic ideas or show actions towards the economic survival of a state. Evidence collected concludes that external economic factors like trade and tourism with free market countries had the strongest influence when shifting Cuba's economic identity.

## ***Introduction***

On December 17, 2014, President Obama and former Cuban President Raul Castro, announced to the world the path for normalization of relations between the two historic adversaries. That day marked the beginning of the end to an outdated Cold War agenda between the two nations that led to several bilateral political, economic, and social advances while also signaling a new path for Cuban ideological policies. One of the biggest impacts was seen on the Cuban private market, an already growing economic sector that benefited greatly from the growth of American tourism and money flow in the recent years after the thawing of relations. While Cuba has been open to business with European countries before this historic day, the diplomatic and business negotiations signaled a new global financial approach for the Cuban communist regime.

This relatively new economic private sector now makes up about one-third of the Cuban labor force and has been growing at great rates, with about a 60% increase in the non-state sector and -13.2% decrease in state sectors jobs.<sup>1</sup> When the Cuban revolution came to power in 1959 all businesses were nationalized and controlled by the state in contrast to today's state in which foreign companies with 100% international investment exist in Cuba.<sup>2</sup> This drastic shift in the identity of the Cuban economy led me to engage in my original broad topic puzzle of how and why is there a growing private market in a communist Cuban economy, and what does this change represent for the ideological stance of the Cuban government?

While researching my broad topic, I stumbled upon a puzzle: the "Portfolio of Opportunities for Foreign Investment" released by the Cuban government in 2014.<sup>3</sup> This portfolio was the first of its kind and it has been yearly released since its launch. The document presents a public appeal to international companies to invest in over \$8 billion in 246 specified development projects in the Mariel Economic Development Zone, creating a sort of free market zone.<sup>4</sup> Foreign Direct Investment is one of the most capitalist and globalist market ideas that has emerged, and it is now taking place in one of the last surviving communist ideologies in the world. Because of this puzzle, I plan to research the influences that internal economic factors and external affair have to allow for FDI to exist in Cuba in different economic periods of Cuba

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<sup>1</sup> Mario A Gonzalez-Corzo and Orlando Justo, "Private Self-Employment under Reform Socialism in Cuba," *Journal of Private Enterprise* 32, no. 2 (2017): 45–82; ONEI, *Anuario Estadístico de Cuba 2015; Empleo y Salario*, Government Statistics (Havana, Cuba: Office of National Statistics and Information, 2016); Richard E. Feinberg, *Soft Landing in Cuba? Emerging Entrepreneurs and Middle Classes*, Economic Policy Recommendation (Washington, D.C.: Brookings Institute, November 8, 2013).

<sup>2</sup> MINCEX, "Portfolio of Opportunities For Foreign Investment," 2014, <http://www.caribbean-council.org/wp-content/uploads/2014/11/Cuba-foreign-investment-projects-Nov-2014-official.pdf>.

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

when the two practices are ideologically opposed. This research is especially interesting because the ideological structure of the Cuban government is going through a major transformation and examining the factors that lead to FDI in Cuba could help us better understand where Cuba is headed.

For my methodology, I plan on performing a small-n neopositivist research case study using Mills Methods of Difference to explain how Foreign Direct Investment came to take form in a given economic era.<sup>5</sup> I am choosing to engage in a small-n research because I want to further understand the causation of positive pattern of growth of FDI in Cuba, positive as every year a different investment portfolio is being released, through a close examination of FDI in economic eras, which will be my cases. I also believe that a case-study would be best suited for my research because another one of my main goals is to refine the concept of communist ideology in Cuba or Cuba's new concept of a communist economy.<sup>6</sup> Although my research is neo-positivist, I will plan on using some interpretivist strategies for my analysis to review the change of language in legal documents or the language used in speeches to justify the introduction of FDI in Cuba.

This research is especially important now because in addition to the shift in economic identity, there is also a precedence for change to come in the identity of Cuban politics with the recent step-down of President Raul Castro in April for the new President Miguel Diaz-Canal which might signal a new economic and political era. With all these changes ahead, the future of Cuba and U.S. Cuba business relations are quite foggy due to the amount of uncertainty from

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<sup>5</sup> Aaron Boesenecker, "Making Comparison Lecturelet" (Online Lecturelet, Washington, D.C., November 10, 2017).

<sup>6</sup> John Gerring, "What Is a Case Study and What Is It Good For?" *The American Political Science Review* 98, no. 2 (2004): 341–354.

both sides and the large amount of “thawing” between the two nations that needs to be accomplished for business negotiations to really flourish.

For the rest of my paper I will show the existing scholarship I have reviewed on why nations adopt free market values, for which I deemed that there three different school of thoughts; the Transnational school of thought, the Market Development school of thought, and the Political and Social Movement school of thought. Following that I will outline my methodological framework, and then I will present my findings in the analysis area. By pursuing a research exploration on what factors lead to the emergence of FDI in Cuba, we might be able to better predict how actors will behave in the future and can highlight the major ideological shifts that have occurred over time in Cuba.

### ***Literature Review***

When examining the existing literature, I focused on conversation around why nations adopt free market activities because when simplified, my research project is an observation of a country who had no prevalence of free market values to a country where it exists today. In this literature, there are three dominant discourses or school of thoughts. Socialism and communism presented a major threat to capitalism and the free market during the height the Cold War. But, many countries under these ideologies have engaged in private market activities and other capitalist economic patterns today like China, and Vietnam. Theorists have questioned why capitalist activities have emerged in Socialist ideological countries. Economic reforms in socialist economies, especially reforms with the goal of a more globalized and liberal economy, have been extensively studied by scholars after the transitions of many communist economies result from the fall of the Soviet Union in 1991. Economic models have formed around the idea of marrying market capitalist activities and socialist government structures. The Socialist Market

Economy model (SME) or sometimes called the “Chinese model” is the most prominent example of this phenomenon, which allows for private profits under control of the state. Through the research of how and why socialist economies engage in capitalist activities, three major schools of thought emerged: The Transnational school of thought, the Market Development school of thought, and the Political and Social Movement school of thought.

### *Transnational School of Thought*

Several scholars have studied the types of influence transnational actors have had in economic reforms in communist countries, they argue that we live in a globalized world economy that forces countries’ economies into a global neo-liberal free market, making it vital for states to transition their economies into the free market for the survival of the state and pursuit of foreign capital<sup>7</sup>. Existing literature believes that after the collapse of the Soviet Union, a massive political niche and power vacuum developed in global markets, depriving a large part of the world of their main financial backer (the Soviet Union) which allowed for Transnational actors and financial institutions like the IMF and World Bank to replace them.<sup>8</sup> The transnational actors replacing the Soviet Union in world markets brought neo-liberal agendas, and countries had to adjust in order to survive in the global economy.

Transnational actors like the UN, the EU, and transnational companies have become extremely powerful in a post-Cold War world where neo-liberalist agendas are dominant. One example of the influence of trans-nationalist actors on a nations transition is explored in

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<sup>7</sup> Arjan Vliegthart, “Transnational Actors and Corporate Governance in ECE: The Case of the EU and the Czech Republic,” in *State and Society in Post-Socialist Economies*, ed. John Pickles (New York, NY: Palgrave Macmillan, 2008), 48; Bob Deacon and Michelle Hulse, “The Making of Post-Communist Social Policy: The Role of International Agencies,” *Journal of Social Policy* 26, no. 1 (1997): 50.

<sup>8</sup> Toshiaki Hirai, *Capitalism and Globalization: The Light and Shadow of Globalization* (Routledge, 2015). P. 15

Vliegenthart case study of the Czechs Republic tradeoff of reintegration into the E.U. for reduction of state strength.<sup>9</sup> This case, it was thought that the entry into the EU would represent the reintegration of the Czech Republic, as well the other Eastern European countries, into the European and world economy.<sup>10</sup> Vliegenthart argues that “issues of corporate governance should be seen as a product of continuous interactions between domestic and transnational forces in which the latter plays a constitutive.”<sup>11</sup> The main ways in which transnational actors act and influence the economies of post-socialist societies is in the banking system and economic system, especially increasing the number of foreign banks and investments, political institutions, and social institutions.<sup>12</sup>

The involvement of transnational actors like the EU clearly impact a country’s social and economic political nature. The involvement of these actors in the economies of countries like the Czech Republic stems from a feeling that non-members of these institutions are excluded from the global market, preventing the country from gaining capital from foreign investments. As Vliegenthart points out in his article, the decision to work with these actors is a political decision by the nation to ensure its survival<sup>13</sup>. We can also consider the engagement with transnational actors as strategic move rather than something is forced upon countries. Becoming a market economy country will make it easier to work with transnational actors and transnational companies giving countries a more prominent role in the global market.<sup>14</sup>

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<sup>9</sup> Vliegenthart, “Transnational Actors and Corporate Governance in ECE: The Case of the EU and the Czech Republic.”: 47

<sup>10</sup> Ibid.

<sup>11</sup> Ibid.,49.

<sup>12</sup> Ibid., 54,57,64.

<sup>13</sup> Ibid., 48.

<sup>14</sup> Hirai, *Capitalism and Globalization: The Light and Shadow of Globalization*. p. 18

The Transnational school of thought aims to convey the idea that the world has become extremely globalized and there exists a major power inequality where neo-liberal market values rule.<sup>15</sup> This inequality has given transnational corporation and institutions major influence that has reshaped the world economy functions. Transnational thinkers argue that for a Communist state to survive, it must engage in private market activities.<sup>16</sup> This school of thought provides an interesting framing for my personal research. Cuba started to open its door to foreign investment following fall of the Soviet Union, which keeps in line with transnational theory, but Cuba has not had any major influence from transnational organizations like UN, World Bank or the IMF. Cuba's economy has been reshaped by transnational corporations and the growth of foreign tourism and travel, which themselves can be considered transnational actors according to some thinkers <sup>17</sup>.

#### *Market Development School of Thought*

The other main school of thought agrees with the Transnational school in the idea that socialist countries move towards capitalist markets for the survival of the state, but they differentiate on the question on whether outside influences are the driving forces for change. Development theorist argue that Communist governments consciously, independently, and strategically use capitalist markets to develop their economy. <sup>18</sup> This school of thought is

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<sup>15</sup> Vliegthart, "Transnational Actors and Corporate Governance in ECE: The Case of the EU and the Czech Republic"; Hirai, *Capitalism and Globalization: The Light and Shadow of Globalization*; Deacon and Hulse, "The Making of Post-Communist Social Policy: The Role of International Agencies."

<sup>16</sup> Vliegthart, "Transnational Actors and Corporate Governance in ECE: The Case of the EU and the Czech Republic." p. 48.

<sup>17</sup> Darren O'Byrne and Alexander Hensby, "Transnationalization: A Space beyond Place '7.4 Transnational Practices,'" in *Theorizing Global Studies*, 2011, 164.

<sup>18</sup> Glenn Firebaugh, "Growth Effects of Foreign and Domestic Investment," *American Journal of Sociology* 98, no. 1 (July 1, 1992): 110; Archibald Ritter, *The Economic Development of Revolutionary Cuba: Strategy and Performance*, Praeger special studies in international



characterized as viewing market activities as a tool of the solution, whether it be the solution a major economic crisis or the stagnation of an economy.<sup>19</sup> Market development scholars view the allowance of market economies as a necessary tool for the survival of the nation's economic development and as an economic solution tool, which makes the state the most powerful and controlling actor in the theory. The scholarship of market development is split on the results, with some researchers arguing that allowing market capitalism creates capital dependency and destroys internal entrepreneurialism, while others argue that free markets promote local economic growth.<sup>20</sup>

In the market development school of thought, nations are the main driving force for economic change. This frames the idea that socialist political ideology is either set at a lower priority than economic prosperity or reimagined to allow for capital market ideals. This idea tackles one of the central puzzles in my research. Applying for the market development lens when analyzing socialist nation economic actions might signal a period or event when the mere existence of the nation might have been threatening and economic reforms were made a priority.

This school of thought can influence my research by framing the Cuban government as a willing actor in the creation of FDI in Cuba. This framing allows for more freedom as to what I can predict the goals of the Cuban government for FDI. Some have assumed the development of

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economics and development. (New York: Praeger, 1976); Matthew C Mahutga and Kevin D. Curwin, "Foreign Direct Investment and Economic Growth: New Evidence from Post-Socialist Transition Countries.," *Social Forces* 92, no. 3 (March 2014).

<sup>19</sup> Glenn Firebaugh, "Growth Effects of Foreign and Domestic Investment," *American Journal of Sociology* 98, no. 1 (July 1, 1992): 105–130; Archibald Ritter, *The Cuban Economy* (University of Pittsburg Press, 2004).

<sup>20</sup> Laura Alfaro et al., "How Does Foreign Direct Investment Promote Economic Growth? Exploring the Effects of Financial Markets on Linkages," *NATIONAL BUREAU OF ECONOMIC RESEARCH* (2006); Samir Amin, "The Globalization of Social Struggles," in *The Other Davos: Globalization of Resistances and Struggles*, by Francois Polet and Francois Houtart (Zed Books, 2000), Chapter 4.

growth of market economies and entrepreneurship to represent the arrival of liberal ideals in the island.<sup>21</sup> This school of thought can also allow frame certain economic reform as reactions that the Cuban government may have had to a national threat.

*Political and Social School of Thought*

The Political and Social school of thought argues that individuals, political, and social movements have the power to influence change in economic policy.<sup>22</sup> From the history of Socialist and Communist governments, social movements and political opposition have been violently oppressed and limited. However, there have been enough instances in which social movements and the outcry of individuals have had an impact on policymaking that scholars have argued played a decisive role.<sup>23</sup> Human rights and economic inequality oriented social movements can be considered as some of the most effective types of movements.

The biggest example of action from this frame would be the perestroika economic political movement which allowed for a freer economy in the Soviet Union. While this policy is often cited as a major catalyst for the dissolvent of the Soviet Union, one of the major driving forces for the creation of this policy was a fear in the Soviet Union of the nationalist movements occurring in Soviet republics.<sup>24</sup> While this policy failed in the survival of the Soviet Union it did lead to a major economic shift and was brought onto by social and political movements.

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<sup>21</sup> Marshall Beck, "'Cuenta-Propismo' and Reform in Cuba: A Case Study," *Canadian Journal of Latin American and Caribbean Studies* 26, no. 52 (2001): 179–222.

<sup>22</sup> National Research Council, *Transforming Post-Communist Political Economies* (Washington, DC: The National Academies Press, 1998), <https://www.nap.edu/catalog/5852/transforming-post-communist-political-economies>.

<sup>23</sup> Ibid.

<sup>24</sup> Yuri Maltsev, "Soviet Economic Reforms: An Inside Perspective," *Foundation for Economic Education* (March 1990).

This school of thought allows me to consider the type of role that the Cuban people have had in recent economic reforms. While anti-communist movements are still being oppressed the identity of the Cuban economy continuous to grow in the non-state sector.<sup>25</sup>

### *Literature Conclusion*

The emergence of capitalist markets and capitalist activities in communist ideologies can be understood under three different framings who are at their core diverge on who the main influential actors in these changes are. To transnational theorists, transnational actors are the biggest influencers of market economies, while to development theorists, states hold the most power, and for political and social theorists, individuals and internal politics are powerful actors. The literature discussed allows us to be able to better identify the possible causes of the economic reform that allow for FDI in Cuba, by presenting different explanations as to why these free-market changes are happening.

Using the transnationalism frame, we can understand the United States as the transnational actor who is has recently heavily investing in Cuba. We can also view the new thawing of relations between the two countries to be a political move by the Cuban government so that they are included in the global market. This also demonstrates the increase in activity from transnational companies investing in Cuba from China and Europe as outside push factors for the new Cuban economic identity.<sup>26</sup>

Using the development school of thought, we can understand that the new inclusion of FDI in Cuba can be a Cuban economic solution as a tool to recover from the 1990 special period

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<sup>25</sup> Elena Toledo, "Castro Regime Continues to Repress Ladies in White Opposition Group, Arrests 38 Members," *PanamPost*, November 22.

<sup>26</sup> Richard E. Feinberg, "Opening to Foreign Investment: New Portfolio Opportunities," in *Open for Business*, 2016, 88.

depression. Also, this framework predicts that outcomes of market activities may either be positive or negative which is an interesting layer to add to my research. By framing the Cuban government as performing economic reforms as a strategic tool, I have to address the argument that the ideological power of communist thinking has been reshaped or been put at a lower priority in Cuban culture.

The Political and Social school of thought forces thinkers to understand the role of individual influences and movements occurring in Cuba that might lead to economic reforms. In my specific research, I am interested to see if there has been any connection between mass movement and economic reforms. Anti-government movements have long been oppressed by the Cuban government. This makes would make my research a lot harder given the lack of examples or data on the subject.

Exploring these theories has enabled me to understand the origins of Cuba's shift away from their centralized economic model as well as see if there is any role the U.S. and other actors play in this reformation. As Cuba is one the last remaining socialist economies, it is important to understand why it is that has gradually been moving towards a freer economy. As the literature shows, there is much research on the evolution of economic reformation in the post-Cold War era. Using Cuba's FDI experimentation as a case-study to further add to this scholarly conversation as to how free market activities come to be in Communist ideological nations.

### ***Methodology***

For my methodology, I am performing a small-n case study analysis using Mills Methods of Difference, to explain how Foreign Direct Investment came to take form in a given economic era. I am choosing to engage in a small-n research because I want to further understand the causation of positive pattern of growth of FDI in Cuba, as seen in the released investment

portfolios. A case-study would be best suited for my research because another one of my main goals is to refine the concept of communist ideology in Cuba or Cuba's communist economy.<sup>27</sup>

### *Case Justification*

For my case selection I have created my own divisions of Cuban economic temporal periods. I divide the cases by eras of: 1959-1990, 1990-2006, 2006-2015. The main justification for making these periods as my cases is that they each have different hypothesized outcomes when it comes to the shift in policy for FDI (my Dependent Variable), as well as different paths to how FDI came to be. These cases are also all similar in all IV's but one, therefore satisfying the requirements of Mills method of difference to show that in fact each differentiating IV causes a different outcome.<sup>28</sup> From 1959 to 1990, Cuba experienced massive economic reconstruction during the formative years of the revolution which involved the nationalization of foreign business in Cuba and a massive decline in U.S. and FDI. The second division of 1990-2006 because during the 1990's the Cuban economy went through what is called the "special period" a massive economic depression because of the fall of the Soviet Union and other communist/socialist countries. During this period, Cuba started to explore FDI. Lastly, the last Section of 2006-2016/present is defined by a change in power in the Cuban government which brought in major economic reforms under Raul Castro. Raul did not officially become the President of Cuba until 2008, but he was given power of the President in 2006 after Fidel fell ill. During Raul's time there were major economic reforms that he implemented under the name of "lineamientos," or guidelines.

### *Variables*

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<sup>27</sup> Gerring, "What Is a Case Study and What Is It Good For?"

<sup>28</sup> Boesenecker, "Making Comparison Lecturelet."

My dependent variable will be defined as the shifts in Cuba's official policy and regulations in place to allow or accept FDI.<sup>29</sup> In order to operationalize this dependent variable, I will examine the types of laws and government documents that allow for FDI in each different case. I will frame my operationalization based on Elizabeth Saunders operationalization of threat perception, I will use a low to high likert scale to measure my results.<sup>30</sup> When examining these documents, I am questioning the kind of excuses that are being used to allow FDI and who are the intended beneficiaries? Examples of sources that I would use to help operationalize my DV would be Decree-Law No. 165 from 1996 which established the framework the building of the first industrialized free trade zones, or a quote by Fidel Castro saying that "foreign investments will always be welcome [in Cuba]" in 1956.<sup>31</sup> This individual law had its own definition shift over the different cases. Since the statistics on the true dollar value of FDI in Cuba is not totally available, I will be using qualitative data to measure the acceptance of FDI, including media and laws.

I have two different independent variables; External Affairs and Economic Strength. I will operationalize the IV of Cuban external affairs by examining Cuba's friends, economic partners and adversaries in each case. By noting the types of governments and economies which Cuba interact the most could perhaps influence to Cuba's willingness to open its markets to FDI. I will try to rank Cuba's top partners and the strength of the relationship while also noting the

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<sup>29</sup> Rhetoric data will be gathered using both state sponsored newspapers and official speeches.

<sup>30</sup> Elizabeth N. Saunders, "Transformative Choices: Leaders and the Origins of Intervention Strategy," *International Security* 34, no. 2 (2009): 119–161.

<sup>31</sup> Archibald Ritter, *The Economic Development of Revolutionary Cuba: Strategy and Performance*, Praeger special studies in international economics and development. (New York: Praeger, 1976) p.66; Decree-Law No 165 Duty-free zones and Industrial Parks (1996), <http://www.cubaindustria.cu/Juridica/Decreto%20165.htm> Translated by Cuba Transition Project, Institute for Cuban and Cuban-American Studies, *University of Miami*, (<http://ctp.iccas.miami.edu/LawDocs/Idl00136.pdf>).

economic system of each country. Another aspect of external affairs that I will measure is tourism incoming from capitalist economies. Tourism can directly impact the economic decisions of the Cuban government and its people. Tourism from traditional capitalist economies bring with them their spending values and are able to spread those ideas in the island.

For the Economic Strength variable, I will explore Cuba's economic strength through both an exploration GDP of and living standards. I will attempt to operationalize the economic strength of the Cuban economy by determining whether the Cuban economy was growing, falling or stagnant during the defined time periods off each case using World Bank development indicators and Cuba's GDP growth for each of my cases.<sup>32</sup>

### *Hypotheses and Casual Model*

I have developed two different hypotheses for my design:

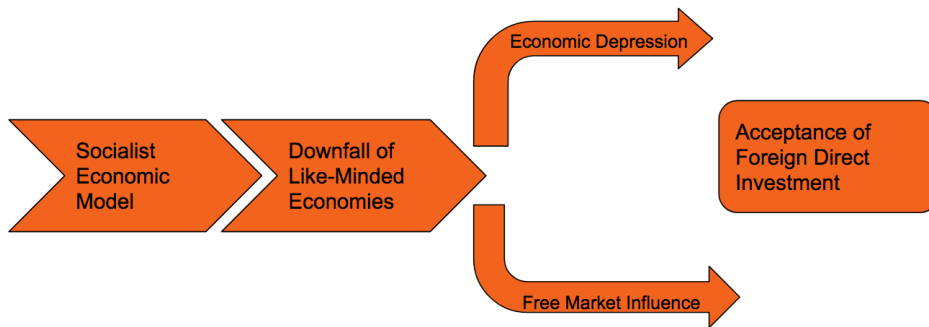
H<sub>0</sub><sup>1</sup>: Rise of positive external affairs with capitalist economies lead to a greater inclusion and openness of FDI policies.

H<sub>0</sub><sup>2</sup>: Declining economic strength leads to a greater inclusion and openness of FDI policies.

With this, I have also developed casual models that showcase what I expect to find from each case. This model outlines what I predict can happen for FDI to exist in Cuba. After communism/socialism loses the economic support of like-minded economies, the economy is weakened and there are two routes for which FDI can come to be accepted. Either it is pushed by economic depression (internal economic factors) or free market influences (external economic factors).

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<sup>32</sup> "World Bank GDP Measurements" (World Bank, n.d.), [https://data.worldbank.org/country/cuba.](https://data.worldbank.org/country/cuba;); World Development Indicators | DataBank. 2017. <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>.



*Figure 1 Causal Model*

### *Concluding Thoughts on Methodology*

To conclude my design sketch, I would like to address how I plan to tackle validity, reliability, and falsifiability. To address validity, my research line with the current scholarship on Cuba and FDI. To address reliability, my research will be able to be replicated following the modules I have provided and by being as transparent with my sources and by having reliable sources. My research is falsifiable because my hypotheses can be proven wrong, anyone can decide to replicate my research and prove me wrong depending on their results.

### *Findings and Analysis*

In comparing the three temporal cases of Cuban economic periods, two independent variables, Cuban Economic Strength and External Influence by Free Market countries, were examined and assigned values. The dependent variable, Acceptance of FDI, was also examined and only observed in two of the cases. Aggregated into Table 1 are the results of my data gathering with values assigned 1 being the lowest score and 5 being the highest: <sup>33</sup>Through my

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<sup>33</sup> Table 1



research and findings I am able to say that within the case of Cuba, external affairs have a higher impact in the acceptance of Foreign Direct Investment in Cuba than economic strength or internal affairs represents, therefore agreeing with my first hypotheses

	1959-1990	1990-2006	2006-2015
Levels of Acceptance of FDI	None	Medium	High
External Influence from Free Markets	Low	Medium	Medium-High
Cuban Economic Strength	Medium-High	Low	High

*Table 1: Variables and Values*

The first temporal cases (1959-1990) can best be classified as the formative years of the revolution, an era of massive economic reforms in Cuba which included the nationalization of international business and the commitment to a communist/soviet economic model in the height of the Cold War. This case is also important in because it is the only one lacking the presence of any acceptance of FDI which was to be expected since this was the period of time in which Cuba was most committed to the communist economic values. Due to this, this case scored low on the external influence from free market countries. The only reason this category did not score none was because countries like Canada and Spain continued to be some of the biggest country of origin for tourist visiting Cuba with decent trade-exports levels.<sup>34</sup> Cuba had relatively moderate economic strength during 1959-1990 with drastic high and lows in terms of GDP growth but steady levels of GDP.<sup>35</sup> Because this case represents the only cases without any shift in FDI it serves a crucial role for my case comparison. This is also compliant with my hypotheses, that a poor economy and interactions and relations with free-market countries lead to higher levels of

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<sup>34</sup> Oficina Nacional de Estadísticas e Información, (2015) Turismo, Sector Externo, *Series Estadísticas 1985- 2015*. <http://www.one.cu/series2011.htm>

<sup>35</sup> Appendix: Figure 3

FDI. This case has low levels of FDI with a stable economy and very little relations with free-market countries.

The second temporal case encompassing the economic era of 1990-2006 is most noted for the “special period” a massive economic depression linked to the fall of the Soviet Union and other communist/socialist countries that provided many subsidies to the Cuban economy. This case is most notable for its low score on economic strength and also for the being the first cases with any presence of FDI. In 1995 decree Law No. 77 was created to invite foreign investment, especially European, to the island. The law offered substantial guarantees for investors for the first time.<sup>36</sup> This case has some of the highest scores in the external interaction variable with some of the highest growths in tourism from free-market countries and clear switch in trade partner having countries like The Netherlands and Spain replace<sup>37</sup>some of the economic subsidies provided by the former Soviet Union. This case follows my hypothesis since the economy has the lowest score out of all my cases, but the external-influence levels are at the highest and the final result are that we got the very first signs of FDI in Cuba in a communist economic context.

The last and most contemporary case of 2006-2015 is defined by a change in leadership in the Cuban government, in which Raul Castro lead many economic changes. In 2006 Fidel decided to hand over presidential duties to his brother Raul Castro to an ailing illness and ultimately officially appointed Raul as president in 2008. Raul is known for his efforts to modernize Cuba through economic reform. Raul Castro recognized that the only way to “save the revolution” from the “abyss” was through a freer economy and adopting free-market values like allowing for private business and opening doors for FDI in a public speech to the national

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<sup>36</sup> República de Cuba. Ministerio de Justicia, "Ley 77 De La Inversión Extranjera En Cuba," <http://www.gacetaoficial.cu/html/leyinversionextranjera.html>. Chapter 3, article 3

<sup>37</sup> Oficina Nacional de Estadísticas e Información

assembly.<sup>38</sup> His mission is reflected in my data collection as acceptance towards FDI is at its peak with Raul. During the time of this cases, the Minister for foreign affairs published the “Portfolio of opportunity for Foreign Investment” which is meant to attract business from other countries for the development of the free economic zone, ZED Mariel.<sup>39</sup> In addition to high level of shift in FDI, 2006-2015 had a relatively stable economy and a steady increasing amount of tourist from free-market countries and bilateral trade. This case does not entirely agree with my hypothesis because there is the presence of FDI despite there not being an extremely weak economy. However, this still agrees with my prediction that levels external influence affects the economic decision of the country.

The data gathered calls back to the schools of thoughts previously discussed. For example, in the third case we can see the influence of the market development school of thought. For this period, we see that Raul literally states in his speech that he is conducting free market activities to “save the revolution” or in other words to ensure the survival of the communist state in Cuba agreeing with the scholarship that countries move to free-market activities and ignore the ideological barriers in order to ensure the survival of the state.<sup>40</sup> The impact of the transnational school of thought can be seen in the types of effect that the levels of exposure and bilateral relations with free-market economies has on a governments decisions.

This research has a number of limitations most notably the lack of data available for the public. There is no official indicator the amount of FDI in Cuba except for a small sample from 1993-2001 and the most recent years. This leaves two of my cases without one of the most important statistics to measuring my DV. I had to examine other factors that signal acceptance of

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<sup>38</sup> Raul Castro, 2010, Address to the Cuban National Assembly

<sup>39</sup> MINCEX, “Portfolio of Opportunities For Foreign Investment.”

<sup>40</sup> Firebaugh, “Growth Effects of Foreign and Domestic Investment.”

FDI like the Raul speech, the portfolio of opportunity and for the first cases the rejection of any FDI mentioned in scholarship.<sup>41</sup> There were other data gaps that I had to control, for example the Cuban government statistics office only starts their measurements after the year 1985 and ends at 2015 which is not perfectly aligned with my temporal values. Additionally, I had to determine which “free-market” I would examine when measuring external affairs. I decided to go with Netherlands, Canada, USA, Spain, UK, Germany, and Italy because these are the countries with the biggest exchanges with Cuba and also represent traditional free market nations.

### ***Conclusion***

Cuba is now entering a possible new economic era because of the recent election of President Miguel Diaz-Canal, the thawing of relations with the United States and a freer internet presence. The future decisions taken will play a pivotal role in defining the economic future. My analysis thus presents an interesting framework analyzing how the actions of external actors can impact the Cuban society. This research contributes to the existing literature by providing further evidence to the trans-nationalist or globalist school of thought. My findings agree with the beliefs of trans-nationalist thinkers that external countries and powers can influence the economic behavior of countries.

Of the two variables, external affairs would appear to play the biggest factor when it comes to the acceptance of FDI and free market activities. Knowing this, free market countries should be more inclined to engage economically with Cuba if they wish to have Cuba change their market ideology. This could also serve as gateway for future research, observing how a growing acceptance of free market activities have influences a growth in democracy or better

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<sup>41</sup> Archibald Ritter, “The Cuban Economy, Revolution, 1959-1990,” in *Cuba: People, Culture, History* (New York: Charles Scribner’s Sons, 2011).

human rights. Connecting the two could be a persuasive tool that governments can adopt when making foreign policy. In the case of Cuba, it could be a tool to promote the end of the Cuban embargo to promote democracy and human rights to Cuba through more free market activities.

## Appendix

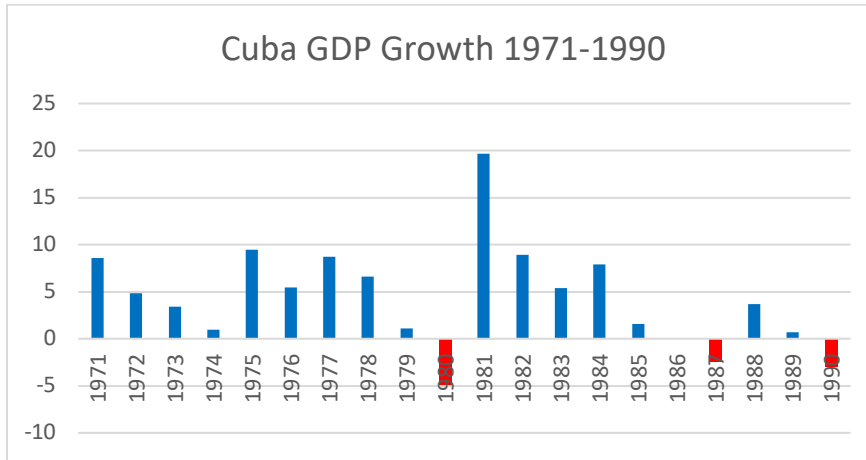


Figure 2 World Bank Data

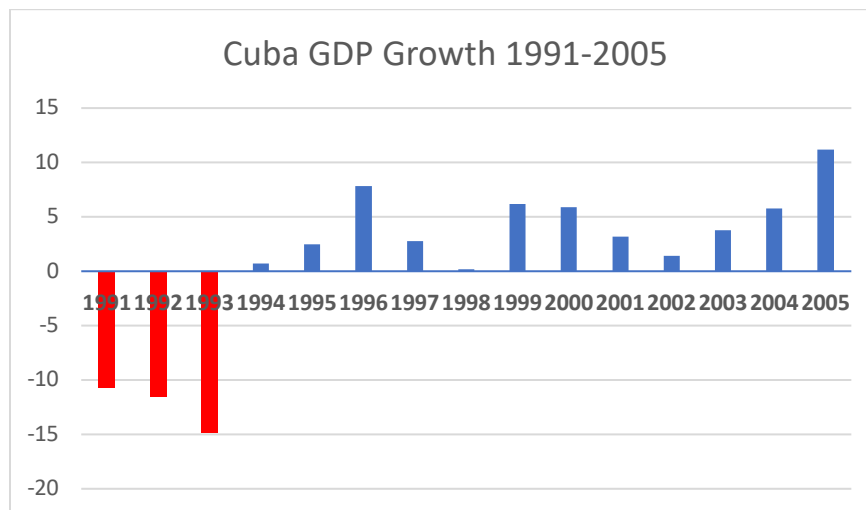


Figure 3 World Bank Data

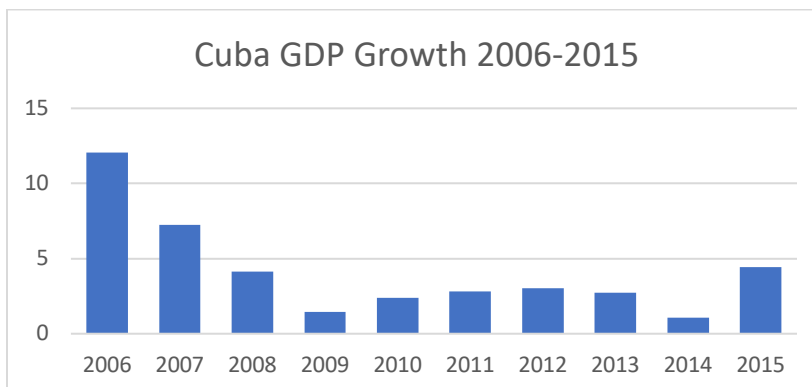


Figure 4 World Bank Data

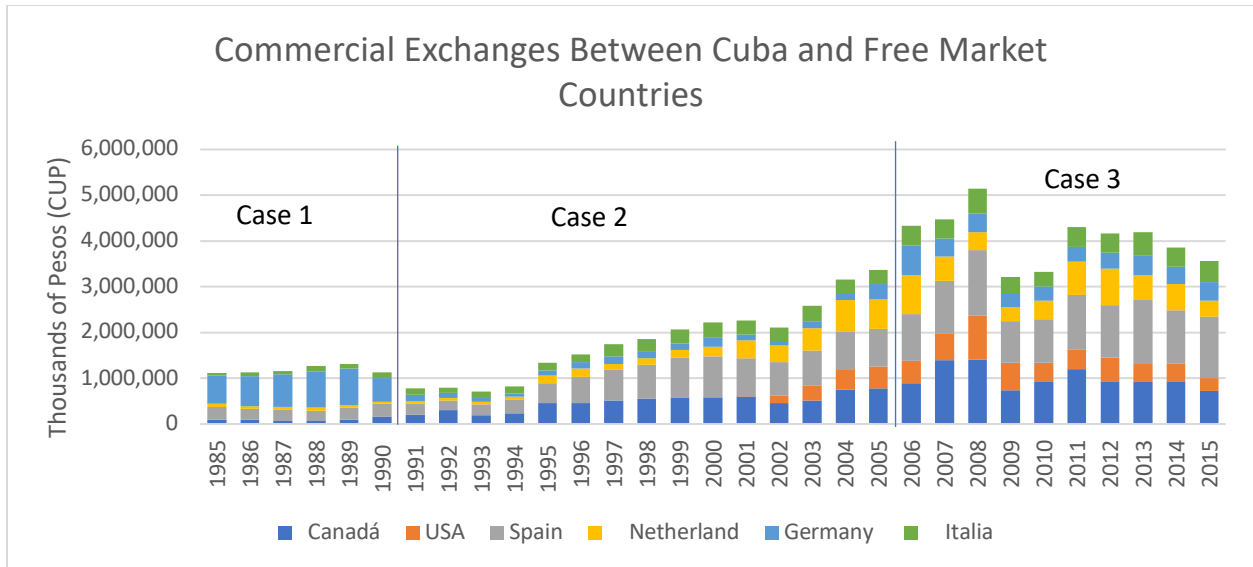


Figure 5 La Oficina Nacional de Estadística e Información (ONEI); Sector Externo

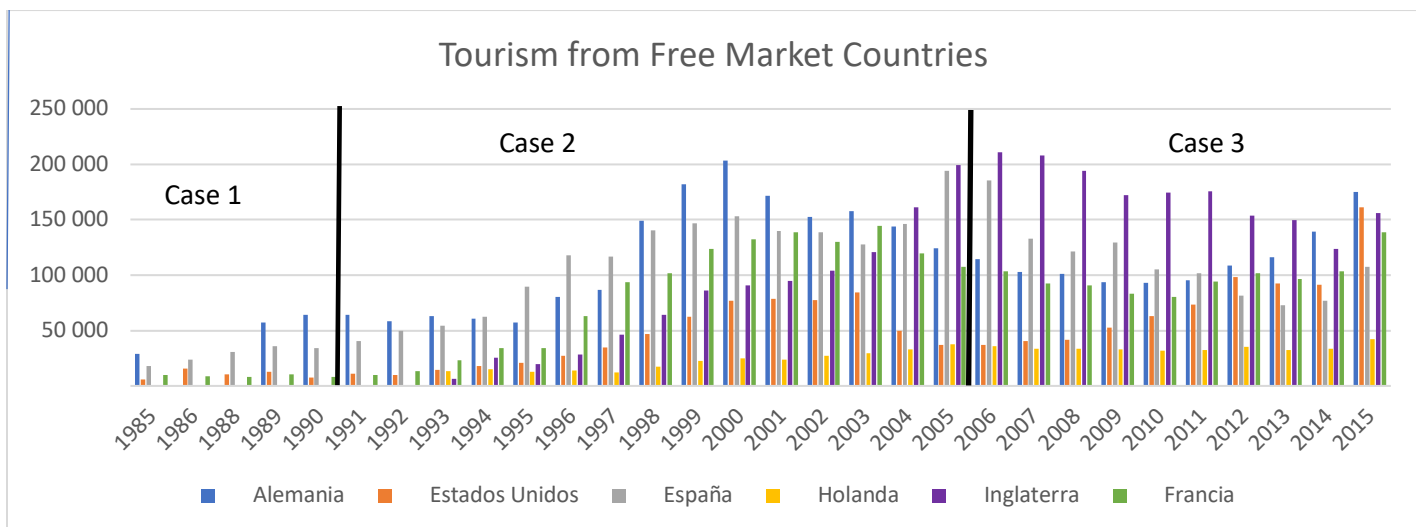


Figure 6 La Oficina Nacional de Estadística e Información (ONEI); Turismo. Note: Canada was omitted from this list because of its hyperbolized results. Canada has constantly been the country where Cuba gets the highest amount of tourist from.

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