

How US Joint Ventures are Playing a Political Role in US-Cuban Relations

Hannah M. Jarman

University of Illinois at Urbana-Champaign

Abstract

With a primary focus on the US-Cuban tourism industry, this paper seeks to determine how economic interests served to thaw relations between the US and Cuba by analyzing the influence of corporate lobbying, specifically how joint ventures in Cuba have influenced the US and Cuban governments' decision making. For the US, both internal and external influences played a large role in the recent decision to develop a rapprochement strategy toward Cuba. This research seeks to analyze those influences through the lens of shifting bilateral relations.

About the Author

Hannah Jarman is a junior at the University of Illinois at Urbana-Champaign studying Global Studies and Communication. Her specialization in Governance, Conflict, and Resolution and focus on Latin America brought her to Havana, Cuba in January 2016 with the University of Illinois Department of Political Science PS 300 course. Her research is supplemented by primary source observations from her trip abroad. She extends a special thanks to ACDIS for awarding her the Undergraduate Travel Scholarship research grant to aid in this research.

Introduction: the History of US-Cuban Relations

Cuba in the 1950s was characterized by extravagant nightlife, a glamorous music scene, and Mafia-run business ventures. The United States had its economic influence in Cuba through several industries including sugar. These ties began in 1884 when Cuba faced a collapse in international sugar prices and the US quickly made its way to the country to modernize the technology and develop direct economic ties in one of Cuba's largest industries (Brenner et al, 2015, p117). In addition to this overwhelming investment, the Cuban government under former leader Jose Batista welcomed Mafia influence, eventually developing a large network of casinos throughout the country. When Fidel Castro and the Revolution occurred in 1959 in an effort to overthrow the Batista regime, relations with the US began to crumble.

US relations with Castro and the Revolution did not improve after the expulsion of the American Mafia and the US sugar industry. Rather, US-Cuban politics reached a new age of divergence. In 1960, Castro nationalized all foreign assets as one of his first actions in power, expelling most foreign business from the country. Castro's government aligned with the Soviet Union, instilling fear throughout the West and motivating the initiation of countermeasures by

the US government. Cuba's steps towards socialism provoked the US during the Cold War to institute an embargo to stop trade to and from the island.

In 1960, President John Kennedy was elected and inherited the Eisenhower administration's plans to invade Cuba and unseat Castro. The Bay of Pigs invasion in 1961 heightened tensions beyond the termination of diplomatic relations with Cuba that would characterize the next 55 years. As sanctions were established in 1962 by the US and as Cuba began nationalizing its economy, the political and economic ties between the two countries became more strained. Until recently, the thought of joint ventures in Cuba was a distant possibility for US business.

Countries around the world have increasingly found economic opportunity through the establishment of joint ventures in Cuba. With the thawing of relations, the US is now at the brink of re-establishing its own joint ventures on the island. Consequently, the tourism industry has evolved to include more reputable partnerships than those from the 1950s. Tourism produces a strong economic, internal drive for both the US and Cuba. With the hope of tapping into this untouched multi-billion dollar market on the horizon, US ventures are anxious to lobby powerful committees and individuals for a complete lift of the embargo.

This research will show that US business interests are the medium by which the political thawing of relations between the US and Cuba has been possible. Without business interests submitting influence, the rapid economic changes currently occurring in Cuba would not exist. This, in turn, creates domestic incentives in Cuba to liberalize the economy. From the perspective of the US, this economic influence is more effective than using sanctions to try to reverse the Revolution's ideologies. Now more than ever, active lobbying by US business has

given President Obama the opportunity to embrace a foreign policy initiative in the national interest of the US and Cuba on both a foreign and domestic level.

This paper will analyze the effects of the US sanctions on Cuba in terms of an evolving economic environment, the current international interests present on the island that have further influenced economic liberalization while prompting a response from the US, and the lobbying efforts of US businesses to open relations completely. Through this analysis, a holistic image of the current economic situation facing Cuba and the US will be presented that will help in understanding why this change occurred.

Effects of the Sanctions

In 1963, the US enacted the Cuban Assets Control Regulation Act (CACR) in conjunction with the 1917 Trading With the Enemy Act (TWEA) to create an embargo against Cuba as a policy tool against communism (Spadoni and Sagebien, 2013, p79). The Helms Burton Act of 1996 codified these interests by making it necessary that both an executive order and approval by Congress were needed to end the embargo. When the economy was nationalized in 1960, all US property in Cuba was nationalized by the Cuban government (Renwick, 2016, n.a.). Notably, a large land grant owned by Harvard to study tree species became a part of the Cuban economy and now serves as an open arboretum where tourists flock to see the wide array of tree species, both native and foreign to the island. This economic model functioned until the economically-crippling effects of the US embargo took hold after the collapse of the Soviet Union.

The 1990s in Cuba were given the title of the “Special Period” by the Cuban government when Cuba witnessed a large economic downturn after the fall of the Soviet Union. Tourism,

such as the aforementioned example, appeared to be Cuba's answer to this "Special Period." As their primary trading partner and source of foreign aid, the Soviet Union's fall left Cuba struggling to compensate for its lack of international, political and economic support. In 1987, approximately 87% of Cuba's trade was with the Soviet Union while loans totaling almost \$11.6 billion streamed out from behind the Iron Curtain. (Benzing, 2005, p70). As the US simultaneously experienced an economic upturn, foreign relations involving Cuba dropped down the priority lists of policymakers.

Cuba was reluctant to resort to joint ventures to save its economy. However, foreign investment became the fundamental solution to escape economic recession. This led to a 1992 constitutional amendment in Cuba that opened the country to joint ventures. Initially, foreign investors could only own 49% of any given business such that the Cuban government had majority control (Benzing, 2005, p71). Because European and Canadian tourism was so high, the number of European and Canadian partially-owned businesses in the country began to increase. Investing in Cuba's foreign direct investment (FDI) is risky, however, as Cuba does not publish annual data on its capital inflows and outflows (Feinberg, 2013, p14). Historically operating under a veil of secrecy, the Cuban government's disinclination to release the flows of capital within their country is problematic as businesses are unaware of how or where their assets would be allocated. Even so, as the tourism industry continues to grow, foreign investment in Cuba is making the country's tourist sector one of the most competitive in the region. This liberalization of the economy officially began under the shifting policies of Raul Castro in 2008.

Influence of International Joint Ventures

Cuba's opening of its markets to foreign ventures was not politically and economically expedient. Nevertheless in 2013, foreign investment accounted for 7% of the new Cuban

economy, and 34,000 Cuban jobs were a direct result of joint ventures in the country (Feinberg, 2013, p16). This stems from the “240 joint ventures in Cuba, involving 57 countries in 40 different areas of the economy” that characterized foreign investment in the late 1990s when Law 77 was passed (Baumolh, 1997, n.a.). Enacted in 1995, Law 77 offered protection to foreign investors and gave some industries 100% ownership of their investments in Cuba (Benzing, 2005, p71). Canada was one of the countries that took advantage of these economic opportunities despite the divergent political interests of the US. Canada’s FDI remains one of the highest in Cuba, and Canada was Cuba’s fourth largest bilateral trade partner in 2009 (Spadoni and Sagebien, 2013, p82). Canadian joint ventures across different industries include Cerbuco/Lebatt (beer company), Leisure Canada (tourism), YM Biosciences (medical engineering), and Sherritt International (oil, nickel, agriculture). Canada took advantage of Cuba’s economic growth in the early 2000s when US business could not.

However, at the transition of power from Fidel Castro to his brother Raul Castro in 2008, accusations of corruption amongst these joint ventures rose to the surface. In 2011, Cuban authorities authorized a shutdown of Canadian joint venture Tokmakjian Group, an Ontario-based company that renovated car engines in Havana on accusations of fraud (Spadoni and Sagebien, 2013, p81). The Cuban government grew wary of international business, and subsequently initiated a campaign against corruption in foreign investment. The impact of this campaign placed higher scrutiny on big business in Cuba. In 2002, over 400 joint ventures were established; however, the Cuban government eliminated almost half of these ventures when it discovered that the economic advancements that had originally been touted did not fulfill expectations (Feinberg, 2013, p15). As a result of these changes, businesses found it incredibly difficult to operate successfully under the Cuban government’s scrutiny.

In 2013, the Cuban government established The Mariel Special Development Zone that epitomizes Cuba's economic evolution since the early days of the Revolution. Despite being weary of international joint ventures and capitalism, the Cuban government recognized the importance of developing a commercial port given the island's strategic geopolitical location. On November 1, 2013, the Cuban government released the rules and regulations for the Mariel Free Trade Zone as it is commonly known. This zone is geographically located 28 miles from Havana and is intended to become a hub of foreign investment.

With an intention for commercial entities to take advantage of the newly-expanded Panama Canal, Cuba saw an opportunity to expand economically. In stark contrast to the 1992 constitutional amendment that allocated only 49% ownership of the shares to foreign investors, foreign business will now be able to have 100% ownership, with up to 50 year contracts, and a 10 year period before having to pay 12% taxes on profits (Frank, 2013, n.a.) in the Mariel Zone. The National Bank of Economic and Social Development in Cuba and the developmental bank of Brazil, another country who has ambitions of foreign investment in Cuba, partnered with the Cuban government to contribute \$900 million to the infrastructure of the port (Davalos Leon, 2013, p168).

Although this was a significant stride towards liberalization of the economy by a fervently socialist government, there still exist strict limitations on commercial activities and a tough acceptance process to be a part of the Mariel Zone. The Dutch-British company Unilever has been one of the first and most influential to be accepted into the Mariel Zone (Frank, 2016, n.a.). Unilever is expected to open a factory by 2018 that will bring thousands of jobs to Cuba. As Cuba seeks foreign investment to develop its economy, has seen the benefits of offering majority ownership to the businesses as an incentive to set up shop. These economic

developments are important in the context of thawing relations between the US and Cuba in the past eight years. Without this liberalization, momentum for meaningful policy reform in Washington D.C. with regard to Cuba would not have materialized.

Future of US Joint Ventures in Cuba

The US Department of Treasury's Office of Foreign Assets Control (OFAC) amended the CACR to lift specific sanctions regarding US business and travel activities in Cuba on January 16, 2015 (Spiliotes et al, 2015, p1). Specifically, certain exports can be sent to Cuba and certain business-related activities are now permissible for travel through amendments to the Exports Administration Regulations. Although the entire embargo has not been lifted, there are more business opportunities for US companies.

US businesses have been anxiously waiting almost 50 years to begin legally investing in the Cuban economy through joint ventures. While there has not been an official end to the US embargo, foreign companies are excited about the attractive market opportunities that will become available when US relations with Cuba have been completely normalized. In order to understand the political process behind the decision to normalize relations, it is important to analyze three key factors-- international pressure, Cuba's slow economic liberalization, and political lobbying efforts.

International pressure comes from the UN General Assembly. The UN has signed a resolution every year for 22 years asking the US to lift its trade embargo on Cuba (Renwick, 2016, n.a.). The only two countries that have consistently opposed this resolution are the United States and Israel. Human rights activists and international leaders have spoken out against the US

embargo as an exhibition of oppression, but for 22 years has not inspired action from U.S. politicians.

Most importantly, the lobbying efforts in Washington DC have played a role in all conversation involving US-Cuban relations. The Sunlight Foundation is a nonprofit and nonpartisan organization devoted to the establishment of open government through dissemination of transparent information. Through their online database, they have logged lobbying efforts based on the lobby group, the client, and the general issue at hand. Although this database only logs surface level data about certain lobby efforts, the research is extensive and provides 2,560 pages of categorized lobby information. From this database, it is evident that US business plays a significant role in the actions of the government. Specifically, the Cuban lobbying effort has grown significantly to reach all domestic political outlets with the power to shift the foreign policy conversation towards advancing the thaw. Without these business interests pushing to the forefront, the conversation on Cuba would continue to be a quiet one.

In 2015, the US Department of Commerce authorized business transactions in Cuba to be worth up to \$4.3 billion, a 30% increase from the previous year (Renwick, 2016, n.a.). In September of 2012, travel agency, Insight Cuba, lobbied the Senate Banking and Foreign Relations Committees as well as the House Appropriations Committee to help license renewal to continue sending tour groups to Cuba. Gephardt Group, a lobbyist group “enabling countries to compete in the global marketplace”, was the primary lobby group for Insight Cuba (Gephardt Group, 2016). Similarly, alcohol product producer and distributor Barcardi Limited is filed as having lobbied in May 2009. Their efforts have focused on everyone from the US Ambassador to the UN to the entire US House of Representatives and the Counsel of the President for reanalysis of US policy towards Cuba.

The list of companies lobbying for open trade and investment with Cuba is diverse and extensive. In 2014, the number of companies and organizations pushing for a complete thaw in relations skyrocketed due to hope for progress during President Obama's discussion of conducting dialogue with Castro. The Engage Cuba Coalition, which includes corporations such as Viacom, Choice Hotels, The Havana Group, P&G, Comcast NBC Universal, and Honeywell, stemmed from this hope. These powerful corporations are lobbying to end the trade embargo completely. Before President Obama's trip to Cuba in March, 2016, Engage Cuba utilized ties to the White House to provide an agenda for the business-oriented discussion during Obama's trip. While Netflix, Verizon, and Air B&B have already opened business in Cuba, the process is slow and selective (NPR, 2016, n.a.). However, the Cuba lobby is only growing. Akin Gump, the country's largest lobby firm, is making plans for their trip to Cuba to represent agricultural producers and distributors within the upcoming year (Ho, 2016).

Lobbying efforts to end the 55-year-old embargo are intensive. While manufacturers and agricultural industries have played a role in the lobbying efforts, tourism, leisure, and telecommunications have had the most leverage in the attempt to convince Congress to open trade barriers with Cuba. While tourism services are not the only US businesses pushing for the thaw, tourism's impact on the Cuban economy has been an increasingly influential one.

Cuba has achieved progress toward its economic liberalization; however, the Cuban government still publically abides by the same policies and values established during the 1959 revolution. Nevertheless, through the Mariel Port project and the introduction of international business into Cuba's economic sphere, the US has witnessed a small step towards the progress it hoped the embargo would promote. This economic progress plays a significant role in discussion by policymakers about the future of diplomatic relations.

Analysis: Larger International Security Implications

Much as the American Mafia brought both infrastructure development and political corruption to Cuba, joint ventures and a growing tourism industry could bring similar advances and vices. Today, Cuba operates on a dual economic system in which two different currencies exist. This utilization of both - the national peso and the Cuban convertible peso (CUC)—complicates matters. While those working in the tourist industry make significantly more money by earning the internationally competitive CUC, the non-tourist sector workers fall further behind on the economic playing field.

A taxi driver can earn up to 20 CUC for a single car ride. Comparatively, an agricultural worker or urban employee often earns, as the national average, roughly 408 pesos for an entire month (Brenner et al, 2015, p195). The CUC is worth 25 times more than the national peso (The Economist, 2013, n.a.). With most consumer goods being sold in CUC, this creates a problematic dual economy that has prompted the Cuban government to rethink economic strategies domestically. This dual currency system creates counterproductive systematic inconsistencies for the running of a socialist state. One of the largest negative internal implications of allowing tourism-centered foreign joint ventures is the increase of wealth inequality in the country -- unless Cuba standardizes its currency. This requires a deeper consideration of how foreign investment will interact with the socialist economic system by a Cuban government that is looking to reform its economy.

In addition to internal struggles, Cuba is conscious of its position on the world stage. Once priding itself as the “Leader of the Third World,” Cuba does not receive the same cold attitude from the rest of the world as it does from the US. In 2015, many leaders, notably the Presidents of Chile and Ecuador, in the Organization of American States (OAS), refused to come

to the Seventh Summit of the OAS unless Cuba was included in the conversation. Cuba had its membership taken away in 1962 under US influence in the organization. Additionally, the UN General Assembly has voted several times against the US embargo on Cuba. Giving Cuba a voice that had been muted for years in regional organizations is important to the political alignments that exist today.

Opening up relations with Cuba has the potential to shift the political environment of the Western Hemisphere. Cuba was removed from the US State Sponsor of Terrorism list in May of 2015, which is one of the Obama Administration's most noteworthy steps in the rapprochement process. Cuba received this designation during the Cold War because of alleged repressive political ideologies and communistic actions.

Now that Cuba is no longer nominally an enemy to the US and its economy is liberalizing out of both necessity for modernization and sustainable solutions to economic stagnation, Cuba has an important decision to make. Over the past 15 years, Cuba has created an economic and political interdependence with its close ally Venezuela. Despite strained economic conditions for both countries, their relationship comes from a close alignment of political ideologies between the Castro family and Venezuelan President Maduro. Venezuela depends on Cuba for human capital in the form of doctors, teachers, and military advisors. Mutually, Cuba depends on Venezuelan oil (Piccone and Trinkunas, 2014, n.a.). Although both nations would benefit from an ease on economic interdependence because of increasing internal instability within each country, this is not probable to occur unless both countries diversify their international trading partners and allies. As Venezuela faces a huge economic downturn caused by low oil prices, Cuba made the strategic decision to accept the opening of political relations with the United States. This shift is not just politically expedient but is also a push for economic survival in the global economy.

Simultaneously, the United States has powerful self-interests as well as an external reputation to uphold. The US must begin to question whether its policy toward Latin America is sufficient. With increasing hostility from South America by countries such as Venezuela and Ecuador, it may be beneficial to continue liberal political thought in the maintenance of relations with other actors in Latin America. Finding mutually beneficial partnerships and avoiding parasitic ones may be the next step for American foreign policy in the region in order to avoid breaches of international security.

However, the US is also in a race with China to secure economic relationships in the region before the Chinese market has gained dominance in Latin America. Chinese economic influence is growing in the region exponentially. As a global trade competitor, the US has an interest in not only maintaining ties in Latin America but bolstering them as well. External interests to open relations were evident in both the US and Cuban agendas. These economic needs and desires have the power and potential to play the most important role in political decisions.

Ultimately, the tourism industry has become the first true revelation from both the US and Cuba to analyze their policies toward one another; the US risks losing a growing tourist industry and economic influence in Latin America while Cuba risks an economic downturn. The US-Cuban relationship has the potential to be mutually beneficial, and despite the risks, it is clear that US politicians have begun to realize this fact.

Conclusion

As the prospect of US joint ventures in Cuba becomes more potent, an interesting relationship emerges between policy creation and corporate interests. Not unlike other policy

sectors, business interests and politics intersect strategically to establish wide scale political change. That is not to say that certain obstacles do not remain such as property claims in the country. Nonetheless, the influence of the tourism industry can be illustrated through this emerging relationship between two countries once categorically established as enemies. Recognizing the larger implication of this research is key to understanding both the US and Cuban role in the international sphere. As long as business interests exist, foreign policymakers will be pressured to view the foreign relations process through an economic lens. In the case of US and Cuba, diplomacy and foreign investment are not mutually exclusive foreign policy tactics. Rather, their purposes intertwine to create a new interpretation of economic alliances.

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