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Failed Sanctions
Transnational Players and the U.S. Embargo against Cuba

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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 dropped by approximately 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. The extent of Soviet aid is also debatable because a substantial share of it was “tied aid” that kept Cuba committed to exports of sugar in exchange for relatively inexpensive Soviet oil and uncompetitive industrial machinery and technology. Whatever the interpretation of the Cuba-USSR preferential relationship, 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).

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 set up agricultural cooperatives (September 1993); reorganization of the central administration.
of the state and reduction of bureaucracy with the establishment of a new structure of ministries and institutes for both horizontal and vertical functions (April 1994); the creation of free farmers markets (September 1994).

Considering the emergency conditions 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 might 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 Domínguez observed: “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” (Domínguez 1997: 49).
The U.S. Embargo against Cuba in the Post-Cold War Era

At a time when 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 H.W. Bush signed the Cuban Democracy Act (CDA), also known as 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 the 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.

Since the late 1990s, 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. In June 2004, however, 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 would 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 and analysts have concluded that U.S. unilateral economic sanctions with respect to Cuba simply do not work (Smith 1998; Rich Kaplowitz 1998; Peters 2000; Rothkopf 2000; Seiglie 2001; Weinmann 2004; Knippers Black 2005; Sweig 2007). The most common argument is that sanctions have failed to promote significant changes in Cuba and hasten the end of the Castro regime while providing the latter an easy scapegoat for its own shortcomings. Critics of Washington’s isolationist and hostile stance toward Havana point out that U.S. policy is largely driven by domestic politics considerations, trapped in a sort of Cold War nostalgia, and basically disconnected from the reality in Cuba. The embargo also imposes unjustifiable costs on American firms in terms of forfeited businesses with the island. Given this situation, a policy of engagement would more effectively serve U.S. interests in post-Soviet Cuba and increase U.S. chances to influence economic and political developments there.

On the other hand, supporters of U.S. policy toward Cuba justify the existing economic sanctions mostly by arguing that engagement with the island would be unlikely to induce the Castro government to implement meaningful democratic changes. While recognizing that the embargo by itself would not produce
liberalization, they contend that the lifting of sanctions would facilitate the continuation of a defiant totalitarian regime, lead to greater repression and governmental control, and further reduce the possibilities for a genuine democratic transition in Cuba (Radu 1998; Suchlicki 2000; López 2000; Kaufman Purcell 2000; Suchlicki 2007). In essence, as Fisk unequivocally put it, U.S. policy “is not driven by what has happened in Cuba; it is driven by what has not happened” (Fisk 2001: 101).

Limitations of Current Research on Economic Sanctions

The role and usefulness of economic sanctions as an instrument of foreign policy has 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 may constrain state behavior and have a significant impact on international outcomes (Martin 1992). Neoliberals make the case that growing interdependence in the modern world causes states to act in a more cooperative fashion by increasing 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; Oye 1985). 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).

The aforementioned optimism among liberals has not gone unchallenged. Pape observed 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 maintained that economic sanctions succeed in at most 5% of cases and challenged a previous work carried
out by Hufbauer, Schott, and Elliot (HSE) in which sanctions were deemed successful in about one-third of the cases analyzed (Hufbauer et al. 1990: 93). Pape concluded that 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 (Pape 1997: 106-107). Using bargaining theory and strategic interaction models, other scholars 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; Morgan and Schwebach 1997; Tsebelis 1990).

It is worth underscoring that economic sanctions can still be a reliable alternative to the use of force even if they rarely work as claimed by Pape. Rational decision-making requires the comparative assessment of policy options not only in terms of favorable outcomes but also in terms of costs and benefits for both the coercer and the target and the complexity of the undertaking. In sum, it might be preferable for
policymakers to use sanctions rather than military force even when they are less likely to accomplish certain goals as long as the cost differential between the two policy alternatives is big enough (Baldwin 1999/2000: 86). Nevertheless, there seems to be at least a general acceptance among scholars that economic coercion is often unable to serve ambitious foreign policy goals and promote major positive changes in a 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.

Globalization and greater economic openness make target countries more vulnerable to comprehensive and fully enforced multilateral sanctions. Today, this kind of foreign pressure is potentially more harmful than it was a few decades ago as the world’s economies are growingly 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, the same transnational linkages that 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. firms 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 predicted 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 warned: “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” (Schott 1998).

In other words, transnational actors such as multinational corporations and international migrants, often 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 those of target nations. And in 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 an increasingly interconnected global economy.

While many scholars evaluate the utility of economic coercion by analyzing the behavior of the target government, this study focuses on transnational or non-state players such as multinational corporations, migrants, 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) do not work because 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, which is based upon extensive field research conducted in Cuba between 2000 and 2008, attempts to make its most important contribution. Albeit 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 communist 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. Furthermore, formal and informal activities by Cuban-Americans, mostly those who left Cuba in the 1980s and especially in the 1990s and retained strong bonds with relatives on the island, have been a major factor in mitigating the overall impact of U.S. economic sanctions against Cuba. The most vocal and influential groups within the Cuban-American community in favor of the embargo are instead comprised to a great extent of older exiles who emigrated in the early 1960s or their children (Eckstein 2004: 330-333).

Hypotheses and Contributions of the Research

Two main hypotheses are tested 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 firms continue to run profitable businesses on the island and take advantage of the absence of U.S. competitors.

The second hypothesis of this study is that, despite 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 Castro government. 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, primarily by
individuals of Cuban descent, have increased dramatically over the past decade and a half, consolidating U.S. citizens as one of the largest groups among foreign travelers to the island; 2) Remittances from abroad, mainly sent from the Cuban-American community in South Florida, were the single most important factor in stimulating the recovery of the Cuban economy after the deep crisis of the early 1990s. In net terms, remittances were the top source of hard currency revenues for the Cuban government until the recent (post-2004) booming of exports of professional services under special agreements with Venezuela; 3) The United States has played a key role in financing the development of Cuba’s telecommunications sector since a large portion of the island’s hard currency revenues from telephone services come from dollar charges applied to incoming calls (mostly Cuban-American calls) from U.S. territory; 4) Since 2002, the United States has ranked first among Cuba’s sources of imported food. A small percentage of U.S. products end up in state-owned hard currency 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 U.S. extraterritorial measures against foreign companies investing in Cuba have had little success. Moreover, Washington’s policy toward Havana ended up throwing a lifeline to the same government it was supposed to undermine. The aforementioned activities by transnational actors are emblematic examples of gaping holes in the United States’ effort to economically isolate Cuba and provide a solid explanation of why the 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 an instrument 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 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 conceptual tools that can be used not only to examine the U.S. embargo against Cuba 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 economies of various 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, recorded remittances have become the second largest source of external financing for developing countries after FDI (Ratha 2008). Money transfer and investment operations are also 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 suggest a potential path for further research on the role and usefulness of economic sanctions.
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 examines the main developments in U.S.-Cuba relations from 1959 to the present time, with a focus on 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. policymakers. Regarding Helms-
Burton, this chapter focuses on those articles aimed to create disincentives for foreign companies in Cuba along with some discussion of their controversial aspects.

The remaining chapters of this book deal with transnational players whose activities have propped up the Cuban economy during the post-Cold War era and helped the Castro government minimize the pressure of U.S. unilateral sanctions. Chapter 4 analyzes the evolution and results of foreign direct investment in Cuba to show the positive impact of foreign capital in the development of the Cuban economy. Chapter 5 describes the several different ways in which the Helms-Burton law affects foreign companies that intend to invest in Cuba and those already operating in the island’s market. It also evaluates the impact of the legislation on Cuba’s economic performance and the flow of foreign investment as well as its effectiveness in forcing overseas firms to pull out of Cuba. Finally, Chapter 6 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. The concluding chapter summarizes the main findings of the study and provides some suggestions for a more effective U.S. policy toward Cuba.

CHAPTER 8
CONCLUSION

For the past fifty years, the United States and Cuba have remained, borrowing an expression from Wayne Smith, “the closest of enemies” (Smith 1988). It is no surprise that U.S.-Cuba relations quickly deteriorated soon after Fidel Castro’s takeover in 1959. Cuba’s establishment of very close ties with the Soviet Union at the height of the Cold War, its attempts to export the revolution in Latin America, and the creation of a radical socialist system unfriendly to U.S. business interests were reason enough for Washington’s antagonism. In effect, Castro’s domestic policies were devised to put an end to decades of U.S. imperialist schemes and control over the island and his foreign policy challenged the legitimacy of U.S. hegemony in the Western Hemisphere.

During the 1960s, efforts by the United States to bring about the end of the Castro regime were in no way limited to the imposition of economic sanctions. The battery of U.S. tactics included CIA training of exiles for the failed Bay of Pigs invasion of 1961, political isolation of Cuba within the
Organization of American States, military intimidation, covert activities, and a number of assassination plots against Castro. All of these tactics ultimately failed. After some timid progress toward normalization in 1974-1975 and 1977, in both cases interrupted by Cuba’s deployment of troops to Africa, the level of hostility between the two countries escalated during the 1980s in the context of Soviet-Cuban military ventures in Central America. Ronald Reagan launched a more aggressive policy toward Cuba with the tightening of the embargo and military actions aimed to prevent Marxist takeovers in the region. However, throughout the Cold War the economic intent pain of U.S. sanctions and their ability to produce changes on the island were greatly inhibited by the fact that Cuba conducted most of its trade with socialist countries and received massive financial aid from the Soviet Union. In 1989, besides Soviet subsidies, foreign trade with the socialist bloc generated about half of the island’s national income (Scherlen 2005: 245).

The true test for yet another round of U.S. economic sanctions against Cuba came only after the Soviet Union and the socialist bloc collapsed in the early 1990s and the Cuban economy took a nosedive. As Cuba was forced to reinsert itself into the global economy, create more market conditions internally, and promote international tourism and foreign investment, the United States intensified the embargo with the
Torricelli law of 1992 and the Helms-Burton law of 1996. Rules on U.S. food trade with Cuba were relaxed in 2000 before George W. Bush introduced additional restrictions on Cuban-American travel and remittances to the island in 2004. Although Washington’s moves were mostly driven by the imperatives of domestic electoral politics and served more the interests of hardliners in the Cuban-American community than the cause of democracy in Cuba, the overall U.S. policy was designed to strangle the Castro government by denying it hard currency revenues. This is exactly where sanctions failed the test.

The main contention of this study is that practices by transnational players, in particular multinational corporations and migrant entrepreneurs, have kept afloat and stimulated the Cuban economy in the post-Cold War era and constituted one of the chief reasons why U.S. unilateral economic sanctions against Cuba did not work. It is now safe to say that the entire battery of U.S. confrontational tactics toward Cuba has failed in its essential objective. Even if Fidel Castro was sidelined by a major intestinal illness more than two years ago and his brother Raúl is ruling the country, the Cuban revolution celebrated its 50th anniversary on January 1, 2009, and Cubans are calmly going along with their new president. This is a different scenario from the one many U.S. officials had envisioned, where the exit of Cuba’s “maximum leader” would soon
result in the collapse of the Cuban system and in the United States determining the conditions for the lifting of the embargo. Albeit it remains to be seen what will happen when the ailing Cuban leader passes away, the idea that the Cuban revolution is much more than Fidel Castro may no longer seem so farfetched in Washington.

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, 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 unilateral sanctions as an instrument of foreign policy has declined steadily over the last few decades.
Between 1945 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 unilateral sanctions 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 countries. Successful cases have become even rarer 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 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, typically centered on family ties, mitigate the economic impact of sanctions by reducing social suffering in the recipient countries and, to a lower degree, stimulating physical investments there.

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, 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 unilateral 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 harder 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 and 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. Hence, unilateral measures might 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, or so it claimed, the United States
initiated several new cases of unilateral sanctions during the 1990s and significantly expanded some existing sanctions programs, namely those against Cuba, Sudan, Myanmar/Burma and Iran. Furthermore, when allies and trading partners refused to cooperate with U.S. policies and increased their trade and investment relations with these targets, Washington tried to extend the reach of its sanctions by threatening or imposing penalties against firms located in third countries. The forty-seven 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.

As noted before, 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. The main objective of the 1996 Helms-Burton law was to discourage foreign investment in Cuba through the threat of lawsuits and the imposition of travel restrictions against foreign firms or other entities “trafficking” 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, it has had a deterrent “chill” effect on potential new investment 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, the presence of FDI is particularly strong in all the Cuban industries that have exhibited the best economic performances over the past decade. Thus, it is not surprising that U.S. sanctions also failed to undermine the Castro government and promote democratic changes in Cuba.

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.

Since the mid-1990s, U.S. visitors have consistently been one of the largest groups of foreign travelers to Cuba. The
vast majority of these visitors are Cuban-Americans traveling to the island with or without their government’s approval. Remittances from abroad, primarily sent by Cuban-Americans in South Florida to relatives in Cuba, are estimated at more than $1 billion a year. Until the recent expansion of Cuban exports of professional services under special agreements with Venezuela, remittances were, in net terms, the most important source of hard currency revenues for the Castro government. South Florida cash certainly makes the life of Cubans more bearable. But it also benefits Havana’s authorities that capture the vast majority of remittances through transactions in exchange houses and sales in state-owned hard currency stores, where the elevated price mark-up 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, again, mostly from Cuban Americans to family members in Cuba. Finally, U.S. entities hold publicly traded shares of several foreign firms with major investments in the Cuban market. Put simply, the inability of Washington’s economic coercion to exercise fatal pressure on the Castro government 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 achieve ambitious foreign policy goals.
It should be noted that Bush’s restrictions on Cuban-American travel and remittances to Cuba implemented in June 2004 seem to have had little or no impact on both practices. After a substantial decline in the immediate aftermath of Bush’s introduction of stiffer rules, Cuban-American trips to the island resumed strong growth and reached a record level in 2007. That year, U.S. visitors were the third largest group among foreign travelers to Cuba after Canadians and Britons. Moreover, unofficial estimates based on sales in hard currency stores suggest that remittances to Cuba have actually increased since 2004. The reality is that, even with tightened U.S. enforcement, Cuban-Americans can easily circumvent restrictions by traveling to Cuba through third countries and delivering remittances, as they always did, through mules or other informal mechanisms. Such practices also demonstrate that a growing number of Cuban-Americans, unlike certain hard-line segments of the exile community, do not believe that a policy of isolation toward Havana is the right course of action. And on top of all this, the recent emergence of Venezuela as Cuba’s main economic lifeline has made Washington’s task even more daunting.

Given this situation, a potentially more effective course of action for the United States is to foster a rapprochement with Cuba and the removal of the major provisions of the embargo in recognition that economic sanctions have not achieved their
main goals. It could be a true game-changer. 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 Havana by preventing the Castro government from using its traditional argument that the United States promotes economic deprivation in Cuba and seeks to constrain Cuban sovereignty. To conclude, consider a quote by George W. Bush that exemplifies the great irony of U.S. economic sanctions against Cuba. In July 2001, 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” (Gerstenzang, July 14, 2001). If this is the case, then U.S. policy toward Cuba in the post-Cold War era has been nothing other than a “wrong” policy. Only time will tell whether the new U.S. administration of Barack Obama and a Democratic-controlled Congress will finally make it right.