CUBAN AMERICANS AND FOREIGN DIRECT INVESTMENTS IN POST-CASTRO CUBA: COMMENT

Maria Werlau

The subject paper by José Azel is very well written, both from a literary and scholarly point of view. It is also manageable for readers better versed in economics as well as those less familiar with the subject matter. A weakness is that it stays solely within the bounds of the theoretical propositions selected for developing the topic—primarily examining Cuba's potential for attracting foreign direct investment (FDI) through the strict theoretical lens of International Business Studies. This makes for a rigidity that ignores significant counterpoints to the prescribed analytical framework. It is my personal preference to avoid applying models to explain complex issues, as this tends to disallow the more flexible, critical, and comprehensive analysis that is typically needed to get closer to the truth. In fact, the parts of the paper that deal more directly with its title, "Cuban Americans and Foreign Direct Investments in Post-Castro Cuba: 'An Ace in the Hole,'" more or less outside of the theoretical straightjacket, are the most eloquent, creative, and reasoned.

I agree with Azel's central premise—that we should not assume that U.S. firms will rush to invest in Cuba in large amounts in a post-Castro, post-embargo, scenario for all the sound reasons he well enumerates. As he points out, Cuba will offer an impoverished market with a small consumer base handicapped by a heavy need for imported components. In addition, although he does not mention this, when potential investors undertake their due diligence, they may find legal, environmental, and other obstacles that will probably sour hungry appetites.

Moreover, speculation may play a greater role than one might expect, especially considering it tends to be ignored from a theoretical point of view. In fact, we already saw its effects on investment in Cuba in the mid 1990s to early 2000s, when European, Canadian, and Latin American investors rushed into Cuba after the 1993-94 reforms and the 1995 passage of a new Foreign Investment Law. Examples abound of fads, bubbles, and crashes, as well as stock and debt crises, oftentimes brought about by inadequate and incomplete information of external markets, as well as of greed and other less measurable behaviors that actually determine "economic" decisions that later prove devoid of rationality.

Another aspect the paper fails to take into account is that investors may be attracted to Cuba and willing to plunge in with a long-term commitment in mind that may bypass short-term cost-benefit considerations.

Azel also notes that Cuba lacks a comparative advantage in terms of low cost labor. I agree that Cuba could not compete with labor markets such as China or Guatemala. However, countries such as Ireland and Puerto Rico seem to prove that investment-attracting niches are possible in higher-cost labor markets with an educated labor force when the right tax incentives and other enticements are offered, such as regulatory reliability and political stability. Cuba could well fall into this category if the right formula is offered to investors.

The paper raises the reasonable obstacle of a population not trained in the ways of the market. I suspect, however, for reasons we are not able to detail here, that

Cubans would be quick learners if market forces were let loose.

In terms of market-seeking FDI, all the obstacles Azel mentions are valid. Nevertheless, I think the services sector may stand out as a major exception—in diverse sectors such as finance, telecommunications, tourism, consulting, etc. Because the services sector tends to demand a lower capital commitment, the risks of investing are lower and thus, more easily overcome.

My major disagreement with the paper is with respect to the proposition that the U.S. government should intervene directly in deciding which firms should be favored for special treatment in investing in Cuba. Azel proposes that first movers should be rewarded with a basket of tax exemptions and other incentives to stimulate investment and that institutional entry barriers be maintained to make those advantages sustainable over time. He believes this *geomanagement* is a desirable foreign policy tool. This creative and bold proposal perhaps merits more in-depth discussion of pros and cons. My initial reaction, however, is that government intervention, specifically that of a foreign government is, generally, a bad idea. The role of government in a free market is to assure there is a proper framework for economic growth and development. Instead, replacing the operation of free market forces will probably only truly benefit only the privileged investor. What the U.S. government and all other democracies that want to help Cuba in a transition process can do is lend assistance in a very diplomatic and respectful way for Cubans themselves to develop the proper institutional and legal framework needed to allow market forces to operate at their best in order to attract investment.

Finally, it seems to me that Azel assigns too much importance to U.S. influence in Cuba during a transition process. There are, in fact, investors from other countries as well as other governments interested in the future of Cuba. This is even more so in an increasingly globalized economy. If and when Cuba initiates a transition to a free market democracy, the huge investment needs of the country, particularly in infrastructure, cannot be met, especially at first, through FDI. Cuba will have a great need for assistance and financing that can best be met by multilateral institutions.