ABSTRACT
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Castro as a Capitalist: The Role of Foreign Investment in Cuba
(Under the Direction of Dr. Maurits van der Veen)

The collapse of the U.S.S.R. and the subsequent dissolving of its Council for Mutual Economic Assistance led to Cuba's "Special Period," in which investment in the domestic economy and access to foreign exchange disappeared. This forced the Castro regime to reevaluate its development policy and, for the first time, actively seek and promote foreign direct investment (FDI). Nevertheless, Cuba has refrained from providing a laissez-faire marketplace for foreign firms and investors; on the contrary, the Castro regime has been determined to regulate and control this investment to a high degree. As per the existing literature, this strategy is imprudent, as FDI has been shown to have a generally positive influence on several economic and political factors, such as growth, wages, civil liberties, and political empowerment. Given these self-imposed constraints, I predicted that FDI would engender economic growth and gender equality as well as enhance civil liberties and political freedoms in Cuba, though at a slower pace than is typical. In a cross-sectional analysis of provincial data that used bivariate and multivariate regressions, I ultimately determined that FDI in Cuba is positively related to average monthly salary, investment output per capita, and number of business entities per capita, three metrics of general economic robustness. FDI also has some explanatory power in the variance of gender equality in the federal legislature, but was not linked at all to either the number of political prisoners nor provincial income and expense balances, when controlling for population.

INDEX WORDS: Cuba, Castro, Foreign Direct Investment, Political Freedoms, Gender Equality, Economic Strength, Wages

CASTRO AS A CAPITALIST: THE ROLE OF FOREIGN DIRECT INVESTMENT IN CUBA

by

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A Thesis Submitted to the Honors Council of the University of Georgia

in Partial Fulfillment of the Requirements for the Degree

BACHELOR OF ARTS

in INTERNATIONAL AFFAIRS

and

BACHELOR OF BUSINESS ADMINISTRATION

in FINANCE

with HIGHEST HONORS.

Athens, Georgia

2010

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DEDICATION

I would like to dedicate my thesis to my mother, Linda N. Puente. Her strength and perseverance in the face of constant adversity is immeasurably inspiring.

ACKNOWLEDGMENTS

I would like to thank my faculty mentor, Dr. Maurits van der Veen, for providing much guidance on this project. I began working with him on this topic in the spring of 2009 and he has continually assisted me as I have turned an idea into a complete thesis. His advice and recommendations were instrumental throughout this process. Dr. Annette Poulsen, the reader of my thesis, also provided valuable suggestions and was helpful in enhancing the scholarship of my thesis. Dr. Jeffry Netter also provided effective feedback. I must also thank my girlfriend, Jillian Turner, father, Antonio E. Puente, and brother, Antonio N. Puente, for their insights and proofreading.

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CHAPTER ONE
INTRODUCTION

The collapse of the U.S.S.R. and the subsequent dissolving of its Council for Mutual Economic Assistance led to Cuba's "Special Period," in which investment in the domestic economy and access to foreign exchange disappeared. This forced the Castro regime to reevaluate its development policy and, for the first time, actively seek and promote foreign direct investment (FDI). Nonetheless, Cuba has refrained from providing a laissez-faire marketplace for foreign firms and investors; on the contrary, the Castro regime has regulated and controlled these investments to a high degree. Given these unique circumstances, Cuba presents a particularly compelling case study with which to evaluate the implications associated with embracing FDI. To effectively do so, I examine sub-national data sets regarding the current nature of foreign investment in Cuba, review the existing literature to develop a series of hypotheses and test them with regression analyses.

My findings were that FDI is positively related to average monthly salary, investment output per capita, and number of business entities per capita, three metrics of general economic robustness. FDI had some explanatory power in the variance of gender equality in the federal legislature, but was not linked at all to the number of political prisoners nor provincial income and expense balances when controlling for population.

Background

After its independence in 1902, Cuba relied heavily on foreign investment and multinational corporations to provide the capital needed to run its economy; in fact, 75% of industrial output was tied to foreign entities in 1925 ("About Foreign Investment in Cuba") and there were total FDI inflows of $345 million between 1947 and 1959, a relatively high figure for the region at the time (Jorge, 20). However, after Castro nationalized all foreign-owned enterprises and private property, including $1 billion in US-based FDI (Leogrande, 326), Cuba had a total dearth of foreign direct investment for the next thirty years (Gordon, 108). During this time, the Castro regime consolidated power, implemented full government control of the economy, made possession of foreign currencies illegal, and relied heavily upon the U.S.S.R. for development assistance and foreign trade. However, the collapse of the Soviet Union brought an end to the Council for Mutual Economic Assistance that Cuba had relied upon for much needed imports and exports. Furthermore, the $4.3 billion a year that Cuba had received in total financial support from the Soviets essentially evaporated (Hernandéz-Cata, 25). This event had extremely negative implications for Cuba's economy: GDP declined 35% between 1988 and 1993 (Johns, 38) and GDP per capita fell to the lowest level since 1973 (Jorge, 25).

To reverse Cuba's economic paralysis and appease a population on the verge of insurrection, the Castro regime decided to engage in economic liberalization, highlighted by accepting foreign investment for the first time. However, this decision was not the result of a dramatic shift in economic ideology, but rather a manifestation of constraints imposed by a dearth of foreign capital. Admitting FDI was essentially the only option for Cuba to overcome this scarcity, as other potential sources were severely limited. With regards to multilateral

development assistance, Cuba, because of its history of debt defaults, nationalizations of foreign firms, and highly controversial politics, is not a member nation of the Inter-American Development Bank or the World Bank and therefore has a very limited ability to borrow on this front (Travieso-Diaz, 904). Another primary option for acquiring foreign capital for Cuba is that of remittances, defined as currency sent from abroad to Cubans. These served as the country's "fastest growing hard currency source" in the 1990s (Eckstein, 316). Nevertheless, remittances in Cuba have failed to produce "export-based earnings" and are not viewed favorably by the Castro regime, as they have been instrumental in the strengthening of the country's informal economy (Eckstein, 324). All of these factors contributed to a "grave foreign exchange shortage" and an inability to "make [foreign] purchases" (Castro 1993). Put simply, outside of embracing FDI, "the government has absolutely no other way of feeding its people" (Molinski, 136). Thus, the regime finally acknowledged that a "greater opening for foreign investment is one of the solutions we have to tackle the difficult situation we face" (Castro 1993).

As is the case with many of the Castro regime's policy shifts, Cuba's promotion of FDI was initiated through a relatively slow process. The first example of FDI in the Castro regime actually began prior to the formal collapse of the U.S.S.R. In 1988, under the authorization of the 1982 Decree-Law 50, a Cuban state-run enterprise partnered with a Spanish firm in the production of a tourist hotel ("About Foreign Investment in Cuba"). Between 1989 and 1994, FDI in Cuba, aided by moderate reforms as well as a more liberal interpretation of Law 50, reached over $500 million via the establishment of some 108 joint ventures (Jorge, 19). Then, in 1995, foreign investment's role in the economy was significantly augmented by the National

Assembly's passage of the Foreign Investment Law, or Law 77 (Travieso-Diaz, 908), a piece of legislation championed by Castro for its ability to "develop the country" (Castro 1995).

This legislation officially permitted four broad types of FDI: joint ventures, international economic associations, Cuban branches of multinational corporations, and foreign-owned companies within Cuba. The most popular form of FDI has been joint ventures, which are used in a variety of sectors and pool the capital and technical expertise of foreign investors with the labor and real estate holdings of Cuban entities in a mutually owned enterprise (Travieso-Diaz, 909). At the time of the primary liberalization, Castro remarked that while "we are not planning or willing to sell our country," they were "participating in this adventure" of liberalization to spur economic growth and acquire much needed capital (Castro 1995). With this somewhat reluctant attitude, it is unsurprising that FDI inflows were initially rather limited. However, Castro blames this slow start not on his own regime, but rather on the United States and its Helms-Burton Act, saying they were "constantly threatening those who do business with us" (Travieso-Diaz, 908). Still, deals have taken off as of late with a proliferation of production and management contracts, which were officially permitted in 2000 and enabled foreign firms to form time-limited and task-specific alliances. In Cuba, production contracts are particularly appealing to foreign investors that are funding labor-intensive industries and are also hesitant to make initial fixed investments of more than a year, while management contracts are most often utilized in tourism (Ibid, 911-912). The number of branches of multinational corporations has risen dramatically since this liberalization; as of 2003, there were over 800 such branches (Ibid, 913). Finally, although foreign firms can technically own businesses run entirely in Cuba, this practice remains extremely rare and highly regulated (Ibid).

In addition to establishing these four types of FDI, Law 77 has also promoted FDI in Cuba by seeking to improve the overall investment climate. For instance, Cuba has established the Ministry of Foreign Investment and Economic Cooperation, streamlined the process of applying to engage in FDI, granted the right of repatriation of profits to foreigners, and offered general insurance and expropriation protections (Ibid, 913-915). Fortunately for foreign firms and investors operating in the country, Cuba has branched out beyond the Law 77 provisions and continued working on improving the attractiveness of its investment climate. Such developments include the implementation of free trade zones around Cuba's three main ports, reforms of domestic corporate finance and banking operations, and the adoption of bilateral investment treaties with over sixty countries (Ibid, 916).

Despite Cuba's work to improve the attractiveness of its investment climate, political risk on FDI remains simply by virtue of U.S. sanctions. Firms and individuals wishing to invest in Cuba must consider the 1996 Helms-Burton Act of the United States. This legislation seeks to limit FDI in Cuba by enabling "U.S. citizens and companies to file lawsuits against foreign companies that do business on properties that were confiscated from them after the 1959 revolution" (Molinski, 137). In practice this legislation has not been a notable hindrance to FDI in Cuba from countries other than the U.S., though some foreign firms have "been pressured to make deals" with these potential American plaintiffs to avoid future litigation and legal dispute over the issue (Roy, 298). Unsurprisingly, Cuban officials are opposed to this law: Castro has called the legislation "evil" as well as a violation of Cuba's sovereignty and the regime frequently blames it for turning away potential investors (Castro 1996). The uncertainty surrounding property rights due to previous expropriations will inevitably become an even more

serious concern for foreign investors after the normalization of relations between the United States and Cuba (Molinski, 140).

Current Situation

Over the past two decades, Cuba's economic reforms have ushered in an era of significant growth in FDI. In 2008, the UN Conference for Trade and Development (UNCTAD) estimated that Cuba received net inflows of $36 million, putting them at an estimated total FDI stock of $79.9 billion, the highest amount ever recorded in the Castro regime ("Major Indicators of FDI"). This also illustrates Raul Castro's relatively robust public support of FDI (Erikson 401). Figure 1 in the Appendix displays the aggregate stock of FDI in Cuba between 1980 and 2008. Moreover, as would be expected given Cuba's comparative advantages, the majority of these investments are geared towards mineral extraction, oil and natural gas exploration, and tourism. To demonstrate a "typical" FDI-fueled enterprise, the Spanish energy giant Repsol-YPF operates a joint venture with Cubapetróleo, a state-owned enterprise, to engage in offshore oil exploration (de las Casas, 228). Figure 2 in the Appendix has a complete breakdown of the number of FDI projects by industrial sector.

Despite this growth, some troubling signs have emerged in Cuba's handling of FDI. Specifically, growth in FDI has not been continuous and, perplexingly, was even negative for 2000 and 2003 when foreign investors slowed the amount of capital flowing into the country ("Major Indicators of FDI"). It appears that new investments of FDI may be slowing; by one report, the number of joint ventures has decreased from 258 in 2005 to 234 in 2008 (Frank). In fact, the U.S. Department of State estimates that "one joint venture and two small cooperative production ventures have closed each week since 2000" ("Background Note: Cuba"). However,

the exact nature of Cuba's FDI is hard to discern due to a profound lack of transparency on this data.

Another interesting change in Cuba's FDI is the shift in the origin of capital. Traditionally, advanced economies have been Cuba's most prolific investors: a decade ago, 23% of all FDI originated in Spain, 19% in Canada, and 15% in Italy (Leogrande, 345). Today, however, many recent FDI inflows come from countries outside of the OECD, such as Venezuela, Russia, China, Brazil, India, and even Malaysia (Morris). One of the largest estimated joint ventures in Cuba comes from a Venezuelan firm: Petróleos de Venezuela S.A., Venezuela's state-run energy conglomerate, has a projected investment of $1 billion in 14 oil and natural gas "refining and storage facilities" ("Foreign Investment in Cuba"). Similarly, China and Cuba are becoming increasingly aligned, with the former having pledged over $500 million of FDI for Cuba at the 2004 Asian-Pacific Cooperation (APEC) Summit (Ellis, 18). The two politically similar countries have also initiated an annual "Forum of Chinese-Cuban Investment" to facilitate further such agreements (Ibid). Figure 3 in the Appendix shows the countries in which Cuba's FDI projects originated.

CHAPTER 2
LITERATURE REVIEW

In order to produce sound hypotheses with which to test my data, I will first review research on the determinants of FDI. I begin by presenting findings on the economic factors determining FDI flows and then review relevant political ones. Then, I review the literature on the impact of FDI, again starting with economic variables before shifting to political ones.

Determinants of FDI

Chief among the economic factors conducive to FDI after controlling for population is that of market strength, measured as per-capita GDP. This metric is also sometimes referred to as market size controlled for population. This result implies that FDI projects are motivated, at least in part, by the goal of increasing sales in the recipient country or enhancing economies of scale. There have been numerous studies on this relationship. Root and Ahmed (1979) found this positive relation between per capita GDP and per capita FDI when analyzing 58 emerging economies between 1966 and 1970. Nigh (1985) performed an analysis of these variables for US investment in manufacturing in twenty-four countries from 1954-1975, finding similar results. Tsai (1994) offered another investigation of this issue in an econometric analysis of 62 countries between 1975 and 1978 and for 51 countries from 1983 to 1986 and established a positive relation between market strength and incoming FDI. In a study of 29 Chinese regions between 1985 and 1995, Cheng and Kwan (2000) also found a positive relation between market strength

and FDI stock. Lim's research (2001) showed that while this relation holds on the aggregate, vertical FDI is not correlated with market strength.

Taking a slightly different approach to the measurement of market size, Schmitz and Bieri (1972) linked US direct investment in Europe to market strength as measured by per capita GDP. Moreover, Schneider and Frey (1985) found that per capita GNP was the "most important" variable in the determination of FDI. Their study analyzed data from 54 developing countries in the years of 1976, 1979, and 1980. Despite their findings, however, some scholars remain skeptical about using GNP per capita for this metric. Chakrabarti (2001) highlighted such concerns, writing that this variable is "a less appropriate measure" of market size and is less accurate in determining FDI locations. This debate is noteworthy because, though generally fairly consistent, GNP and GDP have distinctions. The former is generally considered more applicable when measuring the size of an economy due to it incorporating only domestic economic activity. The latter is more suitable for measuring the overall wealth of an economy, as it includes GDP plus net income from abroad.

Another key variable in determining the location of FDI is that of domestic wages. Although one might expect low wages to be associated with higher levels of FDI, the empirical evidence has been rather ambiguous. Supporting this general hypothesis, the studies of Goldsbrough (1979), Saunders (1982), Flamm (1984), Schneider and Frey (1985), Culem (1988), Shamsuddin (1994), Cheng and Kwan (2000), Biswas (2002), and Lim (2001) all found that higher wages discouraged FDI. Blonigen (2005) also found an inverse relation between these two variables, particularly for vertical FDI. However, Caves (1974), Swedenborg (1979), and Nankani (1979) produced studies that were directly at odds with their colleagues, finding instead

that wages and FDI were actually positively related. In addition, studies conducted by Owen (1982) and Gupta (1983) discovered no significant link between these two variables. Also, Braunstein (2006) showed that FDI has generally "done little to narrow the gender wage gap."

Similar to wages, tax rates have a considerable impact on the cost of business operations in a given country, though the literature on the effects of this variable on the level of incoming FDI is somewhat inconclusive. While Hartman (1984), Grubert and Mutti (1991), Hines and Rice (1994), Loree and Guisinger (1995), Guisinger (1985), Cassou (1997), Kemsley (1998), and Billington (1999) observed a significantly negative relation between tax rates and FDI, Root and Ahmed (1979), Lim, Wheeler and Mody (1992), Jackson and Markowski (1995), Yulin and Reed (1995), and Porcano and Price (1996) all found a statistically inconclusive relation. Also, defying what one would tend to expect, Swenson's study (1994) indicated that tax rates were actually positively related to FDI inflows.

Farrell, Remes, and Schulz (2004) help explain why this relation is rather insubstantial: in their analysis, tax breaks are often an inefficient use of funds in terms of fostering an investment-friendly environment. For instance, they calculate that the jobs created by FDI are often the result of government-provided incentives and subsidies amounting to "tens of thousands of dollars annually—in some cases, more than $200,000 in net present value." With such a high cost, it is thus no surprise that these authors find tax incentives a poor method of attracting FDI— their study views building infrastructure and enhancing legal and regulatory networks as more cost-effective investments. Strengthening this perspective, Wheeler and Mody (1992), Kumar (2007), and Loree and Guisinger (1995) all reported that companies are very inclined to invest in countries in which infrastructure is already highly developed. Additionally, Lim (2001)

showed that tax incentives have a “mixed” ability to attract FDI, largely due to the “inherent transient nature of such schemes.”

In contrast to taxes, the role of regulatory policies in predicting FDI placement has proven to be statistically significant and positive related. Kirkpatrick, Parker, and Zhang (2006) released a study on the relation between credibility of the regulatory framework of host countries and FDI in infrastructure, showing a strong, positive correlation between the two. This can be largely attributed to the fear of foreign investors that investments and corresponding profit opportunities in this sector will be captured by the government or competing private sector actors without a robust regulatory infrastructure. When countries do have a well-developed regulatory system, these fears of are substantially appeased.

The impact of exchange rates in determining FDI has also been studied widely, with evidence appearing to support the idea that there is a strong negative correlation between the strength of a country’s currency and the amount of FDI it receives. This research implies that, in general, as foreign investors’ home currency strengthens vis-à-vis the country in which they are investing, the capital and labor needed become relatively less expensive. Caves (1989), Froot and Stein (1991), Blonigen (1997) and Blonigen and Feenstra (1996) have all found that these two variables were inversely related, a complementary finding to those supporting an inverse relation between FDI and other variables that raise the cost of operations. Still, Edwards (1990) found evidence to the exact contrary of this prevailing theory. Making this situation more convoluted are the studies of Sader (1993) and Tuman and Emmert (1999) who found this negative relation to hold when conducting regressions measuring FDI on a per-capita basis, but not in analyses of overall FDI stock. Thus, when population is not controlled for, these studies indicate that

exchange rates have no statistically signification relation with FDI. This is because other variables that are correlated with population, such as aggregate investment and real GDP, serve as the primary determinants of FDI in multivariate regressions that do not control for population.

A country's activity in international trade has also been shown to be a significant factor. Kravis and Lipsey (1982), Culem (1988), Edwards (1990), Kandiero and Chitiga (2006), and Ponce (2006) each demonstrated an unmistakable relation between openness, a measure of imports plus exports as compared to GDP, and FDI. Then again, Wheeler and Mody (1992) found such a strong correlation to hold only in the manufacturing sector; their study showed that FDI in electronics was less affected by openness. Schmitz and Bieri (1972) found only a fragile correlation between these two.

A country with a trade surplus appears to attract more FDI. This is somewhat intuitive, as economies with trade surpluses are generally considered healthier and more amenable to export opportunities. Torrisi (1985), Schneider and Frey (1985), Hein (1992), Dollar (1992) and Lucas (1993) all found evidence supporting this notion, though, again, contrary results were produced. The studies of Culem (1988), Tsai (1994), and Shamsuddin (1994) determined that countries with trade deficits were actually more likely to attract FDI than those with trade surpluses.

The role of trade barriers in attracting FDI has been thoroughly studied. Acknowledging the previous findings and the economic similarity between investment and trade, one might expect to find a robustly negative relation between the presence of trade barriers and FDI. Nonetheless, this has not held in all empirical studies. Although Culem's findings (1988) did support this colloquial hypothesis, Schmitz and Bieri (1972), Lunn (1980), Belderbos (1997) and

Blonigen (2002) produced studies that found essentially opposite results. Theyreported that trade barriers were actually positively related to FDI, as firms often decided to invest in domestic production when trade was restricted. This phenomenon is commonly referred to as "tariff-jumping FDI." In contrast, there are also studies that found this relation to be statistically insignificant, with Beaurdraeu (1987) and Blonigen and Feenstra (1996) supporting this neutral result.

The impact of an economy's growth rate has also been analyzed with the prevailing thought being that faster growth would yield more FDI due to more profitable opportunities (Chakrabarti 2001). This view has also been substantiated by the findings of Bandera and White (1968), Lunn (1980), Schneider and Frey (1985), Culem (1988), and Billington (1999). Tsai (1994) found a somewhat weaker link in a study of data from 1975–1978 as did Nigh (1985) in his study of developing economies. Overall, these results are consistent with others indicating a positive relation between FDI and variables associated with economic robustness.

On a related note, FDI may be also be driven by the opportunity to acquire capital for the home country of the initiator of the project. Poulsen (1986) showed that Japanese banks expanded into the U.S. in the 1980s because of an abundance of credit demand there, which could be used to compensate for a shortfall in Japan. This came despite Japanese banks being somewhat uncompetitive in comparison to their American counterparts.

In addition to these economic factors, political dynamics also affect the location of FDI. Basi (1963) and Aharoni (1966) pioneered research on this subject by surveying executives of firms engaging in FDI and found that political instability was the second most significant determinant in their allocations, following only market potential. Schneider and Frey (1985),

Edwards (1990), and Biswas (2002) verified that political instability is negatively correlated with FDI. Strengthening this viewpoint, Brewer (1983) found that unpredictability in a country's governance as well as instability in monetary and fiscal policies all strongly deter FDI. These studies have also found that the country's prevailing political ideology is essentially irrelevant in determining FDI, a finding that is counter to the general hypothesis that more left-of-center regimes attract relatively less FDI, *ceteris paribus*.

Of course, as Picht and Stuven (1991) point out, political instability can sometimes be an implication of increased FDI inflows if policy makers use promises of substantial economic progress to rationalize concessions designed to incentive these investments and this progress never fully materializes. This scenario is particularly applicable to democratically elected leaders, who face a greater level of domestic questioning. However, Loree and Guisinger (1995), Jaspersen et. al. (2000), and Hausmann and Fernandez-Arias (2000) all had studies that suggested this may not be as big of a concern as the aforementioned analyses suggest, as they did not find a statistically significant relation between these two variables.

Jensen (2008) takes a slightly different approach to measuring stability by focusing on governmental and political institutions rather than government policies, which, he writes, have only a "limited ability" to predict FDI. His analysis shows that institutions are more instrumental in ensuring long-term political and economic stability than any transitory leader. He points to democratic institutions as the most effective in attracting aid, though he also acknowledges a strong role for politically federal institutions drawing in FDI. The emphasis on federal institutions is attributed to their ability to eliminate intra-state fissions in the treatment of FDI. He also finds data that show a negative relation between assistance received from the IMF and

FDI. In this situation, he suggests that the measures of fiscal austerity often associated with IMF support tend to undermine domestic institutions and are a significant deterrent to companies looking to expand abroad. The enterprises want to invest in a country that will expand infrastructure spending and cut corporate taxes, not the opposite.

Along these same lines, Nigh (1985), through a study using regression analysis of 21 years of data for 24 countries, found that manufacturing FDI by U.S. firms is highly correlated with the level of "both inter-nation and intra-nation conflict and cooperation" in developing economies. However, his study shows that only international conflict among developed states affects this type of FDI. Similar to Nigh's conclusions, Schneider and Frey (1985) showed that the amount of bilateral development aid from Western countries is a strong indicator of international cooperation as well as an effective bellwether for both political stability and amenability to business investment. This metric is thus a key determinant of FDI.

States' records in upholding civil and political freedoms also appear to be a factor in determining FDI. In studying time series data for 62 developing countries, Harms and Ursprung (2002) found that FDI placement is highly linked to respect for such rights, as quantified by Freedom House, and that repression most often deters potential investors. Busse (2004) ran a time series regression analysis on FDI's implications for civil liberties and confirmed this positive relation. Rodrik (1996) established a similar conclusion, finding that states with less robust democratic rights tend to attract less FDI from American multinational enterprises. McGuire and Olson (1996) and Olson (1993) use a state's level of democracy as a metric for political freedoms and also find this positive relation to hold. Li and Resnik (2003) as well as Biswas (2002) also found such a link between level of democracy and FDI.

These findings that are in direct opposition to the often-espoused hypothesis that FDI seeks authoritarian states in which individual freedoms are lacking, a belief popularized by William Greider's *One World Ready or Not: The Manic Logic of Global Capitalism* (1997). This concept is given some credence by Adam and Filippaios (2007) who released a study saying that FDI is more likely to be found in countries with lower levels of civil liberties. They attribute this to the fact that states with low levels of civil liberties are able to repress labor unions and other interest groups seeking to increase wages. Nonetheless, their study acknowledged that FDI is positively related to the robustness of political freedoms. Tuman and Emmert (2004) also backed this general hypothesis, with their data showing that U.S FDI in Latin America from 1979-1996 had a propensity to be placed in states with relatively poor human rights standards as well as few political freedoms, characteristics often attributed to the leadership of military juntas. These discrepancies are best explained by the different foci in terms of time period and countries of the respective studies. On the aggregate, the current consensus in the literature seems to indicate that the level of civil liberties and political freedoms does have a statistically positive impact on FDI.

The role of corruption in determining FDI has also been studied. Wei (2000), in a study measuring bilateral investment between twelve source nations and forty-five recipients, found that corruption has a strong impact on the placement of FDI. For instance, a jump in the corruption level from that of Singapore, which has a corruption rating of zero, to that of Mexico, with a rating of 6.75, has the same effect on incoming FDI as a fifty percent hike in the corporate tax rate of the recipient (Wei 8). In other words, such a jump would be a substantial deterrent to investors.

Overall, in terms of economic determinants, market strength is considered to be the biggest factor in determining the location of FDI. Foreign investors tend to be active in economies that are generally considered robust and whose residents have the earnings necessary to be potential consumers. At the same time, these investors also tend to prefer economies that have a labor supply that accepts relatively low wages, so as to lower their cost of operations. However, despite tax breaks also lowering their costs, investors are not as prone to finance projects in countries with relatively low tax rates, as they generally want this balanced with the supply of high quality public goods, such as infrastructure, a variable with its own positive relation with FDI. With regards to trade, investment tends to flow into counties that are relatively active in international trade and have less expensive currencies, though FDI is often increased when trade barriers are strengthened. This is because investors still want access to that market for a multitude of other reasons, but their ability to penetrate it is now restricted; thus, they engage in "tariff-jumping" FDI. Growth rates, another indication of a vigorous economy, also have a strong, positive relation with FDI, as does the opportunity to acquire capital.

With regards to political determinants of FDI, political stability is often the most effective variable. Analysis has shown that investors generally avoid states with high degrees of instability, as that greatly complicates business forecasts and makes investments inherently more risky. The vigor of domestic institutions and level of inter and intra-state cooperation, which can also be calculated by the amount of development aid received, are different ways of measuring political stability and thus also serve as effective predictors of FDI. Political freedoms and civil liberties, both of which are associated with level of democratization, are also effective predictors of FDI. In an era of heightening global awareness, investors tend to want to avoid potential

backlashes against financing projects in states with questionable domestic human rights, all else equal. Finally, corruption has a strong, negative relation with FDI as this variable greatly raises the cost of business operations.

Implications of FDI

Of course, all of these studies focused on the determinants of FDI, not its consequences. In many cases, an onslaught of FDI could contribute to, say, an economy's growth, which, as previously mentioned, is highly correlated with increased FDI. So, in an attempt to resolve this "chicken or the egg" conundrum, I will also review the literature on the impact that FDI has on economies. While this literature is less comprehensive, it nonetheless produces relevant findings.

Perhaps the most important economic impact FDI can have is on growth. Alfaro, Chanda, Kalemli-Ozcan, and Sayek (2006) reported on the implications of FDI on this variable. Their analysis shows that FDI can produce substantial economic growth if the recipient market has a well-developed financial system. In states with poorly developed financial systems, FDI has a limited effect on growth due a lack of linkages with the rest of economy. Additionally, their study found that FDI has a bigger influence on growth when FDI focuses on substitutes rather than complements to goods that are produced with domestic investment. This is due to FDI in the former resulting in enhanced competition, which, in turn, better stimulates economic growth. Lastly, FDI projects that employ a wide spectrum of labor, from completely unskilled to highly skilled, are more successful in engendering economic growth through the entire economy.

A study by Lee and Tcha (2004) provides even more support for the idea that FDI positively impacts domestic growth. Focusing on the role that FDI has in increasing total factor productivity and, correspondingly, economic growth, they go as far as to proclaim that, on the

margin, FDI is more effective than domestic investment in this area. Although this discrepancy in marginal impact can be partially attributed to the considerable differences in the quantities of the two, it still shows that FDI can engender productivity and economic growth with a high degree of effectiveness.

Similarly, Javorcik (2004) produced an insightful study into the role of FDI on productivity spillover, investigating firm-specific data from Lithuania. She showed that FDI is most likely to bring about an increase in inter-industry productivity when foreign firms share linkages with local suppliers. Also, her analysis indicated that FDI is very likely to stimulate productivity spillovers when placed in firms with owners from both countries, but is unlikely to do so when such firms are entirely foreign owned.

With regards to the critical element of a recipient nation's financial system, FDI has often been used as a catalyst. Kholdy and Sohrabian (2008) found that an increase in FDI can "stimulate financial development," leading to, for instance, the creation of equity and fixed income markets. Interestingly, this most often occurs in states in which corruption is rampant and patronage, nepotism, and a lack of separation between business and government are the standard. Their findings suggest that the political and economic elites in such countries accept FDI and embrace the corresponding development of financial markets, since this enables them to enrich themselves and entrench friendly institutions (Kholdy and Sohrabian, 495). Combining the findings of this study with that of Alfaro, Chanda, Kalemli-Ozcan, and Sayek (2006), FDI can be reasonably expected to stimulate both economic growth and a strengthening of a country's financial system, the results of which will in-and-of-themselves lead to greater growth. These findings provide a nice supplement to the aforementioned study by Alfaro, Chanda, Kalemli-

Ozcan, and Sayek (2006), which discussed the limited ability of FDI to engender growth with an underdeveloped financial system.

Kumar's comprehensive investigation (2007) into the implications of FDI is also worth noting. His research first acknowledges that FDI produces a variety of benefits, such as technological innovation, increased savings and investments, and strengthening of human capital and domestic institutions. However, it also highlights the diminishing marginal impact of FDI, saying, "too much FDI may not be beneficial" (Kumar 7). According to his study, at some point FDI will crowd out domestic producers in profitable sectors and leave them to flounder in "low-productivity firms" that have a minimal impact of aggregate economic functioning. Over the long-term this phenomenon could slow economic growth by marginalizing domestic firms and capital. Still, Kumar points out that most economies are still far from this point and could almost universally benefit from liberalization in their treatment of FDI (Ibid).

From the individual worker's perspective, perhaps the biggest impact of FDI is on wages. Feenstra and Hanson (1997) studied this relation as exhibited in maquiladoras— export assembly plants— in Mexico from 1975-1988 and found that manufacturing FDI drives up the wages of skilled workers. Their study went as far as to say that as much as 50% in increased wages can be attributed to growth in FDI in the regions in which it is concentrated (Feenstra and Hanson, 374). However, this dynamic has also produced increased wage inequality in these regions.

The findings of this study are consistent with previous research showing that foreign firms have a historical tendency to pay higher wages than their domestic counterparts. Lipsey and Sjoholm (2004) analyzed data from over 18,000 manufacturing plants funded by FDI in Indonesia and found that, on average, these firms paid 33% more to their employees, a premium

that jumps to 50% when solely considering white collar workers. Even when controlling for their productivity, size, and employee demographics, foreign firms still paid a 12% premium to blue collar workers and 22% higher wages to white collar employees. Ultimately, this also led to higher wages for employees in domestic firms, which had to compete with their higher-paying foreign counterparts.

Shifting into the arena of human rights, FDI also appears to have a positive influence. Richards, Gelleny, and Sacko (2001) studied data from forty-three emerging economies from 1981 to 1995 and found that foreign economic penetration— as measured by FDI, portfolio investment, foreign lending, and official development assistance— leads to considerable improvements in human and political rights, as well as civil liberties. In fact, they found that FDI was among the most consistent predictors of increased respect by recipient governments for these rights.

Likewise, Dutta and Roy (2008) point out that FDI, like global economic integration more generally, strongly impacts press freedom by augmenting access to and quality of technology as well as strengthening the entire economy, which, in turn, enables press outlets to become more financially secure and independent. With data from 115 countries over 20 years, this study shows that FDI is “an absolute necessity” for press freedom and is applicable to high, medium, and low-income countries.

With regards to gender equality, Dollar finds that FDI can have a secondary, positive impact. FDI is associated with rising per capita income, which in-and-of-itself has consistently lead to “improvements in different measures of gender equality” (Dollar 21). Their measures of

gender equality include educational attainment, legal rights, health care access, and political power, as measured by female representation in parliaments.

Next, although, as previously mentioned, Jensen (2008) established a strong relation between FDI and federal institutions, Malesky (2008) found that, once in place, FDI catalyzed decentralization in governance and a corresponding empowerment of sub-national leaders in 61 Vietnamese provinces from 1990 to 2000. His study showed that FDI can play a substantial role in increasing the ability of local and sub-national leaders to engage in autonomous economic reform experiments. In other words, the revenue generated from FDI empowered these leaders to successfully defy the federal government's guidelines on economic policy— a concept previously thought unfeasible in Vietnam. Moreover, it is worth noting that a large majority of these FDI projects were export-oriented, thereby limiting the ability of the federal government to mitigate the increasing provincial economic autonomy.

With regards to corruption, Larraín and Tavares (2004) analyzed data from twenty countries between 1970 and 1994 to determine the precise effects of FDI on this variable. Mirroring the aforementioned literature that indicated corruption generally deters FDI, this study found that FDI itself mitigates corruption. They went as far as to call FDI "a robust determinant of corruption" as "a 1 percent increase in FDI as a share of output decreases corruption by 0.3 on an index of 1 to 10" (Larraín and Tavares 225).

In summation, previous studies have found that FDI inflows often lead to economic growth. This is most often when FDI is targeted towards substitutes of domestically produced goods, rather than complements, so as to enhance competition. Additionally, economic growth is most easily engendered by FDI when complemented by a strong financial system, which helps to

connect these investments with the rest of the economy. FDI has been shown to stimulate the development of financial markets, implying that these linkages will eventually be present. FDI also tends to induce productivity enhancements, particularly when parties in both countries jointly own projects. Wages are also increased by FDI, as these projects have to outcompete their domestic counterparts in the short-run to acquire the proper amount of labor. This ultimately leads to higher wages in all enterprises.

With regards to human rights and governance, FDI also has been shown to have a significant impact. Inflows of FDI have consistently resulted in enhanced governmental respect for civil liberties and political rights, as well as greater freedoms for domestic press. FDI also has led to decentralization in governance and empowerment of regional leaders, particularly those where FDI is concentrated in export-oriented industries. Finally, FDI has often led to an ample diminishment of corruption, as government officials attract FDI and react to it by attempting to improve their rule of law.

CHAPTER 3
DATA

In the study of FDI, Cuba provides an opportunity for new research. The literature on FDI in the country is predictably thin as the country only recently opened its doors to private foreign capital. While Villanueva (2002) offers an insightful commentary on the initial motivations for this liberalization, the primary one being regaining precious foreign currency reserves after the collapse of the U.S.S.R, the precise determinants and implications of this recent inflow of FDI remain unstudied.

Hypotheses

This literature review has enabled me to make a series of general hypotheses and predictions regarding the impact of FDI on Cuba. First, I suspect Cuba's economy will have been strengthened by the recent FDI inflows. This should be reflected in higher levels of aggregate production, income, and investment, the number of business entities. The focus of FDI in Cuba on goods and services that are also produced domestically, such as tourism, should help to further catalyze growth. Similarly, the comparatively low amount of FDI on the island should result in a rather high marginal impact. Then again, I also acknowledge that the impact on growth could be mitigated by the heavy regulation the regime imposes on FDI as well as the lack of financial markets that could provide linkages to the rest of the economy. The increase in FDI projects should be associated with higher wages, particularly given the tremendous impact of FDI on competition. Additionally, FDI should result in enhanced respect for civil liberties and

political freedoms by the Castro regime, which has historically been infamous for its oppression of dissenters. Finally, I expect that, as Dollar suggests, FDI will also lead to enhanced gender equality by engendering economic growth. Finally, given Malesky's findings, I would expect to find increased autonomy in economic decision-making for Cuba's sub-national leaders, though there is currently no data available to test this last hypothesis.

Methodology

As would be expected in a non-transparent country, finding precise and comprehensive data on FDI in Cuba proved to be a challenge. There is no official documentation of FDI stocks by the Cuban government and the aforementioned UNCTAD data is only an estimation of aggregate stocks. However, the Cuba Transition Project at the University of Miami's Institute for Cuba & Cuban-American Studies provides a database of individual FDI projects ("Cuba Transition Project"). This database has amalgamated data acquired from a variety of sources, such as company reports, trade publications, and news articles. It provides the name of the project, the form of investment (e.g. joint venture), its geographic location, the year in which it was initiated, its industrial sector, the foreign investor, the home country of that investor, the Cuban counterpart, and an estimated value. However, not all projects have complete information in all categories. This is particularly true for the estimated value and the geographic location. In fact, three provinces had no data on the estimated value for their FDI projects. I chose to ignore all of these holes in the data and simply perform analyses on existing data rather than assign seemingly arbitrary figures.

With regards to the dependent variables, the data were far easier to access. The Cuban Office of National Statistics (ONE) publishes a wide range of economic data as well as some

political and demographic metrics ("Oficina Nacional de Estadísticas"). For my analysis, I used their figures on population, income and expense balances, average monthly salary, total investments output, number of business entities, female representation in Congress, and the number of political prisoners. A summary of these variables and those on FDI can be found in Table 4 of the Appendix.

Based on my literature review, which generally indicated that FDI is associated with a more robust economy, liberalized political conditions, and heightened gender equality, I hypothesized that FDI would have a statistically significant, positive relation with each of these variables, except for the number of political prisoners. For that metric, I predicted that the relation would also be statistically significant, but negative.

To test my hypotheses and ascertain the relation between FDI, the independent variable, and the six dependent variables (plus population), I chose to perform a cross-sectional analysis of Cuba's fourteen provinces and one territory rather than a time series study. The latter seemed less appropriate because Cuba only recently embraced FDI so such an analysis would be inherently constrained. Additionally, controlling for exogenous variables in this context is more effectively done via a cross-sectional analysis; this is particularly true for time-sensitive shocks, such as a roundup of political dissidents. However, using cross-sectional analyses prevented me from definitively establishing causal arrows between FDI and the other variables; I could only focus on finding statistically significance and explanatory power in the relations I examined. I also chose to run two separate analyses: one with the number of FDI projects per province as the independent variable and another with the estimated value of these projects as the independent

variable. With the latter, I only ran regressions on the twelve provinces that actually had figures for this category, thereby reducing the degrees of freedom from fourteen to eleven.

Finally, I used two models of analysis, bivariate and multivariate regressions, to determine the statistical significance and explanatory power of the six relations. The results of these regressions are shown in Figures 6 and 7 of the Appendix. The multivariate regression was useful in assessing statistically significant *unique* contributions among the six variables. This analysis highly discounts the significance of variables that might otherwise have low P-values if they overlap with the other variables included. Thus, I also performed a correlation test to assess the degree of multicollinearity among the six variables of interest.

Discussion

To assist with my interpretation of the multivariate regression, I began by performing a correlation analysis, shown in Table 3 of the Appendix, among the six variables of interest. The results were somewhat illuminating. All fifteen relations had some rudimentary form of collinearity, though the only considerable correlations were between average monthly salary and investment output and average monthly salary and percentage of representatives that are female. The correlations for the two relations were 0.6369 and 0.6330, respectively. These two findings are somewhat intuitive: higher salaries are associated with more gender equality in federal political representation and more overall investment output. However, there does not seem to be a common external variable that would affect these three variables. With regards to applying these findings to my multivariate regressions, I can infer that the statistical significance of average monthly salary, investment output, and percentage of representatives that are female will fall due to their robust collinearity.

Although it was not a variable of interest in my hypotheses, I ran regressions to analyze the relation between FDI and population. This proved to be statistically significant, with P-values of 0.006 and 0.008. It had a robust R-squared value of 0.6065 when tested against the number of FDI projects and one of 0.6889 against the value of these projects. Thus, both the number and value of FDI projects have a high level of explanatory power in terms of predicting population. Of course, this relation is not really causal: high levels of FDI do not induce immediate and substantial jumps in population. Rather, one can surmise that FDI projects tend to flow to provinces with high levels of human capital, well developed infrastructure, and proximity to other business entities, all of which naturally occur in areas of greater population. Obviously, there was a need to control for population when testing for the relations between FDI and the other six variables, which could plausibly have causal relations.

Next, the relation between FDI and the provincial income and expense balances per capita, a common measure of economic robustness, was statistically insignificant. The P-value for the relation between this metric per capita and the number of projects was 0.6499 and 0.7600 with the value of FDI— obviously neither shows a significant link. The explanatory power in the relation was also quite limited, with an R-squared value of 0.0163 for the balance per capita and the number of FDI projects as well as an R-squared of 0.0098 for this metric and the value of FDI. Even without controlling for population, the link is rather limited: neither R-squared exceeded 0.07. When tested in the multivariate regression, this link was predictably even more statistically insignificant: the two P-values were 0.8483 and 0.8480. This can be attributed to the diminishment of this metric's unique contribution when analyzed in concert with five other variables, virtually all of which had more explanatory power.

With regards to the relation between FDI and average monthly salary, statistical significance was found. The relation between salary and the number of FDI projects had a P-value of 0.0420, while there is a P-value of 0.0902 for salary and the value of the projects. Thus, both of these relations were significant with a 90% confidence interval. The R-squared for both relations was also relevant: the number of FDI projects explained 28.11% of the variance in a province's average salary level and the value of these projects explained 26.01% of the metric. However, when analyzed in a multivariate analysis, the relations for both became statistically insignificant: the P-value rose to 0.2958 for the relation between the number of FDI projects and the average salary and to 0.8307 for the relation with the value of the FDI projects. This is also not unexpected given this metric's high degree of collinearity with two of the other variables as well at its moderate correlation with the other three.

The relation between total investment output and FDI was unambiguously statistically significant. The relation between the number of projects and investment output per capita had a P-value of 0.0004 and the P-value for the relation between the value of the projects and this metric was 0.0001. The R-squared values were also quite meaningful: the number of FDI projects explained 63.22% of the total investment output per capita and the value of the FDI projects explained 80.15% of the metric. Without controlling for population differences, the R-squared values were higher for both, coming in at 0.7934 and 0.9373, respectively. As is the case with the other dependent variables, the statistical significance of these relations fell in the multivariate regressions, though both remained significant. The P-values in this secondary regression were 0.0344 for the number of FDI projects and 0.0159 for the value of the FDI

projects. Thus, as predicted, this metric's unique contribution was somewhat less in the multivariate regression, though still clearly significant.

The final economic variable in the analysis, the number of business entities, demonstrated partial statistical significance for the 90% confidence interval. When controlled for population, the number of business entities had a P-value of 0.0866 when tested against the number of FDI projects, but one of 0.2628 against the value of the FDI projects. In terms of explanatory power, these two relations were somewhat telling. The R-squared of the relation between the number of business entities per capita and the number of FDI projects was 0.2090 and 0.1234 for the relation between this metric and the value of FDI projects. When analyzed in the multivariate analysis, both relations were statistically insignificant. The P-value for the relation between the number of FDI projects and the number of business entities per capita rose to 0.1878 and the P-value for the relation between the value of the FDI projects and this metric jumped up to 0.3461. The lack of statistical significance in these multivariate regressions is natural given the collinearity between the number of business entities and the other economic variables. Also, it is unsurprising that the link between the number of business entities and FDI becomes more robust when not controlling for population, as both variables are inherently linked to population. The relation between the number of FDI projects and the number of overall business entities had a P-value of 0.0032 and an R-squared of 0.4991. This strengthening is even more apparent in the relation between the value of the FDI projects and the number of business entities; the P-value fell to 0.0028 and the R-squared rose to 0.6074.

With regards to gender equality, at least as presented in the composition of federal representatives, the relation with FDI was statistically insignificant, though FDI did have a

limited ability to explain the percent of federal representatives that are female. This metric had a P-value of 0.1806 when tested against the number of projects and one of 0.8181 when analyzed against the value of the FDI projects. These values fell to 0.1217 and 0.4047, respectively, in the multivariate regression analysis. Although this was the only variable that had its P-values rise in the multivariate analysis, an unexpected change given the high degree of collinearity with average monthly salary, its relation with FDI remained clearly statistically insignificant. The R-squared for the relation between the number of FDI projects and the percentage of federal representatives that are female was 0.1334, implying some relevance to this relation. This explanatory power essentially vanished when this percentage was tested against the value of the FDI projects. The R-squared for that relation was 0.0055.

Finally, the relation between the number of political prisoners and FDI turned out to be statistically insignificant, when controlling for population. The P-values were 0.3343 for the relation between the number of FDI projects and the number of political prisoners and 0.4128 for the value of the FDI projects and this metric. In addition, the explanatory power was insubstantial, with the R-squares being 0.0718 and 0.0681, respectively. The slopes of both regression lines were essentially zero. In the multivariate regressions, the two P-values were 0.3528 and 0.9189, respectively, again insignificant. However, without controlling for population, the P-value for the relation between the number of FDI projects and number of political prisoners came to 0.0001, demonstrating a high degree of statistical significance. The relation between overall political prisoners and value of FDI projects was also statistically significant, with a P-value of 0.0000. The explanatory power of these two relations was also quite high. The relation between the number of FDI projects and political prisoners had an R-

squared of 0.8512, while the relation between the value of the FDI projects and this metric was 0.8683. Additionally, both bivariate regressions produced a positive slope, indicating the FDI is associated with higher levels of political prisoners.

Analysis

Overall, in the bivariate regressions, there were only three variables that demonstrated statistical significance at a 90% confidence interval when controlling for population: average monthly salary, total investment output, and number of overall business entities. This last dependent variable was only significant when tested against the number of FDI projects. Analyses on the other dependent variables— income and expense balance, percentage of federal representatives that are female, and political prisoners—yielded no statistical significance. In the multivariate regressions, only investment output per capita was statistically significant. This can primarily be attributed to the variables' unique contributions being diluted by the presence of others with which they have a degree of collinearity. Thus, due to the natural correlation among these variables, the bivariate regressions are most salient in analyzing the significance of the individual variables' relations with FDI.

The variables that were statistically significant in the bivariate regressions had robust R-squared values, though the number of FDI projects also had moderate explanatory power on the percentage of federal representatives that are female. This reinforces the idea that the bivariate regressions effectively measured the strength of the relations. Conversely, the R-squared values for the relations between FDI and political prisoners and provincial income and expense balances indicated a lack of explanatory power in both.

When all six dependent variables were analyzed in a multivariate regression that controlled for population, the aggregate explanatory power was substantial. The R-squared for the relation between the number of FDI projects and these six dependent variables was 0.8105 and the R-squared for the relation between the value of FDI projects and the six dependent variables was 0.8599. Both results imply that these two models are effective predictive tools, an unsurprising conclusion given the comprehensive nature of the six variables. Together, they represent the primary determinants and implications of FDI.

I also further investigated the role of population in explaining these six variables via a multivariate regression and several bivariate regressions. With regards to the former, the explanatory power of the overall model was very high: the R-squared was 0.9558. The individual bivariate regressions revealed statistically significant relations between population and the number of political prisoners, the total investment output, and number of business entities. In fact, all of these relations had P-values of under 0.0000. The explanatory power was also quite robust for these same three relations, with R-squared values of 0.8019 for the link between population and the number of political prisoners, 0.7922 for the relation between population and total investment output, and 0.9298 for the relation between population and total business entities. Also, the explanatory power for the relation between population and income and expense balance was modest, with an R-squared of 0.1363. Population had essentially zero explanatory power on the percentage of federal representatives that are female as well as on the average monthly salary. This is a logical conclusion as both of these variables are measured in terms that are unaffected by aggregation. The conclusions from these regressions reinforce my decision to control for population in my analysis, as it is highly related to three of the six

variables and somewhat linked to another. Inference leads me to conclude that population is having the impact on the other variables in this situation.

CHAPTER FOUR
CONCLUSION

A review of the literature on the determinants and implications of FDI helped develop several hypotheses regarding the predicted impact of FDI in Cuba. I then tested these in a cross-sectional analysis via bivariate and multivariate regressions. In terms of relating to the hypotheses, the results were mixed. It appears that these six dependent variables can be explained in varying degrees by FDI, population, both, or neither.

First, the income and expense balance falls into second category, but only marginally: population had very modest explanatory power in a statistically insignificant relation (P-value of 0.1757) with this metric. With no genuine link between FDI and income and expense balance per capita, my hypothesis that there would be a strong, positive relation turned out to be inaccurate. Perhaps this can be attributed to a lack of linkages in Cuba's economy, highlighted by no financial markets.

Second, a province's average monthly salary can be modestly explained by the number and value of FDI projects in their territory, but not by their population. This confirms my initial hypothesis that predicted FDI would catalyze higher average salaries in Cuba, a country that had very little competition in its economy prior to these recent and initial inflows of FDI. Because FDI projects still only account for a minority of all business ventures in Cuba, it can also be concluded that these investments have at least partially raised average salaries in enterprises that are entirely domestically owned.

Third, both FDI and population have a remarkable ability to explain total investment output, with R-squared values all exceeding 0.60. This also confirms my initial hypothesis. The literature shows economic growth often manifested as increased investment output per capita and this relation held in my analyses for both the number and value of FDI projects.

Next, the relation between the number of business entities and population is naturally quite strong, but this dependent variable can also be somewhat explained by the number of FDI projects. That this relation with FDI is not stronger is somewhat surprising, as my hypothesis predicted a robust, positive relation between the two. The number of business entities per capita has been shown to be a representative metric of economic growth, but perhaps it is less applicable in Cuba where there are many restrictions on entrepreneurship and opening new businesses. Additionally, it is possible that the hypothesis itself is flawed, though that would be highly surprising given the existing literature's conclusions.

The percentage of a province's federal representatives that are female, a measure of gender equality, can be slightly explained by FDI, but not at all by population. This is not entirely consistent with my hypothesis, which predicted a strong positive relation between this percentage and FDI. However, this is not very surprising as enhanced gender equality is really a secondary implication of FDI inflows, being associated primarily with economic growth. Thus, the weak explanatory power is actually somewhat intuitive for now and perhaps over the long-term, this relationship will become stronger.

Finally, population has a very robust ability to explain the number of political prisoners, while FDI has absolutely no such ability. This is completely contradictory to my hypothesis' expectations, which expected a strong, negative relation between FDI and the number of political

prisoners per capita. The lack of any real link between the two shows that economic liberalization has not yet been associated with enhanced political and civil rights. However, as may be the case with gender equity, the relation between FDI and political prisoners could evolve, ultimately turning into a significant and highly negative one over the long-term.

Although my analysis has produced noteworthy findings, it nonetheless is unable to clearly establish the direction of the causal arrows in these six relations. For example, I am unable to definitely establish that FDI is attracted to areas of already high investment or if it leads to higher levels of aggregate investment on its own. To establish definitive causal implications either way in these relations, one would need access to more transparent and chronologically diverse data as well as advanced statistical methods to control for exogenous variables in a time-series analysis. With these, future analyses could reveal whether the opening of the country to FDI during the "Special Period" actually catalyzed rising salaries, economic growth, gender equality, and civil liberties by providing a shock to the economy. The conclusions from such a study could also provide valuable feedback to the country's policymakers who have a considerable role in controlling the inflows of FDI.

The generalizability of these findings is also rather limited due to Cuba's government having a uniquely high level of restrictions on FDI, business development, and the economy as a whole. Cuba has liberalized far less than the "Communist" countries of China, Vietnam, and Laos, which have all very much embraced FDI (Freeman 2002). The most salient comparison is the Democratic People's Republic of Korea, which, like Cuba, has recently accepted FDI, but has done so in a highly regulated manner (Lee 2001). Of course, transparent and comprehensive data is also very scarce in that country as are studies on the determinants and implications of FDI

there. However, despite these unique circumstances, my analysis supported the literature's conclusions that FDI is associated with higher average salaries and metrics indicative of general economic strength, such as total investment output.

In terms of the next steps with this cross-sectional analysis, it would be helpful to have more complete and transparent data on the FDI projects currently on the island. The figures I used were useful but obviously, only estimations and, hence not perfect. Additionally, delineating the data to focus on the impact industry-specific FDI projects could prove telling. Finally, with regards to my metric of political freedoms and civil liberties, the number of political freedoms, distinguishing their offenses could be useful.

APPENDIX

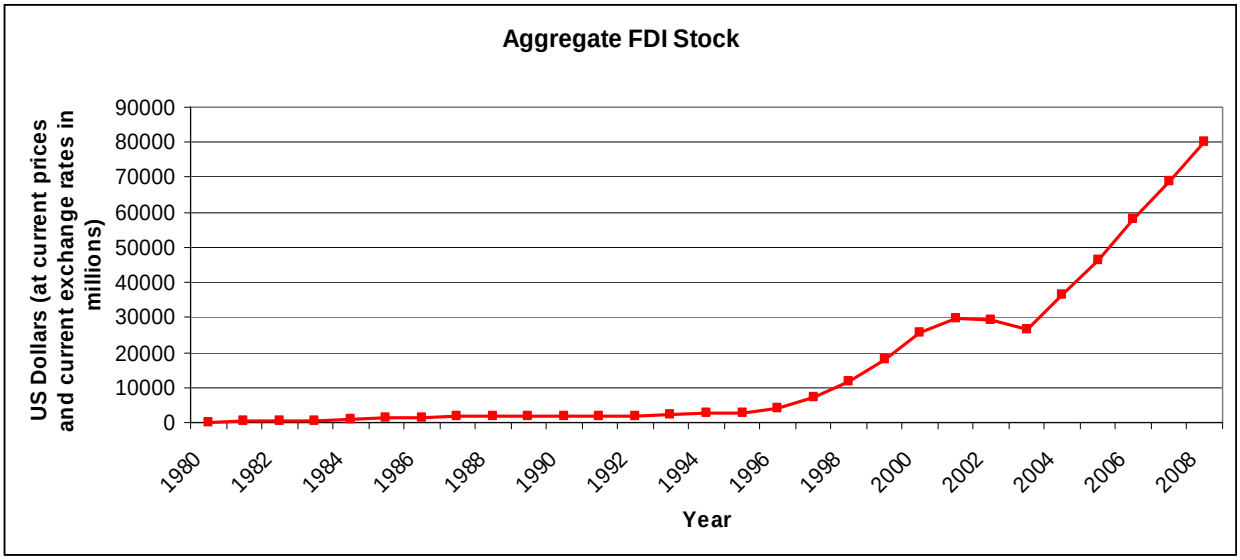

Figure 1
Source: UNCTAD Data

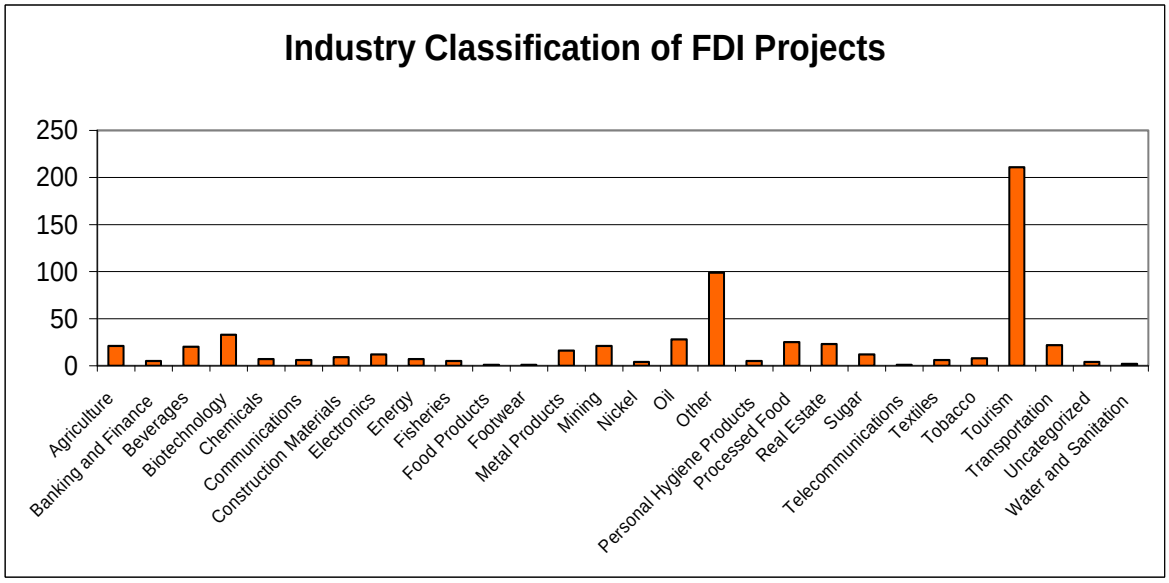

Figure 2
Source: Cuba Transition Project, University of Miami

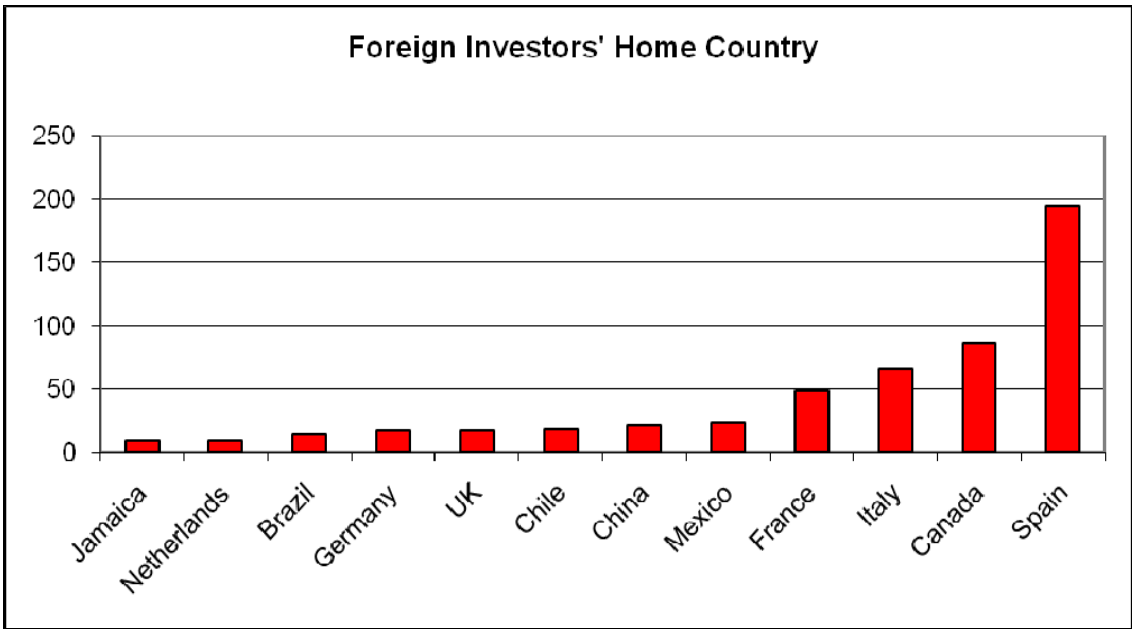

Figure 3
Source: Cuba Transition Project, University of Miami

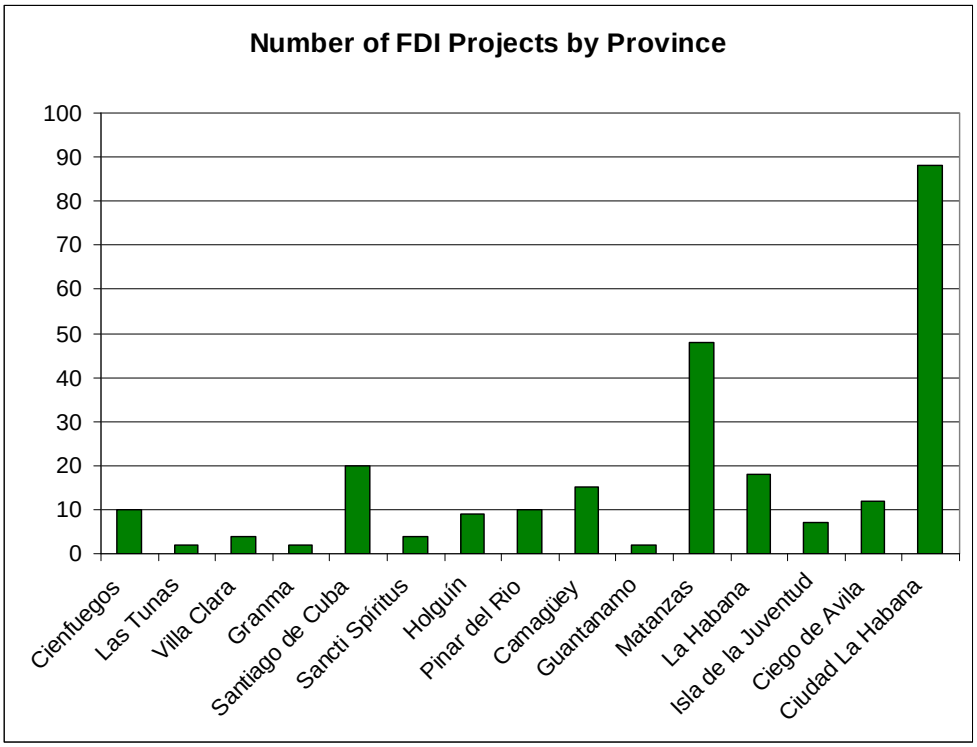

Figure 4
Source: Cuba Transition Project, University of Miami

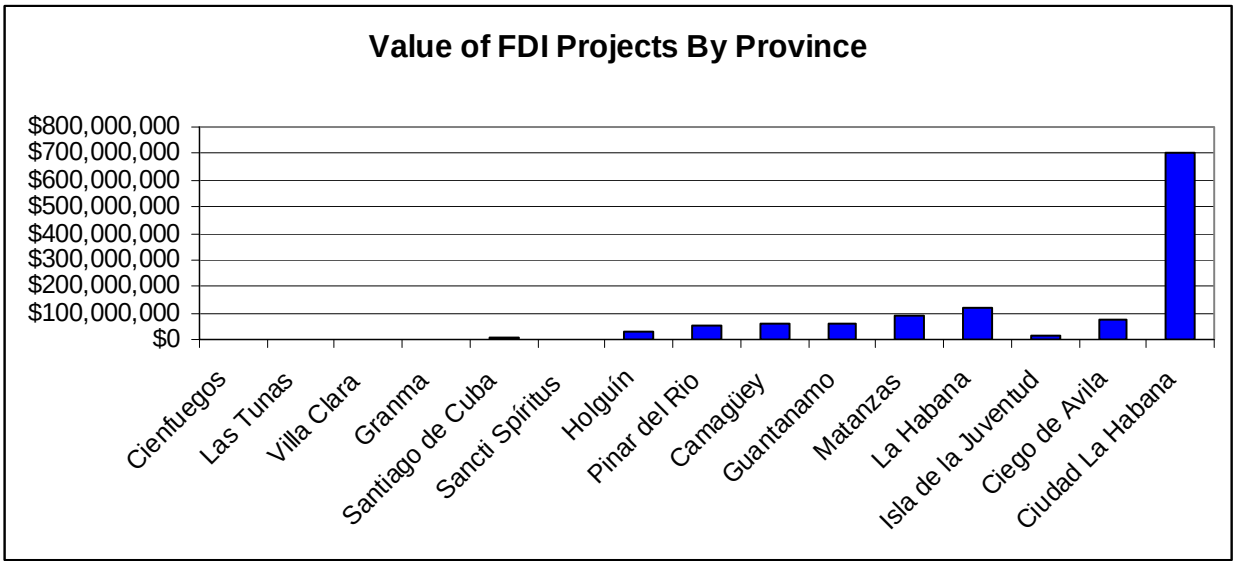

Figure 5
Source: Cuba Transition Project, University of Miami

Table 1

Summary of Regressions with Number of FDI Projects

	Bivariate			Multivariate	
Variable	Coefficient	P-Value	R-squared	Coefficient	P-Value
Political Prisoners per Capita	1.4078E-07	0.3343	0.0718	298,093.0009	0.3528
Percent of diputados that are female	0.1246	0.1806	0.1334	1.1481	0.1217
Balance per Capita	5.6787	0.6499	0.0163	-0.0008	0.8483
Average monthly salary in state-owned and mixed entities	0.3442	0.0420	0.2812	-0.5364	0.2958
Investment Output per Capita	7.5944	0.0004	0.6322	0.0931	0.0064
Total Number of Business Entities per Capita	-4.2276E-06	0.0866	0.2090	-25,397.4463	0.1878
				R-Squared	0.810536

Table 2

Summary of Regressions with Value of FDI Projects

	Bivariate			Multivariate	
Metric	Coefficient	P-Value	R-squared	Coefficient	P-Value
Political Prisoners per Capita	1.6489E-14	0.4128	0.0681	3.01422E+11	0.9189
Percent of diputados that are female	2.9111E-09	0.8182	0.0055	-5644965.93	0.4047
Balance per capita	5.7886E-07	0.7600	0.0098	6682.334076	0.8480
Average monthly salary in state-owned and mixed entities	4.1667E-08	0.0902	0.2601	909199.0773	0.8307
Investment Output per Capita	1.0202E-06	0.0001	0.8015	888323.4548	0.0159
Total Number of Business Entities per Capita	-3.8807E-13	0.2628	0.1234	1.97492E+11	0.3461
				R-Squared	0.859931

Table 3

Correlation Analysis

	Column 1	*Column 2*	*Column 3*	*Column 4*	*Column 5*	*Column 6*	
Column 1	1.0000						Political Prisoners per Capita
Column 2	0.1828	1.0000					Percent of diputados that are female
Column 3	-0.1069	-0.1266	1.0000				Balance per Capita
Column 4	0.1200	0.6330	-0.2429	1.0000			Average monthly salary in state-owned and mixed entities
Column 5	0.0555	0.1581	0.1144	0.6369	1.0000		Investment Output per Capita
Column 6	-0.1209	-0.0860	-0.1829	-0.1557	-0.2590	1.0000	Total Number of Business Entities per Capita

Table 4

Summary of All Variables

Province	Number of FDI Projects	Total Value of Projects (Dollars)	Total Population	Political Prisoners	Percent of diputados that are female	Income and Expense Balance (Pesos)	Average monthly salary in state-owned and mixed entities (Pesos)	Investments output (Pesos)	Total Number of Business Entities
Cienfuegos	10	N/A	402,061	2	34.78	-11,454,800	407	259,300,000	593
Las Tunas	2	N/A	533,127	9	39.29	-132,657,200	390	102,300,000	615
Villa Clara	4	N/A	809,231	21	34.09	-49,245,200	393	174,500,000	823
Granma	2	3,000,000	833,600	4	38.64	-208,461,100	395	154,100,000	890
Santiago de Cuba	20	4,500,000	1,044,698	20	39.62	-282,491,500	390	199,100,000	1,068
Sancti Spíritus	4	2,600,000	464,221	1	52.00	134,300,000	415	109,600,000	631
Holguín	9	30,000,000	1,035,744	15	41.07	286,900,000	401	482,300,000	971
Pinar del Rio	10	55,000,000	731,232	19	50.00	-81,689,100	392	147,600,000	984
Camagüey	15	61,800,000	783,372	24	48.89	-80,900,000	412	167,400,000	980
Guantánamo	2	59,000,000	511,063	17	31.25	-176,046,500	376	89,800,000	799
Matanzas	48	87,151,000	684,319	18	57.50	28,720,100	406	319,900,000	676
La Habana	18	116,000,000	739,967	20	37.21	-386,500,000	397	234,400,000	653
Isla de la Juventud	7	15,000,000	86,509	4	50.00	-17,931,000	419	30,100,000	100
Ciego de Ávila	12	77,000,000	420,996	10	50.00	-1,655,000,000	423	142,500,000	547
Ciudad La Habana	88	706,100,000	2,156,650	67	46.85	382,800,000	431	2,071,900,000	1,984
Average	16.733333	101,429,250	749,119.33	16.73	43.41	-149,977,087	403.13	312,320,000.00	820.93
Minimum	2	2,600,000	86,509	1	31.25	-1,655,000,000	376	30,100,000	100
Maximum	88	706,100,000	2,156,650	67	57.50	382,800,000	431	2,071,900,000	1,984
Standard Deviation	22.858155	193,904,626	464,361.84	15.86	7.80	461,879,905.46	14.84	498,722,809.07	402.48

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