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Lost Opportunities for International Financial Institutions: Foreign Direct Investment in Cuba, Amid U.S. Economic Sanctions

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Abstract

Government officials and academics alike have suggested easing the U.S. sanctions against Cuba to offer ailing U.S. exporters a hungry market for trade in goods. Less obvious, however, is the potential benefit to the many struggling international financial institutions (“IFIs”) that must also comply with the sanctions. The U.S. sanctions regime against Cuba is characterized by wasted resources and lost opportunities for IFIs. IFIs are forced to expend vast amounts of resources crafting compliance programs to avoid crushing fines for even inadvertent violations. Those same IFIs must also forego lucrative investment opportunities on an island known for its scenic beaches and vast natural resources.^{6a} All told, the opportunity cost of IFI compliance goes far beyond the dollar amount of fines paid in settlement of violations. Relaxing the economic sanctions of Cuba would thus be a viable way to ease the burden on struggling IFIs and, ultimately, stimulate the U.S. economy. An IFI’s potential inroads to any country’s financial system include the following: (1) Foreign Direct Investment (FDI); (2) cross border securities purchases and listings; (3) financial services of various kinds; (4) cross border finance meant to facilitate trade in goods; and (5) cross border monetary arrangements. The scope of this paper encompasses primarily the first - it examines the recent history and future potential for FDI in Cuba and joint ventures with the Government of Cuba (‘GOC’). Also, since U.S. economic sanctions restrain such activity, this paper also examines the myriad regulations issued by the U.S. Treasury Department’s Office of Foreign Assets Control (‘OFAC’), the office charged with overseeing U.S. sanctions programs. Part II touches upon the Cuban economy itself and the role that U.S. dollars have played in Cuba’s survival, despite U.S. policy goals. Part III examines opportunities for FDI and joint ventures in Cuba. Part IV looks at the legal framework of the U.S. economic sanctions against Cuba. Part V examines just how OFAC carries out those economic sanctions with regard to IFIs, offers suggestions that would ease the IFIs’ burden of OFAC compliance, and examines steps that the IFIs, OFAC, the U.S. Government, and the GOC might take to achieve their economic objectives. Part VI is a brief conclusion.

Keywords: Cuba, International Financial Institution, IFI, Foreign Direct Investment, FDI, Office of Foreign Assets Control, OFAC, economy[Suggested Citation](#) >[Show Contact Information](#) >[Download This Paper \(Delivery.cfm/SSRN_ID1458436_code254274.pdf?abstractid=1457014&mirid=1\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID1458436_code254274.pdf?abstractid=1457014&mirid=1)[Open PDF in Browser \(Delivery.cfm/SSRN_ID1458436_code254274.pdf?abstractid=1457014&mirid=1&type=2\)](https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID1458436_code254274.pdf?abstractid=1457014&mirid=1&type=2)

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