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# BEFORE DRONES: US COVERT ACTION IN AFRICA DURING THE CONGO CRISIS

DREW ALEXANDER CALCAGNO<sup>1</sup>

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## INTRODUCTION

As with much of the African continent, the Congo endured a harsh colonial past. What trailed, after its 1960 independence from Belgium, also followed a similar trend of its continental neighbors – continued foreign meddling. At the outset, reasons for such continuation of influence tended to surround economic ventures. Belgium and the West – the United States included – benefitted from prolific mining operations in the Congo. Additionally, foreign influence grew through the Congo’s central location as a barometer for social movements across the African continent.<sup>2</sup>

A man named Patrice Lumumba led the nation’s independence struggle, starting as the head of a local anti-colonial movement and eventually growing to be the first democratically-elected prime minister. Lumumba was under no delusion that Belgium and the greater West would continue to exploit the Congo if given the chance. Due to this philosophy, he expressed in famously charismatic terms that the Congo would progress only if it fully divorced itself

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<sup>2</sup> William Mountz, ‘The Congo Crisis: A Reexamination (1960–1965)’, *The Journal of the Middle East and Africa* 5, no. 2 (2014): 152.

from the colonial yoke. Through his magnetism, Lumumba found great allies as well as great enemies. His approach was rich with revolutionary diction, and eventually, the United States began to view the prime minister as someone who the Soviet Union could entice. In the early 1960s, much of United States foreign policy could be viewed through a Cold War lens of the US versus the USSR with battleground states in between. The Congo's independence proved to be a prototype of that line of diplomatic thinking, and Lumumba was the pawn. That pawn, the United States eventually decided, had to be removed from the chess board by any means necessary – even assassination. As post-independence crises began, the United States inserted itself as a vigorous actor in a way yet to be seen on the continent, and this paper considers the ramifications of a powerful external state relying on covert intelligence operations to shape global events. One of those major events was the killing of Lumumba by Katangan forces in the dark of night in 1961.

The United States' misunderstandings of the so-called "Congo Crisis" enabled a worldview, policy narrative, and operational reality that mistook the death of one Congolese political leader as the most important domino for American control – or at least a lack of Soviet control – in the Congo. On a broader plane, the Congo Crisis was characterized by resource conflict and formation of political identity for the new Congolese ruling class. While resource-motivated secessionist movements in the provinces of Katanga and South Kasai escalated political division, foreign influence from Belgium, the UN, the US, and then, the USSR, proved to be the preventative factors from full political emancipation in the post-colonial climate. While the US-plotted and Katangan-operated assassination of Lumumba removed one nationalist leader with Soviet ties from the Congolese political space, such a maneuver did not solve the Congo's festering problems of overlapping actors and secessionist dissolution. Using recently declassified materials from this plot, this paper investigates the efficacy of lethal covert action and finds that the efforts to replace Lumumba contributed to the long term instability of the Congolese state.

In order to delve into the debate of the United States' position on the Congo Crisis, this piece begins with an understanding of the framework for covert action as a political tool in the United States' foreign policy arsenal. I analyze CIA communications from the period, declassified only in 2013, adding insight into the intentions of US leadership and their regard to the good governance of the Congo as merely a peripheral concern. Then, I apply such a policy framework to the crisis

itself, manifesting a short-sighted application to remove Lumumba in order to block Soviet influence. The paper concludes with a discussion of the intra-state political struggle that remained, and how the US enabled its bloodiness for years to come after quick-fix assassination plans did not yield hopeful results.

### *Background of the Congo Crisis*

The United States' focus in the Congo arrived at the heels of one of the first examples of collaboration with other newly independent African states, such as with the first Ghanaian prime minister, Kwame Nkrumah, who grew eager to recruit engineering and consulting assistance from the US. However, in the Congo, the potential for a new leader to be leaning more towards Communism than Capitalism snowballed with the election of Patrice Lumumba in 1960. His no-holds-barred approach to radical self-determination led to intense US distrust, and immediate association with the Soviet Union. When he was killed by a secessionist group that enjoyed US tacit approval, rumors swelled regarding the level of activity by the West, particularly the Central Intelligence Agency – the most prolific US institution in the country.

The Congo Crisis was many things – a secessionist movement, a nationalist political battle, and a competition on multiple levels with plenty of dollars and death in between, which eventually resulted in a dictatorship. So what exactly did the US aim to 'solve' and how would a Lumumba assassination accomplish that goal? While the Cold War was just beginning, fervor to fight off Communism in the Congo was growing equivalently. The Eisenhower administration's highest echelons of intelligence and diplomatic policy making, operationally led by the on-the-ground Chief of Station Larry Devlin, established opinions, policies, and actions based on carefully manipulated descriptions of Lumumba and Congolese affairs in 1960. Due to Lumumba's pertinence at the beginning of the crisis, the Eisenhower administration strongly believed in the power of leadership in the global South through specific people rather than through social movements. The CIA's Chief on the ground saw Lumumba as the linchpin that, if removed, could disable Soviet entry into the Congo. However, at what cost?<sup>3</sup> Based on a declassified cable from the Station Chief to the CIA Director during the month of August in 1960, perhaps the US was not so sure itself at the time:

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<sup>3</sup> CIA, "CIA Cable from Leopoldville to the Director," Washington, D.C. (1960).

“Many forces [are] at work here: Soviets \* \* \* Communist party, etc. Although [it is] difficult [to] determine [the] major influencing factors to predict [the] outcome [of the] struggle for power, [the] decisive period [is] not far off. Whether or not Lumumba [is] actually [a] Commie or just playing [a] Commie game to assist his solidifying [of] power, anti-West forces [are] rapidly increasing [in] power [in] Congo and there may be little time left in which take action to avoid another Cuba.”<sup>4</sup>

Lumumba’s eventual alliance with the USSR did create a dynamic where he represented such a linchpin, particularly in relation to other Cold War tensions with Fidel Castro gaining power in Cuba. Yet, the US underestimated the prevalence of his followers, the Lumumbists, in the Congo after his death and the complicated framework of actors in the country regardless of the prime minister’s removal.<sup>5</sup>

In order to understand the Congo Crisis and how Lumumba came to be killed by Katangan authorities, one must explore the politics of the country’s secessionist movements. The Katangan secession was motivated by the hoarding of mineral wealth in the province. The movement’s inherent principle, one scholar suggests, was to consolidate Katanga’s resource capital in order to maximize its own political capital.<sup>6</sup> Belgium endorsed the secession, for independence would reduce barriers to mining along the colonial lines it enjoyed in prior decades. However, as a result of international alarm over Belgian military protection of mining in the province, the UN embarked peacekeepers to remove all Belgian forces from the Congo – especially in Katanga.

While the extensive drama of the UN invasion is not the focus of this paper, it is of note that the nuances of the UN charter to remove Belgian forces, rather than stop the secessionist movement itself, created a problem for Lumumba – the new leader who sought unity in the Congo. Thus, he turned to the US in July of 1960, and was rebuffed. Soon thereafter, he turned to the USSR, and thus

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<sup>4</sup> US Senate, “Alleged Assassination Plots Involving Foreign Leaders,” in *Declassified Interim Report with respect to Intelligence Activities ed. Select Committee to Study Governmental Operations*, Washington, D.C.: US Government (1975); CIA, “Cable from Leopoldville,” (1960).

<sup>5</sup> Paul Nugent, *Africa since Independence: A Comparative History* (New York: Palgrave-MacMillan, 2004).

<sup>6</sup> *Ibid.*

set in motion a wild series of events which led to plotting by the US to remove him from power. His eventual assassination, and a slew of disastrous mistakes brought on by CIA meddling would plague the Congo for decades.

Subsequent to Lumumba's death, and after the UN ultimately ended the Katangans' hopes for full political and economic emancipation, Congolese figurehead President Joseph Kasa-Vubu and chief-of-staff Joseph Mobutu stuck around to be perennial political players. Additionally, the US foreign policy apparatus, dominated by the CIA, dug in. A scholar writing about the leader of the Katangan secessionist movement, Moïse Tshombe, in the midst of the crisis made note of the businessman-politician's flexibility and persistence. "Tshombe's main value to the United States and its allies, and his greatest personal asset, is his remarkable political resiliency...He is not a colonialist tool; He is just an opportunist who once thought the grass would be greener on the colonialist side of the fence."<sup>7</sup> Accordingly, the US proffered weapons, dollars, and political polish for Tshombe's regime after Lumumba was out of the picture.

Nevertheless, Lumumba's ideals of self-determination lived on. The US and the UN surged their influence in the Congo once Lumumbist rebels took over swaths of the country, including Stanleyville, in the Simba Rebellion of 1964. The rebellion was focused on displaying discontent with the Congolese central government's squandering of opportunity to reform governance structures after gaining independence. Yet, without Lumumba, much of the strategic vision was lost. Thus, rebellions like the one in Stanleyville became more prevalent and more violent. Lumumba-minded rebels projected the government's incompetence onto foreign meddlers, notably any American or Belgian they could find. They took hostages to display their power and focused on a Communist-leaning and populist message of a second revolution to fully rid the country of kleptocracy.<sup>8</sup>

As a consequence of Western efforts to rescue hostages, the Soviet Union labeled the intervention as a covert attempt to "save the Tshombe regime and suppress the national liberation struggle,"<sup>9</sup> citing the next example of "armed

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<sup>7</sup> Daniel Chasan, "Moïse Tshombe's Curious Position in the Line-Up of African Leaders," *The Harvard Crimson*, 1964.

<sup>8</sup> Bill Freud, *The Making of Contemporary Africa: The Development of African Society since 1800*, (Boulder, CO: Lynne Rienner Publishers, 1998).

<sup>9</sup> CIA, "Foreign Media Reaction to the Congo Rescue Mission [Report]," Langley, Virginia, (1964).



intervention in the domestic affairs of the Congo on the part of Belgium, the U.S.A., and Britain.”<sup>10,11</sup> As a result, suppression of the liberation struggle led to increased association between Lumumba’s ideology and that of the Soviet Union. This US-led suppression also indeed provided leverage for Tshombe, but even more so for his chief-of-staff, also lead army general, Joseph Mobutu, to rise to power. Once the latter solidified his anti-Communist brand of politics, the Soviet Union’s influence dwindled in comparison to the United States’ strategic gains vis-à-vis an alliance with Mobutu. A Russian scholar of late, Sergey Mazov, decided that the USSR’s leverage was therefore “rather limited, and was inferior in comparison with that of the United States,” making its mark instead in its ability to retreat from escalation.<sup>12</sup>

In the midst of this mercurial crisis, Tshombe was not the only adroit negotiator. Mobutu understood quite well how careful choices of anti-Communist diction could engender a close relationship with the US and its purse. Buying time during the Congo Crisis, he massaged his way to perpetual relevance each year. After his second coup in 1965, he consolidated power by “taking pages right from Machiavelli,”<sup>13</sup> silencing critics and limiting the scope of provincial government outposts over which he had less control. Previously when he was solely the military head, it was in his best interest to mediate civilian-military relations. Later as the Congo’s leader, “he found [fellow] civil leaders superfluous”<sup>14</sup> and ensured a dictatorship.

Before exploring the analysis of how the CIA went about affecting Lumumba’s fate in the midst of the Cold War, one ought to consider how the US foreign policy apparatus was constructed at the time. Particularly, why the CIA’s covert action program earned the reputation of the United States’ most potent instrument of foreign policy during the Eisenhower administration, and why it continued into Kennedy’s arsenal, and even Johnson’s.

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<sup>10</sup> Pravda, ‘Radio Moscow Report on Operation Dragon Rouge’, 1964.

<sup>11</sup> Lise Namikas, *Battleground Africa: Cold War in the Congo, 1960-1965*, (Washington, D.C.: Woodrow Wilson Center Press, 2013), 210.

<sup>12</sup> Sergey Mazov, *A Distant Front in the Cold War: the USSR in West Africa and the Congo, 1956-1964*, (Washington, D.C.: Woodrow Wilson Center Press, 2010), 254.

<sup>13</sup> Namikas, *Battleground Africa*, 220.

<sup>14</sup> *Ibid.*, 220.

*Background of the U.S. Foreign Policy Apparatus*

While the US government in the early 1960s strongly resembles its construction today, the powers in foreign policy making strongly favored the CIA at the time, and that paradigm was prevalent in the Congo Crisis in particular. For context, the National Security Act of 1947 created the CIA as well as the National Security Council to direct it. The CIA's purview of activity was broad, with a mandate to "perform such other functions and duties related to intelligence affecting the national security as the National Security Council may from time to time direct," including political-economic and informational warfare in covert settings such that origins and foreknowledge of operations could be denied.<sup>15</sup> Covert activity was governed by the council's directive NSC 5412/2, which did not specifically disbar assassination, yet evolved more commonly into discrediting and diminishing the success of Communism around the global South through propaganda.<sup>16</sup>

The lack of mention of assassination in NSC 5412/2 did not necessarily give the CIA carte blanche to kill in the name of fighting Communism, or any other national security concern – or perhaps it did. It was incumbent on the CIA to get policy permission, yet the de facto and de jure chains of command were divergent. In practice, the CIA only reported to itself, the "Special Group" of select members of the National Security Council, and a handful of only the highest officials in the State Department and Executive branch.<sup>17</sup> Meanwhile, the additional step of informing Congress was merely implied in the loosely written directive.<sup>18</sup>

Thus, the Special Group is central to this discussion of the Congo Crisis because it limits the sources and viewpoints through which one is able

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<sup>15</sup> US Senate, "Alleged Assassination Plots Involving Foreign Leaders," in *Declassified Interim Report with respect to Intelligence Activities* ed. Select Committee to Study Governmental Operations (Washington, D.C.: US Government, 1975), 9.

<sup>16</sup> Ibid.

<sup>17</sup> The NSC 5412/2 "Special Group" was a classified subcommittee in charge of planning and coordinating covert action on behalf of the United States. Members included the CIA Director, Secretary of Defense, National Security Advisor, and Undersecretary of State for Political Affairs. This small group headed the Bay of Pigs invasion as well as the topic of this paper: the assassination of Patrice Lumumba.

<sup>18</sup> "Bay of Pigs: 40 Years After," George Washington University National Security Archive, accessed November 2017.

to view the events. Despite large-scale declassification, the State Department-run archive of documents and cables almost entirely revolves around CIA personnel and communication, only occasionally including State Department diplomats or members of other agencies and departments. When those documents do allude to such government diversity, the nature of the Special Group and its tight grip on the United States' actions surrounding the Congo Crisis dictated that only top level non-CIA officials, such as the Assistant Secretary of State for African Affairs, would be part of the conversation. Even the small number of differing opinions tended to be silenced in history, as the bulk to declassified material involved CIA memoranda emanating from the Congo, a singular viewpoint through which even the Special Group, let alone other foreign policymakers, had to view the Congolese.

Years later in 1975, leading US Democratic senator Frank Church led a Senate Select Committee to investigate intelligence abuses. Nicknamed the Church Committee, it was "faced with determining whether CIA officials thought it was 'necessary' to obtain express approval for assassination plans and, if so, whether such approval was in fact either sought or granted."<sup>19</sup> In fact, there were times where members of the CIA did not even report to the agency itself, not to mention the Special Group. "One CIA operation, an aspect of which was to develop an assassination capability, was assigned to a senior case officer as a special task," the Church Committee mysteriously mentions in its introduction.<sup>20</sup> The conduct of that operation is what I aim to unpack: the planned assassination of Patrice Lumumba by the lead CIA officer in the Congo, Larry Devlin, as a solution to the Congo Crisis.

The US, largely led by the CIA during this time, viewed not only the Congo but the greater African continent as a monolithic and chaotic space, whose primary function was a litmus test of whether Soviet ideology was gaining ground in the world. Thus, the United States' efforts to rid the Congo of Lumumba were haphazard and reactive to eliminate a perceived threat, as opposed to a long-term strategic plan.

## LITERATURE ON THE CONGO CRISIS

The key feature of this paper is its consideration of perspectives from after the 2013 declassification of the Church Committee proceedings. While a

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<sup>19</sup> US Senate, "Alleged Assassination Plots," 9-10.

<sup>20</sup> *Ibid.*, 10.

majority of the literature on the Congo Crisis indulges in critique of the CIA's worldview during this period in the early 1960s, literature that has come after the declassification provides more exacted analysis that benefits from specific examples of US meddling from the words of its own intelligence officials. Stephen Weissman, perhaps the most prolific critic of the post declassification era, investigated the findings of the US Senate investigation committee, particularly with regard to the assassination of Lumumba. He found the top US spy in the Congo to be much more culpable than the Church Committee determined, let alone the tenor of non-culpability in that CIA Chief's memoir, *Fighting the Cold War in a Hot Zone* (2007). Based on recent declassification of government documents, Weissman conveys the CIA's interference in the 1960s in both political and paramilitary activities, which he suggests were enacted to encourage the continuation of pro-Western politics.<sup>21</sup> While that committee saw Lumumba's assassination as an event that occurred outside of the United States' hands,<sup>22</sup> Weissman suggests that Devlin, "had direct influence over the events that led to Lumumba's death,"<sup>23</sup> and strategically turned a blind eye at an advantageous time. I explore his reasoning further in the subsequent analysis section.

The recent nature of the 2013 declassification trove has provided little time for scholars to react fully to the Church Committee's findings. Thus, this piece serves to be one of the first analyses of the declassified materials, and of the resultant viewpoints of both the CIA in the early 1960s and the Senate Select Committee which investigated that agency in the mid 1970s. Nevertheless, a few others have responded to these documents after their release, namely Lise Namikas and William Mountz.

Namikas' *Battleground Africa: Cold War in the Congo* (2013) and Mountz' *The Congo Crisis: A Reexamination* (2014) both, at least in part, view the Congo Crisis through the lens of US administrations and their relationship with the CIA. Namikas' analysis surrounds the United States' reactive policies through the Eisenhower and Kennedy administrations. Of particular interest to this paper, and a mark of post-classification literature, her book's fifth chapter explores intelligence cables – again, mostly drawing from the dominating

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<sup>21</sup> Stephen Weissman, "What Really Happened in Congo," *Foreign Affairs*, 2014, 4.

<sup>22</sup> US Senate, "Alleged Assassination Plots," 9.

<sup>23</sup> Weissman, "What Really Happened in Congo," 4.

presence of CIA documents in the Church Committee's trove. She establishes the fear of Communist takeover as the United States' driving motive for involvement in the Congo Crisis. Even when the Kennedy administration could have broken away from Eisenhower's focus on removing Lumumba, Namikas identifies that he fell short. Kennedy's "insight and analysis could be crisp and new, [but] his approach was muddled by reliance on the old tactic of covert operations,"<sup>24</sup> she submitted.

Mountz views Congo's history from a similar vantage point. His take on Kennedy's reliance on CIA activity in the Congo was indeed steeped in US versus USSR rhetoric, but more accurately surrounded a liberal ideology. Kennedy's liberal ideology "ultimately undermined the genuine independence desired by Congolese nationalists by confining the meanings of liberty, equality, and development to an American framework."<sup>25</sup> This continuation of covert assistance to any political actor that may fit such a framework had disastrous effects. As the years wore on, and the US proceeded to its next president, "the Johnson administration [was left] with little choice but to attempt to create a semblance of stability and extricate the United States from the Congo and provided the opportunity for Moise Tshombe, leader of the Katanga secession, to become prime minister in June 1964 and Joseph Mobutu to become dictator in November 1965."<sup>26</sup> Throughout these power exchanges and coups, Mountz's addition to the literature suggests that the United States' actions directly correlated with the creation of a dictatorship – the hallmark of failure for a pro-democracy foreign power.

These scholars tend to agree: the US made mistakes in the Congo. But what the literature has yet to fully explore is why the US continued to pour fuel on the fire. As I take a first-hand look into the declassified archives, I find that no matter how many times the US saw an imperfect leader in the Congo, a permanent advisor remained in the information loop: CIA Station Chief Larry Devlin. Even when he finished his tenure as the top US intelligence officer in country, he became Congolese dictator Joseph Mobutu's personal advisor. Thus, this piece seeks to illustrate how such small number of people – potentially as few as a single Station Chief and political advisor – could wield lasting authority over US foreign policy

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<sup>24</sup> Namikas, *Battleground Africa*, 142.

<sup>25</sup> Mountz, "The Congo Crisis," 151.

<sup>26</sup> *Ibid.*, 151.

**METHODS**

This analysis makes use of primary source communications from declassified US intelligence message traffic, raising the profile of the Congo Crisis over 50 years since its occurrence. These documents fill in existing publicly available information, including the US Senate-led Select Committee to Study Governmental Operations with respect to Intelligence Activities, also known as the Church Committee, which was declassified in 1992. Furthermore, the US State Department's records of foreign policy decision-making along with hundreds of documents, predominantly penned by members of the most active government agency during the Congo Crisis, the CIA, were declassified and made available for public consumption online in 2013. With these recently released primary sources, secondary analyses of them, and memoirs of the tumultuous times, there is now an unprecedented amount of public information. These myriad sources aid in the discernment of the level to which the US sought to solve the Congo Crisis through Lumumba's assassination.

To narrow the scope of this paper to the discourse surrounding the decision to assassinate Lumumba rather than the Congo Crisis in general, I selected documents relayed by the instigators of the Katangan-operated assassination, the CIA. The selection of these documents limits the scope under consideration for this short piece, and is inherently biased toward a viewpoint of both the CIA as an institution, and also the CIA's leader in the Congo, Larry Devlin. In addition, I included discussion and evidence from the Church Committee, which reaffirmed the dominance of the CIA, and Devlin, in nearly all US actions and communications relating to the Congo Crisis. To that end, I added documentation from the White House, arguably the only other witting actor in the US foreign policy apparatus during the period. As a method of corroborating the events and discourse that transpired around the assassination plot, I referenced Devlin's memoir, one of the only available firsthand accounts of the operation. With these sources, I sought to identify the intention and expected outcome of Lumumba's assassination to find evidence of the United States' view of the Congo as a political battleground rather than a sovereign entity. Evidence of this view would indicate that the future of the Congo's good governance was peripheral to the main intention of removing Soviet influence.

## ANALYSIS

An inherent distaste for the Congolese political environment is evident in many of the recently declassified US government foreign policy documents. This notion, whether it be racist, ill-informed, or a combination of both, is particularly prominent in a 1961 CIA reflection on the Congo Crisis for high levels of government leadership including the President and the National Security Council. It states, “the country was grossly unprepared for independence. The Congolese people, largely illiterate and primitive, had no concept of national unity,” suggesting a need for struggle to successfully decolonize.<sup>27</sup> What level of struggle? How much struggle is enough? Who decides? These questions went unanswered, but one is left wondering if there was deference to the Belgian colonial position that treated the Congo with paternalism.

Despite Lumumba’s oratory prowess and nation-wide focus,<sup>28</sup> the CIA’s analysis provincially continues. “The sudden grant of political independence to a weak Congo government was accompanied by terrorism and a resurgence of tribalism; nearly all the inexperienced and unstable political groupings that appeared on the scene were based on tribal associations and were concerned mainly with local interests.”<sup>29</sup> The Church Committee, while extremely critical of the CIA’s overreach in covert activity, spared the opportunity to criticize the agency’s thoughts on Lumumba and fixated on his connection to the Communist cause.

The committee cited a presidential advisor who recalled the “‘necessity for very straightforward action’ against Lumumba and prompted a decision not to rule out consideration of ‘any particular kind of activity which might contribute to getting rid of Lumumba,’” due to his magnanimous personality and proclivity to the Soviet cause.<sup>30</sup> While the committee did mention Lumumba’s meeting with the US Secretary of State in Washington, D.C. in July of 1960, its analysis jumps to the conclusion that the privilege of said meeting had no effect on Lumumba and he turned to Soviet aid.<sup>31</sup> This lazy (or perhaps strategic) omission of detail

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<sup>27</sup> CIA, “Main Elements in the Congo Situation,” ed. US Department of State (Washington, D.C.: US Government, 1961), 4.

<sup>28</sup> Olivier Klein and Laurent Licata, “When Group Representations Serve Social Change: The Speeches of Patrice Lumumba During the Congolese Decolonization,” *British Journal of Social Psychology* 42, no. 4 (2003).

<sup>29</sup> CIA, “Main Elements in the Congo Situation” (1961), 4.

<sup>30</sup> US Senate, “Alleged Assassination Plots,” 13.

<sup>31</sup> *Ibid.*

pushed a narrative of Lumumba's political leanings that, at best, was conjured years later in the heat of the Cold War, or, at worst, was endemic among the policy makers in 1960 and cost Lumumba his life.

The omission to which I am referencing is the nuanced detail of that fateful state visit in late July, and Lumumba's resultant deliberation in the month of August 1960 – a forgotten month that the Church Committee tended to chalk up as undecipherable turmoil. But it can be deciphered, and August must not be overlooked. The Katanga secessionist movement was building in strength in July 1960 and Lumumba's plea for assistance at the end of that month was directed towards the US first, not the Soviet Union. Lumumba wished to speak with President Eisenhower, but because a meeting was not conducive to the US president's schedule, the Secretary of State took his place.

Despite the slight diplomatic rebuff, Lumumba's request for US military aid was met with yet another condition: no bilateral assistance would be given, but rather it would have to come through a UN-led mission.<sup>32</sup> Over the subsequent weeks, the UN mission dragged its feet in shutting down the Belgian-endorsed secession, not to mention that it personally escorted the Belgian Ambassador out of the country.<sup>33</sup> Despite his best efforts, and his initial willingness to ally with the US and even the UN, the two entities effectively burned Lumumba. The omission of Lumumba's crucial deliberations in August 1960 signals that the United States' underlying motivation may have dallied into apathy for resurging Belgian influence in the Congo, as well as revenge for Lumumba's turn to the Soviet Union.

As a result, there was a lot more to the story than the Church Committee's quick mention of Lumumba's meeting with the Secretary of State in July, then quick turnaround to describe that “by the beginning of September, Soviet airplanes, trucks, and technicians were arriving in the province where Lumumba's support was strongest” — as if such activity occurred immediately subsequent. Thus, the scene was colored by a multitude of factors, especially the CIA's disdainful critique of Congolese political culture, which seems to have

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<sup>32</sup> Jonathan E Helmreich, *United States Relations with Belgium and the Congo, 1940-1960* (Newark: University of Delaware Press, 1998).

<sup>33</sup> Lindsey Sherer, “U.S. Foreign Policy and Its Deadly Effect on Patrice Lumumba,” *Washington State University Digital History* (Spring 2015); Thomas Brady, “Lumumba Threatens to Invade Katanga; Declares Emergency,” *The New York Times*, August 10, 1960.



been off the mark when viewed through present day source corroboration.

Despite helpful declassification, not all views line up neatly. While the Church Committee found Devlin to be an unwitting actor in the eventual non-US assassination of Lumumba,<sup>34</sup> a combing of the sources considers a much deeper level of Devlin's personal agency. In fact, Weissman suggests that Devlin indeed "had direct influence over the events that led to Lumumba's death."<sup>35</sup> Yet, it is difficult for any scholar to create conclusive determinations on Devlin's culpability due to governmental redaction and delays on declassification.

After years of delay, the US released its archive of cables and message traffic surrounding the Congo Crisis, but the volume "takes an overly cautious approach to redactions, withholding four documents in their entirety, cutting 22 by more than a paragraph, omitting the financial costs of specific activities, and attempting to guard the identities of the CIA's key Congolese clients besides Mobutu."<sup>36</sup> Weissman's critique of Devlin clashes against the Church Committee's findings as well as Devlin's own memoir where the CIA Station Chief attempts to clear his name under the guise of following secret orders while dragging his feet in a deeply personal conviction against killing "even an insect."<sup>37</sup> Devlin's tone suggests that the US political establishment acted in its own self-interest.

Throughout his memoir, Devlin's accepted reason for US meddling was the mere prevention of a Soviet foothold in Central Africa. Despite his expressed disinterest in murder, he confirmed the CIA's feeling about Lumumba – the Congolese leader simply had death coming. Devlin expounds on the sentiment; "His lack of understanding of world politics and his dalliance with the Soviet Union made him a serious danger to the United States... Had the Soviet Union succeeded in gaining control of a large part of the African continent and its resources, it could have carried us over the thin red line into a hot war."<sup>38</sup> This justification seemed to pacify the Chief of Station over the subsequent months to the point that he avoided informing the already small circle of the NSC Special Group about Lumumba's transfer to his Katangan enemies while the Eisenhower administration turned over to the Kennedy administration. "By the time Devlin's January 17 cable

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<sup>34</sup> US Senate, "Alleged Assassination Plots."

<sup>35</sup> Weissman, "What Really Happened in Congo," 4.

<sup>36</sup> *Ibid.*, 13.

<sup>37</sup> Lawrence Devlin, Chief of Station, *Congo: Fighting the Cold War in a Hot Zone* (New York: PublicAffairs, 2007), 95.

<sup>38</sup> *Ibid.*, 131.

arrived in Washington, Lumumba had been shot dead in Katanga.”<sup>39</sup> Devlin’s strategically blind eye had sealed Lumumba’s fate.

When the death of Lumumba did not quell his followers, the US doubled down on funding in the search for a successor. The CIA’s influence focused quickly on Kasa-Vubu and then Mobutu, and the effects were consequential. Thereafter, Mobutu’s dominance was in part due to the willful bribery, legitimacy campaign, and intelligence gathering led by the CIA. Mobutu was eager to be an anti-Soviet mouthpiece in exchange for influence, material wealth, and US-gathered information — all signs that his interest in power was partially kleptocratic in nature. However, the quality of his leadership was not the concern of the US government, only his ideological alignment. His lack of governing ability, however, foiled the attempt to “solve” the Congo Crisis.

In light of his poor governance, Mobutu proved to be an unpredictable partner. He surely had his own agency to govern, even turned down CIA covert salaries at times, and he continued to benefit in a multitude of ways in the post-Lumumba years. “Throughout 1966 and 1967, the [CIA] forwarded Mobutu intelligence about threats to his regime, uncovering a number of major plots (one of which ended with the public hanging of the alleged conspirators),” not to mention the US-funded military aircraft and weapons that filled his hangars and armories.<sup>40</sup>

Nevertheless, the essential question remained: did the US solve the Congo Crisis with the death of Lumumba? Based on declassified message traffic, the Church Committee’s findings, a memoir, and assorted analyses surrounding the situation, the answer is no, the US could not solve the Crisis with the death of a single man. There was no swift removal of a Communist sympathizer and subsequent ascension to power of a pro-Western leader. Instead, as argued by Weissman, “rather than end the struggle for control of Congo, Lumumba’s assassination only intensified it.”<sup>41</sup> He continues, “while the resulting power-sharing deal did include some Lumumbists... the most important positions went to members of the Binza Group,” which included Mobutu as the military leader who would later perform a coup d’état.<sup>42</sup>

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<sup>39</sup> Weissman, “Alleged Assassination Plots,” 9.

<sup>40</sup> *Ibid.*, 12.

<sup>41</sup> *Ibid.*, 9.

<sup>42</sup> *Ibid.*

As the years wore on, the Kwilu and Simba Rebellions of 1964 – contemporaneous movements of Lumumbists supported by the Soviet Union, Cuba, and China – manifested a rising tide of anti-American sentiment in the Congo. Rebels took Western hostages, including Americans, and as a result of their political aims, national fragmentation appeared imminent without US intervention.<sup>43</sup> Pushed to act, US mediation via hostage rescue robbed the rebels of their political capital, and ripped away their most advantageous means of installing an alternative government based on Lumumba’s principles of independence from the colonial burden. As a result, Mobutu’s stock shot up – and the US did not obstruct it. Devlin rectified, “there has been a great deal of ink spilled in criticizing Mobutu, much of it by those who knew little about the Congo and even less about Mobutu himself. While not the ideal solution to the Congo problem, Mobutu provided the United States with what it wanted.”<sup>44</sup> What the US wanted, in Devlin’s eyes, was stability – even if predictability meant Mobutu’s shifting titles so long that he was an impactful stakeholder in the Congolese government long term.

The Chief of Station continued to outline Mobutu’s US-approved ascendance: “he ousted Lumumba on September 14, 1960, and installed a government acceptable to the Western world as well as to the majority of Congolese in the areas controlled by Leopoldville.”<sup>45</sup> For the greater part of 1960 to 1965, he exercised his weight as the chief of the army while maintaining a great deal of cross-over into the political realm. At a crucial moment in late 1965, after rebellions and disarray of foreign influence, the US was gratified to see that “he led a bloodless army coup. Kasa-Vubu resigned under pressure from the Congolese military, and Mobutu assumed the presidency,” with an existing professional and friendly relationship with the CIA.<sup>46</sup>

Devlin-advised and CIA-backed Mobutu had consolidation of his own to manage. Furthermore, the mixed interests of the UN and Belgium were yet to be solved in relation to the Katangan secessionist movement – a Lumumba death did not solve those issues. They raged on for another four years in various forms until Mobutu’s second coup and subsequent removal of parliamentary procedure

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<sup>43</sup> Gleijeses, P, *Conflicting Missions: Havana, Washington, and Africa, 1959-1976* (Chapel Hill, North Carolina: University of North Carolina Press, 2002).

<sup>44</sup> Devlin, *Chief of Station*, 262.

<sup>45</sup> *Ibid.*, 263.

<sup>46</sup> *Ibid.*, 263.

and government representation, both of which the CIA was willing to fund and with which was satisfied, so long that the Soviet Union lost influence in the long term.<sup>47</sup> Thus, that coveted stability came with a price of the iron-fist rule and eventual dictatorship. Mobutu's handle on the military, political realm, and dalliance into the economic sphere of the Congo meant the United States' actions constrained all political futures other than those through their prized anti-Communist. Despite his pillage of the Congo's already meager government, Mobutu enjoyed US institutional backing as well as the personal loyalty of the United States' most powerful intelligence officer on the ground, before and after Devlin's retirement from public service.<sup>48</sup>

## CONCLUSION

The brewing Cold War context caused US policy to have great relevance in Congolese politics. In their haste, US policy makers rebuffed an initial attempt by Patrice Lumumba to quell rebellion in his central African country. As a result, he sought assistance from the USSR, and the US took the move both personally and strategically. This paper explores the mechanisms behind US covert action during the Congo Crisis, and how such action was employed to plot against Lumumba's life as a quick-fix to influence the country away from Communism. Nevertheless, in its application, the US may have encouraged an anti-Communist regime to take hold through Mobutu, but did so through an incredibly messy and expensive set of coups that took place over several years, costing lives and setting the Congolese political establishment on a path of international dependency. The US relied on very few experts, shielding information and planning to a select few – and at times, a single Chief of Station. Applying this case to the present day, US strategy ought to be wary of mistaking the ousting of one leader for a surefire result of a regime conducive to good governance in the long-term for the citizens themselves. Thus, there are no quick fixes in the game of statecraft – only complicated socio-political dynamics that cannot be ignored, especially when they may engender decades-long kleptocratic dictatorships.

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<sup>47</sup> CIA, "Declassified Telegram from the Station in the Congo to the Central Intelligence Agency," (Washington, D.C.: US Government, 1966).

<sup>48</sup> CIA, "Intelligence Memorandum: The Congo's Joseph Mobutu: Past, Present, and Future [FOIA Request Released Document]," (Langley, Virginia: Central Intelligence Agency Directorate of Intelligence, 1966).

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# THE CHANGING ARENA OF POWER CONTESTATION BETWEEN THE STATE AND *CHAEBOLS* IN SOUTH KOREA: DEMOCRACY AND THE ASCENT OF LEGAL INSTITUTIONS

TAN AIK SENG<sup>1</sup>

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## INTRODUCTION

The growth of the South Korean economy has often been attributed to the rise of *Chaebols*, or family owned businesses with wide-ranging conglomerate-like economic interests. The embeddedness of the *Chaebol* in Korea's political economy has allowed them to emerge as a major actor, with significant influence in the political arena – as a result of their role as stabilizers of the economy. This is a significant development, considering the relatively weaker position of the *Chaebol vis-à-vis* the state, under authoritarian rule. With democratization and their association with South Korea's economic success, the *Chaebol* has become more powerful after democratization. Even post-democratization, however, the close relationship between the government and *Chaebol* refuses to go away. As a result, the legislative and executive institutions continue to be implicated in negative events that involve the *Chaebol*, such as corruption. South Korea's political economy developed along a similar trajectory as several other East Asian states, such as Japan, Singapore and Taiwan. Among the most extensively documented country studies in this domain has been that of Japan. The Japanese

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business sector, similarly to South Korea, is significantly influenced by the equivalent of *Chaebols* – the Keiretsus. The institutional progenitor of Keiretsus were Zaibatsus, which increased in prominence and power, as the exigencies of World War II necessitated the creation of efficient producers of economic goods, including military hardware for combat. Under Allied Occupation in the post-war years, Zaibatsus were initially planned for dissolution. However, due to a change in the stance of the occupying administration, Zaibatsu dissolution did not achieve success. Consequently, Zaibatsus continue to persist institutionally as Keiretsus. Unlike Keiretsus, the *Chaebols* were even less extensively reformed by the South Korean state. For example, the latter continues to maintain a family-centric model of shareholding, while the former no longer does. Nonetheless, since 1997, a series of external shocks and focusing events have allowed the South Korean state to regain its dominance over the *Chaebol* by adopting a different strategy of control. How exactly have strategies of state control over the *Chaebols* changed?

That being the ambit of this paper, I specifically argue that the state is increasingly relying on legal institutions to control the *Chaebol*, marking a departure from traditional bureaucratic and legislative control measures. Legislative control measures refer to the mechanisms of control availed to the National Assembly – the legislature of South Korea. In tandem with this development, I also argue that *Chaebols* have to adapt to the new political landscape of control by contesting and defending their power in the legal arena instead. This essay is structured as such: first, through a literature review, I account for the rise and expansion of the *Chaebol* from post-Korean War, through democratization in 1988 and until the Asian Financial Crisis (AFC) of 1997; second, I describe both existing and evolving state control mechanisms; third, I discuss the conditions which have led to greater use of legal institutions to control *Chaebols*; fourth, I establish the basis of my argument through a discussion of how these institutions have been increasingly leveraged on. I proceed to describe how the tandem shift in power contestation from political to legal system has forced the *Chaebol* to adapt its strategies for defending its own interests, the most significant of which is attempting to influence legal institutions as well. Finally, I summarise my essay's major points and in doing so, emphasise my central argument.



## MAJOR APPROACHES TO UNDERSTANDING THE POWER BALANCE IN THE STATE-*CHAEBOL* RELATIONSHIP

Scholars who study Korean political economy have generally documented the changing balance of power between state and *Chaebol* according to two approaches: the institutional approach and the ideological approach. The institutional approach regards the *Chaebol* as an institution that is interrelated with the environment, with frequent interactions leading the *Chaebols* to accumulate resources and adapt to changing environment.<sup>2</sup> According to Samuel Huntington, institutional power and stability is enhanced through greater adaptability, organizational complexity, unity and autonomy from other institutions.<sup>3</sup> This school of thought argues that *Chaebols* were initially weak during the formative years of the developmental state under authoritarian leader Park Chung Hee.<sup>4</sup> The *Chaebols* were dependent on the state, and were therefore not autonomous and relatively unstable. Due to an import-substitution industrialization (ISI) policy, coupled with strong but selective state support for high potential industries, *Chaebols* expanded under the state's supervision.<sup>5</sup> Because of ISI, *Chaebols* were able to increase economic influence through their monopolistic supply of goods and services to the Korean society. Chang points out that monopoly power distorts economic efficiency, as *Chaebols* could raise profit margins due to lack of market competition.<sup>6</sup> As such, the *Chaebol* as an institution gained in prominence and power by using their market dominant position to accumulate financial capital, as well as control the goods and services that Korean society was receiving. The switch from ISI to export-oriented industrialization only cemented *Chaebol* power further, as it increased their access to overseas markets, increasing export revenue and therefore financial strength.<sup>7</sup> Thus, scholars taking an institutional perspective posit that the

<sup>2</sup> See, for example, John Scott, "Networks of corporate power: A comparative assessment," *Annual Review of Sociology* 17, no. 1 (1991): 181-203.

<sup>3</sup> Samuel P. Huntington, *Political Order in Changing Societies* (New Haven: Yale University Press, 2006).

<sup>4</sup> Kim, Hyung-A. *Korea's Development under Park Chung Hee* (London: Routledge, 2004).

<sup>5</sup> *Ibid.*

<sup>6</sup> Chang, Sea-Jin, *Financial Crisis and Transformation of Korean Business Groups: The Rise and Fall of Chaebols* (London: Cambridge University Press, 2003).

<sup>7</sup> Kelley K Hwang, "South Korea's bureaucracy and the informal politics of economic development," *Asian Survey* 36, no. 3 (1996): 306-319.

*Chaebol's* source of power is the result of their organizational size and complexity, and their ability to influence economic activity. One indicator of complexity is the several subsidiaries that *Chaebols* have established, in an intricate network of cross share-holding. All things considered, monopolistic power confers significant financial capital to the *Chaebol*, which allows them to continuously increase in scale and scope of economic activities. Hence, their institutional autonomy started to increase from a financial perspective as well.

Although the institutional approach provides a straightforward economic perspective to tracing the source of *Chaebol* power and the history of its expansion, it is not immediately apparent that financial strength and organizational size are sufficient to explain the *relative autonomy* that the *Chaebol* have enjoyed since the early 1990s. As such, another approach to understanding *Chaebol* power emerged to address this weakness of the institutional approach.

The *ideological approach* focuses on significant political events in South Korea and punctuations in ideology to explain how the *Chaebol* has increased its autonomy and power vis-à-vis the state. Scholars who adopt the ideological approach emphasize the role of a strong authoritarian state in moderating and controlling the power of the *Chaebol*.<sup>8</sup> During the authoritarian period of rule between the 1960s and 1970s, the *Chaebol* was dependent on the state for continuous growth and economic licensing. The state determined whether a *Chaebol* was permitted to exist or was forced to collapse. Edward Graham, for example, points out the state's retribution towards several *Chaebols* which had "illicitly accumulated wealth during the Syngman Rhee period."<sup>9</sup> Such threats forced *Chaebols* to comply with the state's intentions and avoid being antagonistic. Kim Eun Mee similarly highlights that *Chaebols* accepted state dominance, since the state promised more business opportunities to the most cooperative *Chaebols*.<sup>10</sup> Hence, under authoritarian rule, *Chaebols* were subservient to the state and largely marginalized in terms of power. With democratization in the late 1980s,

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<sup>8</sup> Stephan Haggard, Wonhyuk Lim, and Euysung Kim, *Economic crisis and corporate restructuring in Korea: Reforming the Chaebol* (London: Cambridge University Press, 2003). See also Han Jongwoo, *Power, Place, and State-Society Relations in Korea: Neo-Confucian and Geomantic Reconstruction of Developmental State and Democratization* (Lexington, MA: Lexington Books, 2015).

<sup>9</sup> Edward Graham. *Reforming Korea's Industrial Conglomerates* (Peterson Institute for International Economics, 2003), 19.

<sup>10</sup> Kim, Eun Mee, "The industrial organization and growth of the Korean chaebol: integrating development and organizational theories," *Asian Business Networks* 64 (1996): 231.

the decline of authoritarianism was followed by greater liberal democracy. Kim Yun Tae argues that it was no longer socially popular for the state to intervene with the economy too extensively, as this would be reminiscent of authoritarian behaviour.<sup>11</sup> Kang posits that a movement towards a democratic political system also created incentives for contesting political parties to solicit the *Chaebols'* financial support, in order to finance larger electoral campaigns.<sup>12</sup> Consequently, an ideological movement from authoritarianism to liberal democracy led to *Chaebols* accumulating power in two ways: 1) through the unshackling of *Chaebol* from authoritarian control and repression; and 2) through the increasing reliance of political parties on *Chaebols* for electoral-related support, because of a movement towards competitive elections under ideological shift to democracy.

Despite the theoretical contributions of the two major approaches, there is a lack of explicit analysis into how the Korean state controls *Chaebol* power in the contemporary democratic environment. Most of the analyses in the literature are confined to explanations of how *Chaebols* rely on financial resources to seek favourable political and administrative decisions from politicians and senior bureaucrats. But democratization is also accompanied by a preference for accountability through the rule of law. A country with strong rule of law inevitably must be buttressed by strong and effective judicial institutions. Also, more contemporary events continue not only to influence the *Chaebol* as an institution, but also the ideological preferences of the state under a more dynamic and anti-*Chaebol* societal environment. Although ideological changes have made *Chaebols* less conducive to control, *shifts in ideological preferences* in an opposite direction can make it easier to control *Chaebols*. The institutional independence of the *Chaebol* remains strong, but the Korean state is still able to devise mechanisms to control *Chaebols*.

Considering the above, this paper's contribution to the literature on Korean state-business relationship is principally focused on establishing the shift in state control mechanisms over *Chaebols*, which have evolved to become more legalistically-oriented in the post-democratization era (1988-present). Both approaches in the literature are relevant and useful in understanding

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<sup>11</sup> Kim, Yun Tae, "Neoliberalism and the decline of the developmental state," *Journal of Contemporary Asia* 29, no. 4 (1999): 441-461.

<sup>12</sup> David C. Kang, "Bad loans to good friends: money politics and the developmental state in South Korea," *International organization* 56, no. 01 (2002): 177-207.

the shifts in such mechanisms. The rise of *Chaebols* as significantly autonomous institutions arose from their ability to accumulate resources and become more organizationally complex – the result of institutional strengthening. In addition, the elevation of judicial institutions as an important branch of government is the product of democratization, an outcome of the mentioned ideological shift towards greater societal preference for political freedom. As such, I aim to combine both approaches to show exactly how judicial institutions have increasingly become the main sources of state power over the *Chaebols*.

### CONVENTIONAL STATE CONTROL MECHANISMS

The South Korean government has conventionally relied on various administrative and legislative mechanisms to increase its control of the *Chaebols*. The National Assembly operates a legislative audit system similar to that used in the United States Congress. Assemblymen in audit committees are empowered to summon *Chaebol* leaders to answer questions during these annual audit sessions.<sup>13</sup> Questions typically aim to uncover wrongdoing in the *Chaebols*. These committees are usually most active during periods of intense public scrutiny into events that are major and controversial, such as bribe-paying scandals. However, limits to the committee are significant—the most important being that Assemblymen have no certain means of ascertaining where wrongdoing has been committed. *Chaebols*, as complex institutions, are able to sequester information in ways difficult to validate. Interpreting business information also requires technical knowledge. Since Assemblymen are not specialists in issues regarding business activities, they are inherently handicapped through such information asymmetry.

Various regulatory agencies are also present to detect illegal activities, such as tax evasion, and ensure that *Chaebols* comply with regulations. In doing so, regulators theoretically inhibit the freedom of *Chaebols* to act autonomously and outside state regulation. Agencies such as the Korean Fair Trade Commission (KFTC) and the Anti-Corruption and Civil Rights Commission monitor, expose and investigate offences of business and criminal behaviour respectively.<sup>14</sup> Again, the complexity of *Chaebols* makes it difficult to

<sup>13</sup> Cho Chung-Un, “Lee Jae Yong put at center in largest hearing on chaebol,” *The Korea Herald*, December 6, 2016, accessed April 14, 2017, <http://www.koreaherald.com/view.php?ud=20161206000973>.

<sup>14</sup> Lee Min Ho, “Recent Developments in the Treatment of Collusion by Korean Courts,” *J. Korean L.* 4 (2004): 155. See also Choi, Jin-Wook, “Institutional structures and effectiveness

truly ascertain the extent of wrongdoing. Furthermore, as is subsequently shown in the next section, both administrative regulatory agencies and the National Assembly audit committees have also been weakened by corrupt ties with *Chaebols*, where material bribes are paid by the latter in exchange for special favours from the former. Before examining the legal mechanisms that have now become just as – if not even more – important than these mechanisms mentioned, I account for the conditions that have promoted the emergence of the use of legalistic mechanisms. As it is difficult to attribute exactly what the chronological inflection points responsible for legal mechanisms becoming a major state strategy were, I have focused on general events that have become most salient in the contemporary democratic environment, after the end of authoritarian rule and continuing into the present.

#### CONDITIONS THAT PROMOTE LEGAL MECHANISMS OF *CHAEBOL* CONTROL

Although democratization has theoretically created a more rule-based political institutional structure, whereby there are legislative, administrative and judicial institutions acting independently of each other, the judicial institutions have increasingly become the most dominant state control of the *Chaebols*. While control is facilitated by state and society's willingness, the reason for empowering judicial institutions is the unsuitability of alternatives. In tandem with the preceding, there are two major conditions which have facilitated this phenomenon: first, the construction of a negative *Chaebol* reputation and calls for greater accountability by society; and second, society's mistrust of elected politicians and the bureaucracy.

##### *Antagonistic Societal View of Chaebols and Calls for Accountability*

Despite the economic benefits that *Chaebols* have created for the South Korean society, the conglomerates are perceived negatively by many sections of the society. The *Chaebols* are major actors which have allowed South Korea to pursue high rates of economic growth, through favourable government policies from the nascent post-independence years and into the present.<sup>15</sup> Through high-

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of anticorruption agencies: A comparative analysis of South Korea and Hong Kong," *Asian Journal of Political Science* 17, no. 2 (2009): 195-214.

<sup>15</sup> Mo Jongryn, "Political learning and democratic consolidation: Korean industrial relations,

er economic activity, the *Chaebols* created many employment opportunities for citizens, while the taxation revenue generated and paid to government has been a budgetary source for infrastructure development to benefit society.<sup>16</sup> However, at least in the past two decades, *Chaebols* have been increasingly seen as controversial actors, with societal support for them being mixed, or even negative.<sup>17</sup> The general reason for such sentiments is the public's perception of *Chaebols* as self-interested and insensitive to societal welfare.<sup>18</sup>

The 1997 Asian Financial Crisis (AFC), for example, was attributed to poor corporate governance in the *Chaebols* and their ability to evade proper regulation and controls.<sup>19</sup> As a result, financial institutions were substantively weakened, as lending to *Chaebols* often was poorly evaluated and monitored, leading to spillover effects on the economy as a whole.<sup>20</sup> Negative *Chaebol* sentiments have persisted even into the present. Societal support for *Chaebols* has continued to be low or even negative, due to various other contributing factors that undergird the selfish image projected on *Chaebols* - citizens perceive economic growth to have disproportionately aggrandized *Chaebols*, with society only benefitting marginally. This is reflected in the increasing income inequality of South Korea since 1998, even as corporate profits continue to outperform by increasing year-on-year generally.<sup>21</sup> Furthermore, *Chaebol* profits have grown, even without growth in jobs available.<sup>22</sup> This is partly attributed to the capital-intensive structure of *Chaebol* operations, which rely more heavily on machine capital than human capital. Mo Jongryn also notes that there was a fundamental ideological shift in how the "general public" perceived the overly self-interested business sector.<sup>23</sup> This is because of the spread of publications that were "critical of market fundamentalism,"

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1987-1992," *Comparative Political Studies* 29, no. 3 (1996): 290-311.

<sup>16</sup> Jong Seemun, "Reforms of Korean tax system to transform into a welfare-led economy," *Paper presented at Conference for Decent Work Network*, Geneva, Switzerland, 2015.

<sup>17</sup> Yonhap News Agency, "Majority of S. Koreans negative of chaebol: survey," *Yonhap News Agency Website*, January 13, 2017, accessed April 8, 2017. <http://english.yonhapnews.co.kr/business/2017/01/13/0502000000AEN20170113007300320.html>.

<sup>18</sup> Mo Jongryn, "Political learning and democratic consolidation."

<sup>19</sup> Ha Y.C and Lee W.H, "The politics of economic reform in South Korea: crony capitalism after ten years," *Asian Survey* Vol. 47 No. 6, 894-914.

<sup>20</sup> *Ibid.*

<sup>21</sup> Mo Jongryn, "Transformation of Korean developmental capitalism," in *Japanese and Korean Politics*, ed. T. Inoguchi, 121-146 (New York: Palgrave Macmillan, 2015).

<sup>22</sup> *Ibid.*

<sup>23</sup> *Ibid.*, 131.

which brought economic equality and social justice into discussions on the society-*Chaebol* relationship.<sup>24</sup> All in all, South Korean society has generally internalized a negative view of *Chaebols*, which are perceived as only wanting to maximize corporate self-interest at the expense of equitably sharing such gains with society.

Therefore, there is the impression that many problems in the economy can be attributed to poor *Chaebol* accountability, which the state has not satisfactorily resolved. Greater accountability can be promoted through a system of law that is fair, equitable, and enforced impartially. Accountability has been challenged by the image that *Chaebols* routinely show little respect for national law.<sup>25</sup> This has been the result of several focusing events such as *Chaebol* family members abusing their authority for personal benefits.<sup>26</sup> Other more significant cases involved *Chaebol* owners such as the Samsung Group that engaged in influence-peddling corruption. The past two chairpersons and the current chairperson of Samsung Group have been implicated in acts of corruption, indicating that it is a structural occurrence within the *Chaebol*.<sup>27</sup> With an increased preference for accountability, there is greater public support for the government to more strictly regulate *Chaebols* and monitor their compliance with the law.

### *Mistrust of the Executive and the Legislature*

The preference for greater accountability through rule of law becomes complicated by society's suspicion and loss of trust in their elected politicians and the bureaucracy. According to Quah, corruption is an endemic issue in South Korean politics, reflected by the numerous reforms that different presidents

<sup>24</sup> Ibid, 131-135. See also Dong-Jin, Jang, "Rawls in Korea," *Contemporary Korean Political Thought in Search of a Post-Eurocentric Approach* (2014): 213.

<sup>25</sup> Park, Eun-Young, "The Rule of Law in the Republic of Korea," *NTU L. Rev.* 6 (2011): 312-313.

<sup>26</sup> A famous case was that of Heather Cho, a *Chaebol* family member abusing airline staff. See The Guardian, "Korean air chairman's daughter denies conspiring in nut-rage coverup," *The Guardian Website*, January 19, 2015, accessed April 14, 2017, <https://www.theguardian.com/world/2015/jan/19/korean-air-chairman-daughter-heather-cho-denies-conspiring-nut-rage-coverup>.

<sup>27</sup> Carlos Tejada, "Money, power, family: inside South Korea's chaebol," *CNBC*, February 17, 2017, accessed April 14, 2017, <http://www.cnbc.com/2017/02/17/money-power-family-inside-south-koreas-chaebol.html>.

have tried to implement.<sup>28</sup> The *Chaebols* have consistently been associated with senior politicians and bureaucrats, through solicitation of special favours from the government, in exchange for illegal bribes or other material rewards. Since the late 1980s, nearly every democratically elected government has continued to be involved in corruption-related situations with *Chaebols*, leading the public to have a pessimistic view of whether the elected president, National Assemblymen or senior bureaucratic officials can truly be trusted to act in a legally appropriate manner to keep *Chaebols* under control. This is even more significant given that various presidents pledged to eliminate corruption during their terms of office, even though their administrations still continued to engage in such activities. Under President Roh Tae Woo, corruption investigations into his predecessor, Chun Doo Hwan, were launched and effectively concluded.<sup>29</sup> But corruption continued as six National Assemblymen associated with Roh were found to have extorted bribes from *Chaebols*.<sup>30</sup> Also, a Chaebol owner, Chung Tae Soo, provided funding to political parties and Roh's personal political fund in exchange for land development favours.<sup>31</sup> Public trust in elected politicians continued to decline as successive presidents and legislators continued to receive bribes from *Chaebols*. Under President Kim Young Sam, seen to be a strong anti-corruption leader, various initiatives to tackle corruption were implemented, such as the Public Officials' Ethics Law and the Real-Name Financial Transaction System – both initiatives aiming to increase transparency and make it easier to detect corrupt activities involving politicians and public officials.<sup>32</sup> However, Kim's own son was convicted for corruption-related payments and a senior government assistant to Kim helped in facilitating the payments.<sup>33</sup> Rhetoric of anti-corruption combined with the reality of complicity in corruption also characterizes nearly all successive presidents and their administrations as well, including Roh Moo Hyun (2003-2008), Lee Myung Bak (2008-2013) and Park Geun Hye (2013-2017). In all these cases, allegations of bribery for preferential treatment by *Chaebols* are evident,

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<sup>28</sup> Quah, Jon ST, "Combating corruption in South Korea and Thailand," in *The Self-Restraining State. Power and Accountability in New Democracies* (Boulder, Colorado: Lynne Rienner Publishers, 1999), 245-256.

<sup>29</sup> Yoon, Sanghyun, "South Korea's Kim Young Sam Government: Political Agendas," *Asian Survey* 36, no. 5 (1996): 511-522.

<sup>30</sup> Mo Jongryn, "Developmental capitalism," 131-137.

<sup>31</sup> *Ibid.*

<sup>32</sup> *Ibid.*

<sup>33</sup> *Ibid.*



implicating not just the presidents themselves but also their senior political and administrative subordinates.<sup>34</sup> Public trust that politicians and administrative officials are impartial and able to objectively control the *Chaebols* is low, given this negative history of political leaders and their administrations. Accordingly, the nexus of corruption in politics and in business is jointly able to explain the public's lack of trust in the bureaucratic-political arena to address the problems caused by *Chaebols*.

### THE RISE OF LEGAL INSTITUTIONS

Given public pressure to hold *Chaebols* more accountable, alongside this mistrust of the legislature and executive to truly achieve this outcome, the state's approach to controlling *Chaebols* has increasingly turned to judicial institutions that are relatively more trusted by the public and more effective in its actions. This increasing desire for judicial intervention can only be possible, under a system of law that is perceived as democratic. Two major judicial institutions, apart from the Supreme Court, are the Prosecutors' Office and the Special Prosecutor. In addition, the Korean government has created various legal mechanisms of control over the *Chaebol*, which facilitate greater accountability. Since the AFC, more corporate governance regulations have been imposed on the business sector, which aim to ensure more transparent and accountable organizational processes and decision-making within firms – especially the *Chaebols*.<sup>35</sup> Also, various laws have been passed, that are targeted at *Chaebol* owners who carry out “unfair transactions for personal gain.”<sup>36</sup> However, legislation is ineffective without proper enforcement. This, in turn, requires active participation of the various prosecutors. Before using a case study to illustrate the power of judicial institutions, I provide a background to the Prosecutors' Office and the Special Prosecutor.

<sup>34</sup> Nyshka Chandran, “South Korean court upholds motion to impeach President Park Geun-hye,” CNBC, March 10, 2017, accessed April 14, 2017, <http://www.cnbc.com/2017/03/09/south-korean-president-park-geun-hye-impeached-after-court-ruling-south-korean-president-park-geun-hye-avoids-impeachment-after-court-ruling.html>.

<sup>35</sup> Ha Y.C and Lee W.H, “crony capitalism after ten years,” 894-914.

<sup>36</sup> Song Su-Hyun, “Assembly approves chaebol legislation,” *Korean Joongang Daily*, July 3, 2013, accessed April 8, 2017, <http://mengnews.joins.com/view.aspx?aId=2973963>.

*The Prosecutors' Office and the Special Prosecutor*

The judicial institutions that are tasked with investigation and prosecution operate with generally similar purposes, although the Special Prosecutor enjoys a more influential position vis-à-vis the Prosecutor's Office. The Prosecutor's Office is divided into three organizational levels, with varying degrees of geographical jurisdiction.<sup>37</sup> Subordinate units ultimately report to the Supreme Prosecutors' Office (SPO), located in Seoul. On a general level, the Prosecutors' Office formally investigates suspected acts of criminal and corporate misdeeds and prepares for litigation in the judicial courts.<sup>38</sup>

The Special Prosecutor is appointed by the National Assembly and is the latest judicial institution, created in March 2014.<sup>39</sup> The Special Prosecutor's role emerged from a concern that the Prosecutors' Office could be politicized, in cases that involve elected political leaders. This is because the SPO is ultimately subordinated to the Ministry of Law, a government institution. But the Special Prosecutor is appointed on the basis of political neutrality, thereby minimizing the risk that he or she will act partially to political principals.<sup>40</sup> In practice, the Special Prosecutor is more powerful than the SPO, as it can request cooperation and assistance from the SPO and other government agencies, including deployment of resources.<sup>41</sup> Through the Prosecutors' Office and the Special Prosecutor institutions, the South Korean government has increased its control of the *Chaebols* through a more legalistic mechanism. The prominence of the Prosecutors' Office and Special Prosecutor in high-level cases involving *Chaebols* precisely shows that judicial institutions are increasingly the source of government power leverage in the state-business relationship.

The increase in the use of legal prosecutorial powers on *Chaebols* indicates the South Korean government's growing reliance on the judicial process to control the *Chaebols*. Since 2003, at least six senior *Chaebol* leaders have been successfully convicted for various corporate and criminal offences, or are presently

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<sup>37</sup> Supreme Prosecutors' Office [Republic of Korea], "About SPO," accessed April 14, 2017, <http://www.spo.go.kr/eng/about/departments.jsp>.

<sup>38</sup> *Ibid.*

<sup>39</sup> Act on the Appointment, Etc. of Special Prosecutor, Act No. 12423, retrieved from <http://www.law.go.kr/eng/engLsSc.do?menuId=1&query=special+prosecutor&cx=21&y=25#liBgcolor0>.

<sup>40</sup> *Ibid.*

<sup>41</sup> *Ibid.*

in the process of being prosecuted.<sup>42</sup> This figure excludes convictions of *Chaebol* executives below the top-tier leadership which are likely to increase the number of successful conviction cases. In all the cases, the role of the prosecutors was significant, as they not only need to collect evidence, but need to present convincing prosecution positions to the court. The prosecutors have been successful in their efforts, duly supported by the legislations that empower them. For example, prosecutors are legally allowed to perform any search and seizure operations at any time of the day – a privilege denied to bureaucratic agencies, such as the KFTC.<sup>43</sup> See Annex A for a list of major cases. The police force is also obliged to provide all necessary support to prosecutorial investigations.<sup>44</sup> The power that prosecutors have can be seen in the recently concluded prosecution of a *Chaebol* chairman, Lee Jae Yong of Samsung Group. Lee was accused of political corruption with ex-President Park Geun Hye and her political aides. The prosecution, led by Special Prosecutor Park Young Soo, was able to utilise its legal powers to carry out a wide range of investigative activities.<sup>45</sup> This included searching facilities belonging not only to Samsung Group, but even government agencies suspected of being involved in the crime being investigated, including the Financial Services Commission.<sup>46</sup>

Based on the historical trend, the prosecutors' extensive and effective investigations have led to credible prosecution efforts in the court, whereby the prosecution was able to achieve guilty verdicts for the *Chaebol* owners being prosecuted.<sup>47</sup> The jail sentences typically range from three to eight years. The state's willingness to allow the Prosecutors' Office and Special Prosecutor to investigate and prosecute *Chaebol* owners indicates that this is a form of control

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<sup>42</sup> See Annex A for a list of major cases.

<sup>43</sup> OECD, "Progress in Implementing Regulatory Reform." *OECD Website*, Accessed April 14, 2017, <https://www.oecd.org/korea/41399033.pdf>.

<sup>44</sup> Act on the Appointment, Etc. of Special Prosecutor, Act No. 12423, retrieved from <http://www.law.go.kr/eng/engLsSc.do?menuId=1&query=special+prosecutor&cx=21&y=25#liBgcolor0>.

<sup>45</sup> BBC News, "Samsung boss Lee Jae-yong goes on trial in South Korea," BBC News, April 7, 2017, accessed April 14, 2017, <http://www.bbc.com/news/world-asia-39524334>.

<sup>46</sup> South China Morning Post, "South Korean prosecutor expands charges against samsung heir Lee Jae-yong," *South China Morning Post*, February 15, 2017, accessed April 14, 2017, <http://www.scmp.com/news/asia/east-asia/article/2071088/south-korean-prosecutor-says-expands-charges-against-samsung>.

<sup>47</sup> See Annex A.

that is being increasingly leveraged on and the arena of state control over business is evolving. Accordingly, as the next section will show, the consequent strengthening of the legal arena has led to the *Chaebols* adapting their strategies to resist control.

### COPING MECHANISMS BY *CHAEBOLS*

The shift towards the legal arena of *Chaebol* control has led to *Chaebols* adapting to increase their ability to defend themselves against the state. *Chaebols* have attempted to adapt through a plethora of measures, which generally can be distilled to two major areas: 1) recruitment of legal experts and former judges; and 2) strengthening audit mechanisms to evade detection by the state.

#### *Recruiting Legal Experts and Retired Judges*

*Chaebols* have increasingly hired more top lawyers and retired judges to serve on the board of directors, in other advisory roles or even as litigation attorneys.<sup>48</sup> In doing so, *Chaebols* can receive strategic legal advice that helps them to act in ways that advance their corporate interest, without being easily detected by the state. This practice is common, based on available statistics which show that the top seven *Chaebols* have forty-nine lawyers as independent directors, representing 66% of total directorships in the same category.<sup>49</sup> Furthermore, the engagement of top-level lawyers as attorneys also helps *Chaebols* to present a stronger defense vis-à-vis the prosecution. This is seen, for example, in Lee Jae Yong's case, whereby 10 lawyers from Bae, Kim & Lee – one of South Korea's top law firms – were hired to defend Lee against the Special Prosecutor.<sup>50</sup> Apart from hiring private sector lawyers, *Chaebols* have also noticeably recruited more retired judges to act as advisors and senior attorneys.<sup>51</sup> These retired judges typically have wide ranging connections with judges that preside over cases involving *Chaebols*. By hiring these

<sup>48</sup> John Kang, "Star-studded legal team will seek to save samsung chief," *Asian Legal Business*, March 7, 2017, accessed April 14, 2017, <http://www.legalbusinessonline.com/news/star-studded-legal-team-will-seek-to-save-samsung-chief/74084>.

<sup>49</sup> The Korea Times, "Many firm lawyers work as outside directors for conglomerates," *The Korea Times*, September 5, 2011, Accessed April 14, 2017, [http://www.koreatimes.co.kr/www/news/biz/2016/10/%20%20123\\_94207.html](http://www.koreatimes.co.kr/www/news/biz/2016/10/%20%20123_94207.html).

<sup>50</sup> John Kang, "Star-studded legal team will seek to save samsung chief."

<sup>51</sup> Kim Tae-jong, "Chaebol favor ex-officials as outside directors," *The Korea Times*, September 10, 2012, accessed April 14, 2017, [http://www.koreatimes.co.kr/www/news/biz/2016/06/123\\_119567.html](http://www.koreatimes.co.kr/www/news/biz/2016/06/123_119567.html).

judges, *Chaebols* can use them as lobbyists to seek more favourable judgments from the presiding judges.<sup>52</sup> In her study of business-judiciary relations in South Korea, Choi Hansoo proves that in litigation cases led by retired judges-turned attorney, presiding judges are more likely to issue suspended sentences or more lenient penalties to defendants.<sup>53</sup> If this type of relationship is true, then the hiring of retired judges only serves to enhance *Chaebols'* power in the legal arena.

### *Strengthening Audit Mechanisms*

Through a series of actions, *Chaebols* have also managed to increase their evasion of the state's ability to detect potential business wrongdoings and other illegal transactions. This is achieved through procedural enhancements that make it more difficult to accurately audit *Chaebol* finances. *Chaebols* have relied on cross shareholdings to hide their true proportion and extent of ownership in businesses. The creation of multiple subsidiaries makes it logistically more difficult to investigate business transactions that the *Chaebol* has with external actors, including other businesses and politicians. Independent audit committees are one of the latest government regulations imposed on *Chaebols*. These committees theoretically increase corporate accountability as they impartially examine the account books of *Chaebols*. To circumvent such a regulation, *Chaebols* have also been accused of exploiting a loophole to avoid establishing such audit committees. As the regulation only applies to business firms with more than KRW7 trillion in assets, excluding affiliate companies, *Chaebols* theoretically are able to establish more affiliate companies to hold assets up to KRW7 trillion.<sup>54</sup> Hence, the *Chaebols* can hire their own auditors, allowing for better control and possible manipulation of financial statements. Detection of wrongdoing is also minimized making it more difficult for prosecutors to investigate corporate wrongdoing in the *Chaebols*.

*Chaebols* have also hired regulatory experts and ex-government officials to serve as auditors, further increasing their ability to strengthen internal audit

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<sup>52</sup> Ibid.

<sup>53</sup> Choi Hansoo, "Essays on business groups and the judiciary in South Korea," PhD Dissertation, University of Pittsburgh, 2014.

<sup>54</sup> Mo, Jongryn, and David Brady, *The rule of law in South Korea* (Stanford, CA: Hoover Press, 2013).

processes against outside investigations.<sup>55</sup> Lawyers with specialized knowledge of South Korea's financial code have been hired to head internal audit teams.<sup>56</sup> Also, ex-government officials are aware of how the government conducts various types of audits, which allows *Chaebols* to pre-empt detection of wrongdoing by concealing evidence in ways that government audits would be unable to discover. In all, the various coping mechanisms show that *Chaebols* have adapted to the increasingly leveraged use of legal mechanisms by the state to control them.

## CONCLUSION

In this essay, I have argued that the state has increasingly leveraged on legal mechanisms through the judicial institutions to control *Chaebols*. This is facilitated by public support for such action, due to rising unpopularity of *Chaebols*, society's preference for greater accountability, as well as a mistrust of elected politicians and the bureaucracy. The state therefore depends on the Prosecutors' Office and Special Prosecutors to ensure *Chaebols* are kept under control. But *Chaebols* are not static entities and have adapted to the changing arenas of power contestation by strengthening their internal audit safeguards and hiring more legal experts and retired judges to ensure higher quality litigation and chances of successful defence against the prosecution.

However, it should be noted that *Chaebol* control mechanisms are not perfect or always robust. Most significantly, all *Chaebol* owners have managed to receive relatively lenient jail sentences – or even avoid jail terms altogether. Even those successfully jailed have often managed to receive presidential pardons because of a fear that their jail sentences would detrimentally impact the South Korean economy.<sup>57</sup> Therefore, there is no certainty that material improvements in *Chaebol* control will be sustained.

Preliminarily, there is cause to believe that the near future could lead to more high-profile cases of anti-*Chaebol* judicial action led by the Special Prosecutor and the Prosecutor's Office. This view is based on an assessment of society's significant intolerance towards *Chaebol* misbehavior, evidenced through the strong public push for Lee Jae Yong and Park Geun Hye's prosecution. This is because there is incentive for the current Moon Jae-In administration to support

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<sup>55</sup> Kim, "Chaebol outside directors."

<sup>56</sup> The Korea Times, "Conglomerates."

<sup>57</sup> This rationale has been cited in the cases of Samsung Group's previous chairpersons.

the judicial institutions in their investigation of politics-business corruption, since this will reinforce Moon’s legitimacy as a President elected on a firm anti-corruption platform. The fact that *Chaebols* have attempted to strengthen their legal position points to an encouraging outcome for South Korea’s democracy: the increasing reinforcement of the rule of law. This is a significant departure from authoritarian rule from the 1960s to the 1980s. But the state cannot solely rely on judicial institutions alone. The executive and legislative branches must also work towards a more honest, transparent and integrity-based system of governance. This system must be fundamentally driven by a genuine desire to create a corruption-free environment, where the goals of government, business and citizens can be responsibly and fairly negotiated in an open and democratic setting. If this is achieved, then it is more likely that future governments can truly act for the benefit of society to reinforce democratic governance in South Korea.

**ANNEX A – SELECTED LIST OF *CHAEBOL* OWNERS PROSECUTED / CONVICTED**

<i>Chaebol</i>	<i>Name of Leader</i>	<i>Offence/Year Convicted</i>
SK Group	Chey Tae-Won	Corruption / 2003
Hyundai Motor Group	Chung Mong-Koo	Embezzlement / 2006
Hanwha Group	Kim Seung-Youn	Embezzlement / 2012
Samsung Group	Lee Kun-Hee	Corruption / 2008
Samsung Group	Lee Jae Yong	Corruption / 2017
Lotte Group*	Shin Kyuk-Ho and Family	Embezzlement / 2017

\* Pending prosecution as of this paper’s submission date

Data compiled from various web sources, found in bibliography

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# OLD HISTORY IN THE “NEW” CUBA: EXPLORING THE LEGACY OF RACE AND ECONOMIC INEQUALITY ON THE ISLAND TODAY

ELIZABETH L. DRAKE<sup>1</sup> & JAMIE C. DAVIDOW<sup>2</sup>

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## ABSTRACT

This article examines the reasons why racism persists in Cuba more than fifty years after the 1959 Revolution in which Fidel Castro promised Afro-Cubans to eradicate racism from the island. More specifically, it investigates Cuba’s racist history and concludes that the enduring problem cannot be resolved by economic and social policies alone. While Fidel Castro introduced social and economic reform, his prohibition of discussion on the controversial topic of race relations due to his desire to maintain control prevented a resolution of institutional racism.

After the fall of the USSR, the Cuban government implemented temporary economic liberalization policy reforms that remain today.<sup>3</sup> Under Raúl Castro’s leadership the economy continues to expand.<sup>4</sup> However, as the economy broadens by moving towards a free-market model, there is an increase in both economic

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<sup>3</sup> Council on Hemispheric Affairs, “Revolutionary Racism in Cuba,” Council on Hemispheric Affairs, June 21, 2011, <http://www.coha.org/revolutionary-racism-in-cuba/>.

<sup>4</sup> Council on Hemispheric Affairs, “Revolutionary Racism in Cuba.”

and social exclusivity stemming from the racist history of slavery on the island. Thus, Afro-Cubans lack the ability to participate in the free market aspect of the Cuban economy, placing them at an economic disadvantage. While current literature discusses Cuba in terms of either economic or social factors, authors Drake and Davidow take a holistic approach by investigating the relationship between Cuba's enduring history of social and economic inequality that Afro-Cubans encounter today. Finally, the authors introduce proposals promoting greater racial equality for Afro-Cubans.

## INTRODUCTION

Why does racism persist in Cuba? The 1959 Revolution promised to eradicate inequality and racism. However, more than fifty years later, prejudice and discrimination remain ingrained in Cuban society. Today, even after Fidel Castro ceded power to his brother Raúl, Afro-Cubans are scrambling to make extra money by selling products on the streets to supplement their shrinking income from government jobs. Ironically, Afro-Cuban direct participation is shunned in the private sector although they make their living selling products on the streets in view of these newly established businesses.

This paper analyses the continuing presence of racial discrimination and subsequent economic inequality in Cuba despite the regime's alleged formal elimination of these inequalities during the 1959 Revolution.<sup>5</sup> Although the 1959 Revolution alleviated much of the institutionalized racism present in Cuba through "a set of reforms intended to eliminate racial disparity in public spaces, education and employment,"<sup>6</sup> these reforms had their shortcomings. While these policies addressed Afro-Cuban issues of unequal access, they did not fix the inherent social biases against individuals with darker complexions.<sup>7</sup> For the first several decades, Castro's newly implemented social and economic reforms such as free health care and education as well as the food rationing system<sup>8</sup> were a success, they were not sustainable without outside financial support. Eventually, when the outside financial support ended, the underlying issues of racism and

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<sup>5</sup> Alejandro De La Fuente, "Race and Inequality in Cuba, 1899-1981," *Journal of Contemporary History* 30, no.1 (January 1995): 153.

<sup>6</sup> Council on Hemispheric Affairs, "Revolutionary Racism in Cuba."

<sup>7</sup> Council on Hemispheric Affairs, "Revolutionary Racism in Cuba."

<sup>8</sup> Council on Hemispheric Affairs, "Revolutionary Racism in Cuba."

inequality that had been temporarily solved with these policies began to reappear.

Although Castro's social and economic reforms helped bridge the racial gap in access to basic social services, Fidel Castro's policies did not address the underlying racial tensions that are a result of over three hundred years of slavery on the island.<sup>9</sup> In part Castro likely prohibited discussion of race due to the divisive nature of the topic, which could undermine stability in Cuba. Admittedly, many of these revolutionary reforms enabled Afro-Cubans to have an active role in Cuban society.<sup>10</sup> However, one Cuban scholar we interviewed noted that "the primary mistake in the battle against racial discrimination in Cuba was to assume that a political gesture could sweep away a cultural heritage of hundreds of years."<sup>11</sup> The Cuban government succeeded in decreasing the racial gap through the aforementioned social reforms, but the reforms did not change racist attitudes that have been part of the island culture for centuries. These racist attitudes have continued as evidenced by the jobs afforded to the Afro-Cubans.

Although the history of racism in Cuba allowed few positive outcomes for the Afro-Cubans, it provided them an opportunity to address their adversity through their distinct identity. While racism remained, as demonstrated by the two-tiered racial system in Cuba, Afro-Cuban participation in national wars enabled Afro-Cubans to develop a strong common identity, which helped them to mobilize after the abolishment of slavery.<sup>12</sup> While the creation of a distinct Afro-Cuban identity enabled Afro-Cubans to find commonalities with each other, the legacy of racism remained inherent in Cuban society. Therefore, it can be argued that while the revolution created equality in some ways, it also succeeded in cultivating two very distinctive identities and experiences for its citizens. First, there is the Spanish Cuban experience, which is proudly presented to visitors on the island. The other experience is that of the Afro-Cuban, which is largely ignored by the government and carefully hidden from the island's visitors.

The evidence presented in this paper is based on primary and secondary

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<sup>9</sup> Chomsky, Aviva, Barry Carr, and Pamela Maria Smorkaloff, "Sugar, Slavery, and Colonialism," In *The Cuba Reader: History, Culture, Politics*, eds. Aviva Chomsky, Barry Carr, and Pamela Maria Smorkaloff (Durham: Duke University Press, 2003), 37.

<sup>10</sup> All conversations took place under the agreement that the information would not be attributed and that the person would remain anonymous.

<sup>11</sup> Anonymous scholar at the University of Havana

<sup>12</sup> Aline Helg, "Afro-Cuban Protest: The Partido Independiente De Color, 1908-1912," *Cuban Studies* 21, (1991).

documents as well as an academic research trip to Cuba in June 2016 where we met with several experts on politics and race.<sup>13</sup> The paper unfolds in four sections starting with a historical overview that traces race relations from the colonial period to Raúl Castro's 2008 economic reforms. This leads to an analysis of the most recent economic reform package, the "Lineamientos," and the current status of Afro-Cubans. Since the election of Donald Trump in 2016, the future of U.S.-Cuban relations is uncertain. We briefly discuss how this uncertainty will affect Afro-Cubans' livelihood. Finally, we analyze the factors affecting the Afro-Cuban experience and propose recommendations to alleviate racism against Afro-Cubans.

### EXISTING SCHOLARSHIP ON RACE IN CUBA

The literature on the topic of racial and economic inequality in Post-Revolutionary Cuba is relatively limited. Many Cuban researchers have been unable to publish articles on the topic of racism because the government prohibits the discussion of dissenting ideas particularly about race. Therefore, many scholars face challenges in obtaining firsthand accounts from Afro-Cubans.<sup>14</sup> Although the Cuban government has become more lenient in recent years in allowing citizens to have mobile phones and home computers, freedom of expression in Cuba is still very limited. Individuals who openly express and support dissenting ideas "are often subject to smear campaigns and arbitrary arrests, as are artists and academics who demand greater freedoms."<sup>15</sup> Academia is supposed to be a forum through which scholars can express controversial opinions. However, the Cuban government does not permit this practice particularly regarding scholarship on Cuban politics, which is critical of the regime. Of the existing scholarship about the relationship of race and socioeconomic class in Cuba, we noticed three predominant categories. The first group encompasses research that establishes frameworks with which to study racism in Cuba. The next group is comprised of works that address Afro-Cuban identity, and the final group consists of research regarding the economic disparity between Afro-Cubans and Spanish Cubans.

Literature regarding a Cuban framework that theorizes about race

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<sup>13</sup> Anonymous scholar at the University of Havana.

<sup>14</sup> "Cuba Events of 2016," Human Rights Watch, accessed November 6, 2016, <https://www.hrw.org/world-report/2017/country-chapters/cuba>.

<sup>15</sup> *Ibid.*

relations in terms of the revolution is very limited. Cuban Scholar Alejandro de la Fuente is the only author who has published literature about Cuba that mentions a framework for scholarship regarding race relations in the revolutionary period. In his work, de la Fuente argues that the existing literature tends to examine race in light of four potential explanatory frameworks (De La Fuente, 1995): (1) the revolution inherited and then solved the issue of racial discrimination; (2) the revolution inherited a race problem, then perpetuated it (De La Fuente, 1995); (3) the revolution had a positive impact on race relations (De La Fuente, 1995); and (4) despite the revolution's positive impact on race relations and its work to eradicate the most important aspects of inequality, racism and discrimination remain in Cuban society (De La Fuente, 1995). While we do not agree with all of De la Fuente's outlined frameworks, our research and discussion seek to examine race in light of frameworks two and four.

We disagree with both frameworks one and three that De la Fuente proposes because our research suggests that the revolution inherited a race problem and attempted to fix it, but the reforms made were insufficient. Regarding framework three, we argue that the revolution did not have a positive impact on race relations because of the Special Period depression, which ushered in a new set of economic reforms that allowed Spanish Cubans to thrive and caused Afro-Cubans to suffer along the periphery. Finally, frameworks two and four support our research and analysis because they address two different facets of race and revolutionary reforms. We use these frameworks to explain the importance of the relationship between race and economics in Cuba, and how this relationship affects Cuban society in the modern era.

There is comprehensive scholarship about the history of race and Afro-Cuban identity in Cuba dating back to the slave trade (Helg 1997, Benson 2016). Benson (2016) agrees, noting that the colonial legacy of slavery was the reason the Communist Revolution's attempt to establish racial equality was largely unsuccessful. One Cuban expert, speaking to us anonymously, proposed that race in Cuba has strong historical foundations and noted that the Afro-Cuban narrative is absent from recorded Cuban history and current popular culture.<sup>16</sup> While this scholarship supports our argument in terms of historical background, this literature lacks analysis regarding the implications of this racial history on the economic and social atmosphere in Cuba today. Our research seeks to fill these gaps.

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<sup>16</sup> Anonymous scholar at the University of Havana.



Furthermore, there is also a group of researchers focused on the economic disparity between Spanish and Afro-Cubans (LeoGrande and Thomas 2002, Blue 2007). While Blue (2007) focuses on the Special Period (1989-2000), LeoGrande and Thomas (2002) study Cuban trade with the USSR. Blue (2007) argues that the Special Period economic reforms counteracted the regime's attempted eradication of racial discrimination through social reforms at the start of the revolution. LeoGrande and Thomas (2002) assert that the sugar trade partnership with the USSR was established as a way for Cuba to escape its dependency on the United States (LeoGrande and Thomas, 2002). However, this system led to a dependency on the USSR instead (LeoGrande and Thomas, 2002). Altogether, this body of research suggests that the Special Period created an economic crisis which, as Blue (2007) explains, reinstated socioeconomic classes and a racial hierarchy. The regime's social reforms equated racial equality with economic equality and did not acknowledge the social factors that contributed to racism in Cuba. Given this information, Blue (2007) seeks to understand the correlation between the decline in the government's influence on the daily lives of Cubans and rise of racial inequality in Cuba post-Special Period (2007). While Blue's (2007) study is very similar to our research, there are distinctive differences. Blue (2007) argues that Special Period economic reforms are the sole cause of the racial hierarchy present in Cuba today. Although the Special Period economic reforms are a major contributing factor to the racial hierarchy present in modern Cuba, it would be remiss to suggest that these economic reforms were the sole reason for racism on the island today. Our research suggests that the Special Period economic reforms are one of several economic and social factors that have put Afro-Cubans at an economic and social disadvantage in Cuban society.

In essence, these scholars have shown that racism in Cuba is rooted in the social makeup of the island as a result of the colonial legacy of slavery. Moreover, the research reveals that Afro-Cubans suffered economic disadvantages under the Castro regime, particularly during the Special Period. However, research that takes a more holistic approach as to how these two aspects are interrelated is needed to address the Afro-Cuban experience. This paper will make suggestions to alleviate Cuba's status quo by discussing relevant factors not discussed together in prior research such as: Cuba's history, its economic and social policies, and the U.S. influence. The first proposal is that the Cuban government should work toward implementing equal opportunity employment laws. Second, the

open discussion of racism and the history of Afro-Cubans must be encouraged to mitigate the inherent effects of racism in Cuban society. Third, because Cuba is moving toward a mixed socialist and free-market economic model, the government needs to regulate the private sector in order to create greater equality among races in the emerging private sector.

### **HISTORICAL OVERVIEW: EXPLORING THE FOUNDATIONS OF RACE IN CUBA**

Race in Cuba today is the product of a long history of racial inequality, going back to the slave trade that began in the early 1500s. This section looks to explore the foundational history of race in Cuba, starting from the pre-revolutionary period and moving to Fidel Castro's ascension to power. This background is essential in developing a nuanced understanding of race in Cuba so as to comprehend the perpetuation of social and economic injustices despite promises of equality.

#### *Pre-Revolutionary Cuba*

Cuba's slave trade and subsequent race relations are inherently connected to both Spanish and American colonial presence on the island. Spain's colonization process, which began in 1492, quickly led to the complete annihilation of the indigenous people, both by violence and disease.<sup>17</sup> By the early 1500s, wealthy Cubans began importing West African slaves to work on the sugar plantations in order to make up for the loss of the indigenous workforce. The wealth accumulated by the sugar plantations reinforced the dominance of slaves as the workforce in Cuba. By 1847, there were 437,000 slaves in Cuba.<sup>18</sup> While the Castro regime emphasizes sugar as the dominant feature of Cuban economy and society during the time of Spanish rule, we argue that slavery was the foundation of economic wealth and societal success in Cuba, which today is a forbidden narrative within Cuba itself.

After the U.S. took control of Cuba from the Spanish following the Spanish-American War in 1898, the colonial legacy of racial inequality continued. In fact, the United States military discriminated against black Cubans by rarely

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<sup>17</sup> De La Riva, Juan Perez, "A World Destroyed," in *The Cuba Reader: History, Culture, Politics*, eds. Aviva Chomsky, Barry Carr, and Pamela Maria Smorkaloff (Durham: Duke University Press, 2003), 20.

<sup>18</sup> Chomsky, Aviva, Barry Carr, and Pamela Maria Smorkaloff, "Sugar, Slavery, and Colonialism," 37

appointing them as officers. Aline Helg's account of the Afro-Cuban struggles reminds us that "the U.S. military government demobilized the Liberation Army and discriminated against blacks and mulattoes when appointing officers for the newly created rural guard and artillery corps."<sup>19</sup> Although slavery was outlawed in 1886 in Cuba, it left an enduring legacy on the island- a rigid social hierarchy that remained a crucial component of Cuban society until the 1959 Revolution. Social classes were based on race and economic status, with wealthy landowners of Spanish descent at the top of the social hierarchy and African slaves at the bottom. With the goal of gaining rights equal to those of Spanish Cubans, Afro-Cubans fought in the Independence War against colonial Spain, but "they discovered that the stereotypes of inferiority attached to them by the Spaniards had not been erased by their role in the war."<sup>20</sup> The narrative of white Cuban supremacy was already ingrained in the island's society, politics, and economics.

The legacy of racism continued during Fulgencio Batista's U.S.-backed dictatorship (1940-58) despite his being the first non-white president of the Cuban Republic. His election was a significant moment in Cuban history that is sometimes overlooked due to the corruption and violence he brought to Cuba. His time as president ushered in an enormous amount of American tourism. As a result, gambling and prostitution ran rampant, and Americans owned many hotels and restaurants. White Americans and wealthy Cubans thus monopolized the economic sector and further cemented the racism already existent in Cuba.

Racism, discrimination, and social exclusion were widespread prior to the revolution and affected not only Afro-Cubans but also people of mixed race and the poor.<sup>21</sup> In pre-revolutionary Cuba poverty and race were not mutually exclusive groups because there was considerable overlap. The majority of Afro-Cubans and mulattos in Cuba lived in extreme poverty in pre-revolutionary Cuba due to a lack of education and an inability to obtain jobs. According to Alejandro De la Fuente, "it is not unreasonable to assume that their educational situation deteriorated during the late pre-revolutionary period."<sup>22</sup> The poor,

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<sup>19</sup> Helg, "Afro-Cuban Protest," 103.

<sup>20</sup> Helg, "Afro-Cuban Protest," 102.

<sup>21</sup> Esteban Morales Dominguez, *Race in Cuba: Essays on the Revolution and Racial Inequality* (New York: Monthly Review Press, 2013), 114-5.

<sup>22</sup> Alejandro De La Fuente, "Race and Inequality in Cuba, 1899-1981," *Journal of Contemporary History* 30, no.1 (January 1995): 153.

especially impoverished Afro-Cubans and mulattos, were disgruntled by their lack of adequate education and other social services, and consequently their lack of social mobility in pre-revolutionary Cuba. As a result, many Afro-Cubans and mulattos began to support Fidel Castro's July 26 Movement, hoping for a change.

### *Fidel Castro's Rise to Power*

Fidel Castro capitalized off of Afro-Cubans' anger about economic and racial inequality. In the beginning of his campaign, "Castro gained the support of many Cuban citizens with promises to restore political and civil liberties."<sup>23</sup> These initial campaign promises were relatively moderate and appealed to many Cubans. However, "later, Castro began to take a more radical tone, nationalizing American businesses on the island, and further angering the U.S. with an increasingly anti-American rhetoric, and aligning with the Soviet Union in a 1960 trade deal."<sup>24</sup> These initial campaign promises were relatively moderate and appealed to many Cubans. However, "later, Castro began to take a more radical tone, nationalizing American businesses on the island, and further angering the U.S. with an increasingly anti-American rhetoric, and aligning with the Soviet Union in a 1960 trade deal."<sup>25</sup> While Batista and the U.S. reinforced these economic and racial divisions as a way to control Cuba economically and politically, Fidel Castro upset the balance of control by encouraging Afro-Cubans to support his July 26 Movement. Throughout the movement, Fidel Castro and his guerrillas continuously demanded the return of the 1940 constitution because it created a level of social equality that was impossible under Batista.<sup>26</sup> The 1940 Constitution created social equality by providing free education and health care to all Cubans regardless of race or socioeconomic class.

It is possible that Fidel Castro actually believed that creating equality through social programs eliminated racial inequality. Indeed, Castro's policies granted Afro-Cubans many rights that they did not previously have. As a result of socialist reforms Afro-Cubans were no longer at the bottom of a rigid social

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<sup>23</sup> Bryan Logan, "How Fidel Castro Rose to Power and Ruled Cuba for 5 Decades," *Business Insider*, January 13, 2015, <http://www.businessinsider.com/fidel-castros-life-and-rise-to-power-2015-1>.

<sup>24</sup> *Ibid.*

<sup>25</sup> *Ibid.*

<sup>26</sup> Devyn Spence Benson, *Antiracism in Cuba: The Unfinished Revolution* (Chapel Hill: The University of North Carolina Press, 2016), 31.

hierarchy because the regime had instituted reforms giving equality to all. However, these reforms did not address the problem of Afro-Cuban criminality. Afro-Cuban criminality remained prevalent on the island despite reforms. According to Blue, “Racial stereotypes of black criminality abound in Cuba and the vast majority of Cuban prisoners are black, despite the equalization of class differentiation normally associated with crime.”<sup>27</sup> While Afro-Cubans gained rights through Castro’s policies, racism continued to exist notably in the disproportionate number of criminals.

Another reason Fidel Castro hesitated to address race explicitly because he needed the support of Afro-Cuban leaders as well as widespread support from all Cubans for his new government.<sup>28</sup> Support from Afro-Cuban leaders came because the majority of Afro-Cubans did not have access to education or health care under Batista and stood to benefit from Castro’s social reforms. According to a 1962 survey, “80 percent of black Cubans were wholly in favor of the revolution, compared to 67 percent of white Cubans.”<sup>29</sup> In addition, Afro-Cuban support for Castro and a communist regime is also reflected through much of the poetry and art produced by Afro-Cubans at this time.

One poem found in Nancy Morejón’s “Black Woman”<sup>30</sup> demonstrates the emotional and physical response of black women to Castro’s revolutionary guarantees, thus showing that Castro’s goal of unified support from Afro-Cubans was not unfounded. Morejón’s work illustrates the

“Black Woman”  
 Now I exist: only today do we own, do we create  
 Nothing is foreign to us.  
 The land is ours.  
 Ours the sea and the sky  
 The magic and the vision.  
 Compañeros, here I see you dance  
 Around the tree we are planting for communism.  
 Its prodigal wood resounds.

<sup>27</sup> Sarah A Blue, “The Erosion of Racial Equality in the Context of Cuba’s Dual Economy,” *Latin American Politics and Society* 49, no. 3 (2007): 41, <http://www.jstor.org/stable/30130810>.

<sup>28</sup> Benson, *Antiracism in Cuba*, 31.

<sup>29</sup> Julia Cooke, “Amid Sweeping Changes in US Relations, Cuba’s Race Problem Persists,” *Al Jazeera*, August 13, 2015, <http://america.aljazeera.com/articles/2015/8/13/amid-sweeping-changes-in-us-relations-cubas-race-problem-persists.html>.

<sup>30</sup> Pablo Milanés, “The Original Sin,” in *The Cuba Reader: History, Culture, Politics*, eds. Aviva Chomsky, Barry Carr, and Pamela Maria Smorkaloff (Durham: Duke University Press, 2003), 416.

power of Castro's communist revolution and the beautiful promise of a country whose people are united under a common desire for equality. Fidel Castro's promise to combat such structural issues – the first leader in Cuba to do so – as well as his successes against the seemingly all-powerful United States gave many Afro-Cubans hope. And yet, “from its start, the revolutionary movement was dominated by middle-class white men.”<sup>31</sup> Castro's own revolutionary government was not inclusive of black women like Morejòn.

In 1959, Fidel Castro developed a campaign to eliminate racial discrimination in the new republic.<sup>32</sup> Through this campaign, he inadvertently created one of the greatest legacies of the regime.<sup>33</sup> In time, with help of the newly established social programs and the campaign to end racism, Afro-Cubans reached a level of economic prosperity that would not have been possible outside of the Castro regime. Castro implemented these programs not necessarily because he wanted to improve the economic standing of Afro-Cubans, but because social equality and racial unity were crucial in order to create a universal Cuban identity grounded in the revolutionary values of equality for all that would ensure loyalty to the Castro regime.<sup>34</sup>

For years, Afro-Cubans enjoyed racial equality under the Castro regime as a result of the reforms that Fidel Castro had implemented after the revolution. In particular, “the government relied on socialist mechanisms of social justice to solve its ‘race problem’.”<sup>35</sup> The social reforms created equal pay, education, and job access, which created complete economic equality in Cuba with the help of considerable economic support from the USSR. However, it is important to note that the government's legislative attempt at eradicating racism failed because they did not induce changes in social norms, allowing subconscious racism to persist

From 1959-1989, everything was owned by the state, and subsidized heavily by the Soviet Union. In 1964, Cuba and the USSR signed a five-year trade agreement, which stated that the Soviet Union would increase sugar imports at a higher price than the world market.<sup>36</sup> Cuba was insulated from fluctuations

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<sup>31</sup> Cooke, “Amid Sweeping Changes in US Relations, Cuba's Race Problem Persists.”

<sup>32</sup> Benson, *Antiracism in Cuba*, 30.

<sup>33</sup> *Ibid*, 31.

<sup>34</sup> Council on Hemispheric Affairs, “Revolutionary Racism in Cuba.”

<sup>35</sup> Blue, “The Erosion of Racial Equality in the Context of Cuba's Dual Economy,” 40.

<sup>36</sup> William M LeoGrande and Julie M Thomas, “Cuba's Quest For Economic Independence,” *Cambridge University Press* 34 (2002): 327.

in international sugar prices, and the USSR continued to finance the Cuban trade deficit.<sup>37</sup> Cuba maintained relative economic equality among its citizens regardless of race during this period. With the economic support that Cuba received from the USSR, the socialist revolution in Cuba flourished. Many of the social reforms that Fidel Castro implemented such as socialized healthcare and education established positive results for all races. According to Blue, “by 1981, equal levels of whites, blacks, and mulattos were graduating from high school and university. Life expectancy and the infant mortality rate had improved for the entire population, with only a slight white and non-white gap.”<sup>38</sup> While the increase in education for all races as well as the improvement in infant mortality rate indicates that racial inequality had dissipated since the start of the Revolution, the success of the social programs accounts for only the economic aspect of racial inequality.

Fidel Castro implemented the economic and social reforms believing that they would eradicate inequality on the island, whether racial or economic. The implementation of socialized education allowed all races equal access to jobs and equal economic compensation. However, De La Fuente proposes in his framework two that the revolution inherited and perpetuated a race problem.<sup>39</sup> Additionally, in framework four, he suggests that the revolution had a positive impact on race relations, but racism and discrimination remain in society.<sup>40</sup> Thus De La Fuente suggests that these policies did not address the issues of institutional racism that remain present in Cuba but only addressed economic and social reforms. According to the Council on Hemispheric Affairs, “The Castro government achieved more for blacks in fifty years than previous administrations had in the last 400 years; his policies only addressed issues of unequal access without changing structural biases underlying society.”<sup>41</sup> In addition to ignoring the racial biases ingrained in Cuban society, the regime also censored the discussion of race relations in the public sphere. Its problematic rationale was that if discussions of race were illegal, then it also did not exist. This error perpetuated a legacy of systemic racial inequality with no repercussions.

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<sup>37</sup> Ibid.

<sup>38</sup> Blue, “The Erosion of Racial Equality in the Context of Cuba’s Dual Economy,” 40.

<sup>39</sup> De la Fuente, “Race and Inequality in Cuba”, 132-3.

<sup>40</sup> Ibid.

<sup>41</sup> Council on Hemispheric Affairs, “Revolutionary Racism in Cuba.”

The lack of open discussion about race relations made it impossible to adjust and improve policies that were intended to help Afro-Cubans, countering the initial benefits of the social reforms.<sup>42</sup>

In reality, it is more likely that Fidel Castro prohibited discussion of race in Cuba because it was a divisive issue that threatened his ability to maintain control. Open discussions about race concerned the new regime because debates about race had the possibility to threaten national unity in the face of the U.S., which was encouraging the destabilization of the communist regime.<sup>43</sup> The U.S. aspired to dismantle the regime not only because Castro had expelled all U.S. businesses from Cuba and nationalized the land, but also because of Cuba's proximity to the U.S. and their relationship with the USSR. Whether Fidel Castro knew his decision to accept monetary support from the USSR would dictate decades of U.S.-Cuban relations is hard to say. However, it is clear that Castro elected to partner with the USSR in an effort to break away from U.S. influence because "Castro's courtship of the Soviet Union began shortly after the revolution with a visit to Havana by Soviet Vice Premier Anastas Mikoyan. As he took on the United States he knew he needed Soviet protection in order to survive."<sup>44</sup> At first, Castro likely assumed that a partnership with the USSR would protect Cuba from the U.S. and also ensure monetary support for social and economic programs. However, this alliance dictated the entire course of Cuba's economic and political future, an outcome that Fidel Castro could have anticipated.

Once the partnership between Cuba and the USSR developed, the U.S. would implement any means necessary to retaliate against the regime. Castro knew this and although the regime was somewhat protected because of his relationship with the USSR, he could not risk a nation divided by talks of race or socioeconomic status otherwise he could lose power. The United States used Castro's concern about division as well as Cuba's relationship about the USSR to sanction Cuba. Accordingly, "Washington asserted that Cuba's alliance with the Soviet Union and its behavior internationally constituted a national security threat to the United States. The embargo was therefore necessary to contain a nearby enemy."<sup>45</sup> Then,

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<sup>42</sup> Ibid.

<sup>43</sup> E.M. Dominguez, *Race in Cuba*, 117.

<sup>44</sup> "Castro and the Cold War," PBS, accessed November 6, 2017, <http://www.pbs.org/wgbh/americanexperience/features/comandante-cold-war/>.

<sup>45</sup> Arturo Lopez-Levy, "Chaos and Instability: Human Rights and U.S. Policy Goals in Cuba," *NACLA Report on the Americas* 44, (2011): 16.



President Eisenhower withdrew the U.S. embassy from Havana in 1961, and in April the CIA's force of trained Cuban exiles landed in the Bay of Pigs.<sup>46</sup> From the 1960s until Obama's second term as President, the U.S. continued with the embargo against Cuba even though decades had passed since the fall of the USSR.<sup>47</sup>

It can be inferred that the status of U.S.-Cuban relations today is heavily influenced by Cold War Politics, and because Cuba has very little to offer the U.S. the government can continue to implement the Cold War Era political policies against the island nation. Following the Cold War era, the U.S.' main argument against Cuba is that "the regime violates its citizens' human rights and ought to be overthrown for their benefit."<sup>48</sup> The U.S. does not explicitly discuss race as one of Cuba's human rights violations, and it is possible that the U.S. is not concerned about the plight of Afro-Cubans. However, the fact that the U.S. continues these strong Cold War foreign policy measures against Cuba indicates that the human rights argument against Cuba is another attempt to incite opposition against the regime particularly in present Cuba in which more people have access to internet and outside news. It is clear that the U.S. government is using Cuban human rights abuses as a justification for continuing the embargo because, "U.S. policy toward no other country, from China to Russia to Saudi Arabia, has been so exclusively predicated on human rights as Cuba policy has—at least at face value."<sup>49</sup> The U.S. justifies the embargo because of Cuban human rights abuses while failing to address similar violations in countries that the U.S. closely depends on for natural resources. The U.S. policy exists to divide the country against the regime rather than truly caring about the difficulties facing Afro-Cubans.

While the economic stability in Cuba prior to the collapse of the USSR allowed Spanish Cubans and the regime to forget about the issue of racism in Cuba, racism continued to exist. The overall quality of life in Cuba was improving for all Cubans thanks to socialized health care, food rations, and free education but below the surface, racism perpetuated. While the Afro-Cuban experience

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<sup>46</sup> Hugh Thomas, "The U.S. And Castro, 1959–1962," *American Heritage*, October/November, 1978.

<sup>47</sup> Ibid.

<sup>48</sup> Lopez-Levy, "Chaos and Instability," 16.

<sup>49</sup> Ibid.

at this time was not free from racism as the regime claimed, it was concealed by revolutionary reforms that eliminated many of the economic inequalities between races. For Afro-Cubans the benefits of the communist regime outweighed the problems of racism that were largely hidden because of social benefits. Although there is very little quantitative data about the correlation between the wage gap and race during the Special Period, information from a 1981 census shows that Afro-Cubans were overrepresented in the poorest urban neighborhoods with overcrowded and dilapidated houses.<sup>50</sup> In the beginning of the revolution the state owned every industry and wages were essentially equal, so the housing disparity among races was not of concern to the government because everything else was equal. With the fall of the USSR and the onset of the Special Period, the days in which race and economic status were not an issue in Cuba disappeared. Fidel Castro's social programs allegedly eliminated race and class in Cuba for good, but were only temporarily successful during the Revolutionary Period because of financial support from the USSR.

### *Cuba's "Special Period" of Economic Depression*

So as to overcome the economic depression after the fall of the USSR, which Fidel Castro aptly named the Special Period, the regime had to institute economic reforms in order to survive. These reforms included allocating more funds to the tourism sector, establishing a dual monetary system, legalizing remittances, and increasing foreign direct investment. The government transitioned the economic system from a state socialist model to a mixed model with a combination of state sectors and a small private sector.<sup>51</sup> The mixed economic model allowed the economy to rebuild after the fall of the Soviet Union, but these reforms required the regime to prioritize economic survival at the cost of forgoing a totally communist economic system.

How did these reforms affect the Afro-Cuban population in Cuba? One problematic outcome was that the regime began to move from its traditional state-run economic system to a mixed socialist and free-market model. The evident drawbacks to this mixed economy include the increased wage gap, the reappearance

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<sup>50</sup> Alejandro De La Fuente, "Race and Income Inequality in Contemporary Cuba," *NACLA Report on the Americas* 44, (2011): 32, doi:<http://dx.doi.org/10.1080/10714839.2011.11725549>.

<sup>51</sup> Jorge I Dominguez, Omar Everleny Perez Villanueva, Mayra Espina Prieto, and Lorena Barberia, eds., *Cuban Economic and Social Development*, (Cambridge: Harvard University Press, 2012), 262.

of racial and economic hierarchies between Spanish Cubans and Afro-Cubans, and finally the resurgence of institutionalized racism. Due to the wage gap, racial and economic hierarchies resurfaced, and the colonial legacy of institutionalized racism reappeared. According to Leogrande and Thomas, “Food shortages appeared, along with neurological diseases related to poor nutrition. The resulting political discontent produced serious anti-government disturbances and growing pressures for emigration.”<sup>52</sup> Emigration to the United States required a level of privilege that few Afro-Cubans had access to, so the majority of Afro-Cubans remained in Cuba and continued to work for the government while the remaining Spanish Cubans transitioned to jobs in the private sector.

The wage gap was further exacerbated when the regime lowered state salaries, which primarily impacted Afro-Cubans, the majority of whom worked in the state sector. Inflation became a way to transfer financial resources from state employees to the state budget, which made it possible for the state to avoid unemployment and maintain the existing levels of spending on health and education services.<sup>53</sup> However, with the legalization of small businesses, wealthy Spanish Cubans began to open small businesses such as *Paladares* and *Casas Particulares*, which are in home restaurants and in home accommodations for tourists respectively. Afro-Cubans could not open these types of small businesses because their homes were typically in bad condition and in undesirable areas for tourists.

A survey by geographer Sarah Blue provides a more accurate portrayal of the overall wage-gap between Afro-Cubans and “white” Spanish Cubans because it reflects the effects of Special Period economic reforms on race. According to the survey, “70% of whites work in the low-paying state sector, compared with 81% of mulattos and 84% of blacks.”<sup>54</sup> Conversely, the proportion of whites among the self-employed is three times larger than among mulattos and blacks.”<sup>55</sup> Blue’s survey, which was taken at the end of the Special Period, indicates that Afro-Cubans and mulattos together held the majority of jobs in the state sector and very few were self-employed, so together Afro-Cubans and mulattos occupied the majority of the lowest paying jobs on the island. The survey shows the existence of a wage gap between Afro-Cubans and Spanish Cubans due to an unequal distribution of races in the public and private sectors. It can be inferred that these inequalities

<sup>52</sup> LeoGrande and Thomas, “Cuba’s Quest For Economic Independence,” 343.

<sup>53</sup> J.I. Dominguez et al., eds., *Cuban Economic and Social Development*, 41.

<sup>54</sup> Blue, “The Erosion of Racial Equality in the Context of Cuba’s Dual Economy,” 46.

<sup>55</sup> De La Fuente, “Race and Income Inequality in Contemporary Cuba,” 32.

between Spanish Cubans and Afro-Cubans emerged during the Special Period for the following reasons; the legalization of small businesses, increased foreign direct investment especially in the tourism sector, increased remittances, the poor quality and location of Afro-Cuban housing, and finally the creation of the dual-currency economy. These temporary reforms had long-lasting effects on race relations in Cuba.

The mixed economy that Cuba used during the Special Period had clear benefits for the regime, which prospered with minimal assistance from other countries. All of these effects enabled the pre-revolutionary racial and social hierarchies between Spanish Cubans and Afro-Cubans to flourish once again because many Spanish Cubans were able to advance financially in ways that Afro-Cubans could not. While economic liberalization occurred in Cuba out of necessity, many of the outcomes of economic liberalization were unintentional.

The regime continued to enact reforms that generated higher revenues and stressed the importance of “self-sufficiency to reduce the need for imports, and called for increasing foreign investment and exploiting the potential of the tourism sector.”<sup>56</sup> The state increased funding to the more lucrative tourism sector, which advertised Cuba’s beautiful beaches, kind people, and inexpensive bars to attract foreigners to the island with money to spend. In addition to increasing funding to the tourism sector, Fidel Castro also legalized the use of the U.S. dollar in Cuba, which created a dual monetary system.

The Cuban government legalized the use of the U.S. dollar in the form of the Convertible Cuban Peso in addition to the Cuban Peso as a short-term solution to a lack of hard currency on the island. The use of the U.S. dollar in Cuba is an interesting phenomenon because of the U.S. and Cuba’s complicated history of foreign relations. Because the Cuban Peso was not strong enough to use to purchase necessary goods on the global market without financial support from the Soviet Union, Cuba needed the Convertible Peso in order to purchase necessities, such as crude oil, grain, and fruit.<sup>57</sup> Furthermore, “given that many Cubans already received US dollars from family members abroad, the government simply legalized a currency that had been circulating within the

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<sup>56</sup> LeoGrande and Thomas, “Cuba’s Quest For Economic Independence,” 343.

<sup>57</sup> Jeffrey L Roberg and Alyson Kuttruff, “Ideological Success or Ideological Failure,” *Human Rights Quarterly* 29, no. 3 (2007): 790.

economy illegally.”<sup>58</sup> Similar to the regime’s emphasis on tourism, which was not intended to become an important source of long-term income for the country, the dual monetary system outlived the Special Period, and continues to operate as a way to regulate the economy.

Despite the Cuban government’s hope that the two currencies would be a short term economic solution, the use of dual currency continues into the present. Although, the government operates off of two currencies, the Cuban Peso (CUP) and the Convertible Cuban Peso (CUC), neither of these currencies is exchangeable in foreign markets.<sup>59</sup> “The CUC is pegged to the dollar and worth 25 times as much as the CUP.”<sup>60</sup> The reason that the CUC’s value is pegged to the U.S. dollar dates back to Special Period politics. After collapse of the USSR, the trade agreements that kept the Cuban economy going disappeared. In an effort to stimulate the economy, Fidel Castro legalized the possession of U.S. dollars, which many wealthier Cubans received from relatives in the United States.<sup>61</sup> At this time, “Dollar stores [are] mushroomed to capture the money flowing in from newly welcomed tourists and Cubans living abroad. Meanwhile, all Cuban state workers were still paid a pittance (less than \$20-worth a month) in the old Cuban peso.”<sup>62</sup> The legalization of the U.S. dollar and the creation of the CUC helped the Cuban economy get back on track. At first, the United States had little to say about the legalization of U.S. dollars in Cuba, but under the George W. Bush Administration new policies governing Cuba’s use of the dollar forced Cuba to make policy changes governing the use of U.S. currency.

In the U.S.’s on-going ideological battle with the Cuban regime, the Bush Administration enacted policies restricting dollar remittances to Cuban families by Cuban American relatives, and the government also attempted to prevent international banks from providing Cuba with U.S. dollars, which Cuba needed because the Cuban peso cannot be used for international trade.<sup>63</sup> As a result of Bush’s policies, Fidel Castro barred U.S. currency notes from being used as payment

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<sup>58</sup> Roberg and Kutruff. “Ideological Success or Ideological Failure.”

<sup>59</sup> Economist, “Cuba’s Currency Double Trouble,” *The Economist*, October 2013, <https://www.economist.com/blogs/americasview/2013/10/cubas-currency>.

<sup>60</sup> Ibid.

<sup>61</sup> Ibid.

<sup>62</sup> Ibid.

<sup>63</sup> Giles Tremlett, “Cuba ends affair with American dollar,” *The Guardian*, October 27, 2004, <https://www.theguardian.com/world/2004/oct/27/cuba.gilestremlett>.

on the island.<sup>64</sup> In order to continue using the dollar, which remains essential to the Cuban economy, Fidel Castro introduced his own policies sanctioning U.S. currency on the island. These days, anyone on the island with U.S. dollars has to exchange them to the CUC, which can then be used to purchase goods and services. Anyone who exchanges dollars to CUCs receives 13% less because the government issues a 10% penalty to exchange U.S. dollars along with a 3% transaction charge.<sup>65</sup> Despite the taxes, Cubans who work in the tourism sector or who receive remittances from family abroad continue to use dollars to purchase items that they need and cannot get through the government's rationing system.

Since the beginning of the communist revolution, many Cubans received illegal remittances from family abroad. In many Cuban households remittances were akin to a second income, which families used to purchase necessities on the black market that were not available through government rations. During Special Period reforms, the government permitted Cubans to receive remittances as another way to infuse more money into the Cuban economy. "The inflow of remittances and private transfers from abroad influenced the liberalization process."<sup>66</sup> According to studies discussed in Dominguez et al, "The effect of remittances allows households to double their consumption."<sup>67</sup> Many of the Afro-Cubans that we spoke to while in Cuba explained that their families are more limited economically because they do not receive remittance due to a lack of family abroad. According to Arsenault, "the people benefiting from remittances are white; the landlords are white. As capitalism creeps into Cuba more than 60 years after a revolution that promised social equality, local residents and analysts are concerned about the gap between the haves and have nots and the ethnic undertones of growing inequality on the island."<sup>68</sup> The majority of remittances are sent to Spanish Cubans whose families had wealth prior to the revolution and some family members were able to leave Cuba and send money back. As a

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<sup>64</sup> Ibid.

<sup>65</sup> Catherine Hamm, "Heading to Cuba? Some tips on exchanging Euros vs. U.S. dollars," *LA Times*, June 22, 2015, <http://www.latimes.com/travel/deals/la-tr-spot-20150621-story.html>.

<sup>66</sup> Rob Vos, Enrique Ganuza, Samuel Morley, and Sherman Robinson, *Who Gains from Free Trade: Export-Led Growth, Inequality, and Poverty in Latin America*, (New York: Routledge, 2006), 233.

<sup>67</sup> J.I. Dominguez et al., eds., *Cuban Economic and Social Development*, 272.

<sup>68</sup> Chris Arsenault, "In Cuba, Racial Inequality Deepens with Tourism Boom," *Reuters*, 2016, <http://www.reuters.com/article/us-cuba-inequality-idUSKCN0VB1LT>.

result of the legalization of remittances, many Spanish Cuban families survived the Special Period without economic hardship unlike Afro-Cuban families who were not likely receiving money from abroad. Therefore, this policy contributed to the racial hierarchy reappearing as Afro-Cubans quickly slid back into poverty.

In addition to remittances, the dual currency and in home businesses, the government implemented foreign direct investment as a final mechanism to promote economic growth during the Special Period. In 1992, the regime enacted a constitutional amendment that permitted a maximum of forty-nine percent private foreign ownership in joint-enterprises.<sup>69</sup> The government continued to have considerable control over foreign corporations, but with the amendment the regime was able to attract new investments primarily in the tourism sector.<sup>70</sup> Foreign direct investment enhanced Cuba's tourism infrastructure and upgraded many hotels in order to better appeal to tourists from Europe and the United States which in turn created jobs in the private sector of the tourism industry that paid in U.S. dollars rather than Cuban pesos.

Employers in the private tourism sector favor light skinned Cubans over Afro-Cubans due to the perception that light skinned Cubans embodied the authentic cultural experience that tourists were expecting. As a result, many of the outcomes of economic liberalization had negative impacts on the Afro-Cuban community.<sup>71</sup> De La Fuente's (2001) research found the prevailing opinion within Cuban society to be that "Afro-Cubans are unattractive, dirty, prone to criminal activities, inefficient or lack proper manners and education."<sup>72</sup> De La Fuente's research demonstrates the obvious existence of racism in Cuban society, despite what the government insists. While the intent of the nationalistic, communist agenda behind ending racism seems positive on the surface-level, especially in comparison to other Western countries, the daily experiences of Afro-Cubans portray a failed revolutionary goal.

This history demonstrates the social and economic disadvantages Afro-Cubans have encountered. The roots of the contemporary Afro-Cuban experience lie in historical racism. The Cuban Revolution purportedly outlawed racism but when Fidel Castro stepped down and handed power over to his brother Raúl,

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<sup>69</sup> LeoGrande and Thomas, "Cuba's Quest For Economic Independence," 344.

<sup>70</sup> Ibid.

<sup>71</sup> Anonymous Scholar at the University of Havana

<sup>72</sup> Alejandro De La Fuente, "The Resurgence of Racism in Cuba," *NACLA Report on the Americas* 34 (2001): 32, doi:<http://dx.doi.org/10.1080/10714839.2001.11722587>.

Afro-Cubans continued to live in a state of inequality. The legalization of the U.S. dollar in addition to the establishment of a small private sector re-created economic class divisions in Cuban society. Life in the “New Cuba” after the Special Period was very difficult for those who lacked access to U.S. dollars, and Afro-Cubans most often did not. This hardship combined with ingrained racism sparked a cultural movement to preserve Afro-Cuban heritage. The next section introduces the economic reforms under Raúl Castro and explains how they have continued to affect the Afro-Cuban population adversely.

### **CONTEMPORARY EXPERIENCES AND RAÚL’S ECONOMIC REFORMS LABELLED “LINEAMIENTOS”**

The resurgence of Special Period racial divisions have continued to worsen under Raúl Castro’s authority because of a series of economic reforms (lineamientos) particularly those governing privatization that he implemented to expand the economy. Given the history of racial inequalities, the new set of reforms (lineamientos) under Raúl Castro led to six specific outcomes that merit analysis—four negative outcomes and two positive outcomes. The two positive outcomes that improved life for Afro-Cubans as a result of these lineamientos are social and educational tools, which are used to combat the persistence of racism on the island. Social tools include discussing existing racism in Cuba, and educational tools include integrating Afro-Cuban history into the primary-university curriculum throughout Cuba. Despite the positive outcomes, as Alejandro De La Fuente’s second and fourth frameworks suggest, Afro-Cubans daily lives continue to be impacted by four major negative outcomes. These outcomes include: increased stereotyping of Afro-Cubans, a wage-gap, exclusion from the small business sector, and lastly the gradual loss of the revolutionary spirit.

Although the reforms established during the Special Period as well as those following the Special Period created disadvantages for Afro-Cubans both racially and economically, the liberalization of the economy has allowed many Cubans to realize that racism is still present in Cuba. De La Fuente explains, “One of the unintended and perhaps one of the few welcome effects of the so-called Special Period is that it forced this conversation on the Cuban people. But it did so by giving race a social visibility, currency and importance that it had not



enjoyed for decades.”<sup>73</sup> Raúl Castro is not only allowing race to be discussed more openly, but education about Afro-Cuban history is also changing. According to Erik Gleibermann, “In Havana, community artists and members of the National Ministry of Education are collectively exploring how to integrate Afro-Cuban history and related gender concerns into the primary-through-university school system.”<sup>74</sup> The new education initiative indicates that the regime recognizes that racism remains prevalent within governmental institutions and society, and the effects of racism can only be mitigated through open discussion and education in schools.

Under Raúl’s leadership, the income disparity is more evident as the distinction between the private and public sectors continues.<sup>75</sup> In the private sector, employees are paid in U.S. Dollars, whereas, in the public sector employees are paid in Cuban pesos.<sup>76</sup> How does this create an income disparity? Cuban Pesos (CUPs) are used to pay public sector employees, whereas the private sector, which is typically comprised of tourism jobs, pays in U.S. Dollars. Private sector employees then take these dollars and exchange them into CUCs. Even though many Cubans are still paid in CUPs, “nearly all consumer goods are priced in CUCs.”<sup>77</sup> The dual-currency system, albeit necessary during the Special Period Depression, highlights and exacerbates divisions between individuals who work in the private sector with access to hard currency, and those who work for the government and have to depend on their wages and food rations to survive.<sup>78</sup>

The lack of extra money after food rations makes it hard for government employees to budget for entertainment, home upkeep, and clothing for their families. Until the Special Period, the food ration program was able to distribute a sufficient amount of food to each citizen regardless of income. However, at the onset of the Special Period, “Cubans have to complete their diet with products sold in the hard currency stores and the farmers’ markets, where one pound (450 grams) of pork can cost 40 pesos (1.60 dollars) – the same price fetched by a

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<sup>73</sup> Alejandro De La Fuente, “The New Afro-Cuban Cultural Movement and the Debate on Race in Contemporary Cuba,” 712.

<sup>74</sup> Erik Gleibermann, “Where Hip Hop Fits in Cuba’s Anti-Racist Curriculum,” *The Atlantic*, 2016.

<sup>75</sup> Roberg and Kuttruff, “Ideological Success or Ideological Failure,” 790.

<sup>76</sup> *Ibid.*

<sup>77</sup> *Economist*, “Cuba’s Currency Double Trouble.”

<sup>78</sup> *Ibid.*

pound of onions at certain times of the year.”<sup>79</sup> The cost of purchasing additional food to supplement monthly food rations would use up the majority of the rest of a governmental salary, which essentially forces government employees to get another job to help their families reach a higher standard of living or alternatively suffer in poverty. Due to a reduction in state payrolls that began as part of economic reforms during the Special Period and continue to the present, individuals who work for the state struggle to meet the basic needs of their family especially because food absorbs between 59 and 75 percent of the family budget in Cuba.<sup>80</sup>

While Spanish Cubans have more employment options, most Afro-Cubans are constrained to government jobs because of race. Jobs are less competitive in the state sector because they pay less than jobs in the private sector. According to De la Fuente, “racial inequality is significantly larger in the non-state sector than in the less competitive state sector.”<sup>81</sup> In addition, “The private sector is largely family-centered (Paladares and Casas Particulares), and Afro-Cubans have limited access to it. Racial discrimination, in turn, has prevented them from getting equal access to high-paying jobs in tourism and in joint ventures.”<sup>82</sup> Afro-Cubans’ ability to create home-businesses such as Paladares or Casas Particulares are finite because the majority of Afro-Cubans live in the most crowded neighborhoods in Havana and other major cities whereas the majority of Spanish Cubans live in less congested areas.<sup>83</sup> The quality of housing for Afro-Cubans should have been addressed during the initial revolutionary reforms, but it was of less concern to Fidel Castro because of other social reforms that allowed for complete economic equality among races. Currently, housing continues to be an additional obstacle for Afro-Cubans and mulattos in starting a small business along with a lack of financial assets.

We believe that the Cuban economy is making this shift for several reasons. First, the previous communist system that Cuba was operating under provided equal social programs and welfare to all citizens. However, without

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<sup>79</sup> Patricia Grogg, “Cuba’s Reforms Fail to Reduce Growing Inequality,” Inter Press Service, 2014.

<sup>80</sup> Ibid.

<sup>81</sup> De La Fuente, “Race and Income Inequality in Contemporary Cuba,” 32-3.

<sup>82</sup> Ibid.

<sup>83</sup> Ibid.

a lot of economic support from the USSR or some other major world power, the communist economy could not be sustained, which forced Fidel Castro to make some difficult decisions and institute some “temporary” free-market reforms. Second, these reforms were never outlawed because the Castro’s realized they could not go back to the old system without backlash from the Cuban people, and they wanted to maintain governmental stability and power so they chose to leave these reforms at the cost of social inequality. Finally, with the normalization of trade relations, many American tourists to travel to Cuba, and also “helped stimulate more interest from other international visitors.”<sup>84</sup> According to Cuban officials, the economy is expected to grow 2% this year assuming that oil prices increase and tourism continues to expand.<sup>85</sup> Even though many tourists have started visiting Cuba, the country has a long way to go in terms of hotel infrastructure—something that can only be improved through foreign direct investment in the hotel industry.<sup>86</sup> Therefore, Raul Castro may have suspected that reinstating the communist economy could jeopardize the economic growth potential that would come from a more favorable relationship with the U.S.

With the historic normalization of trade relations between the U.S. and Cuba in 2014, the Cuban economy was expected to continue thriving because of increased economic support from the United States. However, while the Obama administration’s more liberal economic policies toward Cuba allowed for economic growth, they also exacerbated the already existing socioeconomic class divisions.<sup>87</sup> As part of the historic thaw with Cuba, Americans were permitted to send up to \$8,000 a year in remittances in comparison to the previous \$2000.<sup>88</sup> Each year Cuba receives between \$1 billion and \$3 billion in remittances from the United States, which are the primary source of funding for many of the small businesses in Cuba.<sup>89</sup> The Cuban government is now more capitalist than socialist, which is causing the socioeconomic hierarchy that was present before the revolution to

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<sup>84</sup> Mimi Whitefield and Nora Gamez Torres, “The Next Year Will Determine Raul Castro’s Economic Legacy,” *Miami Herald*, 2017, <http://www.miamiherald.com/news/nation-world/world/americas/cuba/article139967768.html>.

<sup>85</sup> Whitefield and Gamez Torres, “The Next Year Will Determine Raul Castro’s Economic Legacy.”

<sup>86</sup> *Ibid.*

<sup>87</sup> Randal C Archibold, “Inequality Becomes More Visible in Cuba as the Economy Shifts,” *The New York Times*, 2015, <http://nyti.ms/17RP4w1>.

<sup>88</sup> *Ibid.*

<sup>89</sup> *Ibid.*

resurface.

In the beginning of his presidency, Trump spoke of his goals to overturn Obama's policies towards Cuba, particularly with regard to tourism and business investments. As time has passed, it has become evident that Trump's policies towards Cuba tend to be more reactive than prescribed. Trump initially announced several changes to Obama's Cuba policy, which will restrict commerce with the government and limit U.S. travel.<sup>90</sup> However, despite this announcement no concrete details regarding this policy change have been enacted, and "White House officials said that actual changes remain months away."<sup>91</sup> Furthermore, many policymakers, both Democratic and Republican, are critical of Trump's proposed changes. "Rep. Eric A. "Rick" Crawford (R-Ark.), whose state seeks increased access to the island's \$2 billion agricultural imports market, called Trump's approach "failed, outdated, and isolationist."<sup>92</sup> It is hard to know whether these proposed changes will take effect. Since the beginning of his Presidency, Donald Trump, has been relatively inconsistent with proposed policy changes.

However, if these changes are enacted, there will be numerous repercussions. First, Trump's reversals in Obama's policies could "limit the possibility for positive change on the island and risk ceding growth opportunities to other countries that may not share America's interest in a free and democratic Cuba that respects human rights."<sup>93</sup> Second, Trump's policies have significant economic implications for Cubans. As word spread that President Trump had "canceled" some of Obama's policies that allowed more Americans to come to Havana, Cuban residents, shop owners, and employees in Old Havana feared that the newly expanded tourism economy would suffer if Trump's travel restrictions were enacted.<sup>94</sup> Furthermore, Obama's landmark opening of Cuba was incredibly well received throughout Latin America because many countries in Latin America vehemently opposed U.S. isolation of Cuba.<sup>95</sup> Trump's reversal

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<sup>90</sup> John Wagner and Katherine DeYoung, "Trump Announces Revisions to Parts of Obama's Cuba Policy," *The Washington Post*, June 16, 2017, [https://www.washingtonpost.com/politics/trump-announces-revisions-to-parts-of-obamas-cuba-policy/2017/06/16/dee8671c-52ab-11e7-91eb-9611861a988f\\_story.html?utm\\_term=.825e3c9235e3](https://www.washingtonpost.com/politics/trump-announces-revisions-to-parts-of-obamas-cuba-policy/2017/06/16/dee8671c-52ab-11e7-91eb-9611861a988f_story.html?utm_term=.825e3c9235e3).

<sup>91</sup> *Ibid.*

<sup>92</sup> *Ibid.*

<sup>93</sup> *Ibid.*

<sup>94</sup> *Ibid.*

<sup>95</sup> *Ibid.*

policies, if enacted, have the possibility to threaten the U.S. relationship with Cuba as well as other Latin American countries.

Finally, Trump's policies will disproportionately disadvantage Afro-Cubans. Despite the overall preference of white "Spanish Cubans" for the tourism industry, according to Alejandro de la Fuente, "the participation of black Cubans in tourist-related, dollar-earning services probably has increased since March 2016, when President Obama relaxed the regulations concerning American visitors to Cuba."<sup>96</sup> Obama's regulations dictated that individuals could travel to Cuba alone for "people to people" educational tours, but American tourists were not permitted to partake in tour packages at state-owned, all-inclusive hotels, which are popular with European and Canadian tourists.<sup>97</sup> Frequently, "American visitors stay in rental rooms around the city, including less affluent areas, where Afro-Cubans are better represented. Their visits have had a democratizing effect on the service sector, creating opportunities for individuals, families, and neighborhoods that were previously excluded from the tourist economy."<sup>98</sup> Trump's proposed policies, in conjunction with Raul Castro's preference for an economy with less state-run entities and more small businesses, provide a bleak outlook for Afro-Cubans, many of whom were starting to benefit from the legalization of privatized businesses on the island.

It became evident after implementing these economic reforms that the post-Soviet Cuban economy could not thrive and also continue to provide social services to its people without keeping in effect these Special Period economic reforms. Today, social services remain free to everyone regardless of race or socioeconomic class, but the establishment of the dual currency system, albeit necessary, has allowed prior socio-economic classes to re-emerge and has introduced economic competition reminiscent of a free-market economy. In some ways, the economic goals of the Cuban Revolution have failed. While social services and education remain free, everyone had previously received the same salary despite their job, and the regime encouraged Cubans to find jobs that aligned with their interests. However, now, due to liberalization, Cubans are now motivated to find jobs that pay well. "In the pursuit of foreign currency, professors left university jobs to

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<sup>96</sup> Alejandro de la Fuente, "Under Trump's Revised Policy, Black Cubans Will Get Left Behind, Again," *Miami Herald*, June 29, 2017, <http://www.miamiherald.com/opinion/op-ed/article158976199.html>.

<sup>97</sup> *Ibid.*

<sup>98</sup> *Ibid.*

work as hotel waiters, and doctors took to driving taxis. Some black Cubans say they have trouble getting comparatively lucrative jobs in hotels because of discrimination.”<sup>99</sup> As the private sector in Cuba continues to grow, the economic success of Spanish Cubans in comparison to Afro-Cubans continues to widen. Raúl Castro’s economic reforms made it easier for Cubans to establish private businesses, simultaneously increasing the importance of remittances, which were critical to finance the start of a small business.<sup>100</sup>

Although the current regime has implemented open dialogues about race in Cuba and a new education campaign, additional improvements are needed to alleviate racism. In order for Afro-Cubans and mulattos to ultimately experience financial success on par with Spanish Cubans, the regime must implement equal employment laws governing the private sector. Ecuador, a country similarly diverse, recently passed a reform to their 1938 labor code which “includes provisions to protect vulnerable and historically discriminated groups, such as pregnant woman, Afro-Ecuadoreans and LGBT workers”, alongside recognizing the labor of homemakers.<sup>101</sup> The International Labor Organization recognized Ecuador for this landmark reform towards equal employment<sup>102</sup>, a law that, if Cuba enacted, could make a significant and positive impact on workplace inequality in Cuba. Unfortunately it is unlikely that the regime will implement such laws for several reasons. First, the implementation of laws governing the private sector would indicate to the world that Cuba has officially transitioned from a socialist state-run economy to a hybrid model, which holds greater resemblance to a free-market capitalist economy. Second, the socialist Cuban government would not want to acknowledge the permanence of the private sector of the Cuban economy because that would be proof that the economic aspect of socialism had failed.

As Raúl Castro continues to institute reforms further liberalizing the economy, Afro-Cubans and mulattos worry about how the spirit of the revolution will be maintained, particularly as the reforms affect the increasing

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<sup>99</sup> Arsenault, “In Cuba, Racial Inequality Deepens with Tourism Boom.”

<sup>100</sup> Ibid.

<sup>101</sup> “Domestic Work Recognized in ‘Historic’ Ecuador Labor Law Reform,” Telesurtv, accessed November 6, 2017, <https://www.telesurtv.net/english/news/Domestic-Work-Recognized-in-Historic-Ecuador-Labor-Law-Reform-20150415-0002.html>.

<sup>102</sup> Ibid.

racial divide. According to Maria Luz Fernandez, a primary school administrator, “we need to keep the ideas of the revolution: free education, healthcare, taking care of the elderly and racial equality.”<sup>103</sup> One of the problems today, according to Luz Fernandez, is that “young people want big houses and cars, but the revolution can’t afford to provide that for everyone.”<sup>104</sup> The interview with Luz Fernandez highlights a concern that Cubans have as the economy continues to liberalize under the leadership of Raúl Castro. Luz Fernandez alludes to the idea that many Cubans have lost sight of the goals of the revolution because they are trading government jobs for those in the private sector that pay in U.S. dollars, which begs the question, are revolutionary values disappearing within the socialist economy? In many ways, the ideals and values of the revolution are slowly fading away from Cuban society because in the “New Cuba” under Raúl, citizens are concerned with finding employment that will enable them to purchase material goods and other luxury items that were not attainable prior to economic liberalization. As a result the government is less concerned about the support of Afro-Cubans now that the economy is growing more rapidly.

The revolution sought to create a classless society in which everyone’s basic needs were met without ensuring that each person could afford all that they want. The popular support for equality that the revolution has used to retain popularity for the past few decades is losing popular support, particularly from poorer Cubans who are struggling to afford basic necessities.<sup>105</sup> In addition, the achievement of racial equality in Cuba was largely dependent upon government performance.<sup>106</sup> This new reality in Cuba has increased economic and racial inequality because of Raúl Castro’s continued support for economic liberalization as well as his more pragmatic views about the future of the Communist Revolution.<sup>107</sup> Although Raul and Fidel both participated in the Revolution from the beginning, Raul is not as bound to the revolutionary ideology as his older brother.<sup>108</sup> Furthermore, Raul Castro has made an effort to shrink the size of government employment

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<sup>103</sup> Arsenault, “In Cuba, Racial Inequality Deepens with Tourism Boom.”

<sup>104</sup> Ibid.

<sup>105</sup> Roberg and Kutruff, “Ideological Success or Ideological Failure,” 792.

<sup>106</sup> Ibid.

<sup>107</sup> Jim Michaels, “Cuban President Raúl Castro: A Pragmatist Who Made Reforms,” *USA Today*, November 27, 2016, <https://www.usatoday.com/story/news/world/2016/11/27/cuban-president-raul-castro-pragmatist-who-made-reforms/94517778/>.

<sup>108</sup> Michaels, “Cuban President Raúl Castro: A Pragmatist Who Made Reforms.”

and has encouraged entrepreneurship and small business growth.<sup>109</sup> While the greatest support for the Cuban revolution came from the impoverished and socially marginalized, of which Afro-Cubans were generally both, the current suffering of the lower socioeconomic classes, most of whom are Afro-Cuban or of mixed ancestry, indicates that on many levels the spirit and ideals of the Cuban Revolution are no longer relevant in the new economically liberal Cuba.<sup>110</sup>

The economic area that is growing most significantly is the tourism industry where, “there seems to prevail an understanding that the satisfaction of the tastes of tourists involve certain ‘aesthetic’ requirements within which the nonwhite skin color takes on a negative connotation.”<sup>111</sup> Cuban tour companies aspire to hire certain types of people to be the face of authentic Cuban culture that predominantly white tourists hope to experience. The tourism industry in Cuba, a growing and extremely crucial economic part of the country, disproportionately hires white Cubans over black Cubans.<sup>112</sup> Furthermore, coded language is used to explain the lack of accurate representation and diversity in the tourist industry in response to criticism. While it is not illegal for Afro-Cubans to work in tourism, it is “regulated that people must have a pleasant aspect, and blacks do not have it.”<sup>113</sup> De La Fuente describes this “pleasant aspect” as “a radicalized construct that claims that blacks cannot be hired for jobs due to aesthetic considerations and to the alleged preferences of the tourists.”<sup>114</sup> This is explicit racism and uses the euphemism of “pleasant aspect” as a thinly veiled attempt to keep a particular group of people out of the workforce.

Tourism in general is a privilege that requires money and time and is therefore limited to certain socioeconomic classes and races. While there are few statistics about race and tourism, “according to the Mandela Research Firm, 17% of African-Americans take one or more international trips a year.”<sup>115</sup> In addition, “according to analysts at MMGY Global, a marketing firm, black travel has rebounded since 2008, which is notable considering that the great recession

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<sup>109</sup> Ibid.

<sup>110</sup> Arsenault, “In Cuba, Racial Inequality Deepens with Tourism Boom.”

<sup>111</sup> Anonymous scholar from the University of Havana

<sup>112</sup> De La Fuente, “The Resurgence of Racism in Cuba,” 32-3.

<sup>113</sup> Ibid.

<sup>114</sup> De La Fuente, “The Resurgence of Racism in Cuba,” 32.

<sup>115</sup> Farai, Chideya, “Traveling While Black,” *New York Times*, January 3, 2014, <https://www.nytimes.com/2014/01/05/travel/traveling-while-black.html>.



doubled the gap between black and white wealth.”<sup>116</sup> While companies often market getaways to other minorities, marketing to black tourists is not typical.<sup>117</sup> While the tourism industry in Cuba is inherently racist because they offer jobs primarily to Spanish Cubans, it occurs because the Cuban tourism industry targets perceived perceptions of their greatest percentage of clientele—individuals who are upwardly mobile and frequently white. Often, wealthy white tourists feel most comfortable with white tour guides who talk about the white experience and do not mention minority experiences. Tour companies should make more of an effort to market tourism opportunities specifically to black minorities and also to speak about minority experiences.

In addition, there is also a lack of political representation of Afro-Cubans. “Still, despite major economic and social gains, black Cubans...remained underrepresented in the political leadership.”<sup>118</sup> While many Afro-Cubans are aware that “social mobilization and conscious policymaking” are the most effective ways to resist policies that hinder Afro-Cuban progress, “Cuba is not a friendly place for autonomous, non-state-controlled social mobilization.”<sup>119</sup> However, in Cuba there is a developing “Afrodescendant Movement” that began after the fall of the USSR and the start of the Special Period, and has continued to operate in Cuba today.<sup>120</sup> The movement emerged as a clear response to the increase of racism and discrimination. Originating in the early 1990s, the movement began as a response to the disintegration of race relations with artists and intellectuals who “began denouncing the persistence of racist practices and stereotypes in Cuban Society.”<sup>121</sup> The birth of the Afro-Cuban cultural movement in a time of economic downturn and heightened racial tensions is remarkably significant. It shows the grit of the Afro-Cuban community in the face of years of discrimination as well as the power of art and education in creating a path of resistance.

Since then, the movement has expanded, and “it now includes community activists working in some of the poorest neighborhoods in the country; organizations that specialize in legal services; gender-based forms of activism; bloggers and

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<sup>116</sup> Ibid.

<sup>117</sup> Ibid.

<sup>118</sup> Cooke, “Amid Sweeping Changes in US Relations, Cuba’s Race Problem Persists.”

<sup>119</sup> De la Fuente, “Under Trump’s Revised Policy, Black Cubans Will Get Left Behind, Again.”

<sup>120</sup> Ibid.

<sup>121</sup> De La Fuente, “The New Afro-Cuban Cultural Movement and the Debate on Race in Contemporary Cuba.”

websites on Afro-Cuban themes; and organizations that frame their demands in the language of citizenship and human rights”.<sup>122</sup> While this movement is crucial for Afro-Cubans in order to institute change and create more widespread awareness about their concerns, free speech is risky in Cuba. Although the regime sometimes permits protesters to speak out about their concerns, there is no guarantee the government will listen and help bring about change. This movement is a good starting point for Afro-Cubans to mobilize together, but ultimately in order to bring about widespread change political power is needed.

While there are many differences between Apartheid Era South Africa, some similarities exist. The democratic election of Nelson Mandela in South Africa provides another example of a country in which a deeply discriminated against class experienced a rise via political elections. With the multi-racial elections in 1994 came the end of Apartheid, an era of government-enforced racial discrimination against black South Africans.<sup>123</sup> While a comparison of racial discrimination in Cuba to that of South Africa is certainly flawed, as they greatly differ in scope, the positive effect of diversifying political representation remains true.

In Cuba criminals are disproportionately black. Evidence of racial profiling occurs with the practice of stop and frisk for unequal policing of minorities. Use of the coded language of the “pleasant aspect,” requires an aesthetic characteristic that can only be fulfilled by being white.<sup>124</sup> Alongside the use of “pleasant aspect”, stop and frisk in Cuba also uses “ciudadanos con características”, which “is used by the police force to refer to citizens who aren’t white.”<sup>125</sup> Although there is an interest to quell political dissent, race cannot be removed from a discussion of this policing strategy. Such blatant racism is done under the guise of equal policing, which is not felt by the Afro-Cuban population. The unequal policing of black bodies, with its historical roots in slavery, colonialism, and United States intervention, illustrates how the political system has failed to eradicate racism and create the equality that communism

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<sup>122</sup> De la Fuente, “Under Trump’s Revised Policy, Black Cubans Will Get Left Behind, Again.”

<sup>123</sup> Alastair Jamieson, “7 Ways Nelson Mandela Changed South Africa,” NBC News, accessed November 6, 2017, <https://www.nbcnews.com/news/other/7-ways-nelson-mandela-changed-south-africa-f2D11702722>.

<sup>124</sup> Cooke, “Amid Sweeping Changes in US Relations, Cuba’s Race Problem Persists.”

<sup>125</sup> Ibid.

promised. As De La Fuente powerfully states in “The Resurgence of Racism in Cuba,” “the ultimate irony is that the same government that did the most to eliminate racism also did the most to silence debates about its persistence.”<sup>126</sup>

## CONCLUSION

Race in Cuba is a multi-faceted issue with a complicated past. Racial inequality in Cuba is rooted in slavery, and has remained a societal problem, despite Fidel Castro’s revolutionary reforms that purportedly created a society without race and social class. The racism and socio-economic hierarchy that is visible in Cuba today can be traced back to the arrival of the Spaniards on the island. The rigid social and racial hierarchy remained a critical aspect of Cuban society until the Cuban Revolution in 1959 when Fidel Castro instituted social and agrarian reforms creating economic equality and outlawed the discussion of race. Fidel Castro’s death symbolized the end of an era for Cuba. Fidel represented Cold War Communism, and, with his passing, Cuba has the potential to move forward in many different directions.

This paper contributes to the literature on Cuba by analyzing the intersections between historical context, social justice, and economic equality, providing a more in-depth understanding of the often-untold Afro-Cuban experience. In the context of Alejandro de la Fuente’s scholarship on academic perspectives on existence of racism in Cuba, we agree with frameworks two and four. Framework two, which states, “The revolution inherited a race problem, then perpetuated it.”<sup>127</sup> Framework four, which asserts that “Despite the revolution’s positive impact on race relations and its work to eradicate the most important aspects of inequality, racism and discrimination remain in Cuban society.”<sup>128</sup> These two frameworks served as a basis for research, and helped the authors to understand that there are both social and economic factors that contribute to the persisting racial hierarchy today. These social and economic factors emerged as a result of the colonial history in Cuba, and have been inherently intertwined since then.

This paper demonstrates that the legacy of racial inequalities persists today. The most recent set of reforms has reinforced and even exacerbated this legacy, leading to the following four negative outcomes: increased stereotyping of Afro-

<sup>126</sup> De La Fuente, “The Resurgence of Racism in Cuba,” 32.

<sup>127</sup> De La Fuente, “Race and Inequality in Cuba,” 1.

<sup>128</sup> *Ibid.*

Cubans, a wage-gap, exclusion from the small business sector, and lastly the gradual loss of the revolutionary spirit. The only positive outcomes of Raúl Castro's reforms in Cuba included educational and social tools for Afro-Cubans. These tools were established as a result of open dialogues about racism and the inclusion of Afro-Cuban history in the school curriculum. In order for the status of Afro-Cubans to continue improving in Cuban society, it is important for the regime to establish open dialogues about race and promote greater cultural understanding. Many Spanish Cubans are not aware of the uniqueness of Afro-Cuban cultural heritage with roots in slave history. We believe more positive outcomes could occur, not only through open discussion, but also through greater appreciation and understanding of Afro-Cuban culture. The younger generations are gaining a better understanding of the history of Afro-Cubans through school, but the only way to reach greater racial equality in Cuba is for a change to occur throughout society.

The historical narrative behind the political discourse surrounding racism in Cuba provides fascinating insight into the lasting effects of imperialism. Fidel Castro capitalized on garnering support from a disadvantaged population and rose to power with the goal of creating a lasting communist state that focused on social and economic equality. While Fidel Castro and his revolutionary government did truly hope to fully instill communism in Cuba, the equality that is supposed to be at the core of such ideology was never fulfilled. Despite an enormous structural overhaul of the socio-political system and governmental policies declaring racism over, inequality persists in today's Cuba. Cuba offers a powerful case, of a country riddled with the historical remnants of oppressive systems and a revolution whose faulted aims were to rid these systems from the political narrative.

As the economy continues to liberalize and the U.S. continues to normalize relations with Cuba, the colonial legacies of rigid socio-economic classes and racial divisions rooted in slavery have become more pronounced. As a result, many Afro-Cubans and mulattos are dissatisfied with the government and are beginning to doubt the effectiveness of the regime.

The increased discontentment in the group of people that was supposed to benefit the most from the communist revolution indicates that changes in the political structure could possibly occur in the future. Raul Castro values his position and political power, and is clearly willing to appease citizens to keep his power.

Clearly, Castro has already started making changes such as the school curriculum in the hope of maintaining Afro-Cuban support. Whether Castro believes the few changes he made already are enough, or whether he will continue to take Afro-Cuban concerns seriously is unknown.

Although Raul Castro has been the President of Cuba since 2006, his brother Fidel's death in November 2016 left him with the ultimate power and decision-making authority. Around the same time, the U.S. experienced a change in leadership from President Obama to President Trump. While power transitions are good for proposing and enacting change, there is an element of uncertainty for the future of Cuba particularly the future of race relations on the island. Many of the changes needed to improve race relations in Cuba must come from the people. Although the regime can facilitate changes in attitude about race, the people are ultimately responsible for changing society. Race relations will also be affected by U.S.-Cuba Relations, which are uncertain at the moment due to U.S. President Donald Trump's preference for reactive policy making. In addition, the type of relationship fostered between Raul Castro and President Trump has the potential to dictate U.S.-Cuba Relations for the coming years. It is impossible to know how the relationship between the two presidents will unfold or what repercussions for Afro-Cubans will occur.

We believe that in order to ensure the future of the regime, Raul Castro must reconsider Fidel Castro's declaration that racism has been eradicated from Cuba. To a certain extent, the government is already implementing more constructive social changes that are addressing the roots of racism in society. These changes include a more comprehensive and inclusive school history curriculum featuring the history of Afro-Cubans. In addition, Raul Castro is more willing to allow for open public expression of political concerns.<sup>129</sup> Regardless of whether he listens to these concerns and makes changes, the ability to express these concerns more openly is a step forward. Future political decisions will dictate Afro-Cubans course of action with options that could include inciting a regime change to more subtle protests.

As we look toward the future of tourism on the island, we find ourselves asking another question: Could there be a movement to make tourists more aware of the choices they make, as the tourist industry in Cuba is currently feeding into the white cultural expectations of tourists? According to our anonymous scholar

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<sup>129</sup> Anonymous source from the University of Havana

at the University of Havana, Afro-Cubans are aware of the white expectations of tourists. As Alejandro de la Fuente mentioned, due to the increase in U.S. tourists on the island Afro-Cubans have been able to break into the tourism industry more than before.<sup>130</sup> However, this is not necessarily due to U.S. interest in Afro-Cuban culture, but instead, out of necessity because the U.S. does not permit Americans on “people to people” visits to Cuba to stay at state-owned hotels. Generally, tourism is limited to wealthier white people from the west because of political power because tourism requires money. As a result, tourism companies cater to the wealthier clientele. In Cuba, the government could take steps to improve racism in the tourism industry by instituting a racial quota system for hiring in both public and private tour companies. However, there is little incentive for the regime to take action on this matter without pressure.

Because Cuba has strong trade relationships with Russia and China, two countries known for human rights abuses, the pressure is unlikely to come from an outside source. Therefore, the “Afrodescendant Movement” must work to enact change on a micro-level in Cuba, while also understanding this is a problem on the global level that needs further action. From this, how much do we blame the Cuban government for the racism in the tourist industry, and how much do we blame the expectations of Western visitors? While class privileges via universal health and education systems and the elimination of private property all brought by Castro’s revolution certainly improved many facets of Cuban society, the racist mentality towards black Cubans historically grounded in colonization, slavery, institutionalized economic inequality, and nationalistic ideology persists.<sup>131</sup>

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<sup>130</sup> De la Fuente, “Under Trump’s Revised Policy, Black Cubans Will Get Left Behind, Again.”

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# OPPOSITES ATTRACT? AN EVALUATION OF FOREIGN POLICY IMPEDIMENTS IN SINO-VATICAN RELATIONS

REX N. ALLEY<sup>1</sup>

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## INTRODUCTION

The relationship between the People's Republic of China (PRC) and the Holy See appears to be an uneasy association between opposites. With over 1 billion people, the PRC is "the world's most populous state," while the Holy See is housed in tiny Vatican City.<sup>2</sup> In addition to its status as a sovereign political entity,<sup>3</sup> the Holy See is also the spiritual leader of the Catholic Church. Meanwhile, since the Revolution, the PRC has been a Communist state, led by a party that strives to "propagate atheism."<sup>4</sup> Despite these differences, the PRC and Holy See also hold commonalities. The pope's spiritual command of the Catholic faithful expands the Holy See's constituency to over 1 billion, giving the country a similar scope of authority to that of the PRC.<sup>5</sup> Additionally, both the leaders

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<sup>2</sup> Laura M. Luehrmann, "The Red Flag and the Ring: The Dances Surrounding Sino-Vatican Ties," *Asian Politics & Policy* 1, no. 3 (2009): 490, [https://www.academia.edu/1096206/The\\_Red\\_Flag\\_and\\_the\\_Ring\\_The\\_Dances\\_Surrounding\\_Sino\\_Vatican\\_Ties](https://www.academia.edu/1096206/The_Red_Flag_and_the_Ring_The_Dances_Surrounding_Sino_Vatican_Ties) (accessed April 23, 2017).

<sup>3</sup> "U.S. Relations with the Holy See," U.S. Department of State, <https://www.state.gov/r/pa/ei/bgn/3819.html> (accessed May 7, 2017).

<sup>4</sup> People's Republic of China, Central Committee of the Chinese Communist Party, *The Basic Viewpoint and Policy on the Religious Question during Our Country's Socialist Period*, trans. Donald MacInnis, [https://www.purdue.edu/crcs/wp-content/uploads/2014/08/Document\\_no.\\_19\\_1982.pdf](https://www.purdue.edu/crcs/wp-content/uploads/2014/08/Document_no._19_1982.pdf) (accessed April 23, 2017).

<sup>5</sup> Mariano Barbato, "A State, a Diplomat, and a Transnational Church: The Multi-layered Actorness of the Holy See," *Perspectives* 21, no. 2 (2013): 27, <http://www.jstor.org/>

of the Holy See and PRC “wear multiple hats;” the pope is both a spiritual and political leader, while the President of the PRC is also the General Secretary of the Chinese Communist Party (CCP).<sup>6</sup> Moreover, while officially atheistic, the PRC is beginning to realize the value of religion as a force for morality and social cohesion.<sup>7</sup> The Holy See is willing to look past differences with China to establish closer relations. Despite these diplomatic motivations, two impediments are preventing the Holy See and PRC from seeking greater cooperation. Firstly, the PRC’s refusal to allow the Holy See to consecrate Chinese bishops violates the Catholic Church’s doctrine of apostolic succession.<sup>8</sup> Secondly, the Holy See does not recognize the PRC diplomatically.<sup>9</sup> This paper will seek to investigate these impediments through a review of Sino-Vatican relations. This paper will first discuss the state of the Chinese Catholic Church, which has experienced regulation and persecution at the PRC’s hands. Using this context as a backdrop, this paper will examine Sino-Vatican relations over three periods: 1) the Maoist era, 2) the Reform Era, and 3) the modern era. Putnam’s theory of two-level games will be applied to discuss domestic and international tensions acting on the Holy See and PRC. This paper concludes that, while the Holy See and PRC have reason to establish closer ties, the two impediments at the center of their relations encourage stagnation. The Holy See and PRC use informal procedures to ensure each side gets some of what it wants without making significant concessions.

### CONTEXTUALIZING SINO-VATICAN RELATIONS: THE FRACTURED CHINESE CHURCH

Since the 1950s, the PRC’s Catholic Church has been persecuted and fractured. In 1951, the Maoist regime began a campaign of anti-Catholic persecution that saw the expulsion of a Vatican diplomat and the shuttering of Catholic seminaries.<sup>10</sup> To bring the Church under closer control, the government established the Chinese Catholic Patriotic Association (CPA) in 1957. This organization

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<sup>6</sup> Luehrmann, “Red Flag and the Ring,” 491.

<sup>7</sup> Yue Pan, “Marxist View of Religion Must Keep Up with the Times,” n.p., <https://ctbi.org.uk/wp-content/uploads/2014/12/Marxist-View-of-Religion.pdf> (accessed May 7, 2017).

<sup>8</sup> Jonathan David Bradley, *The Regime Legitimacy of One-China: How the Vatican Can Make China Whole Again*, Masters diss., UNLV (Ann Arbor: ProQuest LLC, 2012), 27.

<sup>9</sup> *Ibid.*, iii.

<sup>10</sup> John Tong, “The Church from 1949 to 1990,” in *The Catholic Church in Modern China: Perspectives* (Eugene: Wipf & Stock, 1993), 10.

publicly split from the Vatican and began “ordaining bishops independently of Rome.”<sup>11</sup> Such practices violate the doctrine of apostolic succession, which holds that the pope has the exclusive power to consecrate bishops,<sup>12</sup> as bishops are the successors of Christ’s apostles and the pope is the successor of Saint Peter, the chief apostle and first pope.<sup>13</sup> The Holy See has condemned the CPA; Pius XII’s 1952 “apostolic letter *Cupimus Imprimis*” implied the creation of sectarian national organizations such as the CPA sowed disunity within the Church.<sup>14</sup> Benedict XVI’s 2007 Easter letter claimed that the CPA forces Catholics to “undertake commitments... contrary to the dictates of their conscience.”<sup>15</sup> The CPA has created a division within the Church. 5 million Chinese citizens are members of the official church led by the CPA; 7 million are members of the illegal “underground church,” which maintains loyalty to the pope.<sup>16</sup> Internationally, these two factions are viewed as oppositional, with debates focused on their relative “legitimacy.”<sup>17</sup> Some scholars argue that the Chinese Church is more “wounded” than split, and that all Chinese Catholics are in communion with the Holy See.<sup>18</sup> Such theological debates, however, miss the main point: that the existence of official and underground churches symbolize both the PRC’s enduring hostility toward religion and limitations on the Holy See’s spiritual authority.

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<sup>11</sup> Ibid., 13.

<sup>12</sup> Bradley, *Regime Legitimacy of One-China*, 29.

<sup>13</sup> Catholic Church, *Catechism of the Catholic Church* (Vatican City: Libreria Editrice Vaticana, 2000), paragraph 1594.

<sup>14</sup> Tong, “The Church from 1949,” 11.

<sup>15</sup> “Letter of the Holy Father Pope Benedict XVI to the Bishops, Priests, Consecrated Persons and Lay Faithful of the Catholic Church in the People’s Republic of China,” Letter from Benedict XVI, May 27, 2007.

<sup>16</sup> David Feith, “The Vatican’s Illusions About Chinese Communism,” *The Wall Street Journal*, November 10, 2016, <https://www.wsj.com/articles/the-vaticans-illusions-about-chinese-communism-1478215875> (accessed April 23, 2017).

<sup>17</sup> Richard Madsen, *China’s Catholics: Tragedy and Hope in an Emerging Civil Society* (Berkeley and Los Angeles: University of California Press, 1998), 19.

<sup>18</sup> Jean-Paul Wiest, “Catholics in China: The Bumpy Road Toward Reconciliation,” *International Bulletin of Missionary Research* 27, no. 1 (2003): 2, <http://journals.sagepub.com/doi/pdf/10.1177/239693930302700101> (accessed April 23, 2017).

**HISTORY OF SINO-VATICAN RELATIONS***Maoist Era (Pontificate of Pius XII)*

Political entities can seek their goals in foreign relations in one of two ways. They may use “hard power” strategies, which use force or coercion to produce outcomes, or “soft power” strategies, which seek to “set the agenda and attract others” to one’s own goals.<sup>19</sup> In its relations with the PRC, the Holy See utilized “hard power” rhetoric early on, engaging in provocation against communist rule. Defiance of the PRC flourished under the anti-communist Pius XII. In 1949, the pontiff “excommunicated [separated from the Church] all Catholics collaborating with Communist organizations.”<sup>20</sup> Pius XII also excommunicated bishops consecrated outside the authority of the Holy See (i.e. CPA bishops).<sup>21</sup> Excommunication is one of the primary hard-power tools at the Holy See’s disposal. Because excommunication from the Church implies loss of salvation, the Holy See may use it as a coercive measure to prevent Catholics from engaging in activity contrary to the Church’s objectives. Pius XII’s excommunication of communist collaborators indicated his disinterest in attraction or co-optation of the PRC.

Without any significant military or economic power, Pius XII projected the Holy See’s “hard power” through a bitter war of words with the PRC. The 1958 encyclical *Ad Apostolorum principis* alleged the PRC had brought “restraint and suffering” on Chinese Catholics.<sup>22</sup> While future popes would urge Chinese Catholics to be upstanding citizens, Pius XII focused on Catholics’ obligation to resist laws conflicting with God’s law: “every Christian should... repeat the words with which Peter and the other Apostles answered the first persecutors of the Church: ‘We must obey God rather than men.’”<sup>23</sup> Some modern commentators have questioned the logic of this confrontational position. Tong argues that *Ad Sinarum gentem*, an encyclical from Pius XII defending the universal Church and encouraging resistance of the PRC, only provoked increased persecution of Chinese Catholics.<sup>24</sup> Madsen

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<sup>19</sup> Joseph S. Nye, Jr., *Soft Power: The Means to Success in World Politics*, (Cambridge: PublicAffairs, 2004), 5.

<sup>20</sup> Donald R. McClarey, “Feast of Saint Joseph the Worker and Victims of Communism Day,” *The American Catholic*, May 1, 2013, <http://the-american-catholic.com/tag/decree-against-communism-1949/> (accessed April 23, 2017).

<sup>21</sup> Pius XII, Encyclical Letter, *Ad Apostolorum principis*, 8.

<sup>22</sup> *Ibid.*, 2.

<sup>23</sup> *Ibid.*, 5.

<sup>24</sup> Tong, “The Church from 1949,” 11.

contends that “[t]he Vatican’s aggressive and uncompromising anti-Communist stance... put an enormous burden on Chinese Catholics,” who made up (and continue to make up) a small fraction of China’s population.<sup>25</sup> These criticisms are certainly warranted. It is unclear what Pius XII wished to accomplish with his campaign of defiance; China’s tiny minority of Catholics never had a chance to alter the Maoist regime’s religious policies. However, the resistance campaign had great symbolic value. Even “lax Catholics” in China have admiration for Catholics persecuted under Mao.<sup>26</sup> Moreover, persecution did not stop Catholicism from growing in the PRC after the collapse of Maoism.<sup>27</sup> Despite the shortcomings of Pius XII’s provocative stance, it preserved the Catholic faith in the PRC through a difficult and dangerous period.

### *Reform Era (Pontificate of John Paul II)*

After Mao’s death, the PRC underwent radical political and economic changes under the pragmatic Deng Xiaoping. These changes were paralleled by advancements in Sino-Vatican relations, made possible by the PRC’s shifting attitude toward religion. A 1982 CCP document acknowledged that religion would not die out in the PRC for the foreseeable future. Thus, the CCP changed its attitude toward religious believers from one of persecution and coercion to one of co-optation through the country’s “Patriotic Religious Organizations,” including the CPA.<sup>28</sup> Such organizations would now attract believers to “raise their patriotic and socialist consciousness.”<sup>29</sup> This change in attitude was coupled with changes in policy. The CPA gave over authority regarding doctrinal questions to the Chinese Catholic Bishops Conference, allowing Chinese Catholic spiritual leaders a degree of autonomy from the CCP.<sup>30</sup> Chinese Catholics were also permitted to express religious fidelity to the

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<sup>25</sup> Madsen, *China’s Catholics*, 35-6.

<sup>26</sup> *Ibid.*, 58.

<sup>27</sup> *Ibid.*, 3.

<sup>28</sup> PRC, CCP Central Committee, *The Basic Viewpoint and Policy on the Religious Question*, trans. MacInnis.

<sup>29</sup> *Ibid.*

<sup>30</sup> Bradley, *Regime Legitimacy of One-China*, 35.

pope,<sup>31</sup> “and Beijing relaxed the requirement that all Catholics join the CPA.”<sup>32</sup>

The Holy See reciprocated these gestures. Under John Paul II, the Holy See began granting apostolic legitimacy to CPA bishops. This ex post facto system of recognition has created a class of clergy acceptable both to the Holy See and PRC.<sup>33</sup> John Paul II gave three speeches about the state of the Chinese Church from 1981-90; all three treated the Church as united, with no distinctions between the official CPA church and the underground church.<sup>34</sup> Such radical acknowledgment of the CPA church would have been unthinkable in the days of Pius XII.

However, John Paul II was anything but passive in the face of Chinese intrusion upon papal authority. In 2000, the consecration of six CPA bishops unapproved by the Vatican led John Paul II to cancel a visit to the Temple of Heaven.<sup>35</sup> John Paul II’s papacy saw continued support for “underground” Catholics. In 1991, the Pope promoted Archbishop Gong Pinmei, an underground clergyman imprisoned for thirty-three years, to cardinal.<sup>36</sup> Such underground support exemplifies a peculiarity of the Holy See’s diplomacy. Though the Holy See has increasingly sought dialogue with the PRC, it is not willing to forsake the underground church, which the PRC seems to view as a tolerable annoyance at best and as a subversive element at worst. It is for this reason that John Paul II’s “papacy witnessed many highs and lows with regard to China ties:”<sup>37</sup> the Holy See was, and is, unwilling to relinquish its responsibility for all Chinese Catholics, both official and underground.

### *Modern Era (Pontificates of Benedict XVI, Francis)*

The most recent period of Sino-Vatican relations has witnessed some relaxation of tensions but primarily stagnation. The process of after-the-fact episcopal recognition initiated under John Paul II continued into Benedict XVI’s papacy; Joseph Zen, a prominent Chinese cardinal, estimated in 2006 that 85 percent of CPA bishops have received the Holy See’s blessing.<sup>38</sup> However, this

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<sup>31</sup> Ibid.

<sup>32</sup> Luehrmann, “Red Flag and the Ring,” 494.

<sup>33</sup> Ibid.

<sup>34</sup> Tong, “The Church from 1949,” 26.

<sup>35</sup> Luehrmann, “Red Flag and the Ring,” 494-5.

<sup>36</sup> Madsen, *China’s Catholics*, 42.

<sup>37</sup> Luehrmann, “Red Flag and the Ring,” 494.

<sup>38</sup> Ibid., 495.



impressive figure has not come with significant diplomatic progress. Benedict XVI affirmed the Holy See's longtime view that the CPA is an illegitimate organization and that the Vatican has sole authority over consecration of bishops.<sup>39</sup> This uncompromising stance leaves in place a diplomatic obstacle. Catholic teaching forces the Holy See to hold fast in rejection of the CPA. Meanwhile, the PRC, remembering the Holy See's role in dismantling Eastern European communism, is loath to give the Church more influence within its own borders by allowing it to consecrate bishops.<sup>40</sup> Benedict XVI attempted to mediate this difference of opinion with rhetoric amenable to the PRC. In his 2007 Easter letter, he encouraged Catholics to be model citizens in an attempt to assure the PRC that the defiant anti-communism of Pius XII was in the past.<sup>41</sup> Such assurances paid short-term dividends. In 2008, the Holy See and PRC discussed the possibility of a papal visit, seeming to signal that the countries would implement official relations.<sup>42</sup> However, the visit never materialized, and relations since 2008 have stagnated.<sup>43</sup> This diplomatic failure demonstrated the shortcomings of Benedict XVI's policy toward the PRC. Friendly rhetoric only got the Holy See so far; Benedict XVI failed to take concrete steps toward an official compromise on the CPA issue. Instead, the issue has stagnated with the use of "ex post facto" recognition of CPA bishops. This system of recognition is not sustainable, as it does not address the Holy See and PRC's innate difference of opinion with regard to the CPA. Despite the inadequacy of the ex post facto system, John Paul II and Benedict XVI never developed a workable compromise to replace it.

The new pontificate of Francis has upped the ante with regard to Sino-Vatican relations. Under Francis, the Holy See has bolstered its reputation as a soft-power icon. The plain-dressing, straight-talking pontiff has earned worldwide admiration and the fourth spot on Forbes' 2013 list of the world's most influential persons.<sup>44</sup> Recognition of the PRC by the Holy See, especially under such a visible pope, would be a major win for the PRC's world standing. Indeed, Francis' papacy has already broken the stagnation characteristic of his

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<sup>39</sup> Feith, "The Vatican's Illusions."

<sup>40</sup> Luehrmann, "Red Flag and the Ring," 498.

<sup>41</sup> Bradley, *Regime Legitimacy of One-China*, 35.

<sup>42</sup> "Vatican-China talks could cement diplomatic relations with papal visit," Catholic News Agency, February 19, 2008, [http://www.catholicnewsagency.com/news/vaticanchina\\_talks\\_could\\_cement\\_diplomatic\\_relations\\_with\\_papal\\_visit/](http://www.catholicnewsagency.com/news/vaticanchina_talks_could_cement_diplomatic_relations_with_papal_visit/) (accessed April 23, 2017).

<sup>43</sup> Bradley, *Regime Legitimacy of One-China*, 36.

<sup>44</sup> Barbato, "Multi-layered Actorness of the Holy See," 28.

predecessor's reign. As one observer puts it, "since the accession of Pope Francis, Beijing and Rome have worked out an ad hoc process of mutual approvals," whereby the official Chinese church nominates episcopal candidates, who are consecrated if Francis approves.<sup>45</sup> While this agreement looks promising on paper, it seems that Francis' policy suffers from the same issues as those of his predecessors. The agreement is "informal," allowing "confusion" and "disunity" to mar Sino-Vatican relations.<sup>46</sup> Per Gaetan, the compromise is "a future-oriented solution not intended to resolve other persistent disagreements."<sup>47</sup> This is a polite way of saying that, while Francis' arrangement is a victory for papal authority, it still does not address the disagreement between the Holy See and the PRC regarding the legitimacy of the CPA. The resolution of this issue will require a major compromise that both sides still appear unwilling to reach.

#### **DIPLOMATIC OBJECTIVES AND NEGOTIATION POSITIONS OF THE HOLY SEE AND PRC**

Despite the erratic nature of Sino-Vatican relations, both states have ample motivation to establish closer relations. In the diplomatic realm, the Holy See holds a simple set of motives and strategies. By far the most important diplomatic objective of the Holy See is Catholics' spiritual security. In fact, the Holy See is best understood as a religious entity rather than as a political one. In other words, "the Catholic Church is the most important layer of actorness of the Holy See;" the Holy See acts as an arbiter of "the spiritual dimension of God's will" rather than as a traditional state.<sup>48</sup> The pope enjoys influence and visibility as a result of his representation of divine providence.<sup>49</sup> The Holy See's status as a religious entity keeps the Church out of political squabbles and allows it better to safeguard the souls under its care. However, the Holy See's lack of political clout comes with disadvantages as well. As Bradley points out,

<sup>45</sup> Victor Gaetan, "The Vatican and China Reach a Promising Accord," *Foreign Affairs*, March 27, 2017, <https://www.foreignaffairs.com/articles/2017-03-27/vatican-and-china-reach-promising-accord> (accessed April 23, 2017).

<sup>46</sup> Ibid.

<sup>47</sup> Ibid.

<sup>48</sup> Barbato, "Multi-layered Actorness of the Holy See," 37.

<sup>49</sup> Ibid., 35.

the Holy See's religious objectives take priority over political considerations.<sup>50</sup> This fact limits the number of diplomatic strategies at the Holy See's disposal with regard to the PRC. The Holy See can only pursue strategies that secure well being for as many Chinese Catholics as possible. This position rules out some interesting strategies. For instance, if the Holy See publicly withdrew recognition of all CPA bishops, it would instantly put pressure on the PRC to reform its religious policy. However, the Holy See would not pursue such a strategy, as it would undermine the religious security of millions of faithful under these bishops' care. In addition, the Holy See's religiosity has solidified disagreements with the PRC, a political actor, with regard to the CPA debate. In 2011, the People's Daily cast the pope as a political figure and argued that turning over consecratory authority to the Vatican would give undue influence to a foreign leader.<sup>51</sup> As Bradley puts it, "the Vatican is just another state" in the eyes of the PRC; the PRC, as a political identity, does not understand the Holy See's religious concerns.<sup>52</sup>

Surprisingly, the (officially) atheist PRC has much to gain from relations with the Holy See. Primarily, the PRC is seeking to "isolat[e] Taiwan" internationally by earning recognition from the Holy See.<sup>53</sup> Another motivation for the PRC to collaborate with religious entities is the creation of a domestic value system, which has been lacking in the post-Mao era. Since economic liberalization, the PRC has lacked a consistent code of public morality.<sup>54</sup> Pan argues that only religion can preserve morality "[a]t a time when idealism [presumably Maoist idealism] has generally been lost."<sup>55</sup> It is this line of thinking that makes the Holy See such an attractive diplomatic prize for the PRC, especially as Catholicism is a prominent Western religion. The PRC's greater openness toward and acceptance of Christian denominations such as Catholicism may improve its image beyond its direct Eastern sphere of influence. However, even in its modern, liberalized state, the PRC's attitude toward religion is a roadblock to relations with the Holy See. The PRC only acknowledges as legitimate those religions that can "adapt to the socialist

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<sup>50</sup> Bradley, *Regime Legitimacy of One-China*, 12.

<sup>51</sup> *Ibid.*, 30.

<sup>52</sup> *Ibid.*, 12.

<sup>53</sup> *Ibid.*, 1.

<sup>54</sup> Beatrice Leung, "Catholic Bridging Efforts with China," *Religion State and Society* 28, no. 2 (2000): 187, <http://www.tandfonline.com/doi/pdf/10.1080/08923970600815048> (accessed April 23, 2017).

<sup>55</sup> Pan, "Marxist View of Religion."

regime” and conform to the standards of Chinese society.<sup>56</sup> However, the Catholic Church has a long history of rejecting socialist regimes. Moreover, the Church identifies itself as a worldwide organization; as such, it can never adapt fully to Chinese society. “No one in the Church is a foreigner,” Benedict XVI asserted in his 2007 Easter letter.<sup>57</sup> Catholicism’s claims of universality and its history of opposition to socialism mean that the PRC cannot “regulate” the religion without offending the Holy See. In short, while the PRC’s evolving attitude toward religion is promising, it remains unwilling to cede all regulatory authority over Chinese Catholics, ensuring that conflicts with the Holy See will continue.

## TWO-LEVEL GAME ANALYSIS

This paper will now analyze two challenges facing Sino-Vatican relations, using Putnam’s theory of two-level games to determine the likelihood of their resolution. Two-level game theory holds that international accords are subject both to international and domestic influences.<sup>58</sup> Putnam conceives of diplomatic negotiation as a multi-level “game,” where Level I is “[international] bargaining between the negotiators” and Level II is “separate discussions within each group of [domestic] constituents about whether to ratify the agreement.”<sup>59</sup> At each level, Putnam identifies “win-sets,” or the range of diplomatic solutions acceptable to negotiators and their constituencies. As Putnam puts it, “[a]greement is possible only if those win-sets overlap;” in other words, any agreement acceptable at Level I must also be acceptable at Level II, and vice-versa.<sup>60</sup> The two foreign policy impediments to be analyzed are 1) the Holy See’s continued diplomatic recognition of Taiwan rather than the PRC and 2) the countries’ conflicts over the CPA and apostolic authority regarding the consecration of Chinese bishops. These issues, addressed throughout the paper, will be briefly recapitulated. This section will conclude with an analysis of the diplomatic “win-sets” created by the intersection of the two impediments.

<sup>56</sup> Leung, “Catholic Bridging Efforts,” 187.

<sup>57</sup> Benedict XVI, “Letter of the Holy Father.”

<sup>58</sup> Robert D. Putnam, “Diplomacy and Domestic Politics: The Logic of Two-Level Games,” *International Organization* 42, no. 3 (1988): 434, [https://www.jstor.org/stable/2706785?seq=1#page\\_scan\\_tab\\_contents](https://www.jstor.org/stable/2706785?seq=1#page_scan_tab_contents) (accessed April 23, 2017).

<sup>59</sup> *Ibid.*, 436.

<sup>60</sup> *Ibid.*, 438.

The Holy See has made clear that it will only accept agreements that preserve final papal authority over Chinese bishops—Pius XII excommunicated Chinese bishops appointed without his approval;<sup>61</sup> John Paul II canceled a visit to the PRC over unapproved appointments;<sup>62</sup> even Francis’ “ad hoc” agreement maintains a papal “right of veto” for all CPA appointments.<sup>63</sup> It is unclear if the PRC would accept such an agreement; it has not backed down from appointments unacceptable to the Holy See, including those of three bishops who engaged in misconduct.<sup>64</sup> To reach an official agreement with the Holy See, the PRC would need to dismiss unacceptable bishops. This is unlikely, as the PRC views its bishops as government officials and rejects the idea of a foreign government influencing their appointment.<sup>65</sup> The Holy See is concerned that the current unofficial recognition arrangement with the PRC, discussed above, has left Chinese Catholics in the dark about the status of their spiritual leaders. Per Benedict XVI, “in most cases, priests and the faithful have not been... informed that their Bishop is legitimized.”<sup>66</sup> Francis’ “ad hoc” arrangement with the PRC has not remedied this problem.<sup>67</sup> Concern for Chinese Catholics could motivate the Holy See to accept a wider range of compromises. In all, the Holy See and PRC have different and supposedly intractable views as to who should have final authority over Chinese bishops. However, the Holy See’s concern for Chinese Catholics and the PRC’s concern for its international reputation widens both countries’ win-sets.

The second impediment facing Sino-Vatican relations is the fact that they are unofficial; the Holy See does not recognize the PRC. This impediment is particularly useful for analysis, as it has a small number of discrete solutions. Diplomatic recognition is all-or-nothing; the Holy See cannot “partially” recognize the PRC. In fact, it seems only three outcomes exist: the Holy See can recognize the PRC, continue informal relations, or cut contact completely. The Holy See’s ultimate win-set depends on the PRC’s actions; the Holy See is perfectly willing to switch recognition from Taiwan to the PRC, but only if the PRC cooperates with regard to the appointment of its bishops.<sup>68</sup> As discussed above, the PRC is wary

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<sup>61</sup> Pius XII, *Ad Apostolorum principis*, 8.

<sup>62</sup> Luehrmann, “Red Flag and the Ring,” 495.

<sup>63</sup> Gaetan, “The Vatican and China.”

<sup>64</sup> *Ibid.*

<sup>65</sup> Bradley, *Regime Legitimacy of One-China*, 30.

<sup>66</sup> Benedict XVI, “Letter of the Holy Father.”

<sup>67</sup> Gaetan, “The Vatican and China.”

<sup>68</sup> “Religious Freedom the Key to Beijing-Holy See Ties,” *Union of Catholic Asian News*,

of the Holy See's influence on its religious officials. However, the PRC may be willing to come to an agreement on the CPA question if recognition from the Holy See would help "further isolate Taiwan" on the world stage.<sup>69</sup> It is unclear to what extent recognition from the Holy See would help to isolate Taiwan. On the one hand, "the Vatican has influence" in the "predominantly Catholic countries of Central America," almost all of which recognize Taiwan.<sup>70</sup> If the Holy See switches recognition to the PRC, it is possible that Central America could follow. However, the PRC has worked to establish its own influence in the area. From 2005-12, Chinese loans in Latin America amounted to \$75 billion.<sup>71</sup> The PRC could use its economic clout to purchase influence in Central America.<sup>72</sup> Over time, the PRC may buy recognition from Central America without having to resort to the Holy See, allowing the state to reunify with Taiwan and to retain religious control. However, the PRC's "wallet diplomacy"<sup>73</sup> has been ineffective. In 2012, 23 states recognized Taiwan.<sup>74</sup> Today, that number is 21: only Gambia and São Tomé and Príncipe, both of which are located in Africa, have switched to the PRC.<sup>75</sup> The PRC's motivation to secure official recognition from the Holy See, and thus to seek a compromise on the CPA question, will increase the longer Central American countries take to switch recognition.

The win-sets of the PRC and Holy See will now be analyzed in light of these two issues, beginning at the international Level I. The win-sets depend heavily on the linkage between the two issues, as the apostolic authority of the Holy See over Chinese bishops is the major remaining stumbling block to official recognition (see above). Translating this statement into Putnam's framework, we may see that

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July 22, 2004, <https://web.archive.org/web/20090529001541/http://www.ucanews.com/2004/07/22/religious-freedom-the-key-to-beijingholy-see-ties/> (accessed May 7, 2017).

<sup>69</sup> Bradley, *Regime Legitimacy of One-China*, 98.

<sup>70</sup> *Ibid.*, 4-5.

<sup>71</sup> "Chinese banks have lent \$75 billion to Latin America since 2005," Catholic Online, February 16, 2012, <http://www.catholic.org/news/international/americas/story.php?id=44804> (accessed April 23, 2017).

<sup>72</sup> Bradley, *Regime Legitimacy of One-China*, 78.

<sup>73</sup> *Ibid.*

<sup>74</sup> *Ibid.*, iii.

<sup>75</sup> Zheping Huang and Isabella Steger, "And then there were 21: Taiwan says goodbye to tiny São Tomé and Príncipe," Quartz, December 21, 2016, <https://qz.com/868794/taiwan-loses-another-diplomatic-ally-as-tiny-sao-tome-and-principe-switches-allegiance-to-beijing/> (accessed May 7, 2017).

a Level I win-set for the Holy See includes only agreements that would maintain the pope's final authority over all Chinese apostolic appointments. This final authority can be provided both with and without official diplomatic recognition, as Francis' "ad-hoc" model does technically retain a papal right of veto. In all, the Holy See's win-set is therefore very narrow; with or without diplomatic recognition, papal authority over Chinese bishops is a non-negotiable position. Even though past pontiffs have expressed concern for the well-being of the Chinese faithful under "unofficial" systems of recognition (discussed above), this concern is trumped by the Catholic belief in the pope's exclusive providence over apostolic appointments.

The PRC's Level I win-set is correspondingly narrow. The country's suspicion of foreign influence, particularly of a religious nature, renders the type of complete apostolic authority sought by the Holy See highly unlikely. However, additional circumstances may act to render the PRC more amenable to compromise. The PRC's entry into international organizations, such as the World Trade Organization, has put pressure on the country to increase its religious toleration.<sup>76</sup> Compromise with the Holy See would signal to the global community that PRC's religious policy is evolving. However, motivations to increase the PRC's soft-power have thus far been trumped by the PRC's insistence that bishops are, first and foremost, servants of the state. The PRC's Level I win-set is thus a mirror image of that of the Holy See. The PRC is willing to accept Vatican recognition or nonrecognition, so long as it maintains control of the CPA.

This review indicates that win-sets for the Holy See and PRC do not overlap. While the countries have some reasons to achieve compromise, these reasons are overshadowed by a fundamental difference of opinion with regard to Chinese bishops. The Holy See insists that Chinese bishops are Catholic officials and insists on papal authority over their appointment. The PRC views these bishops as agents of the state and thus is reluctant to grant any foreign body influence over their appointment. Thus, Francis' informal agreement is likely to remain in place, as it partially fulfills both sides' wishes. The arrangement gives the Holy See some authority, but it also retains Chinese control over initial appointments. This plan is not ideal for either party, but it appears that stagnation is much more attractive to both countries than a move to give total apostolic authority to one side or the other.

The two-level analysis may end here, as agreement is not possible without a Level I overlap. Rather than engage in a largely fruitless Level II analysis, it

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<sup>76</sup> Bradley, *Regime Legitimacy of One-China*, 61.

would be more useful to discuss the implications of the Holy See and PRC's vanishingly small Level I win-sets for Putnam's two-level game theory as a whole. Putnam contends that "ratification procedures" shrink the size of Level I win-sets for many democratic nations, as even "worthy agreements" may not meet be acceptable enough to domestic constituencies to gain legal force.<sup>77</sup> However, the PRC and Holy See, two obviously undemocratic countries, both have notably small win-sets for the issues discussed here, despite the fact that any potential agreement between the two would not be subject to any serious "domestic" pressures or ratification procedures. If domestic ratification procedures cannot explain the size of the countries' win-sets, what can? It is possible that Putnam's theory requires some expansion. The current study reveals at least two pressures that act to narrow Level I win-sets for countries that do not have to worry about domestic pressures or ratification procedures.

Firstly, the example of Sino-Vatican relations demonstrates that win-sets narrow in cases of nations with notably divergent political priorities. Much of the struggle between the PRC and Holy See is due to the fact that the countries fundamentally want different things. The Holy See is focused almost exclusively on the preservation of Catholic doctrine and the spiritual authority of the pope, whereas the PRC is a secular entity with little to no concern for religious matters. Therefore, the PRC is unable fully to understand the Holy See's purely spiritual concerns.

Additionally, it may be noted that the Holy See and PRC suffer from a dearth of issue linkage. Besides the issue of apostolic appointments in the PRC, the two countries have almost nothing in common. The countries are not tied through trade, military priorities, or other factors. Thus, the Holy See and PRC have very few "bargaining chips" to be used for compromise with regard to the CPA issue.

## CONCLUSION

Despite their differences, the Holy See and PRC have ample reason to establish closer relations. The Holy See wishes for a closer spiritual connection with its Chinese flock, while the PRC longs for the Holy See's official recognition (and the boost in international reputation that would come with such recognition). However, two issues stand in the countries' way: the PRC's appointment of Chinese bishops through the CPA and the Holy See's non-

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<sup>77</sup> Putnam, "Diplomacy and Domestic Politics," 448.



recognition of the PRC. These issues are linked; the Holy See will not recognize the PRC unless the latter agrees to a compromise on the CPA issue, presumably one that preserves final papal authority over all Chinese episcopal appointments. The PRC, however, fears the Holy See's foreign influence. Although the PRC desires the Holy See's recognition, it may not need it to isolate Taiwan on the world stage. The PRC's campaign of "wallet diplomacy" may switch recognition among holdout countries in the future. It is most likely that relations will stagnate, as each side currently gets some of what it wants through informal relationships. Popes since John Paul II have recognized most CPA bishops after the fact; under Francis, the Holy See can (theoretically) veto CPA appointments. Meanwhile, the PRC retains control of state religions through its Patriotic Associations, and its wallet diplomacy ventures may eventually isolate Taiwan without the Holy See's help. In all, the story of Sino-Vatican relations does not look to have a happy ending in the near future. Closer relations would require compromises that both sides seem unwilling to make. This study would seem to indicate that Level I win-sets can be subject to narrowing pressures even in non-democratic nations. An absence of domestic pressure on international agreements does not necessarily render such agreements easier to forge, particularly when countries act on divergent priorities and have little in the way of issue linkage to facilitate compromise.

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# MNC DECISION MAKING UNDER SANCTIONS: SOUTH AFRICA AND RHODESIA

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## ABSTRACT

By using an incentives/disincentives model to map the divergent behaviors of multinational corporations (MNCs) confronted by a sanctioned economy, I explain why some economic sanctions work better than others at achieving their desired political outcomes. When presented with the opportunity to “run the blockade,” MNCs are incentivized to sanction bust by the allure of higher profit through rent extraction. At the same time, MNCs are disincentivized to sanction bust by the penalties for breaking the sanction, but only if MNCs believe sanction busting operations is inconspicuous enough to avoid detection. If the incentives to sanction bust outweigh the disincentives not to, then MNCs will trade with sanctioned states, as was the case with Rhodesia. Since MNCs were crucial to both the Rhodesian and the South African economies—as it provided oil to the former and operated a significant minority of the firms in the latter—the decisions of MNCs to remain engaged in Rhodesia and to disengage from South Africa had a significant impact on the economic and political life of the two apartheid regimes. Hence, while many economic and political indicators identified by literature predicted that Rhodesia would have a shorter life expectancy under economic sanctions, Rhodesia defied all expectations and survived twice as long as South Africa.

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## INTRODUCTION

Since the end of the Cold War, economic sanctions have been used to discourage “any actions of a targeted nation that the targeting nation or group of nations disagree with.”<sup>2</sup> Indeed, in just the last 25 years, the U.N. Security Council has authorized 24 economic sanctions; prior to 1990, the U.N. authorized only two.<sup>3</sup> Furthermore, “between 1960 and 1990, most of the sanctions were imposed unilaterally, most frequently by the United States, but in the 1990s, a large fraction was imposed by intergovernmental coalitions.”<sup>4</sup>

Given the sudden popularity of economic sanctions as a policy instrument, many scholars have studied it. But despite the proliferation of literatures on economic sanctions, few studies have compared the impact of economic sanctions against Rhodesia and South Africa on the political resolution of Apartheid. This gap in literature is surprising, because a comparison of the two Apartheid regimes under sanction allows for a great “most-similar cases” research design, in which most exogenous variables that may affect the result are kept constant. Rhodesia and South Africa were both post-colonial Apartheid states with resource extraction economies. Both states received a comprehensive U.N. sanction regime that banned the trade of nearly all goods with nearly all nations. But Rhodesian Apartheid held out for 15 years under sanction, while South African Apartheid barely survived seven. Why is there such a big difference in the effectiveness of sanctions?

Conventional literature points to state-centric factors, like differences in political systems or macroeconomic structures. Such factors fail to answer the question. Political and macroeconomic divergences between the Apartheids states were either nonexistent, or predicted that Rhodesia—not South Africa—would be weakened more by sanctions.

Instead, the key to understanding the mystery must be sought in non-state actors: the MNC. Rather than differences in state-centric factors, the divergent decisions of MNCs to sanction bust in Rhodesia-- but not in South Africa--decided the fates of the two Apartheid states. Rational and profit-maximizing actors, the MNCs made this crucial decision by weighing the incentives and disincentives

<sup>2</sup> Lance Davis and Stanley Engerman, *History Lessons. Sanctions: Neither War nor Peace* (Journal of Economic Perspectives, vol. 17, no. 2, 2003), 187.

<sup>3</sup> “Sanctions,” *U.N. Security Council Subsidiary Organs*, accessed October 6th 2016,.

<sup>4</sup> Davis, *History Lessons*, 189.

of sanction busting in a process that considers profitability, punishment, and conspicuousness. On one hand, the prospects of capturing large rents from sanctioned economies and hence earning high profits gave MNCs an incentive to run the blockade. On the other hand, the penalties threatened for disobeying the sanction regime dissuades MNCs from sanction busting, but only if the MNCs were caught. Like people, MNCs will respect laws only if they are enforced, and laws are enforceable only if the offenses are discovered. MNCs will sanction bust if and only if the incentives to do so outweigh disincentives not to. The Rhodesia/South Africa story has broader implications: policymakers should consider not just state-centric factors, but also the micro economies that regulate the incentives and disincentives for sanction busting. Individual market actors, not the state, are the vehicle of global trade; sanction regimes that do not secure the cooperation of these actors are bound to fail.

This study will develop the argument in six sections. The following section will summarize the history of Rhodesia and South Africa before and during sanctions for unfamiliar readers. The third section will condense the literature on what determines sanction success, and why they cannot explain the Rhodesian and South African cases. The fourth section will describe the incentive/disincentive model. The fifth section will apply the model to the Rhodesian and South African cases to explain the divergent sanctions outcomes. The last section will present the conclusions of this study and the implications of the incentive/disincentive model for the larger sanctions debate.

### **A BRIEF HISTORY OF RHODESIA, SOUTH AFRICA BEFORE AND DURING SANCTIONS**

Rhodesia and South Africa were both British colonies with a long history of racial segregation that endowed political, economic, and social privileges to the white settler-colonist minorities at the expense of the indigenous African majority. In both countries, whites had suffrage, Africans did not; Whites farmed expropriated land, Africans were expelled to agriculturally unproductive areas; whites enjoyed access to higher education, Africans did not. These racist policies, collectively referred to as Apartheid policies, would provoke international outcry and economic sanctions in the late 20th century.<sup>5</sup>

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<sup>5</sup> This is a gross oversimplification of the institution that was Apartheid in Rhodesia and South Africa. There are much more that should be known by the reader about Apartheid to properly



Until the mid-20th century, segregated, colonialist societies faced little international opposition: Singapore, Australia, the United States, and many other countries all denied suffrage and other key civil rights to people of non-Caucasian descent without inviting international condemnation. However, with the rise of the civil rights movement and the decolonization movements around the world in the late 50s and early 60s, international norms turned against states that continued to racially segregate their people. Because of this change in international opinion, Rhodesia and South Africa were both subjected to a U.N. authorized sanction regime from 1965-80 and 1986-93, respectively. In both cases, the U.N. sanctions were intended to force the two states to abandon their Apartheid policies and grant suffrage to their disenfranchised African majorities. The sanctions aimed to change the policy, not the regimes; that said, many who were targeted by the sanctions felt that Apartheid was such a crucial aspect of their regime, that granting suffrage to Africans would undermine it.

The outcome of the U.N. sanctions could not have been any more different. Rhodesian Apartheid, against all odds, survived for 15 years under economic sanctions. Rhodesia accepted power-sharing with African party members only when the African guerilla fighters made their military situation untenable. If Rhodesian military situations were more favorable, they may have survived the sanction regime for a lot longer, perhaps even indefinitely. In contrast, South African Apartheid barely lasted eight years, after which it extended suffrage to Africans and released Nelson Mandela from prison. Because was no military threat to the South African government, the South African decision to end racist policies was primarily an outcome of economic pressure.

### *Explaining Sanction Success*

One of the most common determinants of the sanction's effectiveness is the nature of the sanction-targeted state.<sup>6</sup> This line of thinking makes sense; the same sanction package may cripple a small nation with little domestic manufacturing

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contextualize it, such as its colonial-racial origin, the white supremacist ideology that supported it, the crucial differences and similarities between the two racial regimes and its continued historical legacy that casts its shadow to this day. Curious readers should look towards White and Rowe's writing to understand the Rhodesian regime, Higginson and Worden for the South African regime. (All writers cited in bibliography.)

<sup>6</sup> Gary Clyde Hufbauer, Jeffrey J. Schott and Kimberly Elliot, *Economic Sanctions Reconsidered*, (Peterson Institute for International Economics, 2007,) 89.

capacity to meet internal demand, but barely affect a large nation with the domestic industries to achieve autarky. Likewise, a sanction may be lethal to an export-oriented economy, but a mere annoyance to an economy sustained by domestic consumption.

Another equally intuitive exercise will examine the breadth and depth of the sanction package.<sup>7</sup> The breadth of a sanction package is the proportion of the global market that would participate in the sanction. Obviously, if the United States restricts access to its market, then the sanction would be much more effective than if the United States did not. The depth of a sanction package is the number of commodities sanctioned. In 1983, Australia refused to sell uranium to France; while the sanction did some harm to the French nuclear program, it had little impact on the health of the macroeconomy.<sup>8</sup> If Australia had restricted French access to its entire market, the French economy would have been more acutely hurt.

While these two intuitive variables of comparing the national context or the sanction package to determine divergent sanction outcomes offer easy ways out, they are unhelpful in explaining the outcomes in Rhodesia and South Africa: both the national context and the sanction package remained constant between the two countries, which means neither could explain the differences in outcomes.

Almost all the key national characteristics of sanctioned Rhodesia and South Africa were astonishingly similar. Both states had a large African majority dominated by a white minority, an Apartheid political system, an isolated diplomatic status, tenuous trade relations, a Southern African geography, an Afrikaan-British heritage, a British colonial history, and an agricultural and mining-based export economy. If any one of these factors were different, it could at least partially explain the sanctions outcome. But with these key national characteristics held largely constant, none of them can explain the drastically different sanctions outcomes.

Both Rhodesia and South Africa were placed under comprehensive Hurbauer, *Economic Sanctions Reconsidered*, 91. economic sanctions with nearly universal participation from all major and most medium powers. For both

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<sup>7</sup> Hurbauer, *Economic Sanctions Reconsidered*, 91.

<sup>8</sup> Michael J. Pazzani, *Creating a Memory of Causal Relationships: An Integration of Empirical and Explanation-Based Learning Method*, (NYC: Psychology Press, 1990,) 256.

countries, the sanctions seriously inhibited trade, depreciated their currencies, limited access to international finance, cut off access to foreign aid, and froze foreign assets held by the target government and citizens.<sup>9</sup> And yet, the sanctions in Rhodesia and South Africa still produced significantly different political results.

If similar sanction packages were imposed on similar countries, why did one collapse much more quickly than the other? When neither national context nor sanction package can explain sanction outcomes, the literature turns to micro variables for answers. Consider the following metaphor: if two people with similar phenotypes drank the same amount of milk, why might only one of them suffer indigestion? The doctors would answer that despite the similarities in the general circumstances, there was a miniscule, unclear, but nevertheless very crucial difference between the two individuals, perhaps a slight genetic disposition that makes one lactose intolerant. In a similar fashion, if proponents of sanctions attempted to resolve the Rhodesia-South Africa paradox, they would have answered that despite the similarities between the two sanctions, there must have been micro but very significant differences that contributed to the divergent outcomes. Unfortunately, these micro variables are inconclusive in respect to explaining the South Africa/Rhodesia case.

So what could have been a micro difference? One of the most widely known micro variables used to explain divergent sanction outcomes is the *vulnerability* of a state to economic sanctions relies on the target state's economic *concentration*: "the more a country's economy depends on one product, and the more its exports consist of one product... the more vulnerable is the country."<sup>11</sup> It is also reliant on commodity *concentration*, or the degree of consumer tastes that are concentrated on one commodity, and geographic *concentration*, the degree to which the target's trade partners are concentrated on one country. Here again, the implications of this micro foundation are counter-intuitive. According to a composite *vulnerability* index that considers these three types of *concentration*, sanctioned Rhodesia was the fourth most vulnerable state in the world, after Mauritius, Trinidad, and Panama (Galtung, year)<sup>12</sup>. There is no comparable measure of South Africa's economic *vulnerability* in 1985, but a comparison of the sum of net export and import, a rough indicator of a given economy's reliance on trade, reveals that Rhodesia was

<sup>9</sup> UN resolution 591

<sup>10</sup> UN resolution 232

<sup>11</sup> Galtung, *Effects of International Sanctions*, 385.

<sup>12</sup> *Ibid.*, 387.

significantly more *concentrated* than South Africa. The import-export sum figure for South Africa at the time of the sanction was 22% of GDP,<sup>13</sup> while the same figure for Rhodesia was a staggering 66% of GDP.<sup>14</sup> These figures indicate that Rhodesia was an exceptionally *concentrated, vulnerable* state compared to South Africa, and predict the earlier demise of the former.

Brooks claims the regime type of the target influences the effectiveness of a sanction -- democracies are more vulnerable to comprehensive sanctions, which target the macro-economic health of the state, while autocracies are weak to targeted sanctions that attack the economic health of key stakeholders in the government.<sup>15</sup> However, regime type is an inconclusive explanation in this case.

With several possible explanations failing to resolve the Rhodesia–South Africa paradox, many scholars argued whether the sanctions in Rhodesia and South Africa were effective at all in years during and immediately following the sanction.<sup>16</sup> Citing the persistent economic rigor of the sanctioned Apartheid states, “sanction skeptics” have concluded that sanctions were inconsequential. Their most damning evidence came from Rhodesia. Despite the severe embargo, in 1973, eight years into the sanction, Rhodesia’s exports grew, GDP rose by seven percent,<sup>17</sup> and domestic manufacturing doubled compared to pre-sanction levels.<sup>18</sup> The nation also underwent significant political integration as Rhodesians “rallied to the flag.”<sup>19</sup> In South Africa, despite significant movement to disinvest, MNCs maintained an indirect presence in the nation.<sup>20</sup> Therefore, capital flight and disinvestment from sanctioned South Africa may not have been as economically devastating as the raw economic figures suggest.

Despite these arguments, the academic consensus today is that sanctions on South Africa and Rhodesia did play a role in forcing political change.<sup>21</sup> Many

<sup>13</sup>“South Africa economic stats and indicators,” *Economy Watch*.

<sup>14</sup> Gatlung, *Effect of International Sanctions*, 387

<sup>15</sup> Brooks, *Regime type*, 1-50.

<sup>16</sup> Elizabeth Schmidt, *Review:Rhodesian Sanctions: The Long View*, (*Journal of Southern African Studies*, vol. 28, no.1, 2003), 311.

<sup>17</sup> Stephenson, *The Impact of Economic Sanctions*, 388.

<sup>18</sup> *Ibid.*, 383.

<sup>19</sup> Galtung, *Effect of International Economic Sanctions*, 390.

<sup>20</sup> Kenneth A. Rodman, *Public and Private Sanctions against South Africa*, (*Political Science Quarterly*, vol. 109, no.2, Summer 1994), 330.

<sup>21</sup> David M. Rowe, who declared in the title of his 2007 article that “sanctions do work,” played a significant role in this shift in academic consensus. His landmark book *Manipulating*

of the claims of Rhodesian strengths, made before 1975, did not consider the numerous hidden weaknesses directly caused by the economic sanctions, such as the dwindling state Foreign Exchange reserves, which broke into daylight only in the final days of Rhodesia.<sup>22</sup> Galtung's articles, written in 1974, admit: "we do not know how (the sanction) will all end, and primary source material of a crucial nature is not yet available."<sup>23</sup> But while today's scholars agree sanctions did play a role in the demise of Rhodesia, they still have yet to consider the case of Rhodesia in a comparative context in relation to South Africa.

### *Limitations in the Conventional Literature*

The conventional literature fails to explain the Rhodesia-South Africa paradox because it suffers from a consistent over-emphasis of the role of state actors on sanction outcome. Baldwin and many other foundational scholars of the sanctions literature frame economic sanctions tools of "economic statecraft," without mentioning the impact of behaviors by non-state actors on sanctions effectiveness.<sup>24</sup> Furthermore, sanction scholars tend to predict the effectiveness of sanctions by relying on macroeconomic or political microfoundations, such as export/import reliance and economic concentration, or regime type and political decision makers, which are all influenced by or a direct outcome of state behaviors.

The reliance of sanctions literature on the behavior of state actors as an explanation follows a general partiality of political science literature to state actors. However, this bias has resulted in an unjustified presumption in recent sanctions literature that the effectiveness of economic sanctions can easily be maximized, and its collateral damage minimized through "smarter" sanctions policy with improved political and macroeconomic parameter setting by policy makers. Adherents of "smarter policy, smarter sanctions" risk reaching a reductive conclusion that policy makers who are aware of the political/macroeconomic factors affecting sanction

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*the Market: Understanding Economic Sanctions, Institutional Change, and the Political Unity of White Rhodesia* argued that sanctions did in fact play a significant role in the end of the Rhodesian regime. Elizabeth Schmidt, Jonathan Kirshner, and Dury reviewed the book and accepted Rowe's argument that sanctions did "work" in defeating the Rhodesian regime. In Schmidt's words: "[Rowe] argues, quite convincingly, that the early scholarship was wrong."

<sup>22</sup> Nhamo W. Samasuwo, *An assessment of the impact of economic sanctions on Rhodesia's cattle industry, 1965-72*, (*Historia*, vol. 47, no.2, 2002,) 657.

<sup>23</sup> Galtung, *Effects of International Economic Sanctions*, 378.

<sup>24</sup> David A. Baldwin, *Economic Statecraft*, (Princeton University Press, 1985.)

effectiveness will produce more effective sanction policies.<sup>25</sup> This claim is not empirically supported according to Drezner: despite the frequent implementation of “smart sanctions,” sanctions have not become significantly more effective.

“Smarter” sanctions, however, have not translated into better outcomes. This is because smarter sanctions ultimately suffer from a deficit in the entire economic sanctions literature in general. All previous scholarship on sanctions are incorrect in assuming that the success or failure of a sanctions policy is largely determined just by the decisions of policy makers and their macroeconomic and political parameter setting. They fail to account for the fact that sanction effectiveness is also determined by the decisions of the MNCs and their microeconomic parameter setting. If policymakers want to draft a truly “smart” sanction, they must not only consider the influence of state behavior on macroeconomic and political parameters, but also the impact of behaviors of non-state actors, namely the MNCs, on sanctions policy.

### **THE ROLE OF MNCs AND THEIR MICROECONOMIC PARAMETER SETTING ON SANCTIONS OUTCOME**

I will construct a model to explain MNC behaviors. Of course, actual MNC decision making is much more involved, but the model has satisfactory explanatory power. In the next section, the model will be used to explain the outcomes of the sanctions placed on Rhodesia and South Africa.

#### *Future Profitability, Conspicuity, Max Potential Punishment*

MNCs are international corporate entities with a single incentive: net profit maximization.<sup>26</sup> Assuming MNCs will always choose options that will produce the largest net profit, if MNCs achieve positive net profit from sanction-busting, they will sanction bust; if not, they will disengage from the sanctioned economy. “Profit Maximization,” however, is an aggregate product derived from many incentives and disincentives. Hence, to determine whether a profit-

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<sup>25</sup> Daniel W. Drezner, *Sanctions Sometime Smart: Targeted Sanctions in Theory and Practice*, (International Studies Review, vol. 13, 2011), 96-108.

<sup>26</sup> Olatunde Julius Otusanya, *The Role of Multinational Companies in Tax Evasion and Tax Avoidance: The Case of Nigeria*, (Critical Perspectives on Accounting, vol. 22, no.3, 2011), 316-32.

maximizing MNC will sanction-bust or not, the incentives and disincentives that shape the corporate environment must be studied.

The primary incentives and disincentives at work when a profit-maximizing MNC decides to engage with or disengage from a sanctioned economy are future profitability, conspicuity, and max potential punishment. *Future Profitability* is a positive incentive. It correlates with the perceived gross economic gain a MNC expects to obtain from engaging in sanction-busting trade. The larger the expected profit from sanctions-busting, the stronger the incentive will be for MNCs to engage with sanctioned economies. Conversely, the smaller the expected profit, the weaker the incentive to sanction-bust. Conspicuity is a negative disincentive. It correlates with the expected visibility of the MNC's sanctions-busting operation from the perspective of the sanctioning government and the public at large. High conspicuity significantly discourages MNCs from engaging in sanctions-busting trade because it is more likely to invite punishment from the sanctioning government and the public. *Max Potential Punishment (or Max Punishment)* is a negative disincentive. It correlates with the expected severity of the gravest punitive action conceivable for engaging in sanction busting trade inflicted onto the MNC by the government and the public. Obviously, the more severe the max potential punishment is, the stronger the disincentive is for MNCs to engage in sanction-busting. In constructing the model, we assume that these three incentive/disincentives are determined by several key input variables, listed below.

#### 1) *Future Profitability.*

The expected future profitability of a given sanction-busting trade is an output value that is derived from three input variables. One of these inputs is the general economic desirability of the sanctioned economy. This variable represents the key economic facts, (such as market size or production capacity) that MNCs consider when they decide whether to engage with a market, whether sanctioned or not. Unless the sanctioned economy has some economic value that makes it valuable to the MNCs, they would not trade with them even without sanctions. The other input variables are relevant only to sanctioned economies. One of these is bargaining power. MNCs must gauge how much additional bargaining power they have in negotiating with sanctioned economies. These economies are not in a position to take the global market price due to their limited access to the world market, and hence will have to take higher prices for imports and lower prices for

exports. This is to the advantage of MNCs. The greater the bargaining power, the greater the future profitability. Significant bargaining power permits MNCs to act as a monopolistic price-setter that can undersell the sanctioned economy. The strength of an MNC's bargaining power is determined by the answer to three questions. (1) Are other MNCs participating in sanction-busting operations? If so, the other players will force the MNC to buy and sell at prices that are more competitive, reducing their bargaining power. (2) To what extent has the sanctioned economy achieved autarky? If the sanctioned economy has achieved a significant degree of autarky and can domestically produce the product supplied by the MNC, then the MNC will have to set prices competitive with domestic products. Whether autarky is possible or not would at least partly depend on the mobility and the alternative availability of the particular product provided by the MNC. If the product is highly mobile (eg. a consultant), then the product can be quickly pulled out of a sanctioned economy before there is enough time to establish autarky and produce sanctioned goods domestically. If the product is available from an alternative source, either from other MNCs or a domestic firm, then autarky is much easier. Lastly, there is (3), the expected duration of the sanction. This is a significant determinant of future profitability. If the MNC perceives the sanction to be a short-term affair, losses from hiccup in trade is far outweighed by the benefits of a sustained, long-term trade relationship.

## 2) *Conspicuity.*

Information that is visible to governments is not necessarily visible to the public, and vice versa. For example, state intelligence may be aware of MNC sanction-busting, but intentionally not inform the public. Conversely, certain private actors with privileged access to insider information of MNC activities, like investigative journalists, may have information that the government does not. Therefore, a more accurate model than the one used in this study would take into account this information asymmetry. This would be done by disaggregating *conspicuity* into the conspicuity of the sanction-busting trade from the sanctioning government, and the conspicuity of the same trade from the public. Unfortunately, disaggregating conspicuity into these two incentives is beyond the scope of this study. Lacking access to key government archives, it is impossible to know whether information not known by the public at the time of the sanction was withheld by the government as classified knowledge, or was



just as unknown to the sanctioner government as to the public.

This methodological obstacle is circumvented by assuming that what information was known by the public was also known by the government, and vice versa. Therefore, in this model, the degree of awareness by either the public or the sanctioner government of the MNC sanction-busting operation is the single input used to derive the *conspicuity* disincentive. This assumption is not problematic for Rhodesia and South Africa. The most economically significant sanctioner governments of Rhodesia and South Africa, the United States and those of Western Europe, were liberal democracies, where information that was visible to the government was also visible to the public. Even if either the government or the public did come to acquire information that one of them was not aware of, the information barrier was low enough that information about the key sanction-busting trades in the two countries (particularly oil trade in Rhodesia), and the FDI engagement of MNCs in South Africa) quickly diffused from one actor to another.

### 3) *Max Potential Punishment.*

The value we use for total Max Potential Punishment is derived from both the Max Potential Punishment sustainable from the sanctioner government, and the Max Potential Punishment sustainable from the public. If the sanction-busting activity is illegal, the punishment from the sanctioner government may come in the form of a fine, imprisonment, or other legal recourse.. If the sanction-busting activity is technically legal, it could come in the form of closing of loopholes, severance of government contract to MNCs, and other extra-judicial punitive measures. The most common and effective form of punitive action by the public is the boycott, where consumers refuse to buy the products of the offending MNC or otherwise engage in transaction with them. While it may seem wise to disaggregate public punishment and government punishment, this is not necessary.

MNCs anticipate their actual punishment for engaging in sanction-busting trade to be much smaller than, and rarely equal to, the Max Punishment threatened. Such optimism is not exclusive to MNC. It is not uncommon for criminal entities to perceive the expected punishment as much lower than what is threatened. For example, students perceive the actual punishment of smoking marijuana to be much less serious than the Max Punishment because they are confident they won't be caught. This expectation as to what extent the Max Punishment will be realized

is entirely dependent on conspicuity. Similarly, the students in the previous example will expect more serious consequences if, instead of smoking at home, they smoke in front of the police. Likewise, MNCs perceive that higher degrees of conspicuity makes it more likely for the government and the public to impose the Maximum Punishment, and less conspicuity makes such punishment less likely.

The sanctioner government is more likely to retaliate against a conspicuous sanctions-breaking operation for two reasons. First, if the MNC's sanctions-busting operation is illegal, government agencies are more likely to uncover and punish conspicuous sanctions-busting trade. Second, even if the MNC's operation is still technically legal due to loopholes, the governments are still more likely to interpret conspicuous sanctions-busting activities as an affront to government authority. The governments will have strong incentives to either amend the sanction legislation, close the loophole, or even resort to extrajudicial measures to punish the "legal" trade. While a government might look the other way if an illegal transaction is done under the table, it may be forced to take retaliatory measures if the same trade is done in broad daylight, in open defiance to the authority of the state.<sup>27</sup>

The public is more likely to retaliate against conspicuous sanction-busting operations because the principal method of retaliation used by the public against MNC, boycotting, requires widespread mobilization.<sup>28</sup> Boycotting is a worthwhile weapon only if enough people participate. However, people would consider a boycott only if they are aware of the MNC's sanction-busting operations. The public is more likely to be aware of MNC operations that are visible; thus, a conspicuous sanction-busting trade is necessary to activate civil

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<sup>27</sup> Consider the public response to the leakage of the panama papers, which not only exposed tax evasion but also sanction-busting operations. The Panaman president Juan Carlos Varela had acknowledged he was "friends" with a managing partner of the firm responsible for the sanction busting operation prior to the leak in an interview; while we will never know for sure, it seems unlikely he was completely unaware of the significant sanction-busting activities occurring in his country. After the panama papers were outed, the state was forced to move toward the arrest of the individuals involved in the money laundering scheme amid allegations damaging to the state's authority that incriminated Panama as a "tax haven."

<sup>28</sup> Kenneth A. Rodman, *Public and Private Sanctions against South Africa*, (Political Science Quarterly, vol. 109, 2, 1994), 313-314.

society in an effective retaliatory boycott.

*The Incentive/Disincentives Model: MNC Decision Making for Sanctioned Economies*

Now that all the inputs behind each of the incentive and disincentives have been described, it's time to present the way in which the incentive/disincentives of *future profitability*, *conspicuity*, and *max punishment* produce the final MNC decision. The corporate calculus is:

$$P - C^*(MP) = D,$$

where: P = Future Profitability, C = [0,1] = Conspicuity, MP = Max Punishment,  
D = MNC Decision,

And: IF  $D > 0$ , THEN sanction-bust,

And: IF  $D < 0$ , THEN **don't** sanction-bust.

The economic benefit of sanction busting is abstracted as P. Hence, a larger P correlates with a larger D, as higher the future profitability of a trade, the greater the incentive for MNCs to sanction bust. Future profitability only accounts for the gross future profitability of sanction-busting. However, sanction busting comes with its own expected cost that will depress net profits. This expected political and social cost of sanction busting is modeled by  $C^*(MP)$ . A larger MP correlates with a smaller D, as the more severe the maximum potential punishment is for sanction-busting, the more MNCs are discouraged from engaging in such operations. However, the severity of the punishment imparts any meaningful weight on the MNC decision making only if sanction-busting trade is conspicuous enough for the government and the public to inflict all, or part of, the maximum possible punishment onto the MNC. In other words, no matter how severe the potential punishment is for sanction-busting, MNCs will only be discouraged if sanction-busting is flagrant enough to invite punishment. Thus, the extent to which the max potential punishment disincentivizes sanction-busting depends on conspicuity, a variable which ranges from 0 to 1 in this model. If Conspicuity is 0, the sanction-busting transaction is invisible and hence the MNC decision making is unaffected by the empty threat of punishment. If Conspicuity is 1, sanction-busting is visible

and the MNC expects the full weight of the threatened punishment.

Figure 1: The MNC incentive/disincentive model

Positive Incentive: Future Profitability

- Key Inputs of Future Profitability:
  - General economic desirability
  - Bargaining Power
  - Expected Duration of Sanction

Negative Disincentive: Conspicuity and Maximum Punishment

- Key Inputs of Conspicuity
  - Visibility from the sanctioner government or public
- Key Inputs of Maximum Punishment
  - Maximum Punishment sustainable from government
  - Maximum Punishment sustainable from public

Maximum Possible Punishment from the public, and Maximum Possible Punishment from the sanctioner government were integrated into one incentive function. This abstraction was made possible by our assumption that the visibility and conspicuity from the perspective of the government and the public is the same:

$$\begin{aligned}
 \text{IF: } & P - C_{\text{public}} * (MP_{\text{public}}) - C_{\text{government}} * (MP_{\text{government}}) = D, \\
 \text{AND } & C = C_{\text{public}} = C_{\text{government}}, \quad MP = MP_{\text{public}} + MP_{\text{government}}, \\
 \text{THEN: } & P - C * (MP_{\text{public}}) - C * (MP_{\text{government}}) = P - C * (MP_{\text{public}} + MP_{\text{government}}) = \\
 & \mathbf{P - C * (MP) = D.}
 \end{aligned}$$

Now that the incentive/disincentive model for MNCs has been established, let us apply it to South Africa and Rhodesia. In each case study, I will first establish that the decisions of MNCs to engage or disengage, Rhodesia

for the former and South Africa for the latter, weakened the state's economic health and its capacity to reject the sanctioner demand to end apartheid. This shows that MNC decision did affect the outcome of the sanction. Second, I will trace the decision-making process of key MNCs where I find the measure of the input variables, derive the incentive/disincentive from the inputs and add the incentive/disincentive to derive the final decision of the MNCs and its impact on the sanctioned economy.

## MNC DECISION MAKING IN SOUTH AFRICA AND RHODESIA

### *South Africa*

#### *The economic and political impact of MNC behavior on the end of Apartheid*

Faced with the prospects of an imminent sanction, many key MNCs chose to disengage from the South African economy rather than participate in sanction-busting trade. Their decisions destroyed the South African economy. The most visible damage to the South African economy came from capital flight. Foreign capital fled Praetoria for safer investment options<sup>29</sup>, leading to higher South African interest rates. In 1985, the sudden capital flight created a liquidity crisis,<sup>30</sup> forcing the government to call a unilateral memorandum on all public debts. The memorandum made banks grow even more wary of investing in Praetoria, causing a confidence crisis for all South African debts, public and private. As a result, the prime interest rate in South Africa shot up to record rates, from nine percent in 1982 to 25% in 1985.<sup>31</sup> The rates did normalize at a lower figure as the initial shock wore off, but investors remained cautious. The prime interest rate floated between 15% and 25% throughout the sanction. Less visible in the short term but just as corrosive in the long term was the withdrawal of FDI by MNC from the sanctioned state. Two hundred MNCs with FDIs in South Africa chose to disinvest<sup>32</sup>, selling off their physical assets to South Africans. Because of disinvestment, about 5 billion Rand of FDI

<sup>29</sup> Philip I. Levy, *Sanctions on South Africa: What did they do?*, (The American Economic Review, vol. 89, 2, 1999) 417.

<sup>30</sup> Alan Hirsch, *The Origin and Implication of South Africa's continuing financial crisis*, (Transformation, issue 9, 1989), 31.

<sup>31</sup> Liberta, 31.

<sup>32</sup> Rodman, *Public and Private Sanctions*, 318.

was lost.<sup>33</sup>

Disinvestment harmed South African industries in two ways. First, it cut off local production facilities, previously owned by MNC subsidiaries, from the MNC's global supply and distribution network, leading to drastic reduction in corporate profits, wage, and unemployment. Second, because of disinvestment, the South African economy lost the practical and technical knowhow of the MNCs that was now integral to maintain South African competitiveness. The MNC decision to disinvest reduced South African access to global supply/distribution chains and MNC knowhow, which in turn paralyzed productivity growth from 1985 to 1993.<sup>34</sup> This stagnation was caused by the sanction, as the economy recovered its high productivity growth after the sanction was lifted.

The combined impact of capital flight and disinvestment intensified the economic crisis. When capital fled, international interest rates rose, and foreign exchange became scarce, the South African economy required a competitive export market to acquire foreign currency if it was to have any chance of staying afloat. However, disinvestment reduced South African productivity, hamstringing international competitiveness and reducing its ability to earn foreign currency. The negative spiral was reflected in the meager GDP growth rate during the sanction. During the duration of the sanction from 1985 to 1993, GDP stagnated, growing only by 20 billion. In comparison, the South African economy grew 60 billion from 1975 to 1985, and 130 billion from 1995 to 2005.<sup>35</sup>

The economic downturn caused by MNC decisions created political pressure to end the sanction as median voters, most of whom suffered financially, steered the political tone of the government to one of reconciliation.<sup>36</sup> The most apparent impact felt by the average South African came in the form of more expensive imports. Import prices inflated due to the depreciation of the Rand caused by capital flight. As a result, the South Africans were forced abstain from luxury, sometimes necessities, that were imported. The South African current account surplus grew in this period despite weaker exports,

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<sup>33</sup> South African Reserve Bank.

<sup>34</sup> Colin McCarthy, *Productivity Performance in Developing Countries*, 317.

<sup>35</sup> South African Reserve Bank.

<sup>36</sup> Kirschner, *Microfoundations*, 55.

because reduced imports more than offset declines in import (South African Reserve Bank)<sup>37</sup>. As Rodman notes, the South African economy was not in a state of total collapse. However, for a people used to easy credits and no shortage of goods, the MNC's disengagement undermined the economic security that until then they had taken for granted. This created an imperative for policy change. The disinvestment of many famous MNCs also created a psychological imperative amongst decision makers to change direction. The simultaneous rejection of South African apartheid by private actors through disinvestment and by public actors through withholding of diplomatic recognition reinforced the perceived isolation of South Africa and undermined the legitimacy of Apartheid.<sup>38</sup>

One caveat to this narrative is that, since white-only suffrage excluded black and colored Africans from voting, the "median voter" of Apartheid South Africa was by no means synonymous with the "median citizen." In fact, the "median voter," who was most likely white and affluent, and the "median citizen," who was most likely black and poor, had different experiences in sanctioned South Africa. As in other historical examples of sanctioning, the population that the sanction was supposed to help suffered the brunt of the economic devastation; "the median citizen"—the many Africans under Apartheid—experienced even more drastic economic collapse under the sanction regime than did white voters.<sup>39</sup> For instance, in companies formerly operated by MNCs before disinvestment, internal corporate regulations that barred discriminatory practices were repealed once each MNC administration was replaced by domestic management. The change in administration exposed the African employees of these companies to even greater discrimination and economic damage.<sup>40</sup> Given the severe, short-term economic devastation experienced by Africans, which dwarfed the inconveniences suffered by white voters, if the Africans did have electoral power, there would probably have been an even greater political pressure to end apartheid. If the "median voter" did include Africans, Apartheid may have collapsed even sooner under sanctions; but again, there would be no Apartheid if Africans had the vote.

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<sup>37</sup> South African Reserve Bank.

<sup>38</sup> Rodman, *Public and Private Sanctions*, 314.

<sup>39</sup> Kirschner, 55.

<sup>40</sup> Hirsch, 193.

*Incentive/Disincentive Causal Mechanisms behind MNC behavior in South Africa*

MNCs decided to disengage from South Africa because continued engagement with South Africa would have entailed low future profitability, high conspicuity, and high Max Punishment. There was a weak positive economic incentive and a strong negative political and social disincentive to sanction-bust, leading to a decision to disengage. The disincentive from political and social sanctions exceeded incentives from the expected profit MNCs could gain by sustained engagement. As these incentives/disincentives are derived from several input factors, I will examine each of these inputs to determine how MNCs establish their incentives/disincentives.

*1) Low Future Profitability.*

MNCs expected low future profitability from sanction-busting in South Africa due to expectations of low economic desirability of trading with South Africa, weak bargaining power in sanction-busting negotiation, and a long period of sanction. First, the South African economy was not a very desirable market for MNCs. For MNCs with FDI assets in South Africa, the revenue collected from operations in South Africa often amounted only to about two percent of total revenue, and thus was not essential for overall company future profitability.<sup>41</sup> For international banks, historically South Africa's primary value had been a stable African investment option with higher interest rates than in the developed world. However, after MNCs with FDI assets retreated, destabilizing the economy in the process, the primary merit of South African investment – its stability – eroded, making South Africa a less desirable investment option. Second, the MNCs expected weak bargaining power from negotiation, so they were skeptical they could maintain competitive prices or profits because the MNCs would have to compete with competitive prices from budding but growing domestic manufacturers. In addition, numerous MNCs were engaged with pre-sanction South Africa; hence, in the “fog of war” where MNCs (like all market actors) are unaware of the decisions of their competitors, an MNC could not rule out the possibility that some of their competitors may also decide to sanction-bust, reducing

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<sup>41</sup> Ibid.,326.



their own bargaining power in undercutting South African prices. Finally, with the historical knowledge that the only other example of a comprehensive, U.N.-led sanction against another Apartheid African state, Rhodesia, was a protracted affair lasting 15 years despite early expectation that it would be over within the year, it would be expected that most MNCs probably anticipated the sanction against South Africa to be a long-term affair. Expectations for a long-term sanction reduced the need to maintain trade contact with South Africa in case commercial relations were normalized again soon. These input factors totaled to a weak, positive future profitability incentive to sanction-bust.

## 2) *High Conspicuity.*

MNCs perceived that any sanction-busting activity would be conspicuous and subject to a serious maximum potential punishment. This expectation was more a result of heightened public awareness than of government authority. Even before the sanctions were formally instated, several NGOs had dedicated themselves to exposing MNCs with engagements in South Africa. In the early 1960s, a decade before the mandatory U.N. sanctions were authorized, the Anti-Apartheid Movement (AAM) organized civilian boycotts of South African goods by naming and shaming companies engaged with South Africa.<sup>42</sup> The AAM fizzled out in the late 1960s, but other NGOs continued the fight. Several campus student organizations petitioned their universities to disinvest from MNCs engaged in trade with South Africa, often naming specific corporations that the universities were invested in.<sup>43</sup> Because of this activism by an activated civil society, MNCs expected high visibility of sanction-busting operations in South Africa. This is not to say that the local black South Africans exercised little agency in combatting the Apartheid regime ruling over them. If anything, the civilian boycott in the West gained critical mass only after the world witnessed the intense resistance of black South Africans to the institution of the South African Constitution of 1983, which reaffirmed racial segregation.<sup>44</sup> That said, external actors (inspired to action by the resistance of black South African internal actors) played the predominant role in shaping MNC behaviors.

<sup>42</sup> Arianna Lisson, *The Anti-Apartheid Movement, Britain, and South Africa Anti-Apartheid movement versus real politik*, (2002) PhD Dissertation, retrieved from African National Congress,.

<sup>43</sup> U.S. Senate Committee on Banking, Housing, and Urban Affairs. *The Anti-Apartheid Act of 1985*. (U.S. Government Printing Office, 1985), p. 213.

<sup>44</sup> Richard Knight, "Sanctions, Disinvestment, and U.S. corporations in South Africa," in *Sanctioning Apartheid*, ed. Robert E. Edgar, (Africa World Press, 1990.)

### 3) *High Maximum Potential Punishment.*

NGOs also had a deep well of support they could readily mobilize for boycotts and public campaigns, raising the maximum punishment that the public could inflict upon MNCs. In 1971, the U.S.-based Interfaith Center on Corporate Responsibility (ICCR) pressured corporations operating in South Africa to adopt the Sullivan principles – a seven-point program that demanded non-segregated workplaces and “equal and fair opportunities for all employees” regardless of race.<sup>45</sup> Since it was illegal under South African law to abide by the Sullivan principles, the ICCR pressured companies to leave South Africa. Those that did not leave South Africa faced massive consumer and investor boycotts organized by the ICCR. Furthermore, the widespread student protests meant that 155 university institutions had disinvested from MNCs trading with South Africans by 1988. As such, NGOs saw that they would receive a severe punishment in the form of disinvestment by universities, who are key institutional investors, if they continued to sanction-bust.<sup>46</sup> The NGOs also significantly raised the maximum punishment that the sanctioner government could impose by pressuring municipal, local, and state governments to rescind lucrative government contracts with MNCs engaged with South Africa. Combined, these conditions created the threat of high maximum potential punishment by both the public and the government. Furthermore, because of the visibility of sanction-busting operations, the MNCs expected the full extent of the maximum punishment if they did engage with South Africa. As a result, a powerful negative disincentive, fueled by high conspicuity and high maximum punishment, overrode the weak positive incentive and led to the MNC decision to disengage.

### *Rhodesia*

#### *The economic and political impact of MNCs behavior on Rhodesian apartheid*

Although MNCs were pervasive in the Rhodesian economy, they still had an indispensable role in the Rhodesian economy that was equally important, if asymmetrical, to their functions in the South African economy

<sup>45</sup> Leon Sullivan, *The Sullivan Principles*, retrieved from Marshall University.

<sup>46</sup> Richard Knight, *Sanctions, Disinvestment, and U.S. corporations in South Africa*.

because they provided all the Rhodesian energy requirement. Lacking any domestic energy sources, namely oil, Rhodesia was 100% dependent on oil imports, all of which were provided by oil giant MNCs.<sup>47</sup> Rhodesia's dependency on oil MNCs was exacerbated by its landlocked geography, which forced the country to rely on pipelines to transport oil from the South East African coast, all of which were owned by the MNCs.<sup>48</sup>

The medium- to long-term decision of oil giant MNCs to stay engaged in Rhodesia was crucial to the country's economic health. Numerous commentators of the time noted that Rhodesia's economy would have collapsed very quickly without its oil imports.<sup>49</sup> The continued oil imports permitted the rapid industrial expansion that was crucial for Rhodesia to skirt the worst effects of the sanction. Such an industrial expansion helped in two ways. First, an intensive import substitution industrialization program supplied Rhodesia with goods no longer imported under the sanction.<sup>50</sup> Second, the domestic manufacturing expansion compensated for the economic atrophy of the former cash cows of Rhodesia under the sanction, such as the tobacco industry.<sup>51</sup> The macroeconomic health of the country was maintained by shifting the source of growth away from such atrophied industries hit by the sanction to domestic manufacturing that supplied internal consumption. This industrial expansion was possible only through the continued supply of oil by MNCs. So, without oil imports, there would have been no industrial expansion, and the Rhodesian economy would have collapsed quickly due to shortage of imported goods and the collapse of source of income industries without another growth source to replace it.<sup>52</sup> In addition to the industrial expansion, the ready availability of oil from MNCs softened the upward price pressure of oil per gallon. Cheaper oil was essential to Rhodesia, which was suffering from a foreign currency shortage, as expensive oil would have quickly depleted Rhodesian foreign currency reserves.<sup>53</sup>

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<sup>47</sup> David M. Rowe, *Economic Sanctions do work: Economic statecraft and the oil embargo of Rhodesia*, (Security Studies, vol 9, issue 1, 2007), 254-287.

<sup>48</sup> Stephenson, *Impact of Economic Sanctions*, 383.

<sup>49</sup> Rowe, *Sanctions do work*, 266.

<sup>50</sup> *Economic Survey of Rhodesia for 1973*, (Government Printer, 1974), 19-20.

<sup>51</sup> Samasuwo, *Cattle Industry*, 73.

<sup>52</sup> David M. Rowe, *Manipulating the Market*, (University of Michigan Press, 2001), 96-133.

<sup>53</sup> R.T. Naylor, *Patriots and Profiteers: Economic Warfare, sanction-busting, and state-sponsored*

Rhodesia's ability to resist demands to abandon Apartheid was directly tied to the economic ramifications of the MNCs' continued engagement. The expansion of domestic manufacturing permitted by the oil import provided workers in sectors weakened by the sanction with alternative employment.<sup>54</sup> Furthermore, the growing domestic manufacturing industry – and the economic health of the economy it helped maintain – also bolstered civilian morale. Secondly, Rhodesia could spend its foreign exchange on other vital economic concerns, as it did not need to pay a premium for smuggled oil. For example, without surplus cheap credit, Rhodesian agricultural subsidies for sanctioned tobacco goods would have quickly become unsustainable. The same foreign currency was also crucial to acquire weaponries needed to fight the guerilla war against Black nationalists.<sup>55</sup> Finally, the abundance of oil meant the life of the median Rhodesian voter was largely unaffected. Rhodesians could still drive cars, as long as they carpooled every so often. If anything, what little oil rationing there was inspired a “rally-to-the-flag” effect on national unity that far outweighed the negative impact of the minor inconvenience.<sup>56</sup> However, if oil shortages and the drop in white living standards were far more severe, Rhodesians could be expected to have behaved differently, perhaps demanding that the government cave to sanction demands.

*Incentive/Disincentive Causal Mechanisms behind MNCs behavior*

Although the MNC decision in the medium- to long-term was to sanction-bust in Rhodesia, this was not initially the case. At the very beginning of the sanction, incentives/disincentives motivated oil giant MNCs to disengage from the sanctioned economy. The oil giant MNCs initially cooperated with the British government, the primary sanctioner government, and agreed to stop oil shipments to Rhodesia. The MNCs chose not to sanction-bust as they expected only moderate future profitability in comparison to high conspicuity and high maximum punishment; the

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*crime*, (Mcgill-Queen's University Press, 2008), 137.

<sup>54</sup> Stephenson, 208.

<sup>55</sup> Naylor, *Patriots and Profiteers*, 137.

<sup>56</sup> Galtung, *International Economic sanctions*, 390.

disincentives outweighed the incentives. However, overtime, these incentives/disincentives changed, until they settled in a pattern of low future profitability, low conspicuity, and low Maximum Punishment. The new constellation of incentives/disincentives then encouraged MNCs to change their decisions from disengagement to engagement as although the low future profitability meant there was only a weak incentive, the low conspicuity and maximum punishment meant the negative disincentive to sanction-bust was even more marginal. Tracing MNC behaviors in Rhodesia in terms of the incentive/disincentive model highlights that when incentives/disincentives change over time, MNC decisions will shift with the incentives.

*1a) Initially, moderate future profitability.*

At the beginning of the sanction, the constellation of key input variables meant oil giant MNCs expected moderate future profitability from the sanction. Given how small the Rhodesian demand for oil was, the Rhodesian market had limited economic desirability. The MNCs also expected medium bargaining power. The Rhodesians had no domestic oil industries to compete with which the MNCs, giving MNCs monopolistic control over price controls. Furthermore, since there were only five oil giant MNCs operating in Rhodesia, the withdrawal of any one competitor would significantly lower competitive pressure. In light of the optimistic statements about the quick capitulation of the Apartheid regime by the government and the public, the MNCs did not expect sanctions to last long. In total, the input variables of low general economic desirability, medium bargaining power, and short expected duration of sanction, resulted in the MNC expectation of moderate future profitability from sanction-busting.

*1b) Over time, weak future profitability.*

However, as the sanction progressed, the future profitability incentive begun to change. The sanction, which everyone claimed would be over very quickly, dragged on for years. Hence, the MNCs now expected a sanction with a longer duration. With lower expectation that trade relations would be normalized anytime soon, the MNCs felt less compelled to maintain trade contact. This change in this input meant its output, the future profitability incentive, changed: now, there was a weak future profitability incentive to continue trade.

*2a) Initially, high conspicuity.*

At the beginning of the sanction, the MNCs expected high conspicuity from engaging in sanction-busting because they expected visibility from the sanctioner government of United Kingdom. The British government declared that the British navy would enforce the sanction by identifying any ships carrying oil to ports that were conventionally used to transport oil to Rhodesia.<sup>57</sup> Once the ships were identified, they could easily be tracked to their patron oil giant MNC; hence, the high conspicuity of MNC sanction busting.

*3a) Initially, high maximum potential punishment.*

When *Joanne V*, an oil tanker, defied the British blockade and sailed into Beira, a Mozambique port used to transport oil to Rhodesia, the British government – sanctioned by a U.N. resolution to use force if necessary to stop the oil trade – declared that any ships that unloaded oil destined to Rhodesia would be seized.<sup>58</sup> The threat was taken seriously by MNCs: *Joanne V* left the Mozambique port without unloading its oil.<sup>59</sup> Attempts by MNCs to break the blockade by using an oil pipeline of significant symbolic value as the connection between Rhodesia and South Africa were also shut down by the British government. Most MNCs saw the highly conspicuous, punishable nature of trading with Rhodesia to be a disincentive that far outweighed the paltry future profitability incentive and disengaged from Rhodesia.

*2b) Over time, low conspicuity.*

However, as time went on, the MNCs increasingly perceived low conspicuity since South African state practices changed the incentive structure. MNCs could deliver oil anonymously to Rhodesia as South Africa offered to purchase oil from MNCs and then sell it to Rhodesia. This permitted MNCs to claim plausible deniability – how could MNCs “know,” and so take responsibility for, what the South Africans were going to do with the oil once it was sold? In addition, the public attention to the sanction-busting operations was diverted from the sanction-busting MNCs to the South African regime that permitted it; thus, the increased South African notoriety caused reduced MNC conspicuity.

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<sup>57</sup> Rowe, *Economic Sanctions do work*, 266.

<sup>58</sup> UN resolution 232

<sup>59</sup> Chicago Tribune, *Rhodesia will not use oil on Joanne V*, (April 16, 1967).

3b) Over time, low maximum potential punishment.

As for maximum punishment, South African state practice again changed the incentive structure. By threatening to impose a mutually painful counter-sanction onto the British economy, the South African regime prohibited the British from blockading a few Mozambique ports that were used to supply oil to both Rhodesia and South Africa. The official reason given for this prohibition by the South African government was that a blockade of the Mozambique ports would threaten South African access to oil. As a result, cargo ships transporting oil to these ports, whether with South African or Rhodesian contracts, were immune to British reprisals. Under the pretext of “protecting national interest in protecting South African access to oil,” the South Africans protected the Rhodesian oil trade. The MNCs saw that the British were spooked by the South African protests and, unwilling to risk a potential South African counter-sanction, would not enforce a comprehensive blockade of all ports.<sup>60</sup> Because of South African state practice, the incentive structure changed, and given low future profitability, low conspicuity, and marginal maximum punishment, MNCs changed their commercial orientations and sanction-busted on behalf of Rhodesia for the rest of the sanction duration.

Figure 2: Summary of the MNC behaviors in sanctioned South Africa and Rhodesia

“Low” implies negligible amounts that only marginally tips the balance of the equation. “Moderate” implies a considerable amount that can affect MNC decision-making unless it is overdetermined by a “high” value, which has the potential of single handedly determining the outcome.

	SOUTH AFRICA	R H O D E S I A : incentive structures INITIALLY	RHODESIA : i n c e n t i v e s t r u c t u r e s O V E R T I M E
Profitability	Low	Moderate	Low

<sup>60</sup> Rowe, *Manipulating the Markets*, 150.

Economic Desirability	Low	Low	Low
Bargaining Power	Low	Low to Medium	Low to Medium
Expected Duration of Sanction	Long	Short	Long
Conspicuity	High	High	Low
Conspicuity from Public/Government	High	High	Low
Max Potential Punishment	High	High	Low
MPP from Government	High	High	Low
MPP from public	High	High	Low
Final MNC Decision	Disengage	Disengage	Sanction-Bust

## CONCLUSION

The behaviors of MNC operating under sanctioned regimes offer insights into what make sanctions effective. Truly effective sanctions must consider the corporate calculus of MNCs, and shape the incentive/disincentives driving corporate behavior to one of compliance with the law. The most important implication of the incentive/disincentive model is that makers of sanction policy should not only focus on threatening the MNCs, but also increasing their conspicuity in sanction-busting operations. Policymakers should prioritize raising the conspicuity of sanction-busting activities just as much as designing punishments for misbehavior; after all, the most severe punishments are paper tigers unless they are enforceable, and punishments are enforceable if and only if they can be detected in the first place. Furthermore,



policymakers must be aware that, as observed in Rhodesia, third-party states can easily manipulate the MNC incentive structure to promote sanction-busting. South African intervention in the sanction structure for Rhodesia ultimately shaped MNC behavior in a way that limits sanction effectiveness. Policymakers must plan for another “South Africa” contingency by preparing to counter such attempts by third party states to undermine sanction effectiveness.

There are a few caveats to this model. First, the increased public awareness of MNC sanction-busting was assumed to encourage the public to enforce punishments. This may not necessarily be the case if the public is indifferent to, or perhaps even hostile to, the government’s sanction policy. If the public does not perceive the MNC sanction-busting as deplorable, they will not be motivated to punish the MNC for it. Second, the conspicuity of MNC behavior from the standpoints of the government and the public was assumed to be the same. This was not too much of an issue in these two cases, where the sanctioner regimes were liberal democracies where information was, in fact, shared between the public and government. This may not always be the case, especially if the sanctioner regime is not liberal democratic. In the case of the OPEC oil embargo, for example, autocratic sanctioner regimes may not readily share what they know with their citizens.

There is yet to be a method of determining – beyond qualitative terms – the amount of clout MNCs have in a sanctioned economy. In South Africa, the sheer number of MNCs implied heavy MNC clout, but clout does not necessarily require numbers. In Rhodesia, while fewer MNCs were operating, the MNC oil monopoly in the Rhodesian market made them punch far above their weight in terms of importance to the national economy. The more MNCs control crucial resources, the more impact they have on the national economy.

In this model, a linear relationship was assumed between conspicuity and the actual punishment sustained by the corporations. This may not necessarily be the case. The government and the public may tolerate MNC misdemeanors to a point and only retaliate if the MNCs overstep a critical line. Future research should clarify whether the relationship between conspicuity and actual punishment is actually linear or, if fact, incremental, where actual punishment remains unchanged for increasing conspicuity until a point, at which the actual punishment shoots up.

Lastly, this model assumed that a negative profit from sanction-busting

behavior would encourage MNCs to disengage from the sanctioned economy. This is not always so. If a MNC loses even more money by disengaging from a sanctioned economy, it may prefer remaining engaged with a sanctioned economy, even if it operates at a net loss.

Despite its limitations, the incentive/disincentive model has large implications for the sanction literature. I hope this paper is the much needed intervention in sanction literature to distance it away from state-centric solutions. Perhaps further research can investigate the impact of other non-state actors on sanction effectiveness. In particular, the impact of NGOs on sanction effectiveness seems to be a natural next step. I tangentially referred to the indirect role of NGOs in determining sanction effectiveness by exploring how NGO activities affected the incentive structures of MNCs, but NGOs deserve a much more thought-out investigation on how they affect sanction effectiveness in their own right.

The incentive/disincentive model also can hopefully assist analysts in evaluating the non-state mechanisms that determine the effectiveness of sanctions in place today. The case of North Korea seems ripe for investigation. Despite the several rounds of severe sanctions imposed on the hermit kingdom to persuade it to abandon its nuclear program, the North Koreans continue to survive, buoyed by sanction-busting Russian and Chinese firms<sup>61</sup>. Realistically, there is little the international community can do through economic coercion to convince the powerful, autarkic Chinese and Russian states to refrain from supporting sanction-busting firms. Perhaps, however, the Chinese and Russian firms themselves can be convinced of the errors of their ways by manipulating their incentive structures. Thankfully, the policymakers seem to have realized this earlier than academics. The U.S. treasury has imposed rounds of secondary sanctions not on states trading with the North Koreans, but on individual sanction-busting firms.<sup>62</sup> These firms are now barred from interacting with U.S.-based firms, putting them at major competitive disadvantage. These secondary sanctions were installed only recently at the time this article was written, so it is too early to evaluate

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<sup>61</sup> Joby Warrick, *How Russia quietly undercuts sanctions intended to stop North Korea's nuclear program*, (Washington Post, 2017.)

<sup>62</sup> *U.S. hits Chinese and Russian firms over North Korea*, (BBC, 2017.)

how effective they are, and anyhow they are beyond the scope of this paper. While it is encouraging that policymakers are turning towards non-state centric solutions, further research should apply the incentive/disincentive model to explain whether Russian and Chinese firms were actually dissuaded from sanction-busting.

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