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**THE CUBA EFFECT:  
WHAT NORMALIZED UNITED STATES-CUBA RELATIONS  
MEANS FOR ECONOMIES AND FREIGHT FLOWS IN THE  
GULF OF MEXICO**

**Final Report**

by

Bethany M. Stich, PhD  
The University of New Orleans

Kyle Griffith, PhD  
The University of New Orleans

Dennis Thornton, MSUS  
The University of New Orleans

for

National Transportation Center at Maryland (NTC@Maryland)  
1124 Glenn Martin Hall  
University of Maryland  
College Park, MD 20742

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## **EXECUTIVE SUMMARY**

One of the last remaining vestiges of Cold War hostility and impediments to trade is the US economic embargo of Cuba, in place since 1960. Increasingly seen as a policy failure, the US has taken steps in the past two years to normalize relations with Cuba. American efforts to open Cuba to two-way commerce serve both national security and economic foreign policy agendas. For Cubans, removal of the embargo represents an opportunity for normal relations with the world's largest economy and access to capital and markets that accompany it. The purpose of this study is to investigate the impact of normalized US-Cuba relations on freight flows in the Gulf of Mexico. Working within a multiple streams framework, the investigators examined how Gulf economies change under politically ambiguous conditions through a series of 20 semi-structured qualitative interviews and content analysis of secondary data sources. Specifically, the study explored the behavior of interested individuals from the US and Cuba, so-called policy entrepreneurs, and their influence on policymaking resulting in economic change. Research results suggest that policy entrepreneurs from the US agriculture sector were instrumental in building export relationships with Cuba following passage of the 2000 Trade Sanctions Reform and Export Enhancement Act. Both agriculture and tourism sectors in the US and Cuba experienced immediate increases in activity as a result of normalized relations. The US embargo of Cuba remains an impediment to two-way freight flows but participants identified textile manufacturing as a future growth industry in the event of its removal.

# 1.0 INTRODUCTION

## 1.1 DEVELOPMENTS IN US-CUBA RELATIONS

Historically, the United States (US) and Cuban economies have been intrinsically linked due to their close geographic proximity and resource rich lands. The Cuban revolution of 1959, the subsequent imposition of US economic sanctions, military actions, and antagonistic political rhetoric has strained this once close relationship. A review of each country's economic fortunes over the last 100 years provides insight into the political aspirations of America to expand its international standing and political influence, and Cuba's search for genuine and lasting national independence.

Throughout the Cold War antagonisms of the twentieth century, the US championed greater global economic cooperation and an embrace of free market principles to encourage economic growth. Post World War II, passage of the Bretton Woods Agreement institutionalized this political agenda by effectively establishing the rules of global commerce. The result has been increased global economic participation and trade liberalization. One of the last remaining vestiges of Cold War hostility and impediments to trade is the US economic embargo of Cuba, in place since 1960. Increasingly seen as a policy failure, the US has taken steps in the past two years to normalize relations with Cuba. The close geographic proximity of Cuba to the US and its low-wage workforce composition makes Cuba a likely recipient of a portion of current and future Gulf of Mexico commerce. The main hindrance to this shift in freight flows is the US embargo of Cuba. Economically as a result of the Trade Sanctions Reform and Export Enhancement Act of 2000 (TSRA), the US is already the fourth largest exporter to Cuba consisting of unprocessed agricultural products and raw forestry material.

Freight is defined here as any good or commodity (container, bulk) carried via multiple modes of transport (barge, ship, rail, truck), commonly referred to as "intermodal" transport. According to the Transportation Research Board (TRB) Committee on Intermodal Freight Transport, intermodal is defined as the use of two or more modes to move a shipment from origin to destination (DeWitt and Clinger, 2000). Freight movements and their supporting logistics industries are a crucial element of Gulf Coast economies, particularly those connected to the Mississippi River, one of the major gateways to the US market.

The Lower Mississippi River region (LMRR) is the largest port complex in the US by tonnage and as such is a significant node of global supply chains. This region is one of America's oldest commercial centers and houses five ports: Baton Rouge, New Orleans, Plaquemines, South Louisiana, and St. Bernard (Big River Coalition, 2014). Pre-embargo, the LMRR and Cuba were strong trade partners in the exchange of goods and people. Robbins and Trujillo (1999) estimated that one third of all cargo handled by the Port of New Orleans pre-embargo was destined for Cuban markets.

## 1.2 PROJECT DESCRIPTION

The objective of this study is to investigate the influence of normalized US-Cuba relations on freight flows in the Gulf of Mexico. At a higher level of generality this study

attempts to understand how individuals and organizations re-shape economies through policy interventions. We apply the multiple streams approach (MSA), which describes policy formation, to this case study to understand how individual's produce change in freight transportation networks (Kingdon, 1995; Mintrom, 1997; Birkland, 2005; 2009; Mehta, Baumgartner and Jones, 1993; Birkland et al., 2014; Zahariadis, 2014).

## **2.0 METHODOLOGY**

### **2.1 THEORETICAL BACKGROUND AND DATA COLLECTION**

This study employed a qualitative methods approach with an embedded quantitative component. The individual served as the unit of observation (Guest, 2013). Qualitative data consisted of semi-structured interviews with stakeholders collected over a two-month span in 2016. Interviews either took place in-person or over the phone, lasting between thirty to ninety minutes in duration in English or in Spanish. Investigators employed the ethnographic interview technique as developed by Spradley (Spradley, 1979). The qualitative data was analyzed in conjunction with quantitative data to provide a deeper understanding of the economic implications of normalized US-Cuba relations. The role of these influencers in shaping policy helped investigators identify potential interviewees in the US and Cuba. In-depth interviews further established the link between normal diplomatic relations and freight movements.

In this study, quantitative data consisted of trade value analyses between the US and Cuba before and after the embargo. The intent was to quantify the magnitude of impact to the Cuban economy due to the embargo thus providing some clarity to the problem of continued economic isolation from the US. Data was acquired from secondary sources: US International Trade Commission, US Department of Commerce, United Nations Economic Survey of Latin America, US Department of Agriculture, and peer-reviewed journal articles. An examination of freight exchange revealed which commodities and industries suffered the greatest loss post-embargo. These critical commodities and industries were then used to identify policy entrepreneurs, and subsequently informed the selection of participants for qualitative data collection.

#### **2.1.1 STUDY POPULATION AND SAMPLING APPROACH**

The freight sector is made up of policy entrepreneurs at each stage of the supply-chain network. The shipment of commodities from producer to end consumer requires cooperation among logisticians, freight carriers, warehousemen, customs brokers, seaports, labor, and regulatory agencies. We targeted representatives from the following groups to interview: major US seaports (e.g. port employees, stevedores), the business community (e.g. small-business owners, restaurateurs), government (state agencies), logistics support industries (e.g. freight forwarders, consultants), and policy networks (e.g. academics).

Potential study participants were identified using a purposive snowball sampling approach. We developed an initial list of relevant individuals and organizations from the literature on freight transportation. Next we solicited referrals for additional study participants based on their professional and social networks. The sample size of stakeholders was considered sufficient when we reached theoretical saturation from qualitative interviews, yielding 20 total interviews (Guest, 2013).

### **2.1.2 METHODS RATIONALE**

The rationale for using a semi-structured interview method was its requirement for a guided approach to qualitative data collection. Initial interviews revealed insider terminology that we then used to refine interview questions. The quantitative data helped to identify specific commodity flows that could shift through Cuba. Based on those potential flows we were able to select a sampling method and to draft trade specific interview questions.

### **2.1.3 SIGNIFICANCE**

This research contributes to the field of freight transportation policy by investigating how specific individuals and groups can produce policy change in moments of political unease. MSA provides a framework for understanding how messages are developed and expressed to policymakers with decision-making authority. In the absence of a well-defined problem, the power of policy entrepreneur's message of *policy failure* is amplified. This work lends empirical support to Zahariadis's (2003, 2005) argument that issue salience plays a larger role in influencing institutional behavior than characteristics of an issue.

### **2.1.4 LIMITATIONS**

The main limitation of the Multiple Streams Approach (MSA) is that it is still relatively new compared to other theories and it has not been fully confirmed through repeated scientific testing. MSA has also been criticized for focusing too much on the individual at the expense of analysis of the institutional role in policymaking. Questions also remain as to whether multiple streams theory can be supported by quantitative data.



## 3.0 LITERATURE REVIEW

### 3.1 MULTIPLE STREAMS APPROACH (MSA)

The MSA is a framework for understanding how policy is made (agenda setting, decision-making, implementation) based on the interaction of problem streams, policy streams, political streams, policy entrepreneurs, and policy windows. MSA attempts to explain policymaking in times of ambiguity, defined as the existence of multiple perspectives on a single issue (Mintrom, 1997; Zahariadis, 2014). MSA rejects rationality and embraces ambiguity, accepting that policymaking is convoluted. In this way MSA is reliant on external stimuli from policy entrepreneurs to explain the existence of policy windows and the resulting policy outcomes.

In broader terms, the driving force behind major policy change is periodic and based on outside provocation. Although MSA acknowledges the role of institutions and their roles in decision-making processes, it uses informal rules and formal venues. This means MSA operates within well-defined societal categories (problem, policies, politics), yet it remains unclear how these streams combine and in which stream a policy window will arise (Zahariadis, 2014).

The problem stream comprises citizens' and policymakers' concerns and grievances. Zahariadis connects the number of problems on the policy agenda, or problem load, with the real and perceived effectiveness of policymakers (Zahariadis, 2014). Indicators, focusing events, and feedback are some of the common ways policymakers learn about new problems to address. The policies stream is the collection of ideas generated by networks of bureaucrats, academics, and researchers to address the problems stream. Given the large volume of policy proposals, policymakers narrow the field based on technical feasibility, value acceptability, and resource availability (Zahariadis, 2014). Politics plays a major role in the manipulation of the policymaking process and within MSA, is represented by the political stream. This stream attempts to gauge the extent of political support a policymaker has in acting to solve a problem. According to Zahariadis the politics stream involves three components: the national mood, pressure-group campaigns, and administrative or legislative turnover. Outside influencers actively work within one or more streams to create opportunities for policy change.

Policy entrepreneurs, defined here as individuals or organizations with a vested interest in a policy area, foster conditions that lead to the combination of all three streams and the opening of a policy window. Qualitative interviews reveal how policy entrepreneurs use policy as a means to disrupt the normal operations of societal institutions. Policy entrepreneurs are political manipulators in that they strive to communicate meaning and clarity to an ambiguous policymaking process. Through qualitative interviews, this study discovers what kinds of messages policy entrepreneurs developed to open policy windows and create economic policy change once inside. Beginning in 2014 with the succession of Raul Castro as Cuba's president, which created certain changes in Cuba's relationship internationally, along with decreasing global oil prices fostered a reality for other policy windows to potentially become a reality. These political policy windows are ideological in nature. The two policy windows differ in that problem-based windows are focused on solving a definite problem with less emphasis on the actual solution, while politics-based windows are focused on solutions to a less defined problem. The current policy window in US-Cuba diplomacy cannot be attributed to any single focusing

event defining a problem; therefore it originates in the politics stream. US officials have yet to communicate the problem behind recent actions to normalize diplomatic relations with Cuba. The goal is to reach rationale based on an existing embargo policy that has failed to achieve any notable change in Cuban governance.

## **3.2 FREIGHT TRANSPORTATION AND URBAN DEVELOPMENT**

Beyond economic development, international goods and commodities exchange is essential to the spatial organization, mobility, employment, environment, culture, and governance of urban areas. Freight transportation is the means by which cities participate in the flow of goods connecting producers with consumers in local, regional, national, and international contexts. A city's port, highway, rail, airport, and pipeline infrastructure raise its status as an access point or hub for freight flows, which contributes to the development of related support industries in surrounding areas. The economic contribution of freight transportation is well documented (Ogden, 1992), but efforts to understand the impact of freight transportation on other aspects of society are relatively lacking in comparison to those of passenger transit. Freight transportation is a quality of life issue that remains discussed in abstract terms, wholly separate from the urban communities it supports (Cui et al., 2015). Urban populations already account for approximately 54 percent of total global population and are on the rise. It is up to urban planners, policymakers, and freight managers to guide expansion of urban freight operations to maximize its benefits while minimizing negative externalities (WHO, 2014).

Historically, concerns for the transportation of people and goods have influenced land development decisions in the US. Cui, Dodson, and Hall argue that the US' decentralization of power in freight transportation planning to local jurisdictions has contributed to the uneven exercise of oversight industry-wide including regulation, financing, and maintenance (Cui et al., 2015). This disorganization limits the ability of governments to consistently address the negative impacts of freight transportation. Hesse and Rodrigue suggest that the rise in urban populations creates land use conflicts over limited land resources between freight operations and competing alternative development interests (Hesse and Rodrigue, 2004). As a result, the transportation planning process covering policy and regulation is greatly politicized.

Freight policymaking is susceptible to other influencing factors based on spatial, land-use, economic specialization, infrastructure, regulatory, and socio-historical considerations. In other words, freight movements are constrained by a city's defining traits. Influencers can be grouped into four general categories: legal and institutional, financial, political and cultural, and practical and technological (Stathopoulos et. al., 2012; May and Shepard, 2006). The future for freight transportation in the Gulf of Mexico is dependent on the effect of the opening of Panama Canal Expansion in 2016, normalizing diplomatic relations between the US and Cuba, and the shifting production and consumption roles from non-Organization of Economic Cooperation and Development (OECD) actors. Cuba is well situated within north-south American freight flows to capitalize on US freight transportation infrastructure (see Figure 1.) Cuba's central location in the Gulf of Mexico affords access to the Straits of Florida, Windward Passage in addition to Panamanian-US Gulf Coast freight flows. Figure 1 also highlights (in red) the location of main transshipment hub ports in the Caribbean like Freeport (Bahamas), Kingston (Jamaica), Santo

Domingo (Dominican Republic), San Juan (Puerto Rico), and Port of Spain (Trinidad and Tobago). Given their significant role in the *hub and spoke* approach towards shipping, Cuba has a similar hub potential from a locational standpoint. In recent years the Cuban government has made significant investments in freight transportation infrastructure at the Port of Mariel to accommodate new growth (Macguire, 2013; Cave, 2014; Watts, 2014; Steel, 2015). The strategic location of Mariel, on the northwest coastline of Cuba, increases the port's potential to serve as a transshipment hub for trade to and from the US.

This close proximity to the US Gulf Coast also provides new incentives for US policymakers to change cabotage laws, which govern the movement of domestic- and foreign-flagged marine vessels between ports of call on domestic waterways. Currently, the Merchant Marine Act of 1920, often referred to as the Jones Act, governs shipping activity in the US and was designed to protect domestic maritime shipping by restricting the penetration of foreign flagged vessels in US markets. Expanded US-Cuba trade has operational and regulatory implications for the entire US shipping industry through the reduction of Jones Act restrictions and the lifting of economic sanctions allowing direct US-Cuba vessel movements. This would encourage the expansion of Short Sea Shipping (SSS) operations in the Gulf of Mexico as US tourism, agricultural, industrial, and technology flows to Cuba increase, creating the necessary demand for services like container-on-barge shipping (MARAD, 2011).

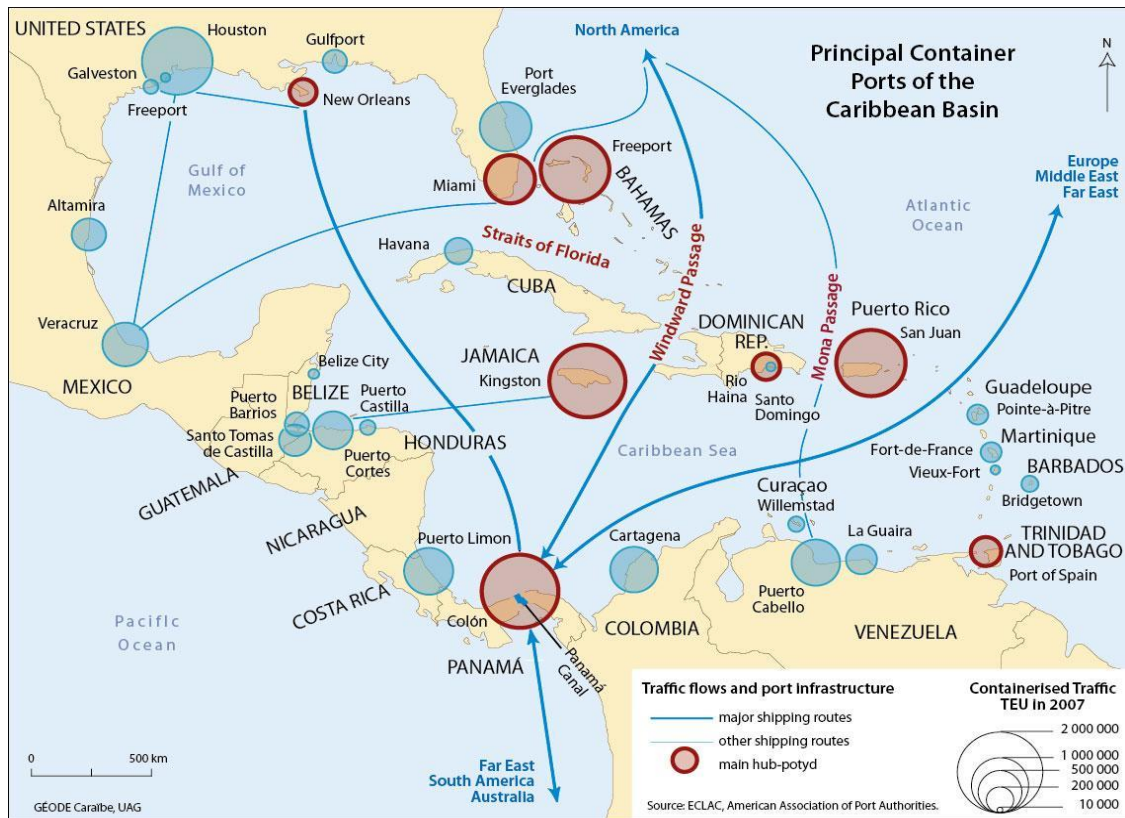


FIGURE 1 Map of Gulf of Mexico Port Infrastructure and Containerized Freight Flows (Verg éD φr é n.d.).

What remains to be seen is the impact of relaxing US-Cuba embargo restrictions on Gulf of Mexico freight flows. Cui, Dodson, and Hall describe the decision-making process for trade issues as inherently politicized because of the visibility of industry activities, its multiple stakeholders, and the disagreement of policy goals at the local and national levels (Cui et al.,2015). Since trucks carry most goods on land, private citizen’s experiences with freight transportation are often characterized by its negative impacts such as roadway congestion, catastrophic accidents, and pollutant emissions; a similar argument could be made for rail as well. In addition to negative public perceptions, conflicting interests among key stakeholders from the government, policy elites, citizenry, and industry experts further muddles freight transportation policymaking (Crow, 2010). And again, discordant policy agendas at the local level (land use and quality of life) and national level (economic development and environmental protection) contribute to mixed policy outcomes. But how are policy entrepreneurs from the US and Cuba affecting economic change inside the policy window?

The issue of US-Cuba trade has become more ambiguous over the last decade as the economies of Cuba’s closest trade allies in Russia and Venezuela suffer through economic depression due in part to the global economic recession of 2008. Throughout the US embargo against Cuba until the collapse of the Soviet Union, Cuba remained dependent on preferential trade agreements with the Soviets and their allies that amounted to a substantial economic subsidy. After the recession a span known as the *Special Period in Time of Peace* spurred a

number of economic reforms including increased foreign direct investment opportunities and individual entrepreneurship, eventually stabilizing the economy. During this period Cuba secured another favored trade deal with Venezuela on the importation of oil. Once again, this deal was in effect a subsidy for the Cuban government because of their ability to re-export discounted Venezuelan oil at higher market prices. But the persistent low price of oil beginning in 2014 has weakened both the Russian and Venezuelan economies as well as Cuba whose oil subsidy has lost significant value (McAuley, 2014; Toro, 2015). Cuba's economic troubles, the result of bureaucratic inefficiencies, chronic hard currency debt, and foreign direct investment deficiencies may induce economic policy reforms similar to those of the *special period*. This can already be seen in the gradual reforms from President Raúl Castro since assuming power in 2006 (Pérez-Stable, 2010). Despite this progress, Mesa-Lago and Pérez-López describe the need for additional economic reforms to realize improved economic growth and standard of living (Mesa-Lago and Pérez-López, 2013).

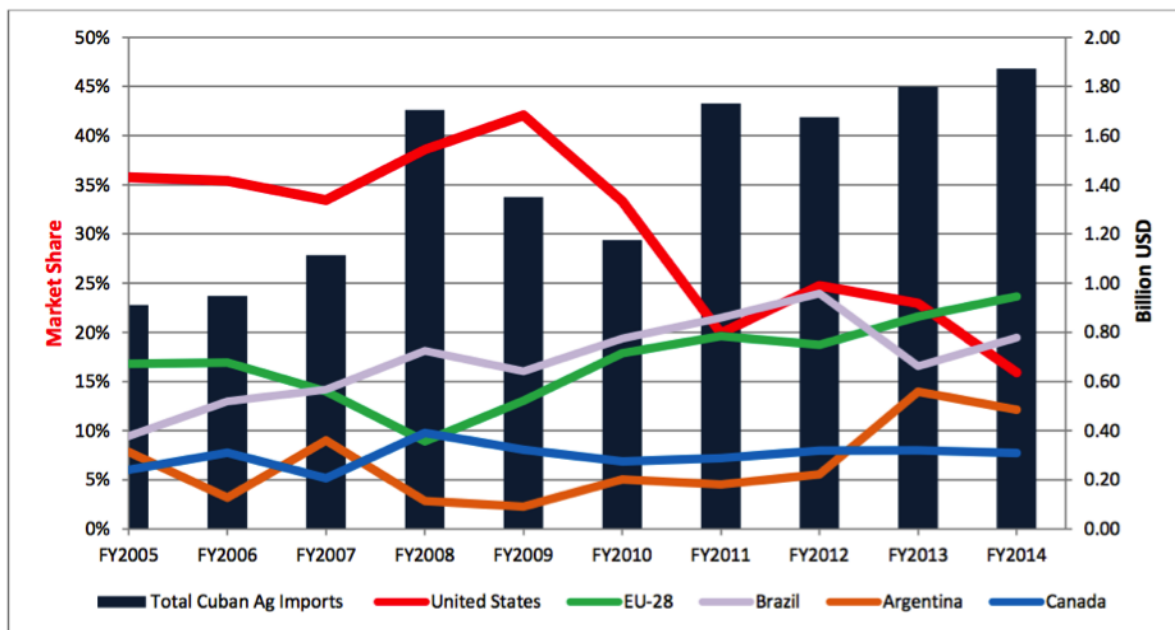
Increased economic participation with the US is one component of a larger Cuban reform strategy. The growth of this relationship is dependent on policy change i.e. reduction and removal of the economic embargo. This study fills a research need in understanding the politics of economic policymaking in urban contexts through the lens of the individuals from major US seaports, the business community, government, logistics support industries, policy networks, and Cuban citizens, which have a vested interest in its outcome.

## 4.0 FINDINGS

### 4.1 POLICY ENTREPRENEUR BEHAVIOR

The end of Bill Clinton’s second term as President of the US marked the beginning of a shift in US–Cuba relations under the auspices of humanitarian aid. Just five years removed from the restrictive Helms Burton Act and one year removed from TSRA that allowed US exports of agricultural, medicine, and medical products to Cuba, Hurricane Michelle ripped through the island nation bringing heavy rains, severe flooding and destroying approximately ten thousand homes (Cubahurrincanes.org, n.d.). Alvarez argues that the severity of damage particularly to agricultural areas pushed the Cuban government to purchase food and agricultural products from US firms (Baumgartner and Jones, 1993). This initial action was a precursor to additional imports of American agricultural goods as Cuba went from the US’ 226<sup>th</sup> most important agricultural export market to 35<sup>th</sup> in three years time.

Throughout the rest of the decade the US maintained a significant share of the Cuban agriculture imports market, but recent years have seen this position drop from 42 percent in 2009 to 16 percent in 2014 (USDA, 2015). Despite the recent decline, agriculture was a pioneering industry in early trade with Cuba post-TSRA.



**FIGURE 2: Chart of total Cuban agriculture imports from 2005 to 2014, where colored lines represent market share; red represents the US, green represents the European Union, violet represents Brazil, orange represents Argentina, and blue represents Canada (USDA, 2015).**

The impact of TSRA in expanding the realm of political and economic possibilities for state level actors was clear as states began to explore trade opportunities with Cuba. Trade

delegations traveling to the island increased significantly, typically comprised of representatives from US state governments, business interests, and trade associations like the USA Rice Federation. One participant describes the intentions of delegation members at that time,

Oh yeah there was a lot of activity. You had states, especially Midwestern agricultural states were down there with huge delegations from the department of agriculture and people who...they basically promoted the idea of doing business with Cuba and they wanted to expand it. Because its all based on humanitarian aid right now and certainly agricultural products fall into that category but giving how goods had to be purchased it was so difficult to do business. Cuba had to pay cash in advance for any products that really limited their ability to sell goods down there. So they went down there with big delegation hoping to convince them, federal legislators, their US senators and Congressmen that it was time for a change (Subject W).

He highlights the active role that agricultural interests from the US played in outreach to Cuba but also touches on the extent of market manipulation US sanctions imposed. The US embargo required Cuba to pay in cash for any imports from US firms. This made it more difficult for them to acquire enough capital to make significant purchases, but it also made them a more attractive trading partner for US states compared to other countries purchasing with credit. Given these restrictions, states continued to reach out and once they recognized the opportunity they returned to the US and became the chief advocates for policy change at the federal level (i.e. end of the embargo). Gone was the Cold War rhetoric of the twentieth century, the new narrative was that states were losing out economically to the rest of the world and the main impediment to regaining that competitive edge was the US federal government.

## **4.2 AGRICULTURE**

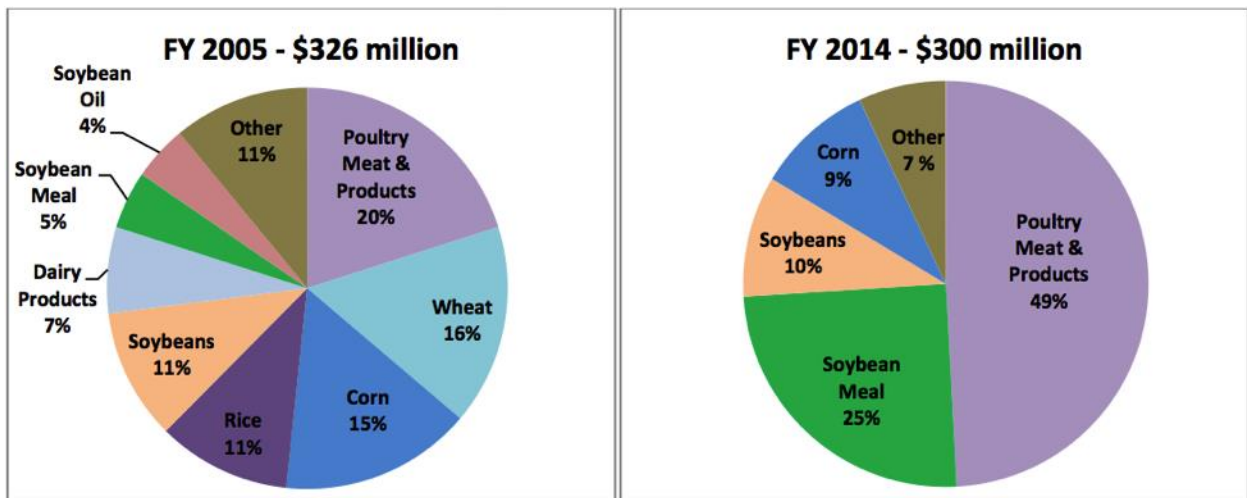
Many study participants identified agriculture and tourism as the two industries that stand to gain the most from trade normalization between the US and Cuba and it is no coincidence that these are two areas where states and their respective policy entrepreneurs have considerable influence. Globally, America's trade partners see the US as a major food supplier as one respondent described it, "we still have a disproportionate agrarian state in the world economy" (Subject A). Another respondent in the US freight forwarding industry discussed the agricultural potential of the US,

I mean the important thing too is that we could be one of the breadbaskets of the world. We've got the Great Plains, grain, whatever. I mean, you've got five major areas of the world. You've got the U.S., Canada, Australia, Argentina, the Ukraine. Those are the broad, wide areas that can grow the kinds of grain crops that we'll need to feed a growing world population. And food security might be very important. I'm not saying that's going to be used as a tool to get certain trade concessions, but certainly food security in the coming years is going to be a big player I think. And at least we have the advantage of the ability to use these resources to our benefit.

And as populations increase, as middle-class is increased -- you can see it

in India right now too -- if there is middle-class increasing, they want more protein in their diet. And you get protein from chickens or pork....So they want more protein in their diets. And we're protein producers too. So there's something to say to that (Subject C).

Beyond Cuba, he believed America had the capacity to feed other developing nations around the world. Agriculture is a defining characteristic of America's economic reputation. Interview participants consistently mentioned food and agriculture products as key to the US-Cuba relationship, specifically rice, soybeans, and frozen meats. In 2005, the US exported a wider variety of agricultural goods, with poultry meat & products, wheat, corn, and rice as the top commodities. More recently in 2014, poultry meat & products and soybean products dominated US agricultural exports to Cuba, comprising almost 75 percent of the total. These 2014 export figures support participant's conflicting sentiments of economic loss and market opportunity for the agriculture industry. Similar mixed feelings were shared about the fate of tourism in US-Cuba relations.



**FIGURE 3** Composition of US agricultural exports to Cuba by commodity type in 2005 and 2014 (USDA, 2015).

### 4.3 TOURISM

The US embargo of Cuba and its limiting travel bans has negatively impacted the American tourism industry. With the rise of service-oriented economies over the last fifty years, states now compete domestically and abroad for increasingly fickle tourist dollars. The promotion of tourism is one issue where cities, states, and the federal government have common interests. One participant with many years of experience working in the New Orleans freight transportation sector described the interplay between city, state, and federal roles in tourism and trade promotion,

The industry leader in terms of assistance to nations abroad would certainly be the federal government. Our federal government does far more than any state



government does. What state governments tend to do, if you look at the model of what we have in the state of Louisiana, the lieutenant governor of our state is the chief agent of tourism. He tries or she tries to bring tourists to Louisiana. And you will find more push from them on the cultural side to get people to come to Louisiana. Conversely, they're involved in getting people to visit other countries as well. There are reciprocal agreements in terms of cultural stuff whether it's the music, food, tourism, et cetera. And tourism is largely handled or even completely handled by states whereas the money -- the science of giving money and giving subsidy to foreign governments comes from the federal government. In the meantime, the city, despite whatever the mayor says, the city does virtually nothing. And the reason is the city doesn't have any money (Subject A).

He then shifts the conversation from governments to ports and their role, ...a lot of people don't realize the Port ... is not a regional port. It's a state port. It's a state agency. And it does not focus on tourism except that the Port ... is sort of caught in the trap that it does a million cruise ship passengers a year. So it does want cruise ships. It is actively promoting tourism. ... They want people to come in on ships and come visit. They want people to park their car in the parking garage because they make a lot of money on cruise ship parking. So there is a push to have reciprocal trade agreements in place (Subject A).

In the end of this statement, Subject A reiterates the federal influence in tourism by building relationships through trade agreements. So not only do trade agreements facilitate international goods movement, they are instrumental in promoting tourism. In the case of US-Cuba relations over the last fifteen years, the federal government set the trade boundaries, and policy entrepreneurs at the state level became the agents for change within federally determined boundaries.

Participants expected tourism, specifically the cruise industry, to benefit from lifting the embargo, which prevents ship traffic to Cuba. Participant E expected an increase in tourism development in Cuba because "people in the United States are going to want to go to that forbidden place." In the market of vacation destinations, Cuba offers close proximity to beautiful Caribbean beaches, Spanish colonial architecture, and the opportunity to learn about a culture targeted in US Cold War propaganda (Participant E and G). Participant E viewed Cuba as "...more of a blue-collar attraction because... people have lots of choices. They could go to high-end resorts nearby Mexico, Jamaica, the islands, whatever. Because the Cuban products are good products, but they weren't high-end products, and they were less expensive." After the "forbidden place" appeal wanes, Cuba's history, proximity, and affordability may entice visitors from the US and elsewhere. Although Cuba would benefit from the economic impact of tourism development and capital investments, the American-based cruise ship industry and foreign investors would also profit because Cuba does not have the finances to fund the infrastructure upgrades.

#### **4.4 TEXTILES**

In addition to expecting the agricultural and tourism industries to flourish, participants also predicted that the textile industry may benefit through lifting the embargo. With the construction of manufacturing infrastructure, many participants imagined a free-trade zone, where cheap Cuban labor assembles apparel products. The cheap labor force as well as the advantageous location in the Gulf of Mexico could entice companies to establish manufacturing operations in Cuba. As Subject A describes:

Cuba is going to have to develop the ability to make things. Once they are able to make things to a specification that we want, then the game changes. An example of something that Cuba could do is what we do currently right now in railcars. This is not on ships that I know of, but it's in railcars. The United States ships an incredible amount of denim cloth to Mexico. The Mexicans turn it into blue jeans and put those blue jeans back in the same railcar that comes back up here. So the idea of textile processing, textile finishing and whatnot, is something that could be very, very good for Cuba. We can get them the technology; we can get them the machines. The government can get involved. You can do public/private partnerships to give... proper infrastructure to allow assembly, if not manufacturing. By assembly, it doesn't just mean making Ford F-150 trucks. It means making clothes, making textiles, making things that are going to boutiques, making wicker things and whatnot. There is a lot of that sort of thing, that sort of indigenous boutique stuff that can be done. And again, it depends on Cuba having a willing workforce that will work at a decent wage so as to justify the capital expenditure by North Americans going down there. They're very much like pioneers.

This highlights the necessity of the Cuban people buying into the process and working for wages that make the capital investment of building new infrastructure more competitive than maintaining current operations in other low-wage labor force locations. Under the embargo, Cuba negotiated economic development arrangements with other countries in order to facilitate tourism. Subject E describes how the Cuban government structures the agreements to create social welfare programs for its citizens.

And all those hotels were invested by people from Canada, Spain, Venezuela, Mexico, Ireland, the UK, et cetera. And the relationship was – and I (Kyle Griffith) interviewed one of the Irish managers about how did it work. And he said, well you're given a concession by the government. And in that concession you have the land, which you don't own, but you have the lease of the land for long-term, so that you get your return on investment. And you are then allowed to build for a purpose, and that purpose would be to build a hotel/resort type development. And you are given a number of people. He said traditionally they ask you how many people do you need for construction. You give them a number and they'll give you – if you say, I need 100; they'll say, here's 200. And you have to provide the well-being for hospitals for healthcare, for education, for cafeterias, you name it. But you only pay them like \$30 a month. ... So when you finish with that construction, the construction materials and construction equipment are then turned over to the Cuban government because you had to bring it on the island because it didn't exist.

And then you go into operations. And then they will ask you how many people do you need to operate. And if you tell them I need 150 people to operate it, they give you 300. But again, you have to provide all the housing, all the healthcare, et cetera. So it's a social welfare mechanism that the Cubans impose on the people coming in. But the return on investment was five years which means that that's pretty significant (Subject E).

Through agreements such as these, Cuba benefits on multiple levels. First, foreign investments incur the cost of developing and modernizing the country's infrastructure to meet the project's needs. Secondly, the benefactors of the projects are required to provide for the basic well-being of twice as many people as their project calls for. This alleviates the cost associated with providing for a portion of the population and facilitates matching Cubans with the employment opportunities generated by these projects. Additionally, the country keeps the tools, materials, and equipment necessary to complete capital investments and improve infrastructure. The Cuban government can then use these tools and materials to complete their own development projects. This illustrates the diverse benefits that motivate Cuba to participate in economic development agreements that allow foreign nations to build enterprises on Cuban land. According to Subject E, even with these requirements, investments generate a return within five years.

## 5.0 DISCUSSION

The economic embargo of Cuba persists despite the growing public belief that it has been an abject failure. This report describes a qualitative approach to understanding trade impacts as a result of policy change by examining the case of US-Cuba diplomatic relations. Researchers selected the MSA framework to guide this inquiry as it connects individual's agency to the problems, policy, politics involved in policy change. The study sample consisted of Cubans and Americans from private and public sectors discussing events and experiences surrounding the longstanding embargo. The following discussion re-examines the research results.

This report found that 2014 marked the beginning of a new policy window in US-Cuba relations triggered by the succession of Raúl Castro into the Cuban presidency, the second term for President Obama, the death of Venezuelan president Hugo Chavez, ongoing mediation from Pope Francis and the Roman Catholic church, and the rapid decrease in global oil prices. The coincident timing of these significant events at the national level coupled with the actions of individual and state level policy entrepreneurs produced favorable conditions for the opening of a policy window. Economically, the search for new markets contributed to both American and Cuban interests in reducing trade barriers. TSRA opened up opportunities for new trade and policy entrepreneurs at the state and individual levels took advantage of that freedom.

Cuba's government maintains a strong interventionist role in the economic fortunes of Cuban industry and the Cuban people. Historically, this role was largely supported by preferential trade agreements starting with the US followed by the Soviet Union. After the collapse of the Soviet Union in 1989, the Cuban economy faltered in absence of Soviet subsidies. This economic era represented the first time Cuba felt the negative impact of the US embargo as it sought new trade partners. The *Special Period in Time of Peace* spurred a number of economic reforms including increased foreign direct investment opportunities and individual entrepreneurship, eventually stabilizing the economy.

The turn of the century brought a new preferential trade agreement with Venezuela in what was popularly referred to as the doctors for oil program. Cuba sent its skilled doctors and medical professionals to Venezuela to help improve services while also training Venezuelan doctors back in Cuba. In exchange Venezuela exported oil to Cuba at below market value, which Cuba could then re-export at significant profit, creating a new economic subsidy. This deal remains in effect today but with the global oil supply glut and the consistently low price of oil, Venezuelan oil is no longer the economic windfall it once was. As a result, Cuba is once again in search of new political partners to support its economy and the actions of national policy entrepreneurs helped open the current policy window for change in US-Cuba relations. Expanded US-Cuba trade has operational and regulatory implications for the entire US shipping industry through the reduction of Jones Act restrictions and the lift of economic sanctions allowing direct US-Cuba vessel movements. This would encourage the expansion of Short Sea Shipping (SSS) operations in the Gulf of Mexico as US tourism, agricultural, industrial, and technology flows to Cuba increase, creating the necessary demand for services like container on barge shipping (MARAD, 2011).

Qualitative interviews revealed that agriculture, tourism, and textile industries would benefit from normalized US-Cuba relations and the removal of the embargo. Of those three, agriculture and tourism were expected to experience the most immediate benefits from policy change. Despite the embargo, US involvement in Cuban agriculture and tourism has been ongoing most recently since the turn of the century. The agricultural trade resurgence was due to the passage of TSRA in 2000 that allowed US agricultural exports to Cuba, which also served as the basis for trade delegation visits to the island. Agricultural exports to Cuba increased rapidly over the next five years until 2005 when the US faced additional competition in the Cuban agricultural imports market from the EU and South America. Since the normalization of relations, Cleber LLC became the first US company to receive approval from the US federal government to open a manufacturing facility in the Mariel, Cuba. The success of Cleber will have implications for further expansion of US agriculture products in Cuba.

Normalized US-Cuba relations has led to an increase in American tourism in Cuba. Since the dual presidential press conferences in December 2014, American interest in Cuba has peaked, translating into accelerated growth in the Cuban tourism industry. Cuba's close proximity to the US and its geographical diversity makes it an ideal destination for American tourists. Interviewees expected the cruise ship industry see an immediate increase in business as the US Gulf Coast houses five of the top 20 busiest cruise ports (by passengers) in the world and Havana being a major tourist destination in the Caribbean Basin Region.

Interviewees also identified textile manufacturing as another growth industry between the two countries similar to the US' current trade relationships throughout South and Central America focused on apparel. As with other Cuban foreign investment agreements, outside investors would supply initial funds for any upfront development needed. The Cuban government would provide the labor and it would ultimately own any associated infrastructure from the venture. One opportunity of particular interest was found in denim jeans manufacturing, where a US textile company would export raw materials to Cuba. Cuban labor would then assemble the jeans and export them back to the US for sale. The Cuban government established the free-trade zone at the Port of Mariel specifically to attract these types of economic opportunities.

## **5.1 U.S.-CUBA RELATIONS UNDER PRESIDENT TRUMP'S WATCH**

Since Donald J. Trump succeeded in becoming the 45<sup>th</sup> President of the United States a high degree of uncertainty now surrounds U.S.- Cuba relations with respect to the future. Prior to the presidential election of 2016, the United States and the Cuban government appeared to be on a potential pathway to greater cooperation that neither nation has benefitted from in over fifty years. This still undefined latent cohesion that once existed seems to be in question now that President Trump has a different perspective regarding policy and the role the U.S. will play on the global stage. With threats to undo President Obama's efforts to bring the two nations closer, many Americans conducting business with Cuba are becoming nervous when they hear, "Today

President-elect Trump tweeted that he would terminate Obama's deal with Cuba if Havana isn't willing to negotiate a better one" (Keleman, 2016). According to one observer of the two-nation relationship, it isn't just the United States that may display a roadblock in this issue. Commenting on economic expansion between the two countries during the Obama era, John Kavulich of the U.S. – Cuba Trade and Economic Council states that though, "the Obama administration allowed U.S. companies to directly export 200 categories of independent businesses in Cuba...the Cuban government has not permitted that to happen." Kavulich also contends that Cuba has resisted U.S. companies from opening offices in Cuba as well (NPR, 2016). According to the Council on Foreign Relations Candidate Donald Trump in 2015 remarked "The concept of opening with Cuba is fine," adding "but we should have made a better deal." Trump indicated "he would undo some of the normalization efforts if the Cuban government does not grant its people more religious and political liberties and release political prisoners" (Faskianos & Purcell, 2016). Granted, the United States has historically engaged in trade relations with other nations that have suppressed civil liberties on its citizens.

The current discourse surrounding normalizing relations between the U.S.-Cuba is not unique; the uncertain future of the North Atlantic Free Trade Agreement (NAFTA) is also of concern. NAFTA's accord between the United States, Mexico and Canada has sustained severe undesirable rhetoric from President Trump. According to Jon R. Johnson in his commentary, *The Art of Breaking the Deal: What President Trump Can and Can't Do About NAFTA*, "President-elect Trump has repeatedly said that he could tear up NAFTA." Johnson elaborates further, "While the sole power to impose duties under the US Constitution rests with Congress, Congress has delegated powers to the president to act unilaterally to address national emergencies and balance-of payments and national security situation" (Johnson 2017,1). It appears President Trump believes that NAFTA is harmful to both the economy and jobs with the United States, and that if given the opportunity, he (President Trump) would renegotiate or abort the agreement entirely. Of course many others would disagree with the president's view, stating that plausibly the opposite could occur whereby America's commerce and employment could be damaged. Again, from Johnson's evaluation the governments of Canada and Mexico will have to garner support in Congress to hopefully avoid such an outcome. Johnson also contends that, "members of the House and Senate will be sensitive to damage to US businesses and job loss in their congressional districts and in their home states caused by the adoption of punitive trade measures" (2017, 2).

In Peter Zeihan's book *The Accidental Super Power: The next Generation of American Preeminence and the Coming of Global Disorder*, he contends that, "The notable outlier from the NAFTA/CAFTA system is of course Cuba" (Zeihan 2014, 171). Zeihan believes that, "Cuba's problem is primarily economic," echoing further that, "It doesn't collaborate with the vibrant economic giant at its doorstep and so is dependent upon limited trade with the wider world" (171). From Zeihan's perspective, if the rules of free trade change, this could have negative consequences for Cuba. Of course from a U.S. perspective, Zeihan posits that since the end of the Cold War, "...Cuba fell into strategic irrelevance and Americans stopped paying it any attention" (171). Nevertheless, Zeihan's insight also leads to a more profound question, which is, will the United States continue on the dated path of indifference with Cuba, in light of the geographic

strategic position it possesses as it pertains to the U.S.'s internal trade ways? At present, overt hostility from the Cuban government toward the U.S since the recent presidential election is not evident, however this could change.

At the moment there seems to be no satisfying lens to view the future U.S. – Cuba relations. It appears that there is enough ambiguity between both governments concerning the prospect of becoming closer neighbors and trading partners. In the midst of this uncertainty, it is possible that as time passes the Cuba situation will be reconsidered by President Trump's administration as an endeavor less toxic to U.S. interests and potentially an enterprise valuable to both countries.

## 6.0 CONCLUSIONS

The recent normalization of diplomatic relations between the US and Cuba, driven largely by state level actors from the agriculture and tourism sectors, has increased the likelihood of changes to freight flows in the Gulf of Mexico. Over the last century, US-Cuba trade relations have experienced varying degrees of affability and hostility with current trends towards cordiality once again. And though the embargo remains, agricultural freight flows have been shifting since 2000 in the form of increased US exports to Cuba as a result of TSRA. Tourism has steadily increased since the opening of the 2014 policy window enlarging the flow of people to and from Cuba. Stakeholders on either side of the Gulf are making infrastructural investments in anticipation of an end to the embargo and restoration of two-way trade flows.

US Gulf coast states are well-situated geographically and well-equipped with freight transportation infrastructure to capture freight movements to, from and through Cuba. The Cuban government anticipates that the Port of Mariel on their northwestern shore will become one of the busiest transshipment hubs in the Caribbean Basin region. A review of figure 1 highlights three potential freight flows in the North-South trade route of the Americas that could experience a change: 1. New Orleans-Panama Canal, 2. Windward Passage, and 3. Miami-Veracruz. The Port of Mariel could facilitate transshipment and provide other value added services for these freight flows but it will compete with established trade hubs in Kingston, Freeport, and Miami. At the national level this activity could be further encouraged by lifting the embargo, amending the Jones Act, ensuring adequate and timely maintenance of marine freight corridors like the Mississippi River, and promoting SSS operations in the Gulf of Mexico.

Even if the embargo is lifted, the Cuban government remains a barrier to economic stability due to past policy decisions. Cuba lacks the cash flow to immediately increase trade with the US; any significant changes in imports would likely divert trade from other current suppliers. The US and Cuba will need to resolve the issue of compensation for property seizures during the revolution before full trade can resume. Politically, American representatives continue to publicly advocate for full democratic rights for Cuban citizens.

The short-term future of US-Cuba relations is dependent on the extent of policy change made within the current policy window. It is difficult to predict what normal relations will look like but Mesa-Lago describes how a socialist market economy like Cuba's could succeed in the short-term, "It should be based on an intensive utilization of the skilled labor force with high potential of learning, and technologically advanced ex-ports and services, an export-oriented industrialization process relying on Cuba's most important resources: its people" (Mesa-Lago, 2006). Multiple interview participants expressed that Mexico's economic development was a reasonable model for potential growth in Cuba. They also identified the tourism, agriculture, telecommunications, and textile manufacturing sectors as immediate beneficiaries in the absence of the embargo. Lektzian and Souva found that rebuilding economic trust and fostering democracy are critical elements to increased trade after years of sanctions (Lektzian and Souva, 2001). Furthermore, they concluded that the presence of democratic institutions re-stores confidence



among trade partners by reducing transaction cost and uncertainty, leading to more rapid trade recovery. Based on this argument, as Cuban institutions adopt more democratic principles, the pace of trade restoration will increase.

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