Fidel Castro Harms the Cause of Developing Countries (July 7, 1960)

Abstract

The nationalization of American property in Cuba, decried by this article in the *Frankfurter Allgemeine Zeitung*, was not only important for economic reasons, but also had an international aim: the reduction of U.S. leverage over economic and political choices within Cuba. The U.S. had many commercial interests in pre-revolutionary Cuba; they had large stakes in key industries like public utilities, energy, banking, and sugar. By nationalizing American assets, Castro's government altered Cuba's international relations dramatically by lessening Cuban dependence on America, and thereby also American influence. Cuban nationalization of American property remains a sticking point in the relationship between the two countries until today.

Source

Fidel Castro has certainly shown a sense of panache in his game of political one-upmanship with the United States. He seized three foreign oil refineries, because they refused to process Soviet crude oil, confiscated the largest international hotel in Havana, and then threatened to expropriate all other American assets as well. Such provocative actions by the dictator of a small country against the strongest economic power on earth is only possible because Castro knows that, in the game of power and intrigue between East and West, he has the firm support of Moscow and Peking. Above all, however, events in Cuba clearly show once again that foreign private property remains fundamentally unprotected, especially in developing countries.

The entire postwar period has been characterized by a whole range of abuses and arbitrary acts against foreign private property. There is a long list of cases and one need only recall the nationalization of the Suez Canal, the Egyptianizing of foreign banks, insurance companies, and trading companies, the expropriation of the Dutch in Indonesia, and the nationalization of foreign electricity companies in Argentina. In all these cases, the expropriation of property was mandated by official state decrees. In all likelihood, however, tacit expropriation occurs more frequently. This usually takes the form of subjecting foreign companies to all manner of harassment and restrictions until it becomes too difficult for them to conduct business. They eventually capitulate, relinquishing their factories and facilities to the state in question for next to nothing.

Of course, we shouldn't neglect to mention that it was precisely those Western industrial states with major investments in other countries that helped to discredit the belief in private property internationally through their actions in the immediate post-war period. The nationalization of the coal industry in Great Britain and France, as well as the confiscation of German foreign assets, a move which despite the provisions of the Hague Conventions has still not been revoked, are regrettable aberrations from the path of virtue. These precedents have provided other countries with well-founded arguments for taking action against foreign ownership. And despite various attempts by international organizations, the League of Nations, and the United Nations, it has not been possible to establish clear and binding legal protections for private investments abroad. Nowadays, the right of a sovereign state to nationalize assets is generally acknowledged when it is genuinely in the public interest and the foreign owner is duly compensated. But in reality, what does genuine public interest and due compensation mean? These are extremely malleable concepts that could be used to camouflage any arbitrary act with apparent legitimacy. Even Castro wants to compensate the American owners, but with Cuban government bonds that will only be redeemed in thirty years.

Be that as it may, it is a huge folly for developing countries, in particular, to adopt an unfriendly attitude towards foreign investors. As these countries have massive capital requirements, it is in their own interest to do everything possible to entice foreign companies to contribute to their economic development. This is the most advantageous way not only of accumulating much sought-after foreign capital, but, at the same time, also obtaining equally important know-how. Communist propaganda attempts to convince developing countries that private foreign investors pursue the sole aim of exploitation and that private capitalists now seek to control their economies in the place of former state colonial rule. This is pure nonsense. In fact, the exact opposite is the case. A private company that commits itself economically in a developing country wants nothing else but to do business there, and certainly not to engage in politics. By contrast, Communist economic aid, as everyone knows, primarily pursues political goals and only secondarily economic interests.

Fortunately, in recent years there has been a growing realization in almost all developing countries—even those, such as India, that hold socialist beliefs— that foreign private capital can provide valuable development assistance. At the same time, it has been increasingly understood that the decisive factor in attracting foreign private capital is not so much a high rate of return, but, above all, the security offered by the host country on an investment. Almost all developing countries have since enacted laws that allow foreign investors to transfer their profits and interest, as well as to repatriate their capital after a certain period of time. Without a doubt, these measures have contributed to making foreign private capital investments more attractive. And yet, it is equally undeniable that many companies based in Western industrialized countries are still highly reluctant to commit to investing large sums in most developing countries. They certainly cannot be blamed for thinking that despite all the legal guarantees, there is always the danger of a new revolutionary government taking the helm and no longer adhering to old promises.

In order not to let such concerns hamper the export of capital to developing countries, some Western industrialized countries, such as the Federal Republic of Germany and the United States, have even gone so far as to guarantee compensation in the event of expropriation to companies that are willing to invest in developing lands. As such, these companies are, for the most part, relieved of the political risk, but it does not change the fact that compensation can never be a substitute for the expended work and effort. After all, no company is interested in setting up an operation in a developing country under the most adverse conditions, only to be thrown out once the facility is up and running. All these concerns and fears have been given new impetus by the audacious actions of the Cuban dictator. He has clearly done a disservice to all other developing nations.

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