The University of Chicago

U.S. Remittance Policy:

A Comparative Case Study of the Political Implications in Venezuela

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A thesis submitted for partial fulfillment

of the requirements for a Bachelor of Arts degree in

Public Policy Studies

Paper presented to:

Public Policy Studies Preceptor, Anthony Farmer

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April 2020

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Introduction

At the end of 2015, close to 700,000 Venezuelans had been displaced as a result of the political and economic crisis in the country. By June 7, 2019 the United Nations (UN) Refugee Agency released a statement announcing that the number of Venezuelans that had been forced to leave the country since the beginning of the Chavez regime had reached four million. This figure represents approximately 15% of the country's population, making Venezuelans the largest displaced population group in the world.[1] The magnitude of this crisis has garnered global attention and its consequences have many implications on United States interests in South America. The massive outflow of people from Venezuela is creating problems throughout the region, as the crisis has begun destabilizing political and socioeconomic structures of neighboring countries. A prime example of this phenomenon is Colombia, which currently hosts over 1.2 million Venezuelan refugees.[2] The incredible inflow of people into the country has posed a massive challenge for the Colombian government, which has been continuously engaged in battling the FARC (Colombian Armed Revolutionary Forces) and the powerful drug rings that produce about 90% of the supply of cocaine that enters the U.S.[3] There are also important geopolitical issues at stake, given that ever since the U.S. began denouncing Nicolas Maduro's regime and imposing crippling economic sanctions on it, they have become increasingly involved in dealings with the governments of Russia and China. In a written testimony to the U.S. House of Representatives Foreign Affairs Committee, R. Evan Ellis (a Senior Associate at the Center for Strategic and International Studies) summarized

[1] "Refugees and Migrants from Venezuela Top 4 Million: UNHCR and IOM." UNHCR, 2019.
[2] "New Research: The Venezuelan Migration Crisis in Colombia." IRI, 11 Sept. 2019.
[3] O'Neil, Shannon K. "A Venezuelan Refugee Crisis." The Dialogue, 2018.

the risk that Russian and Chinese activity pose on U.S. national security[4]:

> [Russia and China] will exploit the unfolding crisis, including the effect of U.S. sanctions, to deepen their control over Venezuela's resources, and their leverage over the country as an anti-U.S. political and military partner.

The magnitude of these geopolitical stakes cannot be understated, especially given the massive wealth of natural resources that belong to Venezuela. The country has the world's largest proven oil reserves (almost 20% of the global oil supply) and second-largest reserves of gold deposits, in addition to several other large reserves of extremely valuable natural resources. Russia and China have made their intentions in Venezuela clear. They are taking advantage of the country's financial distress and geopolitical isolation to gain access and control over the country's natural resources and markets, specifically for weapons and military goods.

The Venezuelan crisis has become so dire that its political, economic, and social consequences are the most extreme in the world. As such, there are many issues in the country that warrant extensive academic research and policy attention. This investigation focuses on the monetary remittances that Venezuelan emigrants send to their families that remain in the country. There are several reasons why this is an issue of great importance worthy of substantial analysis. First, remittances are a topic that touches upon financial, social, and political implications of the crisis

[4] Ellis, Evan. "The Influence of Extra-Hemispheric Actors on the Crisis in Venezuela." Academia.edu, 13 Sept. 2017.

since it involves the flow of money from emigrants back into their home country, which remains under the control of the authoritative regime they fled from. A study on remittances is also especially relevant in Venezuela at this time, given that mass emigration from the country has significantly increased the amount of money flowing back into the country in the form of remittances. Ecoanalitica, a Venezuelan research and consulting firm, releases annual estimates of the amount of remittances Venezuela. In 2016, they reported that Venezuela received approximately $78 million in remittances. This figure has increased rapidly in the consequent years, reaching $1.2 billion in 2017 and $2.8 billion in 2018. The firm recently released its report for 2019, estimating the total value of remittances entering the country this year at a staggering $3.7 billion.[5] According to the global trade summaries released by the Observatory for Economic Complexity (OEC), this figure makes remittances the second-largest source of money going into the Venezuela, only surpassed by the country's crude oil exports.[6] Being that Venezuela has one of world's wealthiest natural resource reserves, its dependence on remittances as its second-largest source of foreign currency is alarming, and it highlights the financial and economic distress that years of corruption and irresponsible policy-making have led to. It is also important to note that these estimates are likely understated since much money is sent back through illegal or informal channels that are not on record.

Another reason why it is important to develop research on remittances is that they are an issue that arises naturally in any country that is facing crisis or mass emigration. This is especially true in the Western Hemisphere, where the flow of remittances from emigrants to Latin American and

[5] Mendoza, Luis. "Subió El Envío De Remesas a Venezuela ¿y Las Criptomonedas?" Aporrea, 18 Oct. 2019.
[6] "Venezuela." OEC, 2019.

Caribbean nations surpassed $90 billion in 2018. As such, remittances been a prominent part of U.S. foreign policy when dealing with political, economic, or social crisis in countries on the Western Hemisphere. Given that remittances involve parties in both the sending and receiving countries, it is an area where U.S. policy plays a significant role. There is no better example of the important role of remittances as part of U.S. foreign policy than our ongoing struggle with the Cuban government. The U.S. and Cuban governments began enacting policy specifically targeting remittances in the early 1990's, yet it is still an issue that requires dynamic policy changes. The most recent policy change occurred on September 6, 2019, when the Trump administration enacted new restrictions on Cuban remittances coming from the U.S.[7] The fact that the U.S continues to revise its remittance policies towards Cuba to this day is evidence that there are important geopolitical implications at stake. The importance of remittances is not lost on the Venezuelan regime either, given that in the past two years they have enacted several policies specifically targeting remittances coming into the country. These policies involve measures such as authorizing a few select currency exchange companies to receive foreign remittances and restricting Venezuelan citizens' ability to conduct banking or financial transactions outside and within the country. Maduro's regime also deregulated the foreign exchange markets, effectively increasing the use of USD in domestic circulation while also implementing taxes on transactions in foreign currencies.

Given its significance and the magnitude of its implications, remittances have been a subject of much academic research and discourse. However, it is a rather controversial subject

[7] Carol Morello, Karen DeYoung. "U.S. Sets Limits on Money Cuban Americans Can Send to Family in Cuba." The Washington Post, WP Company, 6 Sept. 2019.

given the difficulty of measuring its results directly and contradicting theories regarding their effects. Research on remittances covers their economic, social, and political ramifications. There are contradicting theories on the economic impact of remittances at both the micro- and macro-levels. The social research revolves around the health and educational benefits that remittances provide for recipients. Research in the political spectrum mostly examines whether remittances disincentivize governments from enacting needed economic reform and civilians from actively participating in the political process.

This research paper will analyze Maduro's fiscal and monetary policies with the goal of determining whether his regime is actively shaping its policy to capture more benefits from its worsening migratory crisis. My hypothesis is that the Venezuelan regime is employing tactics similar to those that Cuba's dictatorship imposed during the Special Period to reap financial benefits from their displaced population. In analyzing this postulation, I will seek to answer the question: is Maduro's regime shaping its fiscal and monetary policy to benefit from its migratory crisis by capturing more benefits from remittance cash flows? This line of inquiry will help inform the more important political implications at hand: do remittances to Venezuela support the country's anti-democratic regime? To answer these questions, I will employ a comparative case study methodology that will involve a synthesis and analysis of the remittance policies enacted by the Cuban and Venezuelan authoritative regimes in their respective contexts. This research will serve to extend our understanding and knowledge on the effects of remittances to a country where they have not yet been studied extensively, with the goal of recommending a responsible and successful U.S. policy strategy on the issue of remittances to Venezuela.

Literature Review

Overview of Remittance Research Literature

Remittances have been a topic of interest for researchers across the globe for many years. The investigative work on this topic extends across a wide range of fields. The literature on remittances can be grouped into three main concentrations: economic, social, and political. Researchers have studied the effects of remittances through these three lenses across many different contexts and time periods. The most prevalent notion within remittance literature is the lack of consensus on the effects of remittances. In each of the areas of concentration aforementioned, there are significant discrepancies in the conclusions being drawn. The existence of contradicting findings in the research reveals that context is a key factor in understanding the implications of remittances. The effects of these cash flows in the receiving country vary greatly depending on circumstantial variables that are unique to each country and time period. Another noticeable feature of remittance research is the difficulty in collecting accurate data. Most remittance studies analyze household survey data to draw conclusions, since this is a reliable and controllable form of remittance data available to researchers. Macro-level data is much harder to compile and accurately analyze since there are numerous, uncontrollable variables that can confound patterns and findings. Despite this, researchers have been able to use various methods to derive inferences and conclusions from macro-level data that will help inform this investigation.

Given the substantial implications of the foreign policy issue at hand, U.S. remittance policy must be well-informed along all the relevant lines of research. This will ensure that the policy is designed and implemented responsibly and in accordance with the U.S.'s foreign policy strategy. As such, research conducted on the social, economic, and political consequences of remittances at both the micro- and macro- levels is all significant in the scope of this investigation. The bulk of the available literature on remittances is focused on their economic effects. Although research on the social and political ramifications is scarcer, the findings that emerge from these investigations are also critical to understand. It is necessary to review each of these areas of research and build an understanding of how they interrelate in order to design foreign policy to Venezuela because they are all relevant in evaluating the outcomes of policies relating to remittances.

The Economic Effects of Remittances

Economic research regarding remittances helps us understand how they affect household-level finances and welfare, as well as the broad economic landscape of a country. This field of research is very important because assessing economic ramifications is a valuable tool when designing foreign policy and evaluating its outcomes and impact. One of the prominent notions within this scope of remittance research literature is the lack of a general consensus or concurrence in evidence pointing to a fixed set of economic effects.

One of the most widely used metrics to measure a country's economic performance is the Gross Domestic Product (GDP). Several researchers have studied the relationship between remittances and GDP as a means of measuring their impact on long-term economic growth. Chami et al. (2005) conducted a cross-country study covering 113 countries where they used a variety of fixed effect models and found that there is a significant, negative correlation between international remittances and economic growth. This study led the researches to argue that remittances do not function as capital for economic development, but more so as a form of compensation for poor economic conditions.[8] Spatafora (2005) conducted a similar cross-country study of 101 countries using instrumental variables and growth models, but found no significant link between international remittances and per-capita output growth or economic investment.[9] Similarly, Barajas et al. (2009) argues that although remittances have poverty-reducing effects, they do not have any measurable impact on economic growth.[10] However, results from other studies provide contrasting evidence. In a study involving a data set of 100 countries, Giuliano and Ruiz-Arranz (2009) found that remittances can promote GDP growth by serving as an alternative means of financing development.[11] This is especially true in countries with inefficient or problematic credit markets. By removing credit constraints from a sector of the population where it is a major limiting factor of development, Giuliano and Ruiz-Arranz argue that remittances are a critical tool for economic growth. Grigorian and Melkonyan (2012) came to the same conclusion, after finding that remittances can be a valuable financial intervention for private sector growth in economies with credit constraints.[12] Yang (2005) conducted a study on the impact of remittances on economic growth in the Philippines. His research found that there existed a significant, positive relation between remittances and GDP growth. This study was limited to the remittances that were used specifically on the consumption of goods or educational services.[13]

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[8] Chami, Ralph, et al. "Are Immigrant Remittance Flows a Source of Capital for Development?" *SSRN Electronic Journal*, 2003.
[9] Spatafora, N. (2005) Worker remittances and economic development, World Economic Outlook, April, pp. 69–94.
[10] Barajas, Adolfo, et al. *Do Workers' Remittances Promote Economic Growth?* International Monetary Fund, June 2009.
[11] Giuliano, Paola, and Marta Ruiz-Arranz. "Remittances, Financial Development, and Growth." *Journal of Development Economics*, vol. 90, 2009, pp. 144–152.
[12] Grigorian, A.D. and Melkonyan, A.T (2012). Microeconomic Implications of Remittances in an Overlapping Generations Model with Altruism and a Motive to Receive Inheritance. *Journal of Development Studies*.
[13] Yang, D. and Martínez, C. (2005). Remittances and Poverty in Migrants Home Areas: Evidence from the Philippines. *Working Paper*.

One of the dominant theories as to why remittances hurt long-term economic growth as opposed to promoting it is that they can lead to a phenomenon called Dutch Disease. Dutch Disease occurs when asymmetrical flows of foreign currency flow into a country, leading to a rapid appreciation of the local currency. This phenomenon drives up wages, making domestic products more expensive and therefore damaging a country's competitiveness in the export market. Dutch Disease usually occurs when demand for a non-manufacturing good of a country (usually a valuable natural resource) increases rapidly, but numerous studies have found that any form of foreign currency influx, such as remittances, can have similar effects. For example, using a cross-country sample set of Latin American nations, Lopez (2007) found that large-scale remittances lead to significant exchange rate appreciation.[14] Amuedo-Dorantes and Pozo (2004) also studied the exchange rate effects of remittances in Latin American countries and found that they lead to an increase in the exchange rate and can therefore have a negative effect on the country's competitiveness in global markets.[15] Acosta's (2009) findings support the existence of a correlation between remittances and Dutch Disease, even accounting for remittances that are spent on investments or durable goods.[16] The notion that remittances can contribute to Dutch Disease is significant given that studies have found evidence that overvaluation of real exchange rate undermines long-term economic growth.[17]

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[14] Lopez, H., Molina, L. and Bussolo, M. (2007) Remittances and the real exchange rate. World Bank Policy Research Working Paper 4213, World Bank, Washington, DC.
[15] Amuedo-Dorantes, C. and Pozo, S. (2004) Workers' remittances and the real exchange rate: a paradox of
gifts. World Development, 32(8), pp. 1407–1417.
[16] Acosta, Pablo A., et al. "Remittances and the Dutch Disease." SSRN Electronic Journal, 2009.
[17] Rodrik, Dani, (2008), The Real Exchange Rate and Economic Growth, *Brookings Papers on Economic Activity*, 39, issue 2 (Fall), p. 365-4

Another significant economic indicator that has been researched extensively in its relationship to remittances in labor supply. Kim (2007) used household surveys to find that labor force participation in Jamaica falls with the receipt of remittances. He rationalizes his findings with the idea that members of households receiving remittances are disincentivized from finding jobs in the labor force. The remittances they receive essentially function as a replacement for the wages they would be earning from work.[18] Another household survey study conducted by Funkhouser (2006) in Nicaragua yielded the same results. Funkhouser found that households with migrant family members had less participation in the workforce and lower wage income when compared to non-migrant households. Funkhouser is able to attribute this dynamic to remittances because despite reduced wage income and participation in the labor force, households with migrants also had more resources and were less likely to be poor. Funkhouser's study involved a fixed effects method to control for differences between the households prior to emigration.[19] Acosta (2009) also studied the relationship between remittances and labor force participation. This study found that in El Salvador, labor force participation also fell among households receiving remittances. Households receiving remittances exhibited a reduction in the number of hours worked per week by members of the household.[20] In another similar study conducted with survey

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[18] Kim, N. (2007) The impact of remittances on labor supply: the case of Jamaica. World Bank Policy Research Working Paper 4120, World Bank, Washington, DC.
[19] Funkhouser, E. (2006) The effect of emigration on the labor market outcomes of sender households: a longitudinal approach using data from Nicaragua. Well-Being and Social Policy.
[20] Acosta, Pablo A., et al. (2009), "Remittances and the Dutch Disease." SSRN Electronic Journal.

data from Mexico, Hanson (2005) found that remittance-receiving households are less likely to participate in the workforce.[21]

Perhaps the most important determinant of the nature and magnitude of the economic effects of remittances is how they are spent. As such, there is a significant amount of research that focuses on studying how these inflows are utilized. Bahadir (2014) examined two channels of remittances and how they influence the economic absorption of this money. The study found that remittances accruing to "hand-to-mouth" households, or households with no capital ownership, had a negative and contradictory impact on the economy. On the other hand, remittances to capital-owning households are deployed in expansionary ways which benefit the economy at large.[22] The premise of this dynamic is logical and almost universally agreed upon amongst researchers. When remittances are spent on investment or goods that drive the economy in some way, they promote economic growth and development. If they are spent on regular or "status" consumption goods, their economic benefits are limited. However, research on how households receiving remittances spend the money yields contradicting results. Numerous studies find that remittances are mostly channeled to productive goods. Adams and Cuecuecha (2010) examined the spending behavior of households in Guatemala and found that households receiving remittances are more likely to spend more at the margin on investment goods, in particular on education and housing.[23] Taylor and Moras (2006) conducted a household study in Mexico and found that families receiving

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[21] Hanson, Gordon H. *Emigration, Labor Supply, and Earnings in Mexico*. National Bureau of Economic Research, 2005, *Emigration, Labor Supply, and Earnings in Mexico*.
[22] Bahadir, B. Chatterjeez, S. and Lebesmuehlbacher, T. (2014). The macroeconomic consequence of remittances. *Report from University of Georgia*.
[23] Adams, Richard H., and Alfredo Cuecuecha. "Remittances, Household Expenditure and Investment in Guatemala." *World Development*, vol. 38, no. 11, 2010, pp. 1626–1641.

remittances invest that money mostly in human capital and not on direct consumption of goods. Zarate-Hoyos (2004) also examined remittance spending patterns of Mexican households and found that remittance-receiving households devote a higher proportion of expenditures to investment and savings than households that do not receive remittances. Moreover, remittance-receiving households maintained lower income elasticities for consumer goods than others.[24] Some researchers argue that remittances stimulate an economy, even when spent on regular consumption. Ratha (2003) and Taylor (1999) contend that remittances spent on consumption have a "multiplier effect", especially in smaller economies or communities.[25][26] These studies all support the notion that remittances are being spent in ways that boost economic growth and development. Others find that remittances predominantly flow to consumption that is not productive for the economy. Chami et al. (2003) report that a majority of remittances are spent on consumption or "status-oriented" goods, which are not productive for the economy or long-term growth.[27] Orozco (2003) found that remittances to households in Mexico, El Salvador, and Nicaragua are absorbed almost exclusively into direct consumption of food or daily necessities.[28]

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[24] Zarate-Hoyos, German A. "Consumption and Remittances in Migrant Households: Toward a Productive Use of Remittances." *Contemporary Economic Policy*, vol. 22, no. 4, 2004, pp. 555–565.
[25] Ratha, D. (2003). Worker's Remittances: An Important and Stable Source of External Development Finance. *Global Development Finance*: *Striving for Stability in Development Finance, 157–75*. Washington, DC.: World Bank.
[26] Taylor, Edward J. "The New Economics of Labour Migration and the Role of Remittances in the Migration Process." *International Migration*, vol. 37, no. 1, 1999, pp. 63–88.
[27] Chami, Ralph, et al. "Are Immigrant Remittance Flows a Source of Capital for Development?" *SSRN Electronic Journal*, 2003.
[28] Orozco, Manuel. *Remittances, the Rural Sector, and Policy Options in Latin America*. US Agency for International Development, 2003, pp. 10–13, *Remittances, the Rural Sector, and Policy Options in Latin America*.

Social Impact of Remittances

While the economic effects of remittances remain a subject of contention, researchers concur on the nature of their impact on the social welfare of recipients. An overwhelming majority of research finds that remittances have poverty-reducing effects and allow families to divert more income to health and education. Yang's (2008) study of household data in the Philippines found that during times of real exchange rate inflation brought on by migrant exchange rate shocks, families were spent more, on average, on their children's education.[29] Adams and Page (2005) analyzed survey data of households in 71 countries and found that a 10% increase in per capita international remittance will lead to a 3.5% decline, on average, in the proportion of people living in poverty.[30] Acosta et al. (2008) conducted a study specifically focused on Latin American countries which found that remittances have a positive effect on poverty in the region. They posit that the number of people living in poverty decreases by 0.4% for every 1% increase in the remittances-to-GDP ratio.[31] Ratha (2005) studied the impact of remittances on poverty at four different levels: household, community, national, and international. He reports that at all four levels, remittances have significant poverty-reducing impacts. Through a longitudinal study of a Mexican town, Taylor (1992) also finds that remittances have poverty-reducing effects. However, this study also points to perhaps the only negative social impact of remittances: inequality. Both

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[29] Yang, D. (2008) International migration, remittances and household investment: evidence from Philippine migrants' exchange rate shocks. Economic Journal

[30] Adams, Jr., R. and Page, J. (2005) Do international migration and remittances reduce poverty in developing countries? World Development.

[31] Acosta, Pablo, et al. "What Is the Impact of International Remittances on Poverty and Inequality in Latin America?" *World Development*, vol. 36, no. 1, 2008.

Taylor (1992) and Maimbo (2005) show that remittances have inequality-enhancing effects.[32][33] Inequality can be linked to remittances in two ways. First, by the simple fact that households receiving remittances will have additional income and therefore be better off than those that do not. Secondly, given the high costs associated with international immigration, migrants (and therefore remittances) tend to come from middle to upper-income households. Hence, families that are already relatively well-off are more likely to benefit from remittances, thereby enhancing inequality.

<u>Political Implications of Remittances</u>

The impact of remittances on the political domain is the most relevant sphere of research as it relates directly to the motivation and aim of this investigation. There are two main theories in this field of research. The first theory substantiates that remittances can enhance democratization and destabilize political regimes. Folch et al. (2015) argue that remittances increase the likelihood of democratic transition in autocratic regimes. They claim that since remittances accrue directly to households and individuals, they make voters less dependent on support from government institutions, thereby eroding the capacity for a regime to "buy" support through targeted delivery of goods and services.[34] This notion is especially relevant in countries like Venezuela, where the regime is known to rely on spending an enormous amount of money to garner support from the populace. Pfutze (2013) builds off this idea, stipulating that since remittances reduce dependence

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[32] Maimbo, S.M. and Ratha: Remittances: Development Impact and Future Prospects. *World Bank Publications, 2005. pgs 93-96*

[33] Taylor, Edward J. "Remittances and Inequality Reconsidered: Direct, Indirect, and Intertemporal Effects." *Journal of Policy Modeling*, vol. 14, no. 2, 1992, pp. 187–2

[34] Escribà-Folch, Abel, et al. "Remittances and Democratization." *International Studies Quarterly*, vol. 59, no. 3, 2015, pp. 571–586.,

on state-delivered goods and services, it triggers latent dissatisfaction with the incumbent regime.[35] Folch et al. (2018) also make the case that remittances can fuel democratization by increasing the resources of political opponents in autocratic regimes.[36]

The second theory regarding the political impact of remittances is that they support authoritarian regimes by providing financing for policies that build their support and help stabilize the economy, which benefits the incumbent regime. Furthermore, proponents of this theory make the case that remittances can have anti-democratic effects by reducing political participation. Ahmed (2012) provides evidence that autocratic regimes channel several forms of unearned income (remittances, foreign aid, etc.) to finance patronage at all levels of government. These regimes take advantage of these money inflows to reduce expenditure on welfare services and increase spending on activities to "buy" support.[37] This theory is also supported by research which shows that remittances can shield a country's economy from irresponsible fiscal policy, thereby disincentivizing government from enacting needed economic reform. Aguinas (2006) argues that governments that expect to receive money from migrant remittances or foreign aid tend to pursue policies that are politically beneficial but economically unwise, citing the government of the Philippines as manifesting this behavior.[38] Glytsos (2002) also investigated this pattern in Greece,

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[35] Pfutze, Tobias. "Clientelism Versus Social Learning: The Electoral Effects of International Migration." *International Studies Quarterly*, vol. 58, no. 2, 2013, pp. 295–307., doi:10.1111/isqu.12072.
[36] Escribà-Folch, Abel, et al. "Remittances and Protest in Dictatorships." *American Journal of Political Science*, vol. 62, no. 4, 2018, pp. 889–904.
[37] Ahmed, Faisal Z. "The Perils of Unearned Foreign Income: Aid, Remittances, and Government Survival." *American Political Science Review*, vol. 106, no. 1, 2012, pp. 146–165.
[38] Agunias, Dovelyn R. *Remittances and Development: Trends, Impacts, and Policy Options*. Migration Policy Institute, 2006, pp. 38–40, *Remittances and Development: Trends, Impacts, and Policy*

where he notes that remittances act as a sort of insurance that keeps the government from adopting much-needed economic reform.[39]

There is also evidence supporting the theory that remittances support autocratic regimes by reducing political participation. In a study using remittance data from the World Bank, Regan and Frank (2014) found that increases in migrant remittances during times of crisis can lower the risk of civil uprising or conflict.[40]Krilova (2008) found a correlation between dependence on remittances and withdrawal from political participation using data sets from international institutions like the World Bank and the IMF.[41] In an analysis of survey data from Mexico, Germano (2013) reports that respondents who receive remittances are less likely to lobby for local officials, as well as to mobilize against the incumbent party in a presidential election. Dionne et al. (2014) conducted a cross-country, individual-level analysis on remittances' effect on political participation. They used data of almost 30,000 individuals across 20 African countries and found that remittance recipients are less likely to vote as well as participate in any form of political demonstration.[42]The discrepancy that exists in research on the political impact of remittances is the primary motivation for the line of inquiry in this investigation. it is critical to understand these

[39] Glytsos, Nicholas P. "The Role of Migrant Remittances in Development: Evidence from Mediterranean Countries." *International Migration*, vol. 40, no. 1, 2002, pp. 5–26.
[40] Regan, Patrick M., and Richard W. Frank. "Migrant Remittances and the Onset of Civil War." *Conflict Management and Peace Science*, vol. 31, no. 5, 2014, pp. 502–520.
[41] Krilova, Nino. *Political Effects of Remittances: Political Participation in Developing Countries*. Creighton University, 2008, *Political Effects of Remittances: Political Participation in Developing Countries*.
[42] Dionne, Kim Yi, et al. *Another Resource Curse? The Impact of Remittances on Political Participation*. Afrobarometer, 2014, *Another Resource Curse? The Impact of Remittances on Political Participation*.

political implications in order to analyze the Venezuelan regime's policies with regards to remittances and recommend the appropriate policy from the U.S.'s perspective.

Methodology

Comparative Case Study Research Design

Given the scope of my research question and the complexities involved in evaluating foreign policy because of the numerous uncontrollable variables that exist, a comparative case study (CCS) is the most appropriate research design to conduct this investigation. This method will produce valuable knowledge that can lead to a well-informed and responsible policy recommendation with regards to the regulation of remittances to Venezuela. Traditional case study research design has been used extensively in the field of public policy as a qualitative approach to enhance our understanding of the policy-making process. However, the knowledge we can derive from this type of research design is mostly limited to how the data that is collected from the "case" fits into the existing body of decision-making theories and models.[43] A comparative case study builds upon the traditional case study method because it still involves the in-depth examination of a subject or phenomenon of interest but diverges from it because it focuses on comparison across different contexts. The goal of a CCS is to examine two or more cases to produce generalizable knowledge about causal questions. To this end, the similarities, differences, and/or patterns that

[43] Mills, A. J., Durepos, G. & Wiebe, E. (Eds.) (2010). Encyclopedia of case study research. Thousand Oaks, CA: SAGE Publications, Inc.

arise from the comparison of the cases must be extended beyond the scope of mere comparison and utilized as evidence to make claims about the outcomes of the policy being examined.

The United Nations International Children's Emergency Fund's (UNICEF) Office of Research sets forth a comprehensive assessment on the scope and proper execution of comparative case studies, which provides a useful guide for evaluating the merits of choosing this design. This assessment outlines some of the circumstances where a CCS approach would be useful in producing generalizable knowledge. The main consideration for selecting a CCS research design is the lack of feasibility of an experimental design to address the research question of this investigation. It is not possible to examine the political implications of interest with experimental methods because the policies being analyzed are just one facet of a country's broader policy strategy. As such, there is no opportunity to create control groups or manipulate the variables being tested. Understanding the context within which these policies are created and implemented is crucial to be able to answer the inquiry driving this research paper. The CCS method is a valuable design in cases such as this, were interventions are being implemented across multiple contexts and there is no opportunity for a researcher to manipulate or control the nature of these policy measures.[44]

The strength of a CCS research lies in the need develop a deep understanding of the context around remittance policies in order to identify their effects. Remittances are a global phenomenon that have existed throughout time and across different countries. As such, there are countless

[44] Goodrick, D. (2014). Comparative Case Studies, Methodological Briefs: Impact Evaluation 9, UNICEF Office of Research, Florence.

policies relating to this issue. Each of these policies was developed within a unique set of geopolitical, social, cultural, and historical circumstances. A thorough comprehension of the context within which a particular set of remittance policies were created and implemented is imperative to analyzing the success or failure of such policies and the implications they had. UNICEF's assessment of different research designs contends that CSS is a valuable approach to analyze policies where understanding context is fundamental to evaluating the implications of a given policy strategy.[45]

As such, a CCS is an appropriate approach to examine the issue of remittances to Venezuela. This method will prioritize the contextualization of Venezuela's unique socioeconomic and geopolitical circumstances. Understanding remittances within the features and factors that are specific to Venezuela will produce knowledge that enables a well-informed and responsible policy recommendation.

Cuba as a Valuable Comparative Case

The merit of a CCS research design hinges on selecting a relevant and justifiable case for comparative analysis. As such, it is crucial to select a case with contextual value as it relates to the U.S.'s remittance policy towards Venezuela. Thus, the fundamental assumption of this research method is that the Cuban government and its remittance policies represent a strong, justifiable comparative case for Venezuela. This assumption must be defensible to validate a comparative analysis and evaluation. The remittance policies of Castro's government serve as a valuable comparative case because its contextual features resemble—and are even directly linked—to the circumstances and policies of Maduro's regime in Venezuela. There are three main concepts that

[45]*Ibid*.

justify the use of Castro's remittance policies as a strong comparative case for Venezuela. First, the strong historical, political, and economic ties between them. Second, is Cuba's long history of shifting remittance policies domestically as well as in its foreign policy interactions with the U.S. The third justification is the existence of comparable emigratory and humanitarian crises in both countries.

The relationship between Fidel Castro's Cuba and Venezuela is one that extends back to the mid-19th century, as Castro sought to expand his influence throughout Latin America. After having a request for $300 million of Venezuelan oil to "fight U.S. imperialism" denied by then-president Romulo Betancourt, Castro began a long campaign of supporting insurrection within Venezuela.[46] The Cuban revolutionary leader was determined to have a Venezuelan government that he could ally himself with, given the immense oil wealth that existed in the country. Between the years 1961-1964, Castro's government provided more than $1 million to revolutionary forces working to take control in Venezuela. All the revolutionary movements supported by Castro in the mid-19th century failed to bring about a power shift, creating hostility and discontent between both countries. However, Castro's efforts would eventually prove successful in the 1990's, when Hugo Chavez began to emerge as a significant political figure within the country. Chavez had been jailed in 1992 after leading two failed coup attempts against the government of Carlos Andres Perez, but received a presidential pardon in 1994 from Rafael Caldera. Just months after his release, Fidel Castro invited Chavez to Cuba to deliver a speech at the University of Havana.[47] This was the first

[46] Oppmann, Patrick. "The History That Chains Cuba to Venezuela's Crisis." *CNN*, Cable News Network, 3 Feb. 2019.
[47] Fonseca, Brian, and John Polga-Hecimovich. "Two Nations, One Revolution: The Evolution of Contemporary Cuba-Venezuela Relations." *Wilson Center*, Wilson Center Latin America Program, 2020.

meeting between the two figures, and it signaled that Castro envisioned Chavez as a strong ally in his efforts to expand his ideology Latin America.

When Chavez became president in 1999, Castro's years-long efforts to have a favorable Venezuelan government proved fruitful, as the two countries struck a momentous commercial deal. The deal, signed in 2000, involved a "services-for-oil" agreement in which Venezuela would send approximately 100,000 barrels of oil per day to Cuba in exchange for close to 40,000 medical, educational, military, and intelligence personnel. The magnitude of this agreement is noteworthy, given that it unequivocally bound the two countries together into an interdependent relationship. After the collapse of the Soviet Union, which used to subsidize a majority of the oil needed by Cuba followed by a deep economic recession in the 1990's, Cuba's economy was in shambles. For Castro, the oil it began receiving from Venezuela represented a lifeline that allowed him to invest infrastructure and revitalize tourism in Cuba, as this was the only industry that served as a significant source of foreign currency in the country. For the Venezuelan government, the utility from this deal was tied to its political ramifications. The services provided by the medical and educational personnel allowed the government to provide much needed aid in some of the poorest neighborhoods of the country. This strengthened support for Chavez in his base, communities of low economic and educational resources. More importantly, this deal represented the inception of Cuban military and intelligence influence in Venezuela.[48] Following the agreement, Chavez began appointing Cuban officials to central roles in the National Directorate of Intelligence and

[48] Chang, Joshua. "Bolivarian Brotherhood: The Roots of the Cuba-Venezuela Relationship and Its Future Trajectory." *Georgetown Security Studies Review*, 18 Oct. 2019.

Prevention Services (DSIP), the government's national intelligence agency.[49] Over time, Chavez also appointed Cuban officials to security roles in Venezuela's Department of Military Intelligence, Central Bank, Department of the Interior, and other important government institutions.[50] Cuba's military and intelligence presence in Venezuela was strengthened in May 2008, when both governments signed a security agreement that established the Directorate General of Military Counterintelligence (DGCIM), a national counterintelligence program operated entirely by Cuban officials which closely monitors military officers and political leaders and has the power to detain any suspected insurgents. The agreement also stipulated that the training and organization of Venezuelan intelligence officers would be completely controlled by Cuban officials.[51] It is evident that the agreements between Cuba and Venezuela are not traditional. The commercial asymmetry of these arrangements is evidence that the two governments are intricately bound by political interests.

Another important concept that makes Cuban remittance policies a valuable case study is the lengthy history of U.S.-Cuba remittance policies, dating back to the mid 19th century when Fidel Castro first came into power. Since then, these countries have been engaged in a continuous diplomatic battle that has involved many changes in foreign policy relating to remittances. The U.S.'s policies on remittances have ranged from complete prohibition, to a regulated market, and even to complete liberalization. Similarly, the Cuban government's policies towards remittances

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[49] Ginter, Kevin. "Truth and Mirage: The Cuba-Venezuela Security and Intelligence Alliance," The International Journal of Intelligence and Counterintelligence, 2013.
[50] Alfonso Chardy, "Venezuelan President Hugo Chávez has Posted Cuban Advisors to Key Government Ministries, Increasing the Concern of the U.S.," *The Miami Herald*, May 8, 2004.
[51] Berwick, Angus. "Special Report: How Cuba Taught Venezuela to Quash Military Dissent," *Reuters*, August 22, 2019.

have involved periods of prohibition, complete liberalization, as well as strict regulation of the remittance market.[52] The history of shifting remittance policies between the U.S. and Cuba create an opportunity for data collection and analysis over time. It is also noteworthy that the U.S. has similar foreign policy goals as it relates to Cuba and Venezuela. The U.S. has imposed numerous strong economic and political sanctions on both countries and has expressed opposition towards the governments of both countries as it relates to violations of the political and civic rights of their citizens. The existence of U.S. antagonism against both governments has resulted in analogous foreign policy strategies with stated goals of economic and diplomatic isolation as well as promotion of democratization of the countries' political institutions. These notions make Cuba a valuable and relevant case as it pertains to the objective of proposing a responsible U.S. foreign policy strategy for remittances to Venezuela.

The third main characteristic which makes Cuba the most pertinent comparative case for Venezuela is the presence of similar humanitarian and social crises. Although this subject is often politicized and misrepresented, it is undeniable that Cuba and Venezuela are countries experiencing humanitarian crises. In its 2019 World Report, the Human Rights Watch reported severe infringements by the Cuban and Venezuelan governments on the political, civic, and social rights of its citizens.[53][54] Moreover, both countries have experienced emigratory crises in their recent histories. Cuban citizens have been emigrating in masses ever since the beginning of the

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[52] Barberia, Lorena. *Remittances to Cuba: An Evaluation of Cuban and US Government Policy Measures*. Inter-University Committee on International Migration, 2002.
[53] Roth, Kenneth. "World Report 2019: Rights Trends in Cuba." *Human Rights Watch*, 17 Jan. 2019.
[54] Roth, Kenneth. "World Report 2019: Rights Trends in Venezuela." *Human Rights Watch*, 17 Jan. 2019.

Castro regime. In the 1980s and 1990s, tens of thousands of Cubans would arrive to the U.S. monthly.[55] Venezuela is currently experiencing the world's most severe refugee crisis, with close to 20% of its population having emigrated by the end of 2019. The existence of humanitarian and emigratory crises in both countries have created comparable circumstances that are especially relevant within the context of remittances, as these conditions lead to the increased dependence of a countries' population on foreign remittances.

Data Collection and Applied Methodology

The analysis conducted in this investigation will take the form of historical data contextualization and examination, which are common qualitative data analysis methods employed in a CCS design. The data will be sourced from official government statements, speeches, and documents, as well as from reports produced by trusted international organizations like the United Nations, World Bank, etc. Sourcing data directly from the governments being investigated and from reliable research institutions will ensure objectivity in the study. Any pertinent news articles or press releases by relevant policy actors will also be examined and analyzed with regards to their role in policy decision-making and its outcomes. Any documents or statements deemed relevant to Cuban and Venezuelan policies surrounding remittances, as well as the U.S.'s remittances policies toward those countries will be considered within the scope of the investigation.

[55] Batalova, Jeanne, et al. "Cuban Immigrants in the United States." *Migrationpolicy.org*, 3 May 2019.

The analytical process is divided into two stages. The first stage will involve a synthesis and examination of all the remittance policies of each case. This will include any policies or political manifestation that directly or indirectly affects remittances in both of the cases. This stage will also include a summary of the U.S.'s foreign policy decisions and interactions with each case as it affects the issue of remittances. The second stage of the investigation involve drawing inferences, conclusions, and/or initial propositions from the frameworks of synthesized historical data through comparative analysis. It is prudent to synthesize each case separately, beginning with Cuba, for two reasons. First, it will allow the reader to understand each case thoroughly in its own context and throughout time, which is important given that remittance policies continue to play a role in ongoing foreign and national policy strategies for all the countries involved in this research. Secondly, given that Cuba has a longer history of national remittance policies and relevant foreign policy interactions with the U.S., it makes sense to follow this historical chronology in our investigation. The inferences and conclusions drawn from the comparative analysis of synthesized historical data will serve as the premise for subsequent policy recommendations.

Comparative Case Study Analysis & Discussion

Case 1: Cuban Reforms and U.S. Foreign Policy

To critically analyze the issue of remittances between any two countries it is necessary to understand all the policies or measures that can be related to or have an impact on these currency flows. To this end, policies and government actions in both the domestic and international domains must be considered, given that remittance flows are determined not just by domestic conditions in the receiving country, but also by that country's interaction with the rest of the world via its foreign policy. As such, the following historical policy summaries of Cuba and Venezuela will include detailed accounts of domestic fiscal and migratory policy as well as foreign policy interactions with the U.S. These historical accounts and document examinations will serve to inform the comparative analysis.

When Fidel Castro came into power in 1959, his government began implementing a series of radical migratory and financial reforms that served to tighten the government's control over the Cuban people and economy. With regards to migration, Castro attempted to control the mass emigration of the middle and upper class that followed his revolution by implementing measures to disincentivize citizens from leaving the country. One such measure was forbidding re-entry to the country to those that decided to leave, thereby making emigration permanent. Emigrants would not even have the possibility to return for visitation. Furthermore, Cubans that emigrated would be renouncing their citizenship and any assets that they left behind in their home country. On the economic front, the Castro government's reforms were dominated by a policy of nationalization. The first major reform was the Agrarian reform, which involved the state-sanctioned seizure and subsequent redistribution of all large-scale landholdings.[56] Moreover, on July 6, 1960 Castro's government signed Law 851, authorizing the nationalization of foreign-owned assets in the country.[57] Castro also brought about fiscal reforms on the island. The most significant of these measures were those related to the national currency. In 1961, the government created a new Cuban Peso. This change was very significant because each household was only allowed to exchange a

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[56] O'Connor, James. "Agrarian Reforms in Cuba, 1959-1963." *Science & Society* 32, no. 2 (1968): 169-217. Accessed April 14, 2020.
[57] Garcia, Eduardo Valido. "El Proceso De Nacionalización En Cuba: La Ley No. 851 Del 6 De Julio De 1960." *El Proceso De Nacionalización En Cuba: La Ley No. 851 Del 6 De Julio De 1960*.

limited amount of the old currency for the new one (10,000 Pesos). Since the government automatically converted any Pesos in bank accounts to the new currency, any Pesos out of circulation became worthless. The exchange of the new Peso to USD was set at a fixed one:one rate. At the same time, the government banned its citizens from owning foreign currencies and prohibited their circulation in the national economy. These measures resulted in many families losing a significant amount of their wealth, especially those that had kept it in USD or in Pesos outside the banking system.[58]

Diplomatic relations between the U.S. and Cuba deteriorated quickly following Castro's revolution in 1959. This hostility was manifested in the U.S.'s foreign policy strategy. In response to Cuba nationalizing U.S. – owned interests on the island, President Eisenhower's administration enacted a unilateral embargo on Cuban exports (except medicine and some foods) on October 19, 1960. In February 1962, several months after the failed Bay of Pigs invasion, President John F. Kennedy expanded the trade embargo to include all Cuban exports and imports (E.O. 3447).[59] Later that year, in August of 1962, the Kennedy administration amended the Foreign Assistance Act to retain aid from any country that provided any assistance to Cuba. Hostility between Cuba and the U.S. reached its highest point following the Cuban Missile Crisis of October 1962. As a result, the U.S. government prohibited U.S. citizens from traveling to Cuba and enacted the Cuban Assets Control Regulations (CACR) on July 8, 1963. The CACR effectively banned any and all

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[58] "The Dollarization Debate." *The Dollarization Debate*, by Ritter, Archibald and Nicholas Rowe, Oxford University Press, 2003, pp. 425–427.
[59] "Proclamation 3447--Embargo on all trade with Cuba". *National Archives and Records Administration*, National Archives and Records Administration, 2016.

financial or economic transactions involving Cuba. These stringent policies defined the relationship between Cuba and the U.S. throughout the 1960's and most of the 1970's.[60]

The latter half of the 1970's brought about a shift in domestic migratory policy in Cuba and in diplomatic relations with the U.S. This trend can be attributed to an easing of tensions between the Castro's government and the Cuban emigrant community, as well as with the U.S. government. The latter was largely due to the fact that the administration of President Jimmy Carter came into power in 1977 and had the goal of reducing the hostility between the U.S. and Cuba and forging a path that could lead to normalizing relations. This shift in foreign policy strategy towards Cuba was manifested in modification to the CACR which made it possible not only for U.S. citizens to travel to Cuba, but also to send cash remittances to close relatives.[61]The U.S. government capped the amount of money that could be sent to Cuba at $500 per fiscal quarter. However, given that the CACR still prohibited direct financial transactions with Cuba, remittances had to either be processed through a third-party in a different country or taken to the Cuban National Bank (BNC) in person during a visit to the island. One of the most significant events during this time was the National Public Dialogue that took place in Havana in December of 1978 between Castro and a group of 75 Cuban exiles.[62] The progressive attitude from all parties resulted in a shifting policy landscape in Cuba.

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[60] Sullivan, Mark P. "Cuba: U.S. Restrictions on Travel and Remittances." *Congressional Research Service*, 2018.
[61] "PART 515—CUBAN ASSETS CONTROL REGULATIONS." *Electronic Code of Federal Regulations (ECFR)*.
[62] "History as Prologue." *A Contemporary Cuba Reader: Reinventing the Revolution*, by Philip Brenner, Rowman and Littlefield, 2008, pp. 18–21.

In December 1978, following the National Public Dialogue, the Cuban government took the first step in reforming its migratory policy by lifting the ban on emigrants being able to visit Cuba. Furthermore, the government also created channels through which Cubans could receive the cash remittances that their emigrant family members were now allowed to send.[63] These policies, however, were not implemented in a vacuum. Tied to the liberalization of emigrant visitation and receiving of remittances, the Cuban government also took steps to control the flow of USD flowing into Cuba. Cash remittances could only be processed through the BNC, which would not disburse the foreign currency to the receiving citizen, but instead provide them a "receipt" for the remitted amount which could only be used for purchases at the foreign currency stores (Diplotiendas) operated by the state. Moreover, the BNC would provide a transaction receipt at the official government exchange rate of the USD set at one:one. An important caveat of restoring visitation rights to emigrants was that they could only stay in state-owned hotels operated in US dollars.[64] Visitors could only spend their dollars or other foreign currency at state-owned stores since local merchants were prohibited from transacting in foreign currencies. As a result of the increased flow of foreign currency into Cuba, the government also intensified its prohibitions on Cuban citizens owning or transacting in foreign currencies. In November of 1979, the Cuban penal code was modified to reflect these strict prohibitions. Cubans found in possession of foreign currencies or transacting with them would face prison time and hefty monetary fines.

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[63] Barberia, Lorena. *Remittances to Cuba: An Evaluation of Cuban and US Government Policy Measures*. Inter-University Committee on International Migration, 2002.
[64] Eckstein, Susan, and Lorena Barberia. "Cuban-American Cuba Visits: Public Policy, Private Practices." *MIT Center for International Studies*.

The 1980's saw a stagnation, and in some forms a reversal, of the liberalization policies that occurred in Cuba and the U.S. under the Carter administration. Following the assumption of power by conservative Ronald Reagan in January 1980 and the mass Cuban emigration crisis of the Mariel Boatlift from April to October 1980, both governments retracted on the easing of travel prohibitions. The Reagan administration also began a rapid drawback on the normalization policies from the years of the Carter administration. In 1982, the U.S. labeled the Cuban government a state sponsor of terrorism and banned general travel to the island, meaning that only certain Cuban emigrants could visit under special circumstances. Reagan also tightened restrictions on the channels for remittances being sent to Cuba, requiring that institutions request special permission for license to deal in transactions with Cuba. In 1985, as a response to the U.S. sponsoring a free public radio service to the island, Castro banned all emigrants living in the U.S. from visiting Cuba for over a year. Later, in 1987, Castro lifted the ban but maintained a limit of 2,500 visitors per year from the U.S.[65]

The collapse of the Soviet Union—which had served as Cuba's principle trading partner and source of foreign aid and support—in 1991, left the Cuban economy in shambles. The island's imports and exports both dropped by about 80%. This resulted in a drastic contraction the GDP, which is estimated to have fallen by 34% in little over one year. Moreover, the country lost over 90% of its oil imports because of its heavy reliance on the Soviet Union for this commodity.[66] In response to this crisis, Castro conceded that the collapse of the Soviet Union had deep repercussions on the Cuban economy. Cuba's ability to import goods was severely deteriorated

[65] Sullivan , Mark P. "Cuba: U.S. Restrictions on Travel and Remittances." *Congressional Research Service*, 2018.
[66] Hunt, Nigel. "Special Period and Recovery." *History of Cuban Nation*, 2020.

because they could no longer depend on the exchange agreements that existed with countries in the Soviet bloc and must now seek to increase its foreign currency holdings to finance imports to sustain the country.[67] Given the country's limited options to attain foreign currency in the world market because of its singular dependence on trade with the Soviet bloc, Castro announced his intention to seek foreign currency income from alternate sources, including tourism and remittances entering the country. He made it explicit that the Cuban government would implement measures to increase the state's income in convertible foreign exchange.[68] To this end, Castro announced the initiation of a series of reforms that represented a drastic deviation from the ideology that had characterized his policies until this point.

First, was the simultaneous legalization of USD in circulation and depenalization of ownership of foreign currency by Cuban citizens.[69] This was followed by the establishment of mechanisms that allowed Cuban consumers to spend foreign currencies. So-called "dollar stores" were created and stocked with common consumer goods as well as with food products. The purpose of these state-operated stores was to absorb the USD that entered into circulation via tourism and remittances. In order to channel these inflows of foreign currency to state-operated mechanisms, the government kept restrictions on using foreign currencies as sources for private investment. For example, investing foreign currency in properties was still prohibited. Moreover, small-scale entrepreneurs dealing in foreign exchange would be required to source all their

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[67] Castro, Fidel. "Castro Gives Speech at Moncada Barracks Anniversary." Castro Speech Database. Havana Radio, 27 July 1993, Havana, Cuba.
[68] *Ibid*.
[69] Farah, Douglas. "Cuba Opts to Legalize the Dollar." *The Washington Post*, Washington Post Foreign Service, 1993.

supplies from state-owned stores.[70] For the first time since coming into power, Castro's revolutionary government enacted a progressive income tax. Although the tax code did not consider remittances earned income, it was designed to indirectly affect this source of foreign cash by collecting fees on any profits, bank deposits, or bank transactions involving foreign currency. Another major component of Castro's reforms to attract foreign currency in the form of remittances was the establishment of official remittance channels. Whereas, remittances had previously been limited to in-kind goods brought by visitors or the BNC issuing "receipts" to individuals receiving remittances, the state created several different channels to facilitate and encourage remittance flows to the island. The government established relations with banks from numerous countries around the world so that they could serve as third parties to work around U.S. restrictions on financial transactions with Cuba.[71] Moreover, the state gave license to money transfer companies like Western Union to open offices in the country in 1995[72] and begin accepting remittance transfers from anywhere in the world. Additionally, citizens were allowed to own and use Transcard, a special checking account card which could be debited via money order or wire transfer from any account in the world. Another remittance channel that the government created was allowing Cuban citizens to use credit cards from American accounts with the authorization of the account owner, provided that the owner was responsible for paying off any balance.

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[70] González-Corzo, Mario. "Cuban Monetary Reforms and Their Relationship with Policies to Attract Remittances During the Special Period." *ASCE*, 30 Nov. 2007.
[71] *Ibid*.
[72] Whitefield, Mimi. "Western Union: Remittances Help Accelerate Economic Change in Cuba." *Miami Herald*, 10 June 2015.

One of the consequences of these fiscal and monetary reforms targeting remittances was the significant devaluation of the Cuban Peso. As Cubans began to deal more in USD than Pesos, demand for the foreign currency went up and demand for the national currency plummeted. This trend was exasperated by the aforementioned policies of the Cuban government that were designed to extract foreign currency from national circulation for use by the state. To combat this inflationary trend while maintaining the policies that were bringing in the much-needed foreign currency, the government created the Convertible Peso (CUC) with a value pegged to the USD. The CUC was introduced in 1994 as a temporary method for controlling inflationary pressure by reducing the demand for USD and increasing the public's confidence in Cuban currencies. After the introduction of the dual currency system, the Peso/USD exchange rate stabilized. In 2003, the Cuban government officially declared, via Resolution #65, that the CUC would be an official national currency and would henceforth replace the USD in national circulation[73]. This measure outlawed the use of USD in any transaction or commercial activity, but it did not prohibit the ownership of foreign currencies by Cuban citizens. Those who wanted to convert their now "useless" USD had to do so through state owned exchange houses. By choosing to officially implement this dual currency system in 2003, the state saw tremendous benefit in the form of foreign currencies inflows. The state imposed a 10% charge on conversions of USD to CUC, including the USD earned from tourists or received from remittances. Moreover, state firms charge service fees ranging between 1-2% in any transaction involving USD.[74] The most important benefit of this system was that the state could continue to collect foreign currencies directly from

[73] Fernández, Orro FernándezRoberto Orro, and Orro Fernandez. "The Cuban Dual Monetary System and Challenges Ahead." *ASCE*, 30 Nov. 2008.
[74] *Ibid*.

remittances and tourism via conversion fees as well as from currency in circulation via taxes, while being able to settle its domestic debts and accounts with CUC or Pesos.

As the Cuban government implemented its monetary and fiscal policies of the "Special Period" and the early 21st century, the U.S. continued to pursue the hostile foreign policy strategy of the Reagan administration from the 1980's. In 1992, President George H.W. Bush signed the Cuban Democracy Act which strengthened the Cuban embargo and sanctions on Castro's government in the pursuit of a "democratic transition of power in Cuba".[75] This policy decreased the limit on family remittances to Cuba from $500 per fiscal quarter to $300. Under Bill Clinton's administration, the U.S. government completely banned remittances from 1994-1998 as a response to the ongoing Cuban migratory crisis. In 1996, Clinton passed the Cuban Liberty and Solidarity Act which tightened the U.S.'s sanctions, sought to augment international pressure on Castro, and increase support for the Cuban people.[76] Shortly after, in 1998, the U.S. lifted the ban on sending remittances and removed the restrictions that only allowed Cubans to send money to close family relatives. However, the U.S. still sought to deter remittance-sending by requiring a signed affidavit to legally send money to Cuba. The decision to lift the ban on sending remittances and loosen the restrictions on who could send money was enacted due to pressure from the Cuban emigrant community for the U.S. to help alleviate the worsening humanitarian crisis that Cuban citizens were living.

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[75] United States, Congress, *22*. 1992.
[76] United States, Congress. 22. 1996.

Case 2: Venezuelan Reforms and U.S. Foreign Policy

Since the United Socialist Party of Venezuela (PSUV) came into power in 1997 with Hugo Chavez as its leader, it has put in place massive public spending programs to appease its base and maintain their support. During the final years of his presidency, Chavez relied on incredibly high oil prices (according to OPEC, the average yearly oil price/barrel between 2008-2013 was ~ $93)[77] to finance these populist policies while disregarding necessary infrastructure and productive investments to ensure sustainability over time. After Chavez's death in early 2013, Vice President of the PSUV Nicolas Maduro was chosen as the leader of the party and subsequently assumed the office of the Presidency. Intent on continuing the legacy of Hugo Chavez, Maduro reiterated that his government would continue the expansive social spending programs that characterized Chavez's tenure and solidified his support among the lower and lower-middle class of the country. However, the dawn of 2013 brought with it the end of incredibly high oil prices that had afforded Chavez the capacity to sustain these expensive programs. The falling oil prices—and by extension revenue entering Venezuela—unmasked years of fiscal irresponsibility, lack of infrastructure development and investment, gross overreliance on oil revenues, an absence of economic diversification, and the lack of productive capability that the Socialist regime had been able to disguise with its oil rents at peak oil prices.

As the average price/barrel of oil dropped from $105.87 in 2013 to $40.76 in 2016 (OPEC prices), the Venezuelan economy began to unravel in what has become one of the worst economic

[77] Sönnichsen, N. "OPEC Oil Prices 1960-2019." *Statista*, 9 Apr. 2020,

crises in modern history. According to data from the World Bank and the Central Bank of Venezuela, the country's GDP has dropped consistently in recent years, going from $438.5 billion in 2013 to just $222.2 billion in 2018. This drop represents an average of -12.5% GDP growth per year over a five-year period.[78] As a direct effect of lower oil prices, the country's export revenue has dropped from $144 billion in 2013 to $27.8 billion in 2017. Consequently, its imports have also decreased dramatically, from $44.5 billion in 2013 to only $9.1 billion in 2017.[79] This incredible decline in GDP and trade is not only due to the decline of the oil prices, but also to the country's crumbling infrastructure and productive capabilities that resulted from the lack of productive investment since Chavez assumed power over 20 years ago. This is evidence by the fact that even the oil industry, which has been lifeline of the Venezuelan economy for so many tears, has seen a tremendous decline in productivity. In 2013, Venezuela was producing an average of 2.4 million oil barrels/day. In 2019, production declined more than 60%, as the country only produced approximately 850,000 oil barrels/day. Perhaps the most shocking economic metric signaling the devastating economic collapse of the country is the hyperinflation of the Bolivar, Venezuela's currency. In its World Economic Outlook report published in October of 2018, the IMF estimated that consumer inflation had exceeded 1,300,000% in 2018 and would surpass 10,000,000% in 2019.[80] According to Central Bank of Venezuela, accumulated inflation between 2014 and 2018 was more than 22,000,000%.[81]

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[78] "Venezuela GDP Annual Growth Rate1998-2019 Data: 2020-2022 Forecast: Historical." *Venezuela GDP Annual Growth Rate | 1998-2019 Data | 2020-2022 Forecast | Historical*.
[79] "Venezuela." *OEC*, Observatory of Economic Complexity, 2017.
[80] International Monetary Fund. 2018. *World Economic Outlook: Challenges to Steady Growth*. Washington, DC, October.
[81] "Nicolás Maduro: Corruption and Chaos in Venezuela - United States Department of State." *U.S. Department of State- Office of the Spokesperson*, U.S. Department of State, 6 Aug. 2019.

Over the past couple of years, the Maduro regime has been continuously reforming its monetary and financial regulation policies in an attempt to reign in the spiraling Venezuelan economy. One of the most significant monetary reforms in response to the crisis was redefining the Law Against Illegal Exchanges ("Ley Contra Ilicitos Cambiarios") which has been in place since 2005, when Hugo Chavez began controlling the exchange market in Venezuela. This law prohibited any citizens or companies from exchanging foreign currencies through any institution other than the Venezuelan National Bank (BCV). It also set strict guidelines and requirements with regards to reporting the sources and uses of foreign currencies coming into the country. Any individuals or entities found to be in violation on this law would be subject to a fine. In 2014, Maduro redefined this law by loosening its restriction on what institutions could participate in the exchange market and under what conditions citizens would be permitted to exchange currencies privately or with entities other than the BCV. In August of 2018, the Venezuelan Congress decided to completely repeal the original law, effectively allowing citizens and companies to exchange foreign currency freely in private markets.[82] The changes made to this policy represent a liberalization of the exchange market which has been strictly controlled by the government since 2003. One of the consequences of this reform was that in 2019 the official USD exchange rate of the BCV exceeded the black market exchange rate.[83] This inversion had not occurred since the economic crisis began, but it occurred for two days in 2019 and has now become common throughout the first months of 2020. Even when the black-market rates are higher than the BCV rates, the official rates have become consistently competitive, a phenomenon that has not occurred

[82] "Venezuelan President Maduro's Sweeping Economic Policy Announcements"*Devtech*, 2018.
[83] Di Stasio, Alessandro. "Precio Del Dólar Oficial Supera Al Paralelo Por Segunda Vez En 2019." *Efecto Cocuyo*, 2019.

since the country's economy began to collapse.[84] In January of 2020, Maduro announced another important financial reform in relation to the foreign exchange markets. He revealed that his government had passed a bill authorizing a tax of up to 25% on foreign currency transactions in the country.[85]

Since the crisis began, Maduro has propagated the message to the Venezuelan people that one of the most important solutions to the economic crisis lies in reforming the regulations of the financial and banking sectors of the country. As such, his government has implemented several policies intended to restrict these sectors, which have become increasingly unstable as the economy worsens. Throughout 2018 SUDEBAN, Venezuela's regulatory agency for the banking sector, released a series of new regulations that affected companies and citizens alike. One of the most important new regulations requires that any banking or financial transaction involving two or more parties that occurs outside of Venezuela or involves any accounts outside of the country, must be registered and pre-approved by the government. This includes every type of transaction (deposit, wire transfer, balance payment, etc.) that involves more than one party. As a result of this law, citizens that are planning to travel outside of the country, regardless of the purpose of the trip (tourism, business, family visit, etc.), must inform their bank in advance and receive pre-approval to transact with other foreign accounts during their trip. Additionally, SUDEBAN also placed restrictions on access to online banking domestically. As part of its reforms, the regulatory agency prohibits access to online banking within the country via a VPN (virtual private network) and/or

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[84] Alvarez, Victor R. "¿Por Qué Ahora El Dicom Es Más Caro Que El Dólar Criminal?" *Finanzas Digital*, 2 Feb. 2019.
[85] Armas, Mayela, and Reuters. "Venezuela to Impose Tax up to 25% on Purchases in Foreign Currency." *Nasdaq*, 2020.

any internet provider that is not authorized by the state (SIB 17799, SIB 19213).[86] Another important regulation, announced by then-Vice President Tareck El Aissami in April of 2018, put in motion Operation Paper Hands ("Operacion Manos de Papel"). The goal of this policy is to enforce the regulations put in place by SUDEBAN. As such, it gives Venezuelan regulators license to monitor and track bank accounts to detect transactions that can be suspected to involve illicit activities. To this day, the operation has resulted in over 1,300 frozen bank accounts, almost 600 companies being subjected to audits, 31 citizens convicted to prison sentences, and over 200 more citizens being placed under arrest and awaiting trial.[87]

One of the major monetary initiatives by the Maduro regime has been the creation and implementation of a state-sponsored cryptocurrency called Petro. Maduro announced the creation of this cryptocurrency in December of 2017, with its implementation process beginning in early 2018. The Petro was marketed by Maduro as a method to work around the U.S.'s "economic war" on Venezuela. The cryptocurrency is backed by Venezuelan commodities, with oil reserves serving as the most significant driver of value. This cryptocurrency was designed to replace other digital currencies as a form of receiving remittances, a trend that became very popular in Venezuela with the rise in popularity of cryptocurrencies like Bitcoin and Ethereum. To enforce the use of Petro as the official crypto currency for receiving remittances, the government created Homeland Remittance ("Patria Remesa"), a cryptocurrency platform to receive remittances. In conjunction with the creation of the platform, the government decreed that any and all cryptocurrency remittances must be sent through this marketplace. Furthermore, remittances received on the

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[86] "Comunicado De Sudeban Sobre Uso De Banca Electrónica Desde El Exterior." *Finanzas Digital*, Sudeban, 7 Dec. 2018.
[87] *10 Datos Sobre La "Operación Manos De Papel"*. Descifrado, 18 Apr. 2018.

platform must be exchanged to Petro or Bolivares, subject to a fee of up to 15% of the value of the remittance.[88]

The U.S. has a history of hostile foreign policy with Venezuela, dating back to the early 2000's. However, most of these policies or executive orders target individuals whom the U.S. government deems as participants in the mechanisms of repression and drug trafficking that exist in Venezuela. The first major, wide-arching legislation against the Venezuelan government was the Venezuela Defense of Human Rights and Civil Society Act of 2014, signed into law by former President Barack Obama. The Act requires that the U.S. President impose financial and immigration sanctions against any individual who is found to take part in the violation of human rights and freedoms of Venezuela citizens.[89] This opened the door for the passing of Executive Order 13692 by the Obama Administration in 2015, which targeted 7 Venezuelan officials and citizens found to be involved in the repressive mechanisms described in the VDHRCS Act of 2014. The Trump administration expanded upon E.O. 13692, extending sanctions on the assets and travel rights to over 91 additional Venezuelan citizens, including President Maduro and other political leaders.[90]

In addition to monetary and regulatory policies, the Maduro regime has also began directly reforming remittance policy in Venezuela. In April of 2018, Tareck El Aissami announced that the government would be granting license to three foreign exchange agencies to operate as the only

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[88] *Sunacrip*, vol. 41581, 2019. Gaceta Oficial De La Republica Bolivariana De Venezuela.
[89] Seelke, Clare R. "Venezuela: Overview of U.S. Sanctions." *Congressional Research Service*, 2020.
[90] *Ibid*.

officially sanctioned entities to receive remittances. The three exchange houses licensed by the government are Italcambio, Grupo Zoom, and Insular. The agencies were granted permission to work through two international money transfer agencies, Western Union and Money Gram. Within a month of this announcement, El Aissami issued a statement informing Venezuelans that the government had closed down three virtual foreign exchange sites that had been receiving and processing remittances. In accordance this shake down, 112 participating individuals were placed under arrest.[91]

Since 2017, the Trump administration has strengthened the U.S.'s stance against the Venezuelan government by placing broader sanctions to target the Venezuelan economy and the government's access to financial markets. E.O. 13808, issued in August 2017, denies the Venezuelan government or PDVSA (Venezuela's state-operated national oil company) access to the U.S. debt and equity markets. E.O. 13827 issued in March 2018, prohibits any U.S. investors or citizens from purchasing or transacting in Petro, the digital currency created by the Venezuelan government. E.O. 13835, signed in May 2018, prohibits any U.S. investor from buying any form of debt instruments from the Venezuelan government or its companies in primary or secondary markets.[92] Sanctions targeting the Venezuelan economy as a whole began in November 2018 with E.O. 13850, which effectively blocks all the assets under U.S. jurisdiction of any entities operating in the Venezuelan oil, gold, financial, defense, and security sectors. In relation to this executive order, the U.S. has also sanctioned Moscow-based Evrofinance Mosnarbank for helping Venezuela

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[91] "Venezuela Bloquea Casas De Cambio Virtuales, Chavismo Pone El Ojo En Remesas." *Internacional*, Gestión, 26 Apr. 2018.
[92] Seelke, Clare R, et al. "Venezuela: Background and U.S. Relations." *Congressional Research Service*, 2020.

work around U.S. financial market sanctions and several shipping companies that have been helping transport oil from Venezuela to Cuba.[93]

Comparative Analysis & Discussion

One of the three reasons why Cuba was chosen as an appropriate case for this study was because of the humanitarian and social crisis that it experienced during the Special Period, given that it is comparable to the current crisis in Venezuela. The preceding historical accounts strengthen this notion because it reveals two important features of the Special Period in Cuba that exist in Venezuela today. The first is the sudden end to the main source of economic support for the country. Cuba experienced this with the fall of the Soviet Union. For Venezuela, this sudden collapse came about with the historic fall of global oil prices, since oil rents accounted for essentially all of the country's revenue. The second feature is the presence of strong sanctions from the U.S. Both Cuba and Venezuela were forced to endure their economic collapse while facing full or partial embargoes from the U.S. These dire economic and geopolitical conditions which characterized the Special Period are creating the same circumstances in Venezuela.

Fidel Castro's response to Cuba's spiraling economy involved a series of fiscal, monetary, and migratory policies that diverged significantly from his policies up until that point. In various public speeches, Castro revealed that a significant part of his strategy to stabilize the country's economy and financial distress was to increase remittances to the island and enhance the state's income from this flow of foreign currency. This strategy was implemented through what can be categorized as four main policy initiatives. The first was the liberalization of the USD in the

[93] *Ibid*.

country. For the first time since Castro came to power, Cuban citizens were allowed to own and transact in USD. This policy introduced the USD into economic circulation, which was a necessary first step to increase state revenues from remittances. The second initiative was establishing official remittance channels. In 1995, Castro authorized Western Union to begin processing remittances to Cuba from all over the world. Later on, he created Transcard, a checking account that could be debited from anywhere in the world. Castro's government also made it possible for Cubans to receive remittances via credit cards, which only required authorization from the account owner abroad. By expanding remittance channels and facilitating the process of remittance-sending, Castro encouraged many emigrants to begin sending money to their relatives and friends in Cuba. The third main component of Castro's strategy involved putting mechanisms in place for government to capture the USD that entered into the country's circulation. The Cuban government implemented several policies to enhance the state's capture of USD from circulation. For example, Cubans were still prohibited from using foreign currencies for private investment, such as real estate or infrastructure. Moreover, although the restrictions on entrepreneurship and small business in Cuba were relaxed during this time, the government mandated that any commercial supplies be purchased from state-operated vendors. USD in circulation were also channeled to the state via "dollar stores", which are state-owned retail stores that sell everything from food to consumer goods in foreign currency. The fourth major initiative came a few years later, in 2003, when the Cuban government created the CUC. The new currency, which was pegged to the USD, replaced the USD in circulation. The USD was not entirely outlawed, but the government discouraged its use by imposing fees on transactions processed in any foreign currency. State-run banks charged a fee for converting USD to CUC. This policy strategy helped the government's finances tremendously as it was able to collect more USD from circulation while settling domestic obligations with CUC.

As the Venezuelan economy began a freefall in 2016, Maduro's regime began enacting a series of fiscal, monetary, and regulatory policies in an attempt to stabilize the country's disastrous financial position. His policy strategy can be classified into 3 principal initiatives. First, was the liberalization of foreign exchange markets in Venezuela. Maduro repealed the "Law Against Illegal Exchanges", effectively opening up foreign exchange to all public and private parties within the country. This liberalization and depenalization of foreign exchange incentivized the use of USD in domestic circulation. Ecoanalitica estimates that in 2019, more than 53% of transactions in Venezuela by value were done in USD.[94] Consequently, in January 2020, Maduro's government announced new policy measures government agencies to impose a tax of up to 25% on transactions conducted in USD. The second major policy initiative by Maduro was to channel remittances through state-run enterprises. He employed various policy tools to achieve this. First, he authorized three money transfer companies to process remittances to Venezuela and made it illegal for any other entity to accept remittances. Later, as the use of cryptocurrencies as a form of remittance became a popular trend for Venezuelans, Maduro created a national cryptocurrency, "Petro" and an official government platform on which to send and receive crypto-remittances, "Homeland Remittance". These policies created the means for the Venezuelan regime to channel all remittances through state-owned entities. The third policy initiative by Maduro was to enact new restriction on the financial and banking sectors. This strategy was necessary to enforce the two

[94] "Venezuela: De Dónde Salen Los Dólares Que Circulan En El País (y Por Qué Se Cree Que Ya Hay Más Que Bolívares)." *Internacional*, Dinero, 16 Jan. 2020

previous initiatives, as it ensured that remittances and all transactions in USD were being channeled to the state-owned entities. These regulations included requiring government approval for all transactions involving foreign or international bank accounts, prohibiting the use of VPNs for online banking, and outlawing any entities, whether physical or digital, from processing remittances other than the ones authorized by the regime. These regulations are being enforced actively under threat of criminal penalty for transgressors. Several websites that processed remittances illegally have been closed down and thousands of bank accounts with suspected illicit activity have been frozen and investigated.

There is a clear pattern that emerges when comparing the policy initiatives of Castro during the Special Period and Maduro during the current economic crisis in Venezuela. The strategies are characterized by policies that: 1) increase or encourage the use of USD in domestic circulation, 2) impose taxes or fees on domestic transactions in foreign currencies, 3) channel remittances through state-operate entities, and 4) enforce the exclusive authority of state-owned or state-authorized entities through criminal penalty to enact control over the flows of foreign currencies in the economy. The presence of analogous policy strategies warrants the deduction that Maduro's objectives, albeit unannounced, are parallel to Castro's during the Special Period. Castro made his intention to encourage remittances and use this significant source of foreign currency inflow as a source of financial stabilization explicit in his public communications during the Special Period. As such, the pattern of analogous policy strategies from Maduro's regime during Venezuela's comparable financial and economic distress implies that Maduro's objective is the same.

Policy Recommendation

This section puts forth a policy recommendation for remittance to Venezuela based on the comparative analysis and discussion of remittances to Cuba and Venezuela undertaken in this research paper. This recommendation is also informed by the existing literature on remittances, as understanding the political, social, and economic implications of remittances is critical to developing an effective and responsible component of foreign policy. A discussion of how this initiative should be implemented, as well as the justification for the chosen policy recommendation will follow to address the most important considerations and possible points of contention that could arise from implementing the proposed strategy.

Policy Recommendation: Prohibit financial/monetary remittances to all individuals, companies, or entities residing or operating in Venezuela and sanction foreign financial institutions that continue to serve as a channel for remittances to Venezuela.

The principle justification for supporting this policy initiative are the findings that emerge from the comparative analysis carried out in this investigation. This investigation presents evidence that Maduro's regime is implementing fiscal and monetary policies specifically designed to yield financial benefit for his government from the remittances being sent to Venezuela. These cash flows serve as a lifeline of financial support for the Venezuelan regime as it faces increasing sanctions from the U.S. This policy recommendation aligns with the United States' foreign policy strategy for Venezuela. As discussed in the previous section, the U.S. currently has extensive sanctions on Venezuela, including a full economic embargo against the country. The lack of restrictions or prohibitions on remittances to the country represents a gap in a framework that includes strict financial, individual, sectoral, and government sanctions designed to increase pressure on Maduro's illegitimate regime.[95] As such, instituting a prohibition on remittances is a shift that represents a stronger alignment to the U.S.'s strategy of straining Maduro's government financially.

Another important justification for this policy shift derives from the key issues that Congress considers when drafting remittance policy, as stipulated by the Congressional Research Service. One of the most important issues concerning regulation of remittances is the U.S. Government's CFT (Combating the Financing of Terrorism) efforts. This notion is relevant to Venezuelan remittances given that as of March 26, 2020, the United States officially indicted Maduro and the top officials of his regime with charges of narco-terrorism.[96] In light of this indictment, it is clear that Congress' responsibility to CFT when drafting remittance policies justifies the prohibition of monetary and financial transfers to Venezuela since they provide support to a regime charged with narco-terrorism.

One of the most important points that must be addressed in discussing the implementation of this policy recommendation is its legality and viability. Prohibiting remittances to Venezuela constitutes a lawful course of action under Federal statutes administered by the Treasury Department's Office of Foreign Asset Control (OFAC), which stipulate that the U.S. may impose sanctions or restrictions on remittances to any country, individuals, or companies that is subject to

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[95] Seelke, Clare R. "Venezuela: Political Crisis and U.S. Policy." *Congressional Research Service*, 2020.
[96] Weiss, Martin A. "Remittances: Background and Issues for Congress." *Congressional Research Service*, 2019.

U.S. sanctions or embargo. Furthermore, although the Treasury Department does not have the authority to direct any financial institution to close or end a relationship with a particular country or entity as long as they are complying with U.S. laws,[97] it can essentially force companies into ceasing their business in a country by implementing prohibitive sanctions on remittances. In other words, it can coerce the financial institutions into ceasing their business operation with Venezuela by changing the law. This notion is only applicable for financial institutions under U.S. jurisdiction. Conveniently, the two main money transfer companies licensed by Maduro's government to channel remittances to Venezuela—MoneyGram and Western Union—are American companies, so the prohibition of remittances by the U.S. government will immediately have a tremendous impact on the remittances entering the country. However, a prohibition on remittances coming from entities under U.S. jurisdiction is not comprehensive enough. There are many companies out of U.S. jurisdiction that process remittances, and one could foresee that in the face of U.S. remittance prohibition, these foreign companies would take over the market previously dominated by American companies. For this policy to be most effective, it must shut off as many remittance channels to Venezuela as possible. If foreign channels remain open, people and entities will find ways to work around U.S. prohibitions and continue to send money to Venezuela. This is why the second half of the proposed policy involves sanctioning those foreign financial institutions that choose to continue to serve as remittance channels to Venezuela despite the U.S. prohibiting its own citizens and companies from doing so. By doing this, the U.S. government would be increasing the likelihood that foreign financial institutions will also stop channeling remittances to Venezuela.

[97] Ibid

This main point of contention that could arise from the chosen policy recommendation is the social and humanitarian impact of stopping remittance flows to Venezuela. The remarkable increase in amount of remittances going to Venezuela is a trend that exists because of the economic collapse of the country, which has created disastrous social and humanitarian conditions. Remittances represent a lifeline for many people and families who would otherwise struggle or even fail to make ends meet. This is an unfortunate reality that must be openly discussed and considered thoroughly when implementing this policy. In considering what policy to recommend based on this investigation, the notion that cutting off remittances will bring about devastating consequences for many Venezuelans was of crucial importance. However, maintaining an objective stance, this course of action is justified and the most suitable because the long-term political implications and benefits outweigh the short-term negative humanitarian and social consequences of the policy. This judgement is predicated on the view that in the long-term, the benefits from policies which increase pressure on Maduro's regime will far outweigh the costs. It is clear given the disastrous social and humanitarian conditions of Venezuela today that Maduro's regime represents the biggest threat to Venezuelans and the future of the country. As such, short-term costs associated with policies that ultimately help remove this regime from power represent a net benefit for the people of Venezuela.

An important factor when considering the impact of U.S. remittance policy on humanitarian conditions in Venezuela is that the U.S. is also providing an enormous amount of aid to the country. Since FY 2017, Congress has approved more than $470 million in humanitarian and development assistance for countries sheltering Venezuelan refugees. In October 2019 the U.S. government signed a contract with Guaido's interim government to provide more than $125 million in new development, democracy, and healthcare programs in Venezuela. Additionally, the U.S. Congress has already authorized the VERDAD Act, which includes $400 million in aid to Venezuela in FY 2020.[98] This humanitarian aid will serve to alleviate the effects of cutting off remittance inflows to the country.

A final point that on the rationale for this policy strategy is that there is relevant historical precedent of prohibiting remittances to Cuba. As described in the comparative analysis, the U.S. has a history of manipulating restriction on remittances as a policy tool to combat the Castro regime. This proved to be an effective way to isolate the island economically and place tremendous financial pressure on the Cuban government. Given the contextual similarities that exist between these two historical circumstances as described in the historical analysis, precedent that shows this policy tool was effective serves as a valuable justification for implementing it in this new context.

Conclusion

Venezuela is living through one of the worst economic and political crises in modern history at the hands of a dictatorial regime. This has forced an estimated four million Venezuelans—around 15% of the population—to leave their country. Through its foreign and domestic policy, the U.S. has made it clear that it supports a transition to democracy in the country. To that end, the U.S. Congress and Executive Office have employed an arsenal of policy tools to

[98] Seelke, Clare R. "Venezuela: Political Crisis and U.S. Policy." *Congressional Research Service*, 2020.

strain the Maduro regime financially, economically, and politically. The combined effect of stringent U.S. sanctions and a mass emigratory crises have redefined the Venezuelan economy, as it has now become dependent on remittances, which is money sent from emigres to those that remain in Venezuela. It is estimated that for 2019 remittances to Venezuela almost reached the $4 billion mark, making it the second largest source of money going into the country. Given the U.S.'s strong efforts to put pressure on the Maduro regime by cutting off its financing channels and sanctioning the economy, the lack of regulation on remittances represents a significant gap in its foreign policy strategy. Hence, this research comes at a time when understanding the political implications of remittances to Venezuela is critical. This state of affairs motivated the question: is the Venezuelan government shaping its fiscal and monetary policy to benefit from its migratory crisis by capturing more benefits from remittance cash flows? The principle objective in pursuing this line on inquiry is to recommend a responsible and effective remittance policy that aligns with the U.S.'s foreign policy framework and strategy for Venezuela.

There is a substantial amount of research done on remittances across different lenses and circumstances. Most of the work falls into three spheres: economic, social, and political. Some research studying economic effects finds that there exists a negative correlation between international remittances and economic growth. Other studies find that there is a significant, positive correlation between remittances and GDP growth. With regards to social effects, some research indicates that increases in remittances lead to decreases in poverty, while other studies argue that they enhance inequality in developing countries. In the political sphere, there are two competing theories about the consequences of remittances. The first is that they enhance democratization and destabilize political regimes by reducing people's dependence on state-delivered goods and services. Conversely, other researchers argue that remittances support authoritarian regimes by providing financing for policies that build incumbent support, stabilizing the economy, and disincentivizing political participation. The predominant impression that emerged from analyzing this body of literature is that the implications surrounding remittances are highly dependent on context. This deduction made it clear that a comparative case study (CCS) was an appropriate research method to conduct my study. According to UNICEF's Office of Research, comparative case studies are especially worthwhile when context is key to understanding an intervention and when experimental or quasi-experimental designs are not feasible. Since remittances are a part of the U.S.'s foreign policy framework and it is not possible to create a controlled experiment of the government's foreign policy decisions, the CCS was an appropriate method choice to carry out an investigation that could inform a suitable policy recommendation for the issue at hand. The main limitation of this study is that it relies on the validation of a single case as a comparative tool.

The results from the analysis conducted in this study support the initial hypothesis that the Maduro regime is employing policy tactics to reap financial benefits from the emigrant Venezuelan community's remittances. The policies that Maduro's government has put in place as the country's economy began to spiral follow a clear pattern that mirrors the policies that Fidel Castro employed in Cuba during the "Special Period". In speeches from the early 1990's, Castro made it clear that these policies were put in place to increase the government's captured share of remittances as a means of financial stabilization. Hence, we can deduce that Maduro's objective, albeit not explicitly stated, is the same given the analog policy strategies. These results informed the recommendation that the U.S. government expand its existing financial sanctions on Venezuela to include a prohibition on remittances to the country.

This research process and the results of the analysis highlight the importance of understanding the context around a particular issue when drafting and implementing foreign policy. Although this is not a novel idea, there is definitely a need for continued research on how foreign policy tools function within different circumstances. This study is evidence that there are gaps in the U.S. foreign policy framework that can be improved with contextual knowledge and understanding. For remittances specifically, there is a need for continued, focused investigation. Every year, the U.S. tops the list of amounts of remittances sent, therefore it is imperative to ensure that these tremendous cash outflows are regulated responsibly and in alignment with U.S. foreign interests and policy objectives. The academic community must help inform these regulations by providing research-backed insight on how remittances function within and affect each particular country.

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