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6 February 1975

MEMORANDUM FOR THE RECORD

SUBJECT: Cuban Economic Developments

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At his request, the attached summary of recent Cuban economic developments was LDXed to Mr. Steve Lowe, National Security Council, on 5 February 1975.

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Office of Economic Research

Attachment:
As stated

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Cuban Economic Developments

Cuba's economic situation brightened greatly in 1974, putting the economy on its soundest footing since the Castro takeover in 1959. Real economic growth most likely exceeded considerably the 2% long-term annual average, chiefly as a result of the large improvement in the terms of trade.

Domestic Performance

Paced by a 10% increase in sugar production to nearly 6 million tons, domestic economic activity registered a modest improvement in 1974. Despite some gains, non-sugar agricultural output was hampered by inadequate rainfall throughout most of the year. Non-sugar industrial production apparently also rose modestly as stagnating nickel and cement production and food processing partly offset gains in petroleum refining and electric power and steel production. Bolstered by ongoing rural development, road building, and housing construction, the value of construction activity increased about 10% over 1973.

The improving domestic performance in part stems from improved economic management and organization undertaken under Soviet prodding following the unsuccessful and disruptive 1969-1970 sugar drive. In addition, better management and an increasing reliance on material incentives have tended to increase worker productivity and reduce absenteeism.

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Foreign Trade

Cuba's foreign trade picture improved dramatically in 1974 reflecting the improved sugar harvest and record sugar prices in the world and Communist markets. Export earnings soared to an estimated $2.8 billion, more than double the 1973 level. Hard currency earnings alone nearly tripled to about $1.2 billion. Reflecting the sharp export increase and growing free world credits, imports jumped some 55% to at least $2.3 billion. Despite the gain in imports, Cuba apparently is enjoying its first trade surplus since the Castro takeover. Non-Communist countries will account for about 40% of total Cuban trade in 1974 compared with a 30% average in recent years.

Implications

The gains provided a much needed boost for Cuba's diabetic economy. Increased import capacity is bolstering Havana's ability to carry out lagging investment programs while increased commercial ties with the West provides a greater access to materials and technology previously restricted because of foreign exchange constraints. The upswing has undoubtedly led to an increased availability of some consumer goods, but most basic items are still strictly rationed while others -- mainly luxury items -- are available only at extremely high prices.

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Prospects for 1975

The Cuban economy should remain fundamentally sound in 1975 but the prospects for growth remain modest. Inadequate rainfall during the 1974 growing season will restrict sugar output to no more than last year's level. The prospects for non-sugar agriculture are uncertain, but output could deteriorate if present drought conditions persist. Industrial output is unlikely to gain much. The level of construction activity could increase considerably as Havana uses its enhanced import capacity to accelerate development of infrastructure and industry.

Despite the expected stagnation of sugar production, export earnings should approach the 1974 level and could register further increases if Communist countries raise the price they pay for Cuban sugar above the current 20 cents per pound level. Imports will probably exceed last year's level reflecting the continued strong export performance and the expected large inflow of free world credits. In addition to the ongoing Argentine line of credit of about $200 million annually, Cuba evidently has recently received large credit extentions from Spain and France.

Longer-term Prospects

In 1976 Cuba will begin its first Five Year Plan. The details of the Plan are not available but the general goals

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apparently are for the continued development of Cuba's economic base with investment still taking priority over consumption. In carrying out the plan, economic growth should benefit substantially from increased supplies of capital goods made possible by recent high sugar prices. Projected growth over this period has been placed at about 6% by several Cuban government officials. Because world sugar prices are likely to decline substantially after 1975, however, Cuba will have to rely heavily on foreign trade credits from both Communist and non-Communist trading partners to meet growing import requirements. Despite growing commercial ties with the West, Cuba will probably remain closely tied to the USSR and CEMA.

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