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26 September 1975

MEMORANDUM FOR THE RECORD

SUBJECT: Cuban Economic Situation and Prospects

The attached report on the Cuban Economic Situation and Prospects was sent to NIO/LA on 24 September 1975 for inclusion as an annex in NIE 85-1-75: Cuba's Changing International Role. It was prepared by

Attachment:
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Cuban Economic Situations and Prospects

Current Economic Situation

1. Cuba's economic situation brightened considerably in 1974 as a result of record world sugar prices and fundamental economic policy changes underway since 1970. Real GNP rose about 5% but part of the increase reflected the recovery from poor sugar crops and lagging industrial output in 1972 and 1973.

2. Sugar production and construction accounted for most of the economy's improvement last year. Sugar output increased to about 6.0 million tons, up 13% over 1973 and one-third above the drought-ridden 1972 harvest. Return of normal weather played a major role in the upturn, as did ongoing rationalization and mechanization efforts which permitted an increase in labor productivity.

3. Construction activity rose an estimated 10% in 1974, reflecting Havana's heavy investment program. Expansion of infrastructure particularly in the rural areas accounted for much of construction's growth. Industrial construction continued strong however and the beleaguered housing industry, which has been receiving increased attention in recent years, registered a slight gain.

4. The non-sugar sectors of agriculture and industry lagged behind the economy's general growth. Crops other than sugar made only minor gains and industrial performance was mixed. Fuel, petroleum refining and electric power output rose significantly and light industry achieved a modest increase. Output in mining and building materials stagnated however.

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5. Improved management and expanded import capacity were important factors in Cuba's stronger economic performance. Since the disruptive 1969-70 sugar drive, Havana has been implementing widespread rationalization measures including more orthodox planning and cost accounting procedures, greater use of material incentives to encourage worker productivity, and strictly enforced antivagrancy laws to reduce worker absenteeism. In addition, progressive mechanization of the sugar harvest has reduced the disruptive use of "volunteer" cane cutters from other sectors of the economy.

6. Improved import capacity was due primarily to an unprecedented rise in sugar prices and to larger sugar shipments. Total export earnings soared to \$2.7 billion--double the 1973 level..Imports also rose steeply, but not as much as exports, and Cuba achieved its first trade surplus since Castro took power in 1959.. See Table I

7. Sugar more than ever dominated the composition of exports, accounting for about 90% of the total in 1974. Nickel, shellfish, citrus, and tobacco accounted for the remaining 10%. Capital goods and transportation equipment continued to dominate imports but larger imports of petroleum, foodstuffs, construction materials and other intermediate goods were evident during the year, as well.

8. High world sugar prices and the strengthening domestic economy enabled Havana to expand its commercial ties

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Table I

Cuba: Foreign Trade

Million US \$

	1958	1971	1972	1973	1974	1975	1976	1977
Total Exports (f.o.b.)	742	860	837	1,380	2,745	3,090	2,950	3,075
Communist Countries:								
USSR	18	555	446	880	1,485	2,040	2,075	2,090
Eastern Europe	14	304	244	565	935	1,700	1,715	1,715
Far East	Neg1	160	137	210	375	265	285	300
Non-Communist Countries	4	91	65	105	175	75	75	75
Total	724	305	391	500	1,260	1,050	875	985
Total Imports (c.i.f.)	850	1,387	1,297	1,700	2,450	2,905	3,100	3,300
Communist Countries:								
USSR	2	969	996	1,225	1,600	1,905	2,050	2,200
Eastern Europe	Neg1	731	778	950	1,175	1,500	1,650	1,800
Far East	2	143	126	150	225	330	325	325
Non-Communist Countries	Neg1	95	92	125	200	75	75	75
Total	858	418	301	475	850	1,000	1,050	1,100

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with nonCommunist countries. These countries accounted for about 40% of total Cuban trade in 1974 compared with a 32% average in 1971-73. Eager to exploit the expanding Cuban market, Argentina, Spain, the U.K., France, and Canada have extended some \$3.2 billion in long-term commercial credits in the last two years--most of which has yet to be drawn.

9. Nevertheless, Havana remained closely tied to the USSR and, to a lesser extent, the other Communist countries. The USSR accounted for about two-fifths of total Cuban trade in 1974, providing virtually all of Cuba's petroleum needs and a major share of its capital good and foodstuff imports. Soviet aid totaled about \$275 million in balance-of-payments and development credits and about \$375 million in subsidized petroleum prices. Other Communist countries accounted for about one-fifth of Cuba's trade, but provided little financial assistance.

Outlook

10. The Cuban economy_ probably will continue to grow slowly over the next couple of years. Continued Soviet and stepped-up non-Communist assistance will enable Havana to maintain a high rate of investment and the maturing Castro regime is not likely to interrupt the economy's momentum by shifting its game plan as it was prone to do in the past. Growth will be considerably _ below the 6-9% annual target set out in Cuban first Five Year Plan for 1976-80, however.

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11. Sugar production in 1975 and 1976 probably will stagnate in the 5.5-6.0 million tons range because of adverse weather during part of the growing season and delayed plantings. Output in 1977, however, should rise to between 6.0 million and 6.5 million tons as a result of continued modernization of the industry and the return of normal weather. Other sectors should continue to grow steadily as the investment program continues to develop both infrastructure and industry. Cuba's first Five Year Plan to begin next year reportedly calls for investment of \$15 billion over the 1976-80 period.

12. Cuba's trade balance will deteriorate in 1975 and fall back into a deficit in subsequent years. After rising sharply in 1975 as a result of a 50% increase in the price paid by the USSR for Cuban sugar, exports probably will stagnate and possibly decline in 1976 and 1977, primarily because of lower world sugar prices. Non-sugar exports, will rise slightly during this period but major gains are not expected until after 1980 when large expansion projects in the nickel industry are completed. Imports, on the other hand, are expected to jump sharply in 1975 and continue to grow in the following two years. Because earnings from tourism and shipping will offset only part of the projected trade deficits, Cuba will again have to rely on capital inflows-in the form of trade and development aid to cover the expected current account deficits.

13. Despite the projected economic improvement, we believe there is little likelihood that Cuba will become a consumer society during this decade. The accent on investment allows little room for significant consumption increases during the next several years. While some consumer items, particularly luxury goods, will probably be made available in greater quantities, most basic items will continue to be strictly rationed and the Cuban lifestyle will remain Spartan by Western standards.

Cuba-USSR Economic Relations

14. The Cuban economy remains closely tied to the USSR. Moscow is Havana's most important trading partner--accounting for about two-fifths of total Cuban trade in 1974. It provides virtually all of Cuba's petroleum needs and a major share of its capital goods and foodstuffs. During 1961-74 Cuba utilized some \$4.4 billion in Soviet development and balance-of-payments assistance to bolster its lagging import capacity. In addition, it received some \$800 million in sugar subsidy payments and an estimated \$375 million in petroleum subsidies following the rise in world oil prices in 1974. In 1972 Moscow formally recognized Cuba's inability to repay its debt and agreed to postpone amortization and interest until 1986 with repayment to stretch out over 25 years.

15. On the domestic scene, Soviet influence in economic matters has increased sharply since the disastrous 1969-70 sugar drive. Moscow has exerted strong pressures on Havana

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to implement more orthodox planning procedures and improve economic management. It has also urged greater reliance on the pricing mechanism and material incentives, thus chipping away at the some of the basic tenets of the Cuban revolution. To help implement these measures, the number of Soviet technical advisors in Cuba has greatly increased.

16. The USSR will remain Cuba's most important trading partner over the next few years and will play a major role in executing its Five Year Plan beginning in 1976. Under the recently signed Protocol for Coordination of National Economic Plans, Moscow reaffirmed its commitment to underwrite the Cuban economy. It will assist in the development of all important branches of the economy and will provide for increased oil supplies, probably at prices below world market levels. As a result, indirect support in the form of sugar and petroleum subsidies will remain substantial. In addition, Moscow will continue to extend significant amounts of development aid both unilaterally and in conjunction with other CEMA members.

17. Termination of Soviet assistance would require a drastic cutback in Cuban imports and cause the economy to stagnate or actually decline. If Soviet sugar subsidies were halted, exports would decline some \$450 million in 1975 and perhaps as much as \$690 million in 1976. On the other hand, the termination of subsidized oil prices would add some \$200 million annually to Cuba's import bill if it attempted to maintain the current volume of purchases abroad.

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Cuba-US Trade Prospects

18. The prospects for Cuban - US bilateral trade, if the US embargo is lifted, are modest at best and do not indicate a return to pre-Revolution levels. Even though the geographical proximity and complementarity of the two economies make them natural trading partners, Cuba is closely aligned with the USSR and other Communist countries and for both ideological and economic reasons would not reduce these ties to any significant degree. The potential for US - Cuban trade is further inhibited by Cuba's limited hard currency earnings and strong competition by other major industrial non-Communist countries. Finally, trade would not benefit from direct U.S., investment in Cuba as it did in the period before the revolution.

19. Nevertheless, Cuba would provide a new, although relatively small, market for US goods and technology. Cuban officials reportedly retain an affinity for US know-how and are not unaware of the potential savings in transportation costs in shifting to the US market. Given normal commercial credits, we believe that between one-quarter and one-half of Cuban imports from the non-Communist world -- estimated at about \$1.0 billion in 1975 -- could eventually originate in the US. Because of Cuban emphasis on investment, Havana will be primarily interested in all kinds of capital goods and technology as well as replacement parts for US machinery and equipment already in Cuba.

20. In return Havana could sell to the United States sugar, tobacco and tobacco products, nickel, and shellfish.

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After meeting its annual obligations to the Communist markets, Havana has about 2 million tons of sugar available for sale on the world free market. Of this amount, we believe that Cuba would initially be willing to send up to 500,000 tons -- worth about \$175 million at current world prices -- to the United States. Sales of non-sugar items could bring total Cuban sales to the US to about \$200 million initially. Over the longer run, Cuban sugar sales to the US could rise to some 1.0 million tons annually, but Havana will avoid its former dependence on the US market as an outlet for its sugar.

21. Renewed trade with the US is not likely to have a significant impact on Cuban growth prospects. The US embargo has lost much of its effect over time and Cuba has secured alternative markets and sources of supply. Nevertheless Cuban access to US-made spare parts and high quality US goods and technology would ease remaining maintenance problems and provide some initial boost in economic activity in certain sectors. Its impact on the vital agricultural sector, for example, would be marginal, however. Moreover, any Cuban trade with the US would largely reflect a shift in Cuban sales and purchases from other non-Communist countries and would not lead to a significant increase in Cuban import capacity. Renewal of Cuba-US trade, however, would result in some savings in transportation costs for imported commodities formerly purchased elsewhere and would provide a sound base for expansion of the Cuban tourist industry.

CIA/OER
26 September 1975

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