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DIRECTORATE OF INTELLIGENCE

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Castro Declares Economic War

Summary

Cuba's mounting economic problems and Soviet criticism of Havana's economic management are probably behind President Fidel Castro's recent emphasis on increasing access to Western markets, implementing austerity measures at home, and reducing tensions with the US. The Cuban leader's statements over the last few months, as well as the hasty revision of Cuba's 1985 economic goals--aimed at boosting exports to the West, meeting trade commitments to the Soviet Bloc, limiting imports, and honoring Western and Soviet debt obligations--indicate that he is heeding Moscow's implicit warnings about future levels of economic assistance. Castro has called on all Cubans to wage an "economic war" against waste and inefficiency, and warned them that they will face continuing hardships for at least another 15 years.



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Castro's economic battleplan, and the punitive action taken in January against several high-ranking party hardliners who seem to have opposed the policy shifts, indicate a resurgence of more pragmatic economic planning in Havana. For example, Castro apparently recognizes that Cuba cannot afford the increased imports needed to stimulate long-term economic growth without concurrently expanding exports to earn hard currency. Havana's

This memorandum was prepared by [redacted], Office of African and Latin American Analysis. Comments and queries are welcome and should be addressed to Chief, Cuba Branch, Middle America-Caribbean Division, [redacted]

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ability to export, however, is limited by its dependence on sugar exports--its primary foreign exchange earner--and the weak world market for the sweetener. The Castro regime's new focus on austerity and conservation measures probably will cause Cuba to fall far short of its 5-percent economic growth target this year, especially as energy rationing takes hold and cuts are made in construction and social service projects. [redacted]

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The influence of the pragmatists appears to extend to other policy areas as well. They probably are counseling Castro that improved trade relations with the West will require a lowering of Castro's profile in subversive activities as well as an easing of political tensions with Washington. In our opinion, this could explain Castro's propaganda efforts since early January emphasizing his willingness to be more conciliatory towards the US on a variety of issues, and his contention that the emigration agreement reached with Washington presages a general improvement in US-Cuban relations. Castro's campaign to project an image of responsibility and moderation probably is the cornerstone of a broader campaign to reduce Cuba's isolation and deflect US pressure on Central America, as well as to locate willing trading partners for Cuban exports--especially in Western Europe and Latin America. [redacted]

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By hinting that the emigration agreement with Washington is the start of a trend toward a general reconciliation, Castro appears bent on exploiting fears that a sudden breakthrough in relations with the US will leave Latin American governments politically embarrassed and West European firms at a trade disadvantage. For their part, many Latin American leaders view upgraded ties to Cuba as an expression of their independence and Third World credentials, although they remain suspicious of Havana's intentions and are likely to be guarded in their association with Castro. [redacted]

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Despite Castro's conciliatory overtures, we do not believe the new policy thrust portends a change in his basic distrust of and antipathy toward the United States. Even in his most recent public statements, the Cuban leader reiterated his unwillingness to alter Cuba's relations with the Soviet Union, to renounce his commitment to revolution, or terminate his support to the Sandinistas or the Salvadoran insurgents. [redacted]

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Growing Economic Pressures

After two years of tightened economic austerity caused in part by debt rescheduling agreements with its Western creditors, Havana apparently gambled in 1984 that a burst of spending on imports and government construction projects would stimulate sustained economic growth. The Cuban leadership probably hoped that pumping up the economy would increase employment and eventually improve dreary Cuban living standards, and that this

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might soothe growing popular discontent and divert attention from its recent foreign policy blunders. By the middle of last year, however, it was apparent that unfavorable world markets for Cuban commodities and domestic economic bottlenecks were foiling Havana's recovery effort. At best, the costly experiment was producing moderate short-term economic growth, but at the cost of a rapid expansion of the hard currency trade deficit, and sharp criticism from Havana's Western and Soviet creditors. [redacted]

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We estimate that the real growth of the Cuban economy was close to 3 percent last year, far less than the 7.4 percent real growth claimed by the Cuban government, which has traditionally ignored or underestimated the impact of domestic inflation. According to official statistics, growth was driven by a surge in the construction sector--apparently stimulated by large government investments in transportation and city planning projects--and a 6 percent increase in industrial production. [redacted]

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In reality, Cuba's economic growth last year probably was made possible only because of a sharp rise in imports that allowed a short-term boost in production. Earlier restraints on imports--applied in 1982 and 1983 while Havana grappled with foreign exchange shortages and two debt renegotiation exercises--were abandoned in 1984. According to Cuban data, imports as a percentage of national income rose from 34 percent in 1983 to 43 percent in 1984. During the first half of last year, imports from the Soviet Bloc rose 19 percent while those from the West jumped 69 percent, probably largely the result of an expanded line of credit from Argentina and the resumption of government-guaranteed export insurance from Japan. Past trends and official Cuban policy suggest that more than half of the imports from the West consisted of raw materials and intermediate goods that would have contributed directly to domestic growth. ** [redacted]

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Little Improvement In Sight

As 1984 drew to a close, Cuban policymakers were confronted by a series of unpromising economic events that probably convinced them that moderate economic growth could not be repeated easily in 1985. Soviet economic assistance has

*The US Interest Section in Havana estimates that the cost of living rose about 7 percent last year--almost five percentage points higher than the figure implicit in official Cuban statistics. [redacted]

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**See Table 1 on the composition of Western imports by country and economic sector.

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leveled off in recent years and Cuban press reports indicate that, despite Havana's vigorous lobbying, Cuba received little assurance of any real increase in aid from its Soviet and East European benefactors at the annual CEMA head-of-state summit in October.* Nor was the outlook for new lending from Western creditors bright. Official statistics released last fall indicated that Havana was falling far short of meeting yearend targets for hard currency trade and reserves set by official Western creditors as conditions to any further debt rescheduling. [redacted]

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The short-term outlook for hard currency export earnings at the end of last year also indicated that Havana would be unable to fund increased levels of hard currency imports in the future. [redacted]

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Havana faced a number of problems:

- The world sugar price was continuing on its downward spiral and was projected to stabilize near the record low through much of 1985 owing, in part, to the disintegration of the International Sugar Agreement in December and massive world sugar stocks.
- The inferior quality of Cuban citrus and contracts obligating Havana to ship the bulk of its crop to the Soviet Union and Eastern Europe were limiting short-term growth of hard currency citrus earnings.
- Despite Havana's expectations of increased nickel production as new factories are brought on line, hard currency nickel earnings will be limited by a continued weakness in the world market price and by US agreements with Japan and several West European nations prohibiting the sale of steel containing Cuban nickel to the US.

Furthermore, with no promise of increased levels of energy shipments from the Soviets forthcoming, Havana was doubtless realizing that maintaining its ability to resell surplus Soviet petroleum for hard currency would require strong energy conservation measures to support the energy demands of new factories, particularly in the energy-intensive nickel sector. [redacted]

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*See Table 2 on Soviet assistance to Cuba from 1980 to 1984.

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Havana's Economic Management Under Fire

Havana's handling of its economic problems came under sharp attack from the Soviets last year. [redacted]

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[redacted]

Cuba's economic performance was also being scrutinized by Cuban economists and Western creditors. According to the US Interests Section in Havana, Cuban economists warned that the government's assertions regarding economic growth should be adjusted downward to reflect reality. Western creditors, kept relatively well informed of Cuba's financial situation through quarterly reports required under the terms of past debt reschedulings, could not have been pleased with Havana's free-wheeling spending on imports. Commercial and Western government creditors will likely make their concerns known as negotiations over the rescheduling of Cuba's 1985 debt get under way later this Spring. [redacted]

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Economic War Declared

In recent policy addresses, Castro declared a "profound economic revolution" to be fought by all Cubans against waste and inefficiency. The Cuban president announced the appointment of a high-level working group charged with reviewing the economic crisis and making emergency revisions in economic plans. Discussions are to be held in every workplace on the new economic priorities:

- Increase non-sugar export earnings to the West by at least 20 percent.
- Meet export commitments to the Soviet Bloc.
- Limit import spending.
- Honor debts from both Western and Soviet creditors. [redacted]

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Havana has released only general information on the implementation measures that will be required to meet its new goals. Based on Castro's recent speeches, Havana will attempt to generate increased hard currency earnings by developing and

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marketing non-traditional export products and by increasing the availability of Soviet-supplied petroleum products for resale on spot markets through stricter energy conservation measures. Import expenditures are to be cut by the local production of import substitutes and by increasing domestic productivity and savings. For example, Cuban budget planners have warned that cuts in construction expenditures and trimming of some social service projects may be forthcoming. [REDACTED]

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Cuban economists may well have run up against problems in detailing an implementation scheme; when taken together, Havana's targets are unrealistic and often contradictory. For example:

- Havana's over-ambitious plan to boost hard currency export earnings will be limited by the need to funnel exports to CEMA members to meet trade quotas, by Soviet insistence that Cuba concentrate on the production of traditional export products such as sugar, where Cuba has a comparative advantage, and by the difficulty of conserving energy for resale.
- Despite the goal to limit total import expenditures, Castro has admitted that Cuba will need increased levels of Western inputs to production in order to support economic growth this year.
- With the uncertain outlook for export earnings, and barring substantial new trade credits, Havana probably will have insufficient hard currency reserves with which to import necessary Western inputs. [REDACTED]

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In our judgment, implementation of Castro's "war plan" will cause the country to fall far short of its announced 4.5 to 5 percent growth target for 1985. For example, planned cuts in government spending for construction and social service projects, as well as energy rationing will dampen economic activity. In addition, Havana will have to push ahead with sugar production if it is to meet export commitments to the Soviets and maintain sales to hard currency markets. However, [REDACTED] even Havana has lowered its 10 million ton target for sugar production next year owing to the extended cane cutting season last year, unseasonable rainfall, and a shortage of Western herbicides. [REDACTED]

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The Cuban population will feel the brunt of the new austerity policies as the simultaneous drive to cut imports and increase exports reduces domestic consumption and as it becomes apparent that the production, as well as the importation of consumer goods, will become Havana's lowest priority. Castro's clear warning that Cuba will continue to face at least another

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15 years of economic hardships is a severe blow to the long-suffering Cuban whose rising expectations have been fed by recent moderate economic growth and optimistic rhetoric. A high-level Cuban official admitted in 1983 that government polls revealed great dissatisfaction over housing, public transport, restaurants and other services. New regulations to stimulate productivity--such as longer working hours and the relocation of workers from inefficient factories--are likely to add to popular discontent. [REDACTED]

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In an apparent attempt to mollify the populace, Castro already has assured Cubans that there will be no decline in current living standards. Havana is likely to dangle the possibility of emigration to the United States under the recent bilateral agreement as a means of temporarily quieting critics.* Havana also may loosen some economic controls, such as it did recently with a new housing law that allows the private ownership and leasing of real estate, to assuage the population and help stimulate production without directly taxing government finances. [REDACTED]

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However, new measures such as the housing law carry the danger of unleashing long pent-up expectations within the populace for additional reform. These demands could lead to serious ideological conflict within the leadership. Civil disobedience is almost certain to increase, as it has in past periods of heightened austerity and shortages, and the regime may have to resort to increased repression at a time when it needs to project an impression of governmental restraint. [REDACTED]

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The Pragmatists vs. Hardliners

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The far-reaching remedial measures Castro has endorsed to meet the challenge that these economic pressures have placed on him suggest a revitalization of the influence of those individuals in the leadership who, over the years, have usually argued for pragmatic policies to alleviate problems on both the domestic and international fronts. In policy deliberations, these pragmatists, who are responsible for the day-to-day functioning of the Cuban economy, must compete with the hardline element of the leadership for Castro's attention. The hardliners, most of whom took part in the guerrilla struggle

*The US and Cuba reached agreement last December to return to Havana approximately 2,700 "undesirable" refugees and to allow up to 30,000 Cubans to emigrate to the United States annually. [REDACTED]

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that brought Castro to power, head the military and internal security establishments and the ideological apparatus. [REDACTED]

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The competition between these two general elements of the leadership is not new, and in our judgment stems largely from the pressures that each official feels as a result of individual job responsibilities. We believe those in the security or ideology fields see permanent confrontation with the West as necessary to prevent ideological penetration and contamination and they apparently view "exporting" revolution as a defensive measure as well as an ideological necessity. Those who must ensure Cuba's economic survival, on the other hand, see increased contacts and trade with the West as imperative at this stage of Cuba's revolution and argue that the promotion of armed struggle contributes to Cuba's isolation and thus is costly economically. [REDACTED]

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These job-related tensions have appeared in many policy areas. In the moral-versus-material incentives debate that has continued off-and-on since the early 1960s, for example, the pragmatists claim that material incentives are still a necessary evil required to overcome worker apathy and boost productivity; but the hardliners insist that moral incentives are the only ideologically acceptable motivation if Cuba is to remain true to Che Guevara's ethic of forming the "new man." To cite another example, the pragmatists were successful in late 1978 in convincing Castro--over the hardliners' objections--that allowing Cuban exiles to visit their families in Cuba would prove financially rewarding for Havana, [REDACTED]

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[REDACTED] The pragmatists' predictions were borne out in 1979 as the flood of exile visitors enriched Cuban coffers by some \$100 million but, as the hardliners had warned, the exiles' obvious affluence was a major source of disenchantment for those who had remained in Cuba. This laid the groundwork for the massive exodus that took place the following year during the Mariel boatlift. [REDACTED]

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As a confirmed revolutionary, Castro in our view clearly prefers the dramatic activism advocated by the hardliners, but economic reality, especially when reinforced by pressure from Moscow, has caused him to pay greater heed to the pragmatists when major policy issues are being debated. This has resulted in policy swings of a cyclical nature as one group replaces the

*For identification of some of the most influential members of the pragmatist and hardliner camps, see Appendix I.

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other as the predominant influence in the leadership.* Cuba's current economic difficulties coupled with Soviet pressure and foreign policy setbacks that embarrassed the hardliners--Grenada, for example--appear to have vaulted the pragmatists back into predominance. A measure of their success can be found in the ease with which Cuba's ideologically controversial housing law was promulgated last fall and approved in December by the National Assembly. Many of its provisions--such as those permitting the reemergence of landlords--almost certainly were opposed by the regime's ideological purists. Similarly, Castro's decision in January to allow France to establish a cultural center in Havana was a means of adding substance to his stated intention to improve ties with the West, but it must have appalled those in the regime charged with preventing ideological penetration of Cuba. [redacted]

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Castro appears to have ridden roughshod over those who exhibited a reluctance to accept even temporary ideological backtracking. Havana, for example, publicly announced that the party's Secretary for Ideology, Antonio Perez Herrero, was "released" from that post, as well as from his alternate seat on the ruling Politburo, at an unusual special plenum of the Central Committee on 31 January, presumably for resisting too strongly the changes Castro has been championing. Two other hardline officials** were shifted to lesser posts at the same time and the plenum, according to the Cuban media, "fully approved and gave its highest evaluation of Fidel's untiring and creative activities" in the formulation and execution of foreign policy. The plenum's message is clear: Castro's decision to heed those in the leadership who would give top priority to pressing economic matters enjoys the firm support of the country's highest political body. [redacted]

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Impact on Policy

If past patterns hold true, the current predominance of the pragmatists among Castro's circle of advisers will have a major impact on Cuban policy in terms of tactics and focus, but not in ultimate goals. It has become clear from the pattern of

*For a description of the cyclical swings in policy since 1959, see Appendix II.

**One, Orlando Fundora, headed the Central Committee's Department of Revolutionary Orientation and had ideological control of virtually all the Cuban media; he was subordinate to Perez Herrero. The other was Politburo member and Havana City Province party First Secretary Julio Camacho Aguilera who was shifted to eastern Cuba as first secretary in Santiago de Cuba Province. [redacted]

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[REDACTED]

Cuban policy over the past quarter of a century that the pragmatists' differences with the hardliners lie only in how to achieve those goals. Both groups are firmly united, for example, in their deep-seated antipathy toward the United States. Moreover, the hardliners continue to wield considerable power by virtue of their positions in the party and government, and they will take advantage of any opportunity to regain lost ground. As has occurred before, Castro will temporarily pay them less heed when he seeks the counsel of the members of the leadership but we expect he will again turn to them and give them freer rein if the pragmatists' policies fail to ease tensions with the United States and alleviate Cuba's economic pressures. [REDACTED]

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The advice that Castro is now receiving--and heeding--from the pragmatists seems to be much the same as that which they offered during their previous period of predominance in the 1970s. Havana thus is placing great stress on developing diplomatic, commercial, and cultural ties with other countries (excepting, of course, political pariahs such as Chile, Paraguay, and South Africa) in a behavior modification program aimed at developing new markets and increasing Cuban exports. To promote these ties and, in the process, achieve Havana's economic goals, Castro has donned the cloak of peacemaker and is relying heavily on his own formidable persuasive skills to refurbish Cuba's--and his own--image in West Europe, Latin America, and the US. Exuding charm and sincerity, he has already been able to convince a steady stream of Western visitors to carry the message abroad that he is ready to negotiate virtually any differences Cuba may have with any country, especially the US. [REDACTED]

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Former Chancellor of West Germany and President of the Socialist International Willy Brandt, for example, came home from a visit to Havana last October with the clear impression that Castro would like to free himself from his current dependence on the Soviet Union, according to a discussion Brandt had at our embassy in Bonn. Brandt said that Castro denied he was a Communist prior to the revolution, claiming he was persuaded by events that Communism was the proper course to take. The record shows that Castro has used this bait effectively with other West European leaders, feeding unrealistic hopes of weaning him away from the USSR and perpetuating the myth that Cuban-US frictions are solely the result of Washington's intransigent hostility. [REDACTED]

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More recently, Helmut Schaefer, a deputy in West Germany's parliament and international affairs spokesman for the Liberal Democratic Party, spent a week in Cuba in mid-January and told the press that Havana was obviously seeking greater independence from Moscow and wanted a dialogue with the US. Although his scheduled meeting with Castro was cancelled when Castro abruptly decided to attend the inaugural ceremonies in Nicaragua, Schaefer met with Vice President Rodriguez and other

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high-ranking spokesmen for the regime and, judging from his comments to the press, came away convinced--despite Cuba's obvious economic problems and Castro's public pledges to meet his trade commitments to East Europe--that Havana is ready to increase trade significantly with the West at the expense of the Eastern bloc. *

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In our opinion, Castro's politicking in Managua in January is probably a foretaste of what Cuban behavior will be like at least for the rest of this year. Judging from his statements as well as his overt efforts to contact a broad range of personalities then visiting Nicaragua, Castro wanted to use his trip to Daniel Ortega's inauguration to project an image of responsibility and moderation. The subsequent comments of the people he talked with suggest that Castro favorably impressed a number of observers. According to reports from several US diplomatic missions, for example, in a private meeting that he and Vice President Rodriguez had with three of the four Contadora foreign ministers, Castro chided the Nicaraguans for adopting a hard line and pledged to do whatever the Contadora group wanted in order to assure the success of the process. These reports indicate that the three ministers came away convinced that he had taken a constructive stance and would use his influence to moderate the Nicaraguan position. In addition, his meeting with British Labor Party leader Neil Kinnock in Managua, according to the US Embassy in London, helped to ensure the full and generally positive coverage that the British press gave the Nicaraguan inaugural ceremonies, and in a long meeting with Guillermo Ungo of El Salvador's Revolutionary Democratic Front, according to a source of our Embassy in San Salvador, Castro advised him to seek an "alliance" with Salvadoran President Duarte.

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Outlook

Castro's recent statements and the broad effort he has set in motion over the past several months indicate he is seriously attempting to address his economic problems. He appears to be placing great hope in an opening to the West as a means of

*This claim, of course, contradicts the long-held--and, in our estimation, unchanged--Cuban position that any increase in trade with the West will not involve a shift in trade from the Soviet bloc. Shaefer's interlocutors are engaging in misleading semantics and are taking advantage of Western hopes of enticing Cuba back to the West because they want to encourage greater Western contacts and openness with Cuba. What they mean, in reality, is not that Cuba's trade with the Bloc will decline but that the Blocs' share of overall Cuban foreign trade will be less than the current 85 percent.

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alleviating Cuba's mounting economic pressures. He seems convinced that, if Cuba is to increase exports, attract more tourists, and send surplus labor abroad for hard currency, Havana will have to adopt a posture of appearing more responsible in its international behavior. Apparently it has begun to do so. [redacted]

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As part of his attempt to pull Cuba out of its economic doldrums, we believe Castro will continue to place heavy emphasis on personal diplomacy in which he can impress important foreign figures with his sincerity, statesmanship, and reasonableness. This probably will entail many more invitations to visit Cuba--Argentina's President Alfonsin has already been invited, according to press reports, and Castro claims the Pope has been invited--as well as trips abroad by Castro, Vice President Rodriguez, and other top Cubans who can sell Havana's new image convincingly. [redacted]

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On the defensive ever since the Grenada intervention, Havana will continue to place increased emphasis on expanding its diplomatic, commercial, and cultural relations, particularly with the countries that hold some promise of providing Cuba with economic relief, and this will require the Castro regime to behave in a manner that will lend substance to the new image of respectability that is being projected. Support for insurgents in Central America will continue, in our judgment, but Havana is likely to be reluctant to promote major new "armed struggle" undertakings unless they are especially promising or are aimed at a government that is generally held in international disrepute. A similar pattern of restraint occurred during the previous period of pragmatist predominance in the early 1970s. [redacted]

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Diplomatic reporting over the years has indicated that leaders in some Latin American countries that do not have formal ties to Cuba have always feared that they will be caught short by a sudden breakthrough in the Cuban-US relationship. The Cubans, in an effort to "stampede" such countries into establishing formal ties, will continue hinting--as they have already done following the bilateral agreement on the Mariel excludables and emigration from Cuba--that a reconciliation may be developing rapidly.* The Cubans will probably also use the same ploy in the area of foreign trade, hoping to attract otherwise reluctant businessmen anxious to pre-empt potential US competition. To buttress their case, they are likely to give wide press play to any statements by US businessmen or other US notables suggesting that relations are, or should be, on the mend. [redacted]

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* For a review of Cuba's diplomatic initiatives, as well as support of insurgent groups in South America see Appendix III.

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Cuban officials will not simply limit their attention to foreign government officials. Special care will also likely be given to cultivating groups positioned to influence policy in their homelands. Havana, for example, has a campaign already well under way to enhance its standing among foreign religious representatives. This January, a delegation from the US Bishop's Conference, including two archbishops, met in Havana to discuss aid for the Catholic Church in Cuba and ways to improve Cuban-US relations, according to press reports. In addressing the US delegation, Vice President Rodriguez called for "peaceful coexistence" between Catholics and Marxists and openly admitted the group's propaganda usefulness. In our judgment, Castro's sudden "tolerance" toward religion is wholly tactical; it will be pursued only so far as it contributes to a positive image of the regime, as evidenced by his failure to loosen the restrictions on religious practices that have hampered church groups in Cuba for more than two decades.

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Other groups and individuals in the United States--journalists, businessmen, politicians, academics--will probably also be invited to Cuba in the expectation that they will return home gratified for the red carpet treatment they have received and ready to plead the case for a less hostile relationship. Ever since the Grenada intervention in 1983, Castro has been concerned about improving the US press coverage of Cuba. He seems determined to create a constituency in the United States that will serve as a restraining factor in Washington's Central America policy and will promote expectation of great economic benefits for the United States in restoring commercial ties with Havana.

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Elsewhere, we believe that Cuba will try to address its economic problems directly by increasing its efforts to export surplus labor for hard currency. Castro's suggestion of years ago that Cuban workers go to Siberia to cut timber may yet come to fruition. He probably also entertains hopes that Cuban labor can be exported to Iran and Iraq once the war there ends and, despite the odds, he may continue to seek a peacemaker role in that conflict as a means of enhancing his prestige in the Third World as well as for economic reasons.

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A new urgency will likely be added to expanding the tourist industry in Cuba, which will require significant investment in hotel construction and related facilities. The two Cuban airlines, Cubana and Aerocaribe, may look for additional aircraft to maximize the profit from the flow of tourists. In addition to a drive to boost exports, Havana will also increase its efforts to sell services abroad; Cuban commercial representatives in West Europe, for example, act as purchasing agents for Angola, and Cuban front companies do business in more than a dozen countries

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Regardless of the exact mix of economic and diplomatic moves, if this period parallels the last era of pragmatist predominance in the 1970s, there will be a shifting of top military officers to the civilian sector to bring to the bureaucracy much needed discipline and administrative talent. There are already some tentative indicators that such changes are in the offing for senior military personnel. We believe they are intended, at least in part, to make headroom for young professionals in the military establishment as well as to increase civilian regimentation--the latter was a major feature of the pragmatists' policy in the late 1960s and early 1970s. Although there is no evidence that the regime is considering military personnel cutbacks of the magnitude of that era, there have been hints in recent speeches that the armed forces will have to share economic cutbacks along with the civilian bureaucracy.

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Implications for the United States

In our judgment, the economic pressures Castro is now facing will not be sufficient to bring about any breakthrough on the two key policy issues: relations with the Soviets and support for foreign revolutionary movements. Abandoning ties with Moscow would be suicidal for the Cuban economy and the military establishment, and abandoning foreign revolutionary movements would be a betrayal of the very core of the philosophy of Castroism. Indeed, it is largely Soviet pressure that is influencing Castro to make the current policy shifts, and the direction he is now taking appears to have gained Moscow's blessing and helped the bilateral relationship recover from the period of coolness it experienced in mid-1984. As for halting arms shipments and other support for guerrillas, Castro recently told Washington Post editors "if that is the price for improved relations with the United States, we cannot pay that price." He has maintained since the 1960s that these two issues involve immutable principles of his revolution and thus are not, and never will be, negotiable. He reaffirmed this position during his recent lengthy interview on US television, and his chief of policy toward Latin America, Manuel Pineiro, bluntly admitted to a visiting US official in February that Cuba continues to support--meaning with arms, equipment, and training--insurgents in El Salvador, Guatemala, and Chile.

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This is not to say that Castro would not take a more judicious approach to launching new guerrilla operations in the region if the economic equities in his relationship with the United States were enhanced. We believe, for example, that a restoration of trade with the United States would give him a vested interest in more acceptable international behavior. Moreover, popular expectations certain to be fueled by a resumption of trade would increase the domestic cost to Castro

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[redacted]

of taking some precipitate action that was likely to cause Washington to reinstitute the "economic blockade." A resumption of trade would also enhance the position of the pragmatists in the leadership and create a constituency that would have a vital interest in maintaining improved ties. This almost certainly would not deter Castro from involvement in some especially promising, new opportunity for subversion--against Pinochet in Chile, perhaps, or Stroessner in Paraguay--that might arise, nor would it prevent him from meddling in such ways as financing electoral candidates or training trade union cadres in how to gain influence; but we believe it would increase his reluctance to promote "armed struggle" where success is uncertain. [redacted]

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The pressures on Castro will probably make him more amenable to negotiate solutions to other, less critical bilateral matters--a new anti-hijacking agreement, perhaps--and to be more flexible on multilateral issues. On Central America, for example, we believe he now sees negotiations as a means of preserving a flagging insurgency in El Salvador and buying time for the Sandinistas in Nicaragua. In addition to providing him with a veneer of statesmanship, negotiations, in our opinion, are appealing to Castro because they hold the promise of achieving international legitimacy for the Salvadoran insurgents--something they have not been able to gain through force of arms--as well as providing at least tacit international approval of Cuba's self-assumed right to determine which regimes in the region are fit to govern and which are not. We see nothing to convince us, however, that the Cubans, as inexperienced as they are in compromise, are ready to make any concessions on Central American issues that might threaten the consolidation of the Sandinistas' grip on power or undermine the political or military strength of the Salvadoran insurgents. [redacted]

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Neither do we see anything in Castro's new mood that suggests a lessening of his basic aversion for and distrust of the US. Indeed, the fact that circumstances--economic problems plus Soviet and US pressure--have put him openly on the defensive is likely to reinforce his personal antipathy for the United States as well as his determination to persist in what he sees as his historic mission against imperialism. Moreover, he knows he cannot relax his overt hostility towards Washington without the risk of feeding popular expectations that an imminent improvement in relations with the United States will bring immediate economic relief, and, in our opinion, he wants no such internal pressure that might limit his policy options. In a sense, he is a captive of his own anti-US bias. [redacted]

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Indeed, under some conditions, we believe Cuban-US relations could take a turn for the worse despite the pragmatists' hopes of eventually gaining access to US markets. If Castro became convinced that Radio Marti was

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playing a key role in inciting the population, or if austerity boosted popular dissatisfaction to a dangerous level, he could unleash another Mariel refugee exodus. As 1980 proved, he is not beyond undertaking some precipitate action that is detrimental to Cuba if it helps to satisfy his desire to punish the United States. Because of his current economic headaches and the grim prospects for the future, Castro seems willing to negotiate a more comfortable modus vivendi with the United States, but we see no chance that he will permit any fundamental change in the adversarial nature of the relationship. [redacted]

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At the same time, Castro's relationships with other countries, particularly in South America, are likely to improve and the United States will almost certainly be faced with greater challenges in maintaining the effectiveness of its economic denial program against Cuba. The dissipation of Cuba's diplomatic isolation would enhance Castro's potential for troublemaking in multilateral forums and Cuba's greater international respectability would probably provoke criticism of Washington, even from some of its allies, for not reacting in a positive way to the "reborn" Castro. [redacted]

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TABLE 1. Composition of Western Imports by Country and Economic Sector for 1983

<u>Country</u>	<u>Amount</u> (millions of US \$)	<u>Percent of Total</u>
Argentina	95	9.8%
Canada	43	4.4%
France	116	12.0%
Italy	22	2.3%
Japan	99	10.2%
Mexico	27	2.8%
Netherlands	43	4.4%
Spain	123	12.7%
Sweden	37	3.8%
Switzerland	37	3.8%
United Kingdom	107	11.0%
West Germany	75	7.7%
<u>Other</u>	<u>145</u>	<u>15.1%</u>
<u>Total</u>	<u>969*</u>	<u>100.0%</u>

<u>Economic Sector</u>	<u>Amount</u>	<u>Percent of Total</u>
Capital Goods	186	19%
Consumer Goods	64	7%
Intermediate Goods	670	69%
<u>Uncategorized Goods</u>	<u>49</u>	<u>5%</u>
<u>Total</u>	<u>969</u>	<u>100%</u>

* Represents 12% of total imports in 1983

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TABLE 2Soviet Assistance to Cuba

Million US \$

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984^a</u>
Development Aid ^b	830	1415	975	1070	850
Trade Subsidies	2633	3143	3691	3145	2900
Sugar ^c	1165	1366	2580	2740	2800
Petroleum ^d	1480	1657	1006	300	0
Nickel ^c	-12	120	105	105	100
Total Economic Aid	3463	4558	4666	4215	3750

^aProjection for 1984 is based on preliminary trade data.

^bBased on balance of payments aid necessary to cover Cuban trade deficits with the USSR, Cuban purchases of capital goods from Moscow, and public statements by Cuban and Soviet officials concerning the amount of development aid extended. This aid is repayable but terms are highly concessional.

^cSugar and nickel subsidies are estimated as the difference between the price Moscow pays for these commodities and their world market value. The difference is considered as a grant.

^dThe petroleum subsidy reflects the difference between the value of the petroleum purchased from the USSR and the value of these imports at world market prices. It is considered as a grant.

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Appendix II: Cyclical Swings in Policy

Although we know little of the inner workings of the Cuban policy-making machinery, it is reasonable to assume that, in the guns-versus-butter type of deliberations, the pragmatists and hardliners are pitted against each other for a share of the country's limited resources. It is clear from his actions over the years that, in weighing the advice of both groups during policy debates, Castro has favored the arguments of his old guerrilla comrades among the ranks of the hardliners. From 1959 through 1967, for example, when Castro had virtually no institutional restrictions on his exercise of power, he gave free rein to those who called for radical political, economic, and social measures to resolve Cuba's problems and pressed for a continuation of violent revolution throughout the hemisphere. This initial period of hardliner predominance saw large-scale nationalizations of private property, the destruction of virtually all old institutions and the creation of new "revolutionary" institutions, unswerving antagonism toward the United States, and the launching of subversive operations throughout Latin America as well as in several colonies in Africa. Anyone who warned that these policies were detrimental to the Cuban economy or leading to Havana's diplomatic isolation went unheeded or was suspected of harboring "counterrevolutionary" sentiments.

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The swing toward the pragmatists began in 1967 when the Soviet patience with Cuban behavior ran out. Cuba's almost indiscriminate promotion of violent revolution--without a single success--clashed head-on with the more realistic policies of various Latin American Communist parties and became a serious point of friction with Moscow as demonstrated by strong public statements from both sides. The Soviets also were critical of Havana's massive waste of their economic assistance and eventually brought pressure on Castro through Cuba's heavy dependence on Soviet oil. Moscow's pressure coincided with the failure of Che Guevara's subversive operations in Bolivia--Cuba's most embarrassing guerrilla defeat in nine years of fruitless sponsorship of terrorism--and eventually convinced Castro that major changes in Cuban policy were long overdue.

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The period of pragmatist predominance lasted from 1968 to the late 1970s and featured the wholesale reorganization of the government, party, and mass organizations; the adoption of a new constitution; a 60-percent reduction in the manpower of the Cuban armed forces; and the holding of the party's first congress. In addition, a number of top military officers were shifted to key posts in the government to add discipline and organizational talent to the bureaucracy. This resulted in the adoption of a number of measures--the militarization of much of the school system, for example--that sharply increased the regimentation of Cuban society. This period became known as the era of institutionalization.

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In the foreign policy area, Havana greatly reduced its promotion of guerrilla warfare and made a major effort to bring its policy in line with that of Moscow. Cuba's broad campaign to break out of its diplomatic isolation paid off as formal ties were established with several dozen countries. Relations with Moscow, at a low point in 1967, improved dramatically and Cuba became a member of the Council for Mutual Economic Assistance. Castro's efforts to woo the Third World also were rewarded and he became chairman of the Nonaligned Movement. [redacted]

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The performance of the Cuban military establishment in Angola beginning in 1975, and later in Ethiopia during the Ogaden campaign, however, served to redeem the hardliners--as well as impress Moscow--and by 1978 they apparently had convinced Castro that the time was ripe for a dramatic increase in the promotion of armed struggle. This resulted in a major guerrilla support operation for the Sandinista insurgents in Nicaragua, involving Havana's shipment of more arms and supplies than it had provided to any guerrilla group during the 1960s. The victory of the Sandinistas returned the hardliners to the predominant position in the leadership and led to greater Cuban involvement in El Salvador, Colombia, and Honduras in subsequent years. [redacted]

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The Grenada intervention in October 1983, however, put the hardliners' fortunes again on a steep downhill slide. [redacted]

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[redacted] the performance of the Cuban military detachment in Grenada was so bad--in Castro's eyes at least--that the detachment's personnel were cashiered on return to Cuba and sent off to Angola as common soldiers to redeem themselves in combat. So outraged was Castro over the defeat that the Interior Ministry's chief of foreign intelligence, one of the regime's top military officers, was dismissed and the chief political officer of the armed forces, an alternate member of the party's Political Bureau, was reassigned. Moreover, the hardliners' efforts to exploit the revolution in Suriname failed as Colonel Bouterse expelled virtually all Cubans from the country; Cuba's military involvement in southern Africa seemed threatened as Presidents Machel and Dos Santos opened negotiations with South Africa; and the trend in Central America seemed to turn against Cuba and its insurgent allies. It was again time for the pragmatists. [redacted]

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We believe Soviet pressure played a key role in the current resurgence of the pragmatists just as it did in 1967. Moscow's determination to halt the ever ballooning cost of its investment in Cuba, coupled with Cuba's own deteriorating economic position, appears to have precipitated a reordering of priorities to place major emphasis on economic matters and a downplaying of support for violent revolution in Latin America. [redacted]

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APPENDIX III.

Cuba-South America: Scope of Relations

	Diplomatic Initiatives	Support to Subversives
Argentina	Full relations at ambassador level; political ties correct but not warm; commercial ties growing.	Havana continues its support to the Montoneros and the People's Revolutionary Army, but apparently is advocating a non-violent path for now.
Bolivia	Relations at chargé level; Siles's domestic problems probably rule out any change before elections this summer.	Cuba provides limited training and funding to radical groups, but apparently playing down its support to avoid providing ammunition to Siles's opposition.
Brazil	No relations; slight chance of full relations being established this year; commercial relations more likely but still not assured.	Little or no activity.
Chile	No relations.	Cuba continues actively supporting several leftist groups with funding and training; Havana advocating armed revolution to oust the government.
Colombia	No relations, but Castro and President Betancur have developed personal working relationship. Restoration of relations could occur this year, but there is strong domestic opposition.	Cuba continues to provide training and possibly arms to the M-19, but Castro apparently advising them to limit their terrorist activities for now.
Ecuador	Full relations at ambassador level, but President Febres-Cordero cool to Cuba.	Cuba provides training and funding to two radical leftist groups, one of which has increased terrorist activity over the last year.
Peru	Relations at chargé level; likely to be raised to ambassador level if current favorite—a center-leftist—wins upcoming election.	Havana apparently has no contact with the Sendero Luminoso guerrillas.
Uruguay	No relations; full relations at ambassadorial level expected after inauguration of new Uruguayan civilian government.	Castro maintains contract with, and support to, Tupamaro guerrillas, who are mostly in exile, but apparently not involved in supporting antigovernment activity in Uruguay.
Venezuela	Venezuelan Chargé in Havana, but Cuba has no official representative in Caracas. Full relations could be restored this year, but bilateral problems persist.	Little activity.

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