

12944

~~Confidential~~



DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

The Cuban Economy Since the Revolution

CIA HISTORICAL REVIEW PROGRAM
RELEASE IN FULL 1998

~~Confidential~~

ER IM 69-44
March 1969

Copy No. 41

WARNING

This document contains information affecting the national defense of the United States, within the meaning of Title 18, sections 793 and 794, of the US Code, as amended. Its transmission or revelation of its contents to or receipt by an unauthorized person is prohibited by law.

GROUP 1
Excluded from automatic
downgrading and
declassification

~~CONFIDENTIAL~~

CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
March 1969

INTELLIGENCE MEMORANDUM

The Cuban Economy Since the Revolution

Summary

Substantial problems held growth of the Cuban economy during the past decade to a rate well below the average for other Latin American countries. Economic efficiency declined sharply as inexperienced and poorly educated managers grappled with the difficult problems of a newly centralized administration. A high rate of investment produced only a small increase in capital stock, partly because resources were used to maintain and replace US equipment at the expense of new investment. Drought in four of the past eight years brought large variations in the sugar crop, which induced changes in total output and compounded management problems. The outlook through 1975 is for an increase in the rate of economic growth to perhaps 3 percent annually, as a result of the increased labor supply, the introduction of mechanization into some sectors, and growing experience with economic management.

The regime shifted its top priority from industry to agriculture in mid-1963 and is now stressing production of sugar and cattle. The goal of 10 million metric tons of sugar by 1970 almost certainly will not be met, although output could reach 8 million tons to give Cuba a substantial boost in foreign exchange earnings. Industrial output, mostly light manufacturing and processing of agricultural products,

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and was coordinated with the Office of Current Intelligence.

-1-

~~CONFIDENTIAL~~

CONFIDENTIAL

is now moderately above prerevolution levels because of fuller use of capacity. Some major projects are under way to expand output of electric power, cement, and fertilizer, but agriculture will grow more rapidly than industry as a whole.

Cuban imports have remained higher and exports lower than before the revolution, and the economy has been subsidized by loans and grants from the Communist countries averaging about \$1 million a day. Trade with the Communist countries was negligible before the revolution but now accounts for more than three-fourths of total trade. Cuba has long-term debt to the Communist countries of about \$2.1 billion and short-term debt to several Free World countries of more than \$200 million. Payments have been made promptly to the latter countries, but defaults and refinancing have characterized debts to the Communists.

Consumers as a whole are worse off under Castro. Per capita consumption of goods and services has declined about 15 percent since 1957. The lot of landless farm workers and urban service workers has improved because of higher wages and increased government expenditures on health and education. Consumption levels for most other groups have deteriorated, while high income groups have lost nearly everything. Acute shortages of nearly every kind of consumption good have appeared, and Cubans now queue up for many daily essentials. Prices in the controlled retail market are 40 percent above 1957, and prices in the extensive black market are five times higher than legal prices. Little improvement in living conditions is in prospect during the next few years because the supply of goods and services is expected to grow only slightly faster than the population.

~~CONFIDENTIAL~~

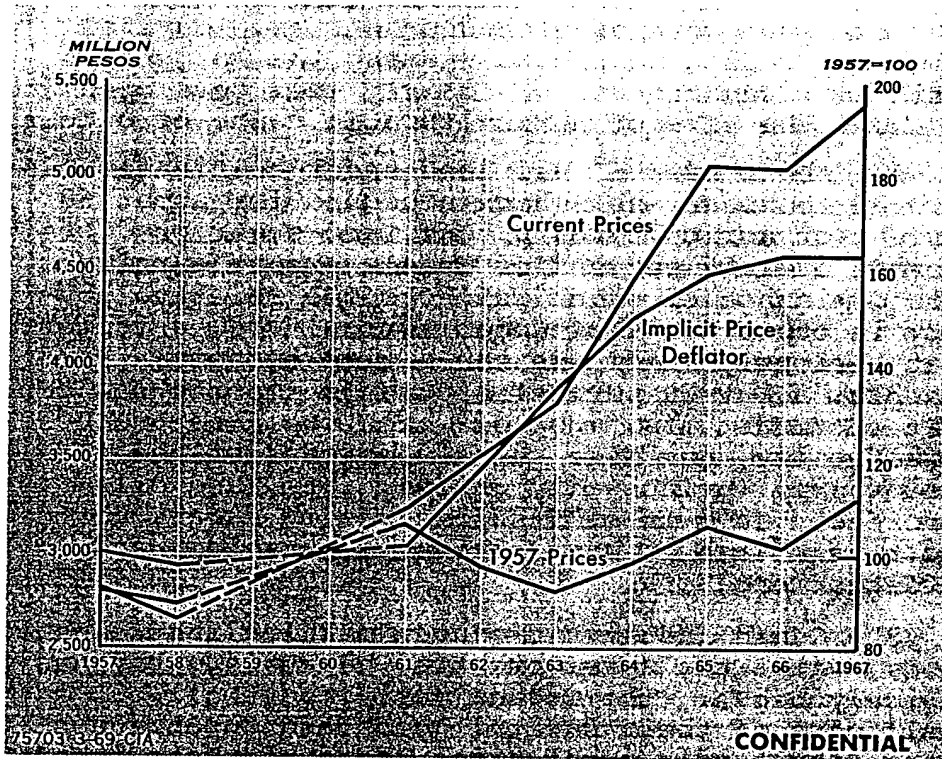
Structure of the Economy

1. Cuba has many of the characteristics of a less developed country. Agriculture absorbs the largest single share of the labor force, close to 35 percent, and the economy is heavily dependent upon the production and export of a single commodity, sugar. However, the country also has some of the attributes of more developed countries. Capital stock per capita is probably among the largest in Latin America; industry is fairly well developed and is about the size of agriculture in value of output.
2. About half of all land under cultivation is devoted to sugarcane, which accounts for about 60 percent of agricultural output, and sugar products provide over 85 percent of Cuba's export earnings. This dominance of sugar reflects the relative poverty in other areas of Cuban agriculture, a factor that seriously handicaps the entire economy. For example, about 20 percent of Cuba's imports now consist of foodstuffs, most of which could be produced domestically, and more than 40 percent of the total food supply (principally grains, fats, and oils) is imported. Cuba is self-sufficient in sugar, coffee, and tobacco and in most fruits, vegetables, and livestock products.
3. Cuban industry produces mainly light consumer goods, while the development of heavy industry has scarcely begun. The Cubans must import all but a small part of their capital goods and durable consumer goods and a substantial share of their intermediate goods. Virtually all mineral fuels must be imported. The country is self-sufficient in tobacco products, beverages, footwear, apparel, soap and cosmetics, and cement. About 60 percent of industry is engaged in processing of agricultural products, and the balance of Cuban manufacturing depends primarily on imported raw materials.
4. The composition of Cuban output has changed little since the revolution. Industry and construction, however, have gained slightly larger shares of the labor force at the expense of agriculture. The ownership of production facilities changed drastically after the revolution; most economic activity has now been nationalized. The only important remnant of private ownership is in agriculture, where about 30 percent of the agricultural land is still in the hands of individual farmers, whose activities are closely regulated by the state.

~~CONFIDENTIAL~~

Size and Distribution of GNP

5. The Cuban economy has made slow progress since the revolution, varying from year to year around a trend line that shows little increase for the period as a whole (see the accompanying chart).



GNP in 1967, measured at 1957 prices, approached 3.3 billion pesos, or about 15 percent more than in the peak prerevolution year of 1957. Most of the fluctuations in economic activity arise in agriculture, principally because of variations in the sugar crop. Output in industry (other than sugar milling), construction, transportation, and services has been relatively stable during the period (see Table 1).

6. Total output declined moderately in 1968, primarily because of lower agricultural production in the wake of a severe drought the year before. Output probably will increase in 1969 because rainfall has improved and the government has increased its efforts to expand crop production. The economy probably will not recover its 1967 level, however. The efforts that are currently being made to achieve a sugar crop of 10 million tons next year are hampering the 1969 harvest, and sugar production evidently will remain close to the low output of 1968.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

Table 1
Cuba: Gross National Product

	Million 1957 Pesos							
	1957	1961	1962	1963	1964	1965	1966	1967 a/
Sugar	700	830	595	470	560	745	585	730
Agricultural production	390	465	330	260	310	415	325	405
Industrial production	310	365	265	210	250	330	260	325
Agriculture (except sugar), forestry, and fishing	340	335	300	275	270	260	300	285
Industry (except sugar milling)	475	525	565	565	585	575	585	620
Construction	120	140	150	130	135	140	150	170
Transportation and communications	165	165	165	175	195	220	230	235
Services	1,000	1,165	1,165	1,190	1,220	1,225	1,230	1,235
Gross national product	2,800	3,160	2,940	2,805	2,965	3,165	3,080	3,275

a. Estimated.

CONFIDENTIAL

~~CONFIDENTIAL~~

7. The total supply of goods and services available for domestic consumption and investment has been more stable and has grown slightly faster than GNP because of the influx of aid from the USSR and other Communist countries. Gross domestic expenditures (the supply of goods and services) probably exceeded 3.4 billion pesos in 1967, measured at 1957 prices, nearly 20 percent more than in 1957. The supply of goods and services has increased no faster than the population, however, and therefore has changed little in per capita terms.

8. The composition of gross domestic expenditures has changed significantly since the revolution (see Table 2). Government consumption expenditures have increased sharply -- growing from 10 percent of the total in 1957 to 23 percent in 1967 -- as a result of increased spending for the armed forces and for education, public health, and other government services. Investment expenditures have changed little as a share of the total. Private consumption declined from 73 percent of total expenditures in 1957 to 61 percent in 1967.

Changes in Living Conditions

9. Total private consumption under Castro has remained at the level of the best prerevolution year, but growth of the population has reduced per capita consumption, as indicated below:

<u>Year</u>	<u>Per Capita Consumption (1957 Pesos)</u>		<u>Year</u>	<u>Per Capita Consumption (1957 Pesos)</u>
1956	283		1961	314
1957	328		1963	271
1958	317		1965	266
			1967	280

In spite of this poor record, the circumstances of those in the lowest income groups have improved, particularly the landless farm workers and urban workers in the services sector. They have benefited most from higher wages, expanded employment, and increased government expenditures on health and education. Consumption levels for other groups, however, have deteriorated since the revolution, and high income groups have suffered drastic cuts in consumption.

~~CONFIDENTIAL~~

Table 2
Cuba: Gross National Product and Expenditures

	Million 1957 Pesos							
	<u>1957</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967 a/</u>
Private consumption	2,100	2,135	1,860	1,900	2,015	1,940	1,990	2,100
Public consumption	275	455	640	665	690	730	765	790
Gross domestic investment	500	425	460	535	580	550	540	545
Gross domestic expenditure	2,875	3,015	2,960	3,100	3,285	3,220	3,295	3,435
Plus: Exports	820	835	705	500	585	715	595	710
Less: Imports	895	690	725	795	905	770	810	870
Gross national product	2,800	3,160	2,940	2,805	2,965	3,165	3,080	3,275

a. Estimated.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

10. Acute shortages of almost every kind of consumer good have appeared since 1962, the result of a large increase in consumer purchasing power while the supply of goods and services remained unchanged. Disposable personal income in 1967 is estimated at 3.8 billion pesos compared with 2.3 billion pesos in 1957. This represents an increase of 40 percent in per capita money income during a time when per capita consumption of goods and services declined by about 15 percent. The government responded to this market imbalance by rationing most consumer goods, and Cubans now queue up to buy many daily essentials. In addition, retail prices were permitted to rise and by 1967 averaged about 40 percent higher than in 1957. Moreover, an extensive black market operates with prices about five times higher than legal prices. The estimated cost of living index for 1967, considering both legal and black market prices, was 185 (1957 = 100).

Growth of the Economy's Resource Base

11. There was extensive underemployment of resources in Cuba when the Castro regime came to power. Industry was operating well below capacity, unemployment was high (about 12 percent of the labor force), and land resources were poorly utilized. Most of the gains in output since the revolution have been made by putting idle resources to use rather than by expanding the economy's resource base.

12. Cuba has maintained the same relatively high rate of gross investment that it had before the revolution, estimated at about 17 percent of GNP. The total stock of capital equipment, however, has increased very little. The trade embargo by the United States (see paragraphs 41 and 42) has denied Cuba the normal flow of spare parts needed to maintain its industrial, agricultural, and transportation equipment, most of which has been manufactured in the United States. As a consequence, replacement requirements for Cuban equipment have been abnormally high, absorbing a large part of the investment. Net addition to capital stock in agriculture has been somewhat greater than in industry. Mechanization of agriculture is greater than before the revolution, and an extensive reclamation program has brought additional land under cultivation or into improved pasturage.

13. The labor force has grown since the revolution as a result of population growth and the increased

~~CONFIDENTIAL~~

employment of women. It also has been more fully employed, though unemployment has not been eliminated entirely. In 1957, about 1.9 million people were employed during the months of peak economic activity. By 1967, employment probably approached 2.5 million.

14. Increased employment has not produced comparable gains in output. Nationalization brought inexperienced managers and a drop in efficiency throughout the economy. The productivity of the labor force has also suffered because of inadequate technical direction, equipment breakdowns resulting from poor maintenance and absence of spare parts, and the negative effect on worker incentives of consumer goods shortages and rationing. Moreover, there is a critical shortage of some skilled labor because of the emigration of professional personnel, technicians, and skilled workers. The extensive educational programs undertaken by the Castro government have not compensated for this loss, and a shortage of trained personnel continues to handicap the economy. In addition, much of the increase in employment has been absorbed by industry, construction, and services (including the armed forces), while agriculture has lost labor through the drift of rural population toward cities and towns. The shortage of labor has been responsible in part for the failure of agricultural production to expand, which in turn has limited the performance of the whole economy.

Performance of the Major Economic Sectors

Agriculture

15. Agricultural output has fluctuated more than any other sector of the economy since the revolution, and the long-term trend of production shows little or no growth. This poor showing is not the result of neglect, because development of agriculture has been Cuba's principal economic objective since mid-1963. Investment in agriculture has increased sharply since 1962. Imports of agricultural machinery and equipment have been high -- for example, imports of tractors, as shown in the following tabulation:

~~CONFIDENTIAL~~

<u>Year</u>	<u>Tractors Imported</u>	<u>Year</u>	<u>Tractors Imported</u>
1955	1,244	1961	5,614
1956	1,396	1962	4,291
1957	2,321	1963	5,798
1958	2,287	1964	3,880
1959	1,724	1965	6,574
1960	3,081	1966	3,839
		1967	6,249

Much of the imported machinery and equipment has been for replacements, but some net investment has been realized. The total land area under cultivation has expanded. Applications of fertilizer also have risen sharply, as follows:

Thousand Tons

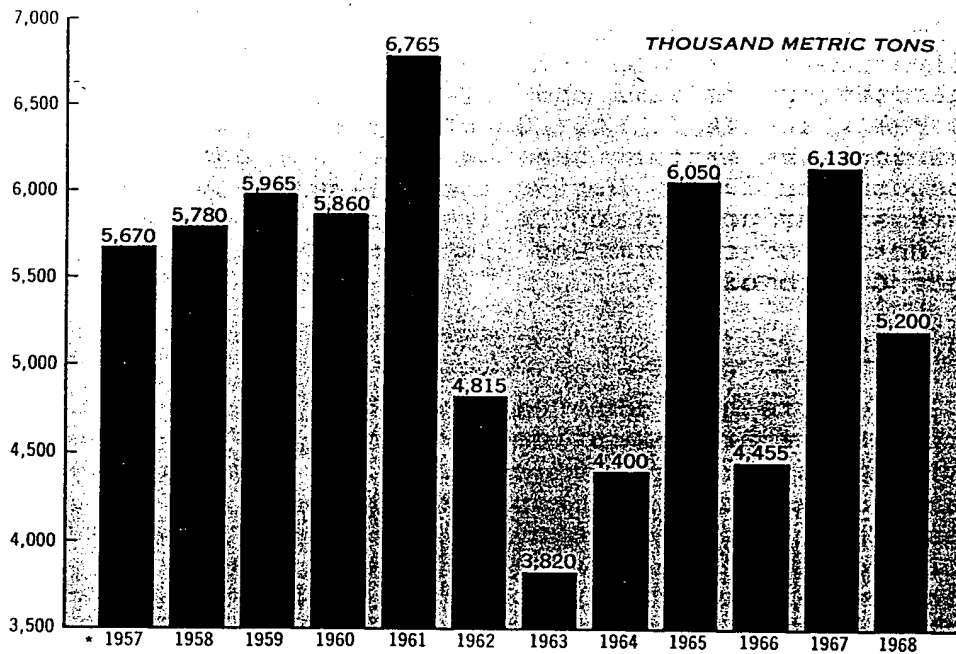
<u>Year</u>	<u>Applications</u>	<u>Year</u>	<u>Applications</u>
1955	160	1965	460
1956	215	1966	755
1957	330	1967	1,085
1958	222	1968	1,670

These positive factors have been offset, however, by widespread mismanagement, the shortage of labor, and droughts that have hit the island in four of the past eight years.

16. Production in 1967 of about 6.1 million tons of sugar, although far below the goal, was the largest crop since 1961, as shown in the chart. Production in 1968 declined because of dry weather. Plans call for annual production by 1970 of 10 million tons of sugar, but, even with favorable weather conditions, limited harvesting capacity probably will hold the level to something between 7 and 8 million tons.

17. Sugarcane land now approximates 1.5 million hectares, about as large an area as Cuba has ever devoted to this crop. It was reduced for a time to make room for other crops but more recently has been increased in order to achieve the 1970 sugar production goal. In the years just before the revolution, sugarcane accounted for more than 55 percent of all land under cultivation, whereas it now accounts for about 50 percent.

~~CONFIDENTIAL~~



*Data are for crop years ending on 30 June of the stated year.

75704 3-69 CIA

~~CONFIDENTIAL~~

18. Cuba is now engaged in an extensive effort to increase coffee production by planting many new coffee trees. During the past three or four years, many new citrus trees also have been planted. Since the revolution, Cuba has made several efforts to increase its production of vegetable fibers. Kenaf fiber has been introduced, and its cultivation is being expanded. Cotton was grown extensively for a few years but has been largely abandoned because of disease and harvesting problems. Cuba is trying to solve these problems, however, and apparently hopes to restore cotton production. Root crops have been given considerable attention; their production probably is higher now than at any previous time. Rice production also is increasing, after being sharply curtailed a few years ago.

19. Significant efforts are being made to improve livestock farming. Large numbers of breeding stock have been imported, and artificial insemination practices have been introduced in order to enlarge and improve the cattle population. At the same time, the area devoted to improved pasturage has been expanded, and production of hay, ensilage, and other cattle feeds has increased. Production of eggs has also increased greatly.

~~CONFIDENTIAL~~

CONFIDENTIAL

20. Despite the efforts to expand agricultural activities other than sugarcane production, sugar will continue to dominate agriculture for the next several years at least. Output of sugar probably will increase faster than that of other agricultural products through 1970. During the following several years, sugar production is likely to stabilize while production of other crops and livestock products continues to expand.

Industry

21. There has been some increase in industrial output above prerevolution levels, largely a result of fuller utilization of capacity. A few important plants have been built since the revolution, but these additions have been partly offset by the deterioration of older plants, and total industrial capacity has grown only a little. Supplies of industrial raw materials have been slow to increase, largely because of the failures in agriculture.

22. Cuba is presently carrying out major projects to expand its production of electric power, cement, fertilizer, and sugar. These projects will assist Cuba's development, although the planned cement capacity will exceed Cuban needs for many years. Other development plans are vague but probably include construction of small plants in food processing, metal fabricating, and chemical and paper manufacturing. The principal limitation on Cuba's ability to execute these plans will be the availability of external financing.

23. Cuba has exhausted most of the economic development credits extended by the Eastern European Communist countries and Communist China, and new credit probably will not be forthcoming from these sources. A large part of Cuba's unutilized credit from the USSR is being used to cover the expansion and repair of existing sugar mills and to construct the large new fertilizer plant now being built at Nuevitas. The regime has contemplated the construction of one or two large new sugar mills, probably with assistance from the USSR, but these projects have not yet been initiated and may not be built. Cuba and the USSR have had long-range plans to expand the nickel industry; Soviet credits for this purpose were extended as far back as 1961. These plans appear to be in abeyance, however, and it is

~~CONFIDENTIAL~~

unlikely that anything will be done in the near future.

24. Cuba probably will receive some additional credits from Free World sources over the next few years, but no projects have been specified. If the credits are large enough, they may be used to build new fertilizer capacity.

Services

25. Services provided by the government have increased greatly since the revolution. The growth of the services sector as a whole, however, has been small because of a decline in retail and wholesale trade and personal services. There probably has been some increase in housing services.

26. The government's payroll has doubled under Castro, but in real terms government services probably are only 50 to 75 percent higher than formerly. Education, public health, and the armed forces account for most of this increase. In 1966, total spending in current prices for these services was about four times that in 1957, as shown in the following tabulation, although the increase in real expenditures was only about two to three times the 1957 level.

	<u>Million Current Pesos</u>	
	<u>1957 a/</u>	<u>1966</u>
Ministry of Education	74	250
Ministry of Public Health	24	157
Armed Forces	55	213
<i>Total</i>	<i>153</i>	<i>620</i>

a. Ending on 30 June.

Other Sectors

27. Construction has absorbed a substantial number of new workers in the past 10 years, and total output has increased significantly. Shortages of building materials have made further increases in construction difficult.

CONFIDENTIAL

28. Transportation has grown substantially. As in the case of industry, higher production has been achieved mainly by the increased utilization of equipment, since total capacity probably has changed little. Cuba's internal transportation system now carries more passengers and freight than in prerevolution years. Passenger traffic has more than doubled since 1958. Complete data on freight loadings are not available, but in view of recent levels of sugar production and the increased consumption of bulk commodities (POL, fertilizer, and grain), it seems likely that the system moves more freight now than in 1957-58. The transportation system probably could handle considerably more traffic if that were required. Cuba has a large pool of underutilized military trucks that are made available for civilian transportation when needed.

29. The Cuban merchant marine has increased greatly the volume of freight that it handles. Its cargo capacity has grown from about 45,000 tons before the revolution to about 260,000 tons today. The expanded fleet now adds perhaps \$15 million to Cuba's foreign exchange earnings annually, most of it in convertible currency. The size and activity of the fishing fleet have also been expanded greatly.

Foreign Trade*

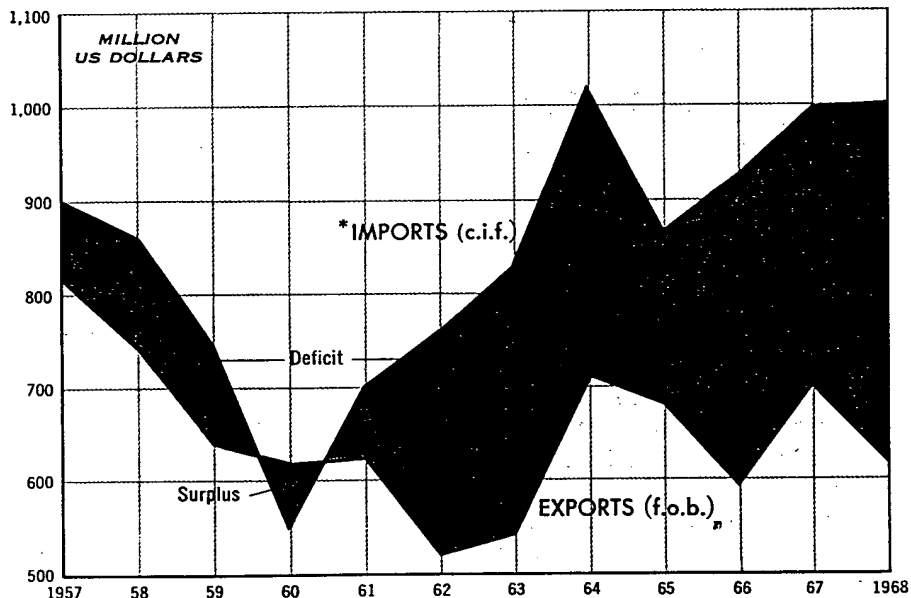
30. Cuban imports, averaging more than 25 percent of GNP (in 1957 prices), have been sustained at a higher level than exports in recent years (see the chart) because of the substantial flow of aid from Communist countries. All categories of imports have increased except nonfood consumer goods, which have declined sharply, as shown in the following tabulation:

* See the Appendix, Tables 3 through 6.

~~CONFIDENTIAL~~

	<u>Million US \$</u>	
	<u>1957</u>	<u>1967</u>
Foodstuffs	160	200
Nonfood consumer goods	160	35
Raw materials and semifinished goods	260	353
Fuels	80	95
Capital goods	235	315
<i>Total</i>	<i>895</i>	<i>998</i>

Imports of capital goods and raw materials and semi-finished goods increased about 35 percent from 1957 to 1967. A significant share of the growth in capital goods imports, however, reflects higher prices.



*Imports from the United States exclude ransom payments in kind valued at \$13 million in 1962 and \$35 million in 1963.

75705 3-69 CIA

~~CONFIDENTIAL~~

31. The principal food imports are wheat, wheat flour, rice, corn, fats, oils, and beans. The important raw materials and semifinished goods are raw cotton, cotton yarn, wood pulp, fertilizer, crude

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

and synthetic rubber, industrial tallow, tin plate, and iron and steel products. Fuel imports consist almost entirely of crude petroleum and petroleum products. Capital goods imports are primarily of machinery and equipment but include some building materials, the most important of which is lumber.

32. The value of exports declined about 25 percent following the revolution and has not yet recovered to its former level. The decline is a result of a lower volume of sugar exports as well as a drop in nonsugar exports because of production problems, increased domestic demand, and the loss of markets in the United States. The tabulation below shows exports in 1957 and 1967, the latest year for which detailed information is available.

	<u>Million US \$</u>	
	<u>1957</u>	<u>1967</u>
Sugar and byproducts	654	600
Nickel concentrates	47	44
Tobacco and tobacco products	48	30
Other	69	28
<i>Total</i>	<i>818</i>	<i>702</i>

33. The direction of Cuban trade has changed greatly since the revolution. Trade with Communist countries, which was negligible prior to 1959, now accounts for more than three-fourths of Cuba's total trade. The USSR has replaced the United States as Cuba's largest trading partner, though its position is not as important as that formerly held by the United States. In 1957, about 65 percent of total Cuban trade was with the United States, whereas the USSR now accounts for about 55 percent of Cuban trade.

34. The USSR normally purchases about 40 percent of Cuba's sugar exports, and an additional 30 percent generally is taken by other Communist countries, even though these countries as a group are self-sufficient in sugar. Consequently, about half of the Cuban sugar imported by Communist countries is reexported, either directly or indirectly, to Free World markets. The

~~CONFIDENTIAL~~

total volume of Cuban sugar exports has varied substantially from year to year (see the Appendix, Tables 7 and 8), and the USSR has adjusted its purchases to Cuban production, reducing its imports in poor crop years and increasing them when production recovers. Soviet credits to Cuba also reflect these changes, being increased when sugar exports fall and reduced as exports increase.

35. The redirection of trade toward Communist countries has been a source of additional economic problems for Cuba. The machinery and equipment that Cuba now buys from its Communist trading partners are frequently not well suited to its needs, and the prices Cuba pays are significantly higher than prices for comparable items from Free World sources. Trade with Communist countries also has added to Cuba's freight charges and has complicated the management of inventories.

36. Because of these disadvantages, trade with the Free World remains attractive to Cuba and usually is increased when it has the necessary foreign exchange. For example, in 1964 -- following a temporary boom in the world sugar market that sharply increased Cuba's hard currency income -- imports from the Free World more than doubled. Low sugar prices in most years, however, have restricted Cuba's foreign exchange earnings, and it has had only limited success in increasing the output of products other than sugar that offer a potential for expanded trade with the Free World.

37. Cuban foreign exchange policy is designed to limit the use of convertible currency in trade and to substitute barter trade. Virtually all trade with Communist countries and trade with several Free World countries is conducted on a barter basis. Cuba now has bilateral clearing agreements with Spain, Morocco, the UAR, Algeria, and Syria as well as the Communist countries. Financing trade through bilateral clearing accounts and maintaining its special economic relationship with the USSR have reduced Cuba's need for reserves of convertible currency, and these reserves have dropped to a very low level of about \$25 million.

Foreign Aid

38. Communist countries have supplied a continuous flow of economic aid credits since 1960, and Cuba had

~~CONFIDENTIAL~~

utilized nearly \$2.1 billion by the end of 1968. About \$1.8 billion of this was drawn from the USSR, about \$200 million from the Eastern European countries,* and the rest from Communist China. Most of these credits carry interest rates of 2.5 percent and are repayable over an 8- to 12-year period. The repayment schedules mean little, however, because Cuba has never been able to meet them, and the Communist countries have refinanced the debts when necessary. Approximately 90 percent of these credits have been used to cover Cuba's persistent trade deficit with the Communist countries. Some \$150 to \$175 million has been used to cover the cost of the thousands of technical advisers from the USSR and Eastern Europe that have served in Cuba since 1960. At least \$75 million represents credits extended to cover accumulated interest charges that Cuba has not been able to pay.

39. In addition to direct aid in the form of credits, Communist countries have extended economic assistance to Cuba by paying premium prices for sugar imports. In 1961 and 1962, the standard price paid by Communist countries for Cuban sugar was 4.0 cents per pound (f.o.b.), and in early 1963 the price was increased to 6.11 cents per pound (f.o.b.), where it has remained. In most years the average price received by Cuba for sugar exports to the Free World countries (as shown in the tabulation below) has been well below the price paid by the Communist countries. Sugar subsidy payments totaled about \$1.2 billion during 1961-68.

* As of the end of 1967, Cuba's estimated debt to Eastern European countries was as follows:

	<u>Million</u> <u>US \$</u>
Bulgaria	6
Czechoslovakia	60
East Germany	54
Hungary	19
Poland	22
Rumania	15

~~CONFIDENTIAL~~

	<u>Cents per Pound of Raw Sugar (f.o.b.)</u>
1961	2.9
1962	2.6
1963	5.8
1964	7.7
1965	3.0
1966	2.8
1967	2.4
1968 (estimated)	2.5

40. Cuba also has received credits from Free World sources over the past several years. This total debt amounted to more than \$200 million at the end of 1968. All but a small part of it is held by banks and suppliers in the United Kingdom, France, and Spain. These loans to cover Cuban imports of capital goods and other items are conventional commercial credits rather than economic aid. Debt to Free World suppliers and banks has accumulated fairly rapidly since 1963, but Cuba's credit position still appears to be reasonably good. Payments to creditors have been made promptly in recent years, and some payments have been made on debts dating from the early days of the revolution and even from the Batista period. Nevertheless, Cuba probably will need to reduce or eliminate its trade deficit with Free World countries over the next several years in order to protect its credit rating.

Effects of the US Trade Embargo

41. Before the revolution, Cuba conducted about 70 percent of its trade with the United States, and nearly 90 percent of Cuba's machinery and equipment was of US origin. By instituting its policy of embargo and economic denial the United States sought to hamper the development of the Cuban economy. The embargo has denied Cuba access to spare parts for most of its machinery and has caused the diversion of an uncommon amount of resources to maintenance and replacement at the expense of new investment and the import of raw materials and consumer goods. Cuba has had to import from Communist countries -- and from a few non-Communist ones -- the producer goods which previously came from the United States.

CONFIDENTIAL

42. The US embargo has had little impact upon the output of agriculture, the main determinant of Cuba's economic growth. Furthermore, as the regime has endured, the effect of the embargo has diminished. The embargo has limited the growth of Cuba's industrial plant, but since the country still has excess industrial capacity, this has not been the main cause of the sluggish growth in industry. Private automobiles, confiscated early by the regime, and buses were cannibalized in increasing numbers to provide spare parts that could not be obtained from the United States. Now, almost all transportation and agricultural equipment is of Communist or Western European origin.

Economic Policies and Problems

43. The economic policies and aims of the Castro government have changed over time. In the flush of his revolutionary victory, Castro espoused a wide and ambitious range of economic objectives -- rapid agrarian reform, agricultural diversification, rapid industrialization, nationalization of the economy, redistribution of income, and improved living conditions and other benefits for the lower classes. All of these major objectives were pursued simultaneously during the first two or three years after the revolution on the assumption that they could be achieved at little cost to the rest of the economy and with only a moderate deemphasis of sugar production. Only after the impossibility of rapid progress on all these fronts became apparent did the regime step back to define a new and clearer set of priorities.

44. Beginning in mid-1963, following several disastrous sugar harvests and other economic failures in the preceding 24 months, the regime gave the highest priority to rapid increase in sugar production. Earlier goals for industrialization and increased popular welfare were deferred at least until the sugar goal of 1970, 10 million tons, could be met. Secondary emphasis was given to cattle production, with the goal of developing significant exports of livestock products. This stress on sugar and cattle made Cuba's development path more agricultural than it had been, and the regime has resigned itself to Cuba's primary role as an agricultural exporter for many years to come.

~~CONFIDENTIAL~~

45. The problems of the Cuban economy stem in large part from the impact of the revolution on economic management. The centralization of decision making and management in the hands of the state created unusual demands for efficient and experienced personnel in government. Castro staffed his bureaucracy with a new governing class that was strongly motivated but totally inexperienced and poorly educated. The revolution drove into exile many of Cuba's old-line managers and technicians and destroyed the effectiveness of many of those who remained. The lower quality of management and the shortage of personnel are still felt throughout the economy.

46. Centralization of management was carried to excess in the earlier years, and the decision-making process became bogged down by the concentration of too much authority in too few hands. The revolutionary regime also failed to develop an adequate set of planning criteria to replace the free market system in allocating resources. Some of the most glaring deficiencies of overcentralization have been corrected since 1962, however. Cuban economic policies became somewhat more rational after the early emphasis on industrialization was replaced by top priority to agriculture. High priority also is being given to the development of such industries as power, construction materials, and fertilizer, which either support and complement agriculture or are basic to the expansion of the economy as a whole. Nevertheless, some Castro programs still appear to be unrealistic in view of Cuban resources and prospects. The plan to produce 10 million tons of sugar by 1970 is the most outstanding example, because Cuba would have difficulty finding markets for that much additional sugar without the risk of substantially depressing prices. Moreover, the current drive to triple cement production by the mid-1970's is out of proportion to the probable growth of the construction industry, and the program of clearing new agricultural land is questionable because of the short supply of farm labor and the inefficient use of existing land.

Economic Prospects

47. Since 1963, which marked the low point in the economy's transition to a socialist structure, Cuba's GNP has grown at an average annual rate of less than 2 percent in real terms,* or about the same as the growth in population. During 1969-75 the economy

* *Average annual growth rates have been computed from the slope of the least squares trend line.*

~~CONFIDENTIAL~~

probably will grow at an average annual rate approaching 3 percent. Most of this growth will be accounted for by the 2-percent annual increase in the labor force. In addition, some improvement in labor productivity probably will be achieved as greater mechanization is introduced into various sectors of the economy where little existed before and as the regime makes some progress in its general management of economic activity. As in the past decade, poor management will be a major constraint on economic growth.

48. Agricultural production will grow more rapidly than nonagricultural production. Cuba almost certainly will not achieve its production goal of 10 million tons of sugar in 1970, but output may well rise to 8 million tons or more during the next several years. Output of crops other than sugarcane and of livestock products also can be expected to rise because the Castro government probably will continue to focus its development efforts on agriculture.

49. Exports are likely to increase more rapidly than GNP, since the main export items are agricultural. The rise in exports should be sufficient to reduce the large annual trade deficits. Imports probably will expand less rapidly than GNP (in contrast to the experience of the past 20 years) because of increased production of items normally imported and because economic growth will be concentrated in areas with low import requirements. Cuba's trade deficits, which have averaged about \$300 million annually since 1963, contributed to the accumulation of a debt of about \$2.3 billion by the end of 1968. This debt probably will continue to grow in the years ahead, although more slowly than in the past.

50. Since part of Cuba's economic growth through 1975 probably will be used to reduce its trade deficit, the domestic supply of goods and services available for consumption and investment is expected to grow more slowly than GNP and only slightly faster than the population. Little improvement in living conditions is in prospect.

~~CONFIDENTIAL~~

APPENDIX

Statistical Tables

- 23 -

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

Table 3
Cuba: Imports from Communist Countries

	Million US \$ (c.i.f.)									
	1957	1960	1961	1962	1963	1964	1965	1966	1967	
USSR	Negl.	88	289	411	461	410	428	521	570	
Eastern Europe	2	20	104	124	147	162	101	127	125	
Bulgaria	Negl.	1	9	10	5	12	15	28	21	
Czechoslovakia	2	8	28	37	55	64	36	36	36	
East Germany	0	5	25	27	36	38	25	36	47	
Hungary	Negl.	1	9	13	12	15	8	7	4	
Poland	0	5	20	22	29	21	8	9	7	
Rumania	Negl.	0	8	14	7	8	4	3	2	
Yugoslavia	Negl.	Negl.	5	1	3	4	5	8	8	
Communist China	Negl.	11	98	90	91	112	123	86	78	
Other Communist countries	0	1	2	4	5	8	6	4	10	
<i>Total</i>	2	120	493	629	704	692	658	738	783	

~~CONFIDENTIAL~~

Table 4
Cuba: Imports from Free World Countries

	Million US \$ (c.i.f.)									
	1957	1960	1961	1962	1963	1964	1965	1966	1967	
Belgium-Luxembourg	11	10	4	2	2	5	6	4	8	
Canada	18	16	39	12	11	42	16	6	7	
France	8	13	8	2	6	19	18	13	55	
Italy	6	6	4	2	1	7	4	10	25	
Japan	4	7	12	11	5	41	4	5	8	
Morocco	Negl.	Negl.	2	7	14	13	6	7	4	
Netherlands	5	9	12	4	8	25	6	11	12	
Spain	13	11	6	2	14	39	47	75	31	
United Arab Republic	Negl.	11	11	10	11	15	11	7	9	
United Kingdom	24	23	17	12	11	38	51	25	23	
United States	667	245	26	1 a/	Negl. a/	Negl.	0	0	0	
West Germany	32	17	18	14	12	19	5	7	10	
Other Free World countries	105	62	50	51	33	64	33	18	23	
<i>Total</i>	893	430	209	130 a/	128 a/	327	207	188	215	

a. Excluding US ransom payments in kind valued at \$13 million in 1962 and \$35 million in 1963.

Table 5
Cuba: Exports to Communist Countries

	Million US \$ (f.o.b.)									
	1957	1960	1961	1962	1963	1964	1965	1966	1967	
USSR	42	104	301	220	164	275	322	274	366	
Eastern Europe	2	13	65	95	102	61	106	118	117	
Bulgaria	0	Negl.	6	13	9	15	21	19	24	
Czechoslovakia	Negl.	1	17	29	30	15	45	46	41	
East Germany	0	1	8	25	40	16	28	31	36	
Hungary	Negl.	Negl.	1	4	2	1	2	2	4	
Poland	Negl.	10	29	18	18	8	4	13	7	
Rumania	Negl.	Negl.	1	2	1	Negl.	Negl.	1	1	
Yugoslavia	2	1	3	4	2	6	6	6	4	
Communist China	Negl.	32	91	89	73	81	100	87	78	
Other Communist countries	Negl.	2	2	3	4	5	8	4	10	
<i>Total</i>	44	151	459	407	343	422	536	483	571	

Table 6
Cuba: Exports to Free World Countries

	Million US \$ (f.o.b.)									
	1957	1960	1961	1962	1963	1964	1965	1966	1967	
Belgium-Luxembourg	10	4	Negl.	1	2	1	1	2	2	
Canada	12	8	4	3	14	3	5	5	5	
France	11	9	1	1	2	3	10	10	15	
Italy	3	1	1	Negl.	19	21	5	6	5	
Japan	56	15	27	32	21	50	21	14	18	
Morocco	19	12	10	15	27	65	15	14	11	
Netherlands	22	10	6	2	11	2	4	2	4	
Spain	14	7	8	9	23	68	33	32	32	
United Arab Republic	Negl.	9	12	10	15	16	6	5	6	
United Kingdom	44	8	9	15	31	26	12	11	12	
United States	477	326	29	4	0	0	0	0	0	
West Germany	37	13	5	4	1	1	1	1	1	
Other Free World countries	69	45	54	18	36	36	37	8	20	
<i>Total</i>	774	467	166	114	202	292	150	110	131	

Table 7
Cuba: Sugar Exports to Communist Countries

	1957	1960	1961	1962	1963	1964	1965	1966	1967
USSR	358	1,578	3,303	2,112	973	1,774 a/	2,110 a/	1,815	2,473
Communist China	0	477	1,032	938	501	549 b/	744 b/	620	556
Bulgaria	0	0	57	118	56	87	158	158	195
Czechoslovakia	0	9	25	156	150	52	245	262	215
East Germany	7	62	112	179	244	81	170	207	250
North Korea	0	0	0	14	20	21	21	21	83
Poland	0	144	262	151	104	32	0	53	22
Yugoslavia	22	12	34	54	11	43	85	98	65
Other Communist countries	0	0	0	21	19	22	77	23	72
<i>Total</i>	387	2,282	4,825	3,743	2,078	2,661	3,610	3,257	3,931

a. Excluding 163,000 tons in 1964 and 346,000 tons in 1965 shipped to the USSR on China's account in repayment of a loan made by the USSR to China in 1961.

b. Including shipments to the USSR listed in the previous footnote.

~~CONFIDENTIAL~~

Table 8
Cuba: Sugar Exports to Free World Countries

	Thousand Metric Tons									
	1957	1960	1961	1962	1963	1964	1965	1966	1967	
Canada	95	75	16	20	70	3	69	69	66	
France	100	107	0	0	0	0	0	0	0	
Iran	5	19	61	0	10	31	73	10	71	
Iraq	8	22	35	18	37	0	126	0	42	
Italy	9	1	0	2	158	149	52	45	59	
Japan	460	205	423	431	161	346	415	360	542	
Morocco	189	161	157	256	285	323	182	181	153	
Netherlands	150	99	28	15	124	10	31	22	71	
Spain and territories	30	33	53	58	103	276	174	145	159	
Switzerland	8	25	21	17	62	43	19	48	51	
Syria	21	67	150	50	21	31	62	53	64	
United Arab Republic	0	108		105	78	95	126	97	114	
United Kingdom	424	173	79	76	174	94	113	62	70	
United States	2,751	1,949	0	0	0	0	0	0	0	
Other Free World countries	638	309	571	340	159	114	264	86	290	
<i>Total</i>	4,888	3,353	1,589	1,388	1,442	1,515	1,706	1,178	1,752	

~~CONFIDENTIAL~~