

EMBARGOED UNTIL

1530 HOURS, 29 JULY 1993

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STATEMENT ON CUBA

SENATE SELECT COMMITTEE ON INTELLIGENCE

JUL 29, 1993

BRIAN LATELL

NATIONAL INTELLIGENCE OFFICER FOR LATIN AMERICA

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FIDEL CASTRO'S GOVERNMENT IS IN ACUTE DISTRESS. THE ECONOMY HAS CONTRACTED BY MORE THAN 40 PERCENT SINCE 1989 AND IS ON A COURSE LEADING TO FURTHER DECLINE. LARGELY BECAUSE THIS YEAR'S SUGAR HARVEST IS THE SMALLEST IN 30 YEARS, EXPORT REVENUES WILL FALL TO ABOUT \$1.6 BILLION, DOWN FROM OVER \$5 BILLION IN 1989.

MOREOVER, THE PROSPECTS FOR MUCH GROWTH IN EXPORT EARNINGS ARE POOR BECAUSE OF SEVERE SHORTAGES OF FERTILIZERS AND HERBICIDES, THE DECREPITUDE OF SUGAR MILLS AND EQUIPMENT, AND MOUNTING TRANSPORTATION PROBLEMS. EARNINGS FROM NICKEL AND OTHER TRADITIONAL EXPORTS ARE UNLIKELY TO RISE MUCH ABOVE THE LEVELS OF RECENT YEARS BECAUSE OF FALTERING PRODUCTION AND LOW PRICES. NON-TRADITIONAL EXPORTS HAVE ONLY MARGINAL PROSPECTS UNLESS CUBAN SCIENTISTS WERE TO DEVELOP CUTTING EDGE PHARMACEUTICAL OR MEDICAL PRODUCTS AND MARKET THEM EFFECTIVELY ABROAD.

GROSS REVENUES FROM TOURISM ROSE ABOUT 33 PERCENT LAST YEAR TO NEARLY \$400 MILLION, BUT THE NET CONTRIBUTION TO THE ECONOMY IS RELATIVELY SMALL BECAUSE OF HIGH OPERATING COSTS. FOREIGN INVESTMENT OF ABOUT \$100 MILLION ANNUALLY BETWEEN 1990 AND 1992 HAS BEEN LARGELY IN THE TOURIST SECTOR.

CUBA IS RECEIVING ONLY MINIMAL FOREIGN CREDITS AND IS UNLIKELY TO RECEIVE MORE BECAUSE ITS MORE THAN \$7 BILLION HARD

CURRENCY DEBT TO WESTERN CREDITORS HAS BEEN IN ARREARS SINCE THE MID-1980S.

AS A RESULT OF THESE FINANCIAL CONSTRAINTS, IMPORTS, WHICH DECLINED BY NEARLY 75 PERCENT BETWEEN 1989 AND 1992, WILL FALL ANOTHER 20 TO 25 PERCENT THIS YEAR. WITH FOOD AND PETROLEUM CONSTITUTING NEARLY TWO THIRDS OF IMPORT SPENDING, ONLY SEVERAL HUNDRED MILLION DOLLARS WILL BE AVAILABLE FOR OTHER PURCHASES, INCLUDING ALL CONSUMER NEEDS AND MILITARY SUPPLIES.

SEVERELY CURTAILED IMPORTS OF INDUSTRIAL SPARE PARTS, MACHINERY AND EQUIPMENT, TRANSPORTATION GOODS, AGRICULTURAL INPUTS, AND OTHER CRITICAL COMMODITIES WILL FURTHER UNDERMINE THE PROSPECTS FOR ECONOMIC RECOVERY.

THE IMPACT OF THE ECONOMIC CRISIS ON THE POPULACE HAS BEEN DEVASTATING. FOOD SHORTAGES AND DISTRIBUTION PROBLEMS HAVE CAUSED MALNUTRITION AND DISEASE, BUT ALTHOUGH THE DIFFICULTIES OF SUBSISTING WILL INTENSIFY, THE REGIME SHOULD BE ABLE TO PREVENT LARGE SCALE STARVATION. PUBLIC HEALTH, SANITATION, AND OTHER SERVICES WILL FURTHER DETERIORATE, ADDITIONAL FACTORIES WILL BE IDLED (MORE THAN HALF ALREADY HAVE CURTAILED PRODUCTION), AND THOSE UNEMPLOYED OR UNDEREMPLOYED WILL PROBABLY RISE TO AT LEAST HALF OF THE LABOR FORCE. FUEL SHORTAGES ARE NOW CAUSING DAILY BLACKOUTS OF UP TO 10 TO 16 HOURS IN HAVANA, AS WELL AS THE VIRTUAL COLLAPSE OF PUBLIC TRANSPORTATION. MR. CHAIRMAN, ONLY SMALL SEGMENTS OF THE POPULATION WILL ENJOY ANY AMELIORATION OF THESE PRIVATIONS.

CUBA'S LEADERS RECOGNIZE THE GRAVITY OF THE SITUATION AND RECENTLY INITIATED NEW ECONOMIC REFORMS THAT HOLD SOME PROMISE

FOR PARTIAL RELIEF BUT WHICH ALSO ENTAIL CONSIDERABLE POLITICAL AND SOCIAL RISK. AS YOU KNOW, IN A SPEECH ON JULY 26 CASTRO REVEALED HIS INTENT TO LEGALIZE THE USE OF DOLLARS IN CUBA. DOLLARIZATION IS LIKELY TO INCREASE HARD CURRENCY REMITTANCES FROM ABROAD AND THUS PROVIDE SOME MARGIN OF ECONOMIC RELIEF.

BUT THIS CHANGE WILL AGGRAVATE SOCIAL TENSIONS AND DISTINCTIONS IN CUBA, IN PART BECAUSE ONLY A SMALL PERCENTAGE OF THE POPULATION WILL BE LIKELY TO RECEIVE HARD CURRENCY FROM ABROAD. LABOR PRODUCTIVITY IN THE PESO ECONOMY WILL FURTHER ERODE AND INFLATION WILL RISE. THE CUBAN GOVERNMENT OF COURSE WILL ENDEAVOR TO CONTROL THE EXCHANGE OF DOLLARS. BUT THE DANGER OVER TIME IS THAT DOLLARIZATION WILL RAISE UNREALISTIC POPULAR EXPECTATIONS FOR EVEN MORE PROFOUND REFORMS AND STIMULATE WHAT CASTRO IN THE PAST HAS DENOUNCED AS "NEOCAPITALIST EXPLOITATION" BY PRIVILEGED GROUPS.

CASTRO APPRECIATES THAT HIS REGIME IS, TO QUOTE A HIGH LEVEL GOVERNMENT OFFICIAL, "FEEDING A TROJAN HORSE." ASKED IN A PRESS CONFERENCE LAST FEBRUARY IF TOURISM AND FOREIGN INVESTMENT IN CUBA MIGHT TURN OUT TO BE DESTABILIZING, RICARDO ALARCON RESPONDED; "WE HAVE NO OTHER CHOICE BUT TO FEED THE TROJAN HORSE. WE MUST TAKE A CHANCE. WE ARE FAMILIAR WITH THE SOCIAL AND POLITICAL PRICE, BUT THE REAL DANGER IS THE ECONOMIC CRISIS."

STATED ANOTHER WAY, THE DILEMMA IS THAT CASTRO REALIZES THAT POTENTIALLY DESTABILIZING ECONOMIC REFORMS MUST BE IMPLEMENTED BECAUSE HIS GOVERNMENT WILL BE INCREASINGLY AT RISK IF IT CANNOT BRING SIGNIFICANT RELIEF FOR THE POPULATION.

BUT ON THE OTHER HAND, CASTRO REMAINS ADAMANTLY OPPOSED TO PROFOUND FREE MARKET ECONOMIC REFORMS, TO LARGE-SCALE PRIVATE ENTERPRISE, AND TO THE REEMERGENCE OF "NEO-CAPITALISM" IN CUBA. MR. CHAIRMAN, HE CONTINUES TO PLACE AN OVERRIDING PRIORITY ON MAINTAINING THE ILLUSION THAT CUBA IS A CLASSLESS, TOTALLY EGALITARIAN SOCIETY.

CASTRO IS A STUBBORN MAN, PERHAPS ALL THE MORE SO AFTER 34 AND A HALF YEARS IN POWER. IN PARTICULAR, HE IS LOATH TO PERMIT ECONOMIC OR POLITICAL REFORMS LIKE THOSE THAT WERE CARRIED OUT IN FORMER COMMUNIST COUNTRIES BECAUSE THEY WOULD DILUTE HIS PERSONAL POLITICAL HEGEMONY. HE SAID AS MUCH IN HIS SPEECH ON JULY 26: "WE CANNOT EVER COMMIT THE MISTAKES THAT THE SOCIALIST COUNTRIES MADE, THAT THE USSR COMMITTED."

THANK YOU VERY MUCH.