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ECONOMIC SITUATION IN CUBA

Note by the Chairman of the
Committee of Economic Advisers

Following suggestions made at the Committee of Economic Advisers' meeting on 17th November, 1966(1), the United States Delegation submitted, in February 1967, to the Sub-Committee a report(2) on the economic situation in Cuba which was examined at a special meeting on 24th April, 1967. The Staff Assistant to the United States Assistant Secretary for Inter-American Affairs, participated in the debate(3).

2. The Committee of Economic Advisers thought that the Council might be interested by the results of this examination. In the attached brief report, the Committee has attempted to evaluate developments in Cuba's domestic economy and in her external economic relations and to draw some conclusions on the Castro régime's performance and prospects from an economic point of view.

(Signed) A. VINCENT

OTAN/NATO,
Paris, (16e)..

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- (1) AC/127-R/191, Item I(3)
 - (2) AC/89-WP/207
 - (3) For a record of the meeting, see AC/89-D/56

NATO CONFIDENTIAL

ECONOMIC SITUATION IN CUBA

Report by the Committee of Economic Advisers

1. Cuba is a developing country saddled with the usual growth problems. With an area of 114,500 sq.kms. (slightly more than Bulgaria and about a fifth of France), she has a population of approximately 7.2 million which has grown recently at an annual rate of some 1.1%; i.e. much less rapidly than in many less developed countries. The income per head is difficult to assess with accuracy but it seems to be above the average for the less developed countries in Latin America. While the present régime has reduced social inequalities, it has not been able to increase the average income in real terms(1).

2. The Cuban economy, which is now centrally planned and largely State-owned, depends heavily on agriculture and, more specifically, on sugar. The chief natural resource is the abundance of fertile land, but it is not fully utilised. The mineral resources are substantial, but neither well-balanced nor fully exploited. Cuba is rich in magnesium, nickel, cobalt and chrome deposits; she has large iron-ore deposits and some copper. On the other hand, she lacks coal and extracts little oil, in spite of extensive exploration by experts from Communist countries. Hydraulic power could be a limited source of energy, but Cuba has not been able to provide the large capital investments involved in the development of hydro-electricity.

DEVELOPMENTS IN THE DOMESTIC ECONOMY

3. Cuba's economic difficulties have been exacerbated by the doctrinaire management of the Castro régime and the policy of economic denial applied by her former most important trade partners. The gross domestic product, in real terms, has fluctuated considerably from year to year, remaining most of the time slightly above the 1957 to 1958 level, but occasionally dropping below that level. This modest performance is largely due to Soviet assistance.

4. The shortage of technicians - which is only to a very limited extent attenuated by the presence of some 2,000 Soviet experts - puts a serious brake on growth. The Castro Government is making an all-out effort to promote child and adult education. It reports that it has largely succeeded in wiping out illiteracy and in increasing the number of students in technical institutes and universities. While the educational base has undoubtedly been widened, there has,

(1) Calculated in 1957 prices, gross domestic product has been estimated at \$2,790 million in 1958, \$3,060 million in 1965 and \$2,870 million in 1966, representing about \$400 per capita in 1966.

however, been a lowering of standards because of political purges and the use of poorly trained teachers. In any case, from an economic point of view, the régime's educational policy will only bear fruit in the future. It has not yet made good the emigration, since Castro came to power, of some 350,000 people, many from the professional classes. Investment is inadequate and a high proportion of it goes into the replacement of equipment and the purchase of spare parts, as inadequate supervision and maintenance result in an abnormally high rate of depreciation. At the same time, the decline in the quantity and quality of consumer goods has deprived the labour force of a sufficient material incentive and has contributed to low productivity. In addition, heavy military expenditure places a serious burden on the economy(1) in spite of free delivery of Soviet arms.

5. The policy of diversification of agriculture, applied during the first years of the régime, has been largely replaced by a policy giving priority to sugar. Since 1959, sugar production has fluctuated widely. There were bumper crops in 1961 and 1965 (over 6 million tons), but 1962, 1963, 1964 and 1966 were lean years, the worst one being 1963 (3.8 million tons). In 1967 sugar production is likely to reach some 6 to 6.5 million tons. The government intends to bring it up to 10 million tons by 1970. While such a sharp increase might be technically feasible given favourable circumstances, it is far from sure that these circumstances will obtain in the Cuban context. A figure somewhat above 7 million tons would be more realistic.

6. Livestock raising is Cuba's second most important agricultural activity. The total cattle population has grown from 5.8 million head in 1958 to more than 6.5 million head at the present time. Production of other agricultural products has in general been inadequate. Fruit and vegetable production is increasing somewhat, and the Cubans have made great efforts to grow citrus fruit trees which have considerable export potential. Tobacco production has been maintained at about the 1959/1960 average (51,000 tons), but coffee bean production has declined.

7. The use of fertilisers has been intensified (five-fold increase between 1957 and 1967) and a fertiliser plant has been purchased in Western Europe. Mechanisation has made progress mainly in cane fields, while the irrigation of approximately 50,000 hectares of land is envisaged. On the other hand, agricultural production has been adversely affected by drought, hurricanes, bad organization, labour

(1) For 1965 these expenditures have been estimated by the Institute of Strategic Studies in London at about \$213.2 million which would represent approximately 7% of gross domestic product.

shortages and the interruption of the flow of American spare parts needed by the sugar mills. While before the revolution, a labour force of about 350,000 to 400,000 people were available for the sugar cane harvest, this number has since fallen to about 200,000 to 250,000 as a result of the creation of new jobs in the towns. It has been necessary to resort to "volunteer" workers whose low productivity is notorious. There is still an acute shortage of technicians in spite of the government's efforts to train agronomists.

8. Two agrarian reforms in June 1959 and October 1963, created more problems than were solved. At the end of 1964 the State-owned sector of agriculture was reorganized and some improvement seems to have been achieved since then. Only about 30 percent of the land remains in private holdings of up to 67 hectares. The bulk of government investment seems to be directed towards the State farms while private farmers lack manpower, equipment and price incentives.

9. Industry, mining and utilities account for over a quarter of Cuba's total production, which may suggest that, for a developing country, industrialisation is already relatively advanced. In fact, sugar milling and refinery account for about 40% of all manufacturing activities and the rest of Cuba's industry is generally underdeveloped. Increase in industrial production has been facilitated by the fact that, when Castro came to power, there was a margin of unused capacity. Cuba claims a growth in industrial output (not related to sugar) of 37% from 1957 to 1964, but American experts consider that a much lower figure is more realistic (some 14% from 1957 to 1966).

10. Progress has been uneven according to industries. It has been substantial in the development of thermo-electric plants. Petroleum refinery output has grown from 1.8 million tons in 1957 to 3.5/3.7 million tons a year. Following the entering into production in 1961 of the new Moa Bay facility, nickel production has risen, but there has been no significant increase in the production of the Nicaro facility which was in operation before Castro's take-over. Construction has remained at about pre-Castro levels, but should rise over the next few years as proposed additional cement factories would almost treble the capacity for cement production. Transport equipment is worn out and obsolete; great difficulties have been encountered in maintaining rail equipment. Given foreign exchange shortages and continuing spare-parts problems, it is doubtful whether any substantial improvement can be achieved in the near future. On the other hand, the merchant marine and the fishing fleet have expanded considerably over the last few years.

EXTERNAL ECONOMIC RELATIONS

11. Sugar remains the main export commodity of Cuba. Sugar and its by-products represented in 1965 about 88% of the value of exports, while the share of metals and minerals was 6%, that of tobacco about 4.5% and that of other products 1.5%. There has been a drastic change in the geographical distribution of trade: while, in 1958, trade with Communist countries was negligible, it now represents about 80% of exports and imports. This trade is governed by two sets of arrangements:

- on the one hand, the Soviet Union is committed, for the six year period 1965 to 1970, to buying up to 24 million tons of sugar at the price of 6.1 United States cents per lb. This price has, over recent years, been much above the world price, which is still low although it has strengthened recently to about 3 United States cents per lb. In other words, through this preferential price, Communist countries provide strong economic support to Cuba which is only, to a limited extent, reduced by the re-export of Cuban sugar from Communist countries to the outside world, resulting in some competition in free markets with sugar coming direct from Cuba. The value of such support varies greatly from one year to another according to world prices and the volume of Cuban exports. In 1965 and 1966, it has been estimated as being of the order of \$250 million;
- on the other hand, the Communist countries have been providing Cuba with other assistance. This takes mainly the form of trade credits (goods sent under both economic development credits and general balance of payments assistance), the value of which have varied widely from one year to another from \$35 million in 1961 to a maximum of \$365 million in 1963. On the basis of Soviet estimates for trade with Cuba in 1967, such aid might be limited as far as the USSR is concerned, to some \$20 million this year. In addition, Cuba has received, so far, technical assistance at some \$20 million per year.

12. Cuba is heavily in debt; the sums she owes Communist countries have been estimated at \$1,330 million, bearing interest at 2.5% and repayable over periods ranging from 5 to 12 years. In addition she owes large sums to the United States and some free world countries for compensation after the nationalisation of foreign properties. She has received commercial credits from certain non-Communist countries (\$45 million of such credits from NATO countries alone were outstanding at the end of 1966(1)) on which so far there has been no defaulting.

(1) C-M(67)24

CONCLUSIONS

13. In the light of the notes submitted to the Sub-Committee on Soviet Economic Policy and of the discussion which took place during the meeting of the Sub-Committee on 24th April, 1967, it would seem that the main findings can be summarised as follows:

- (a) Over the last 9 years, owing to various factors, including, for instance, the economic denial applied to her by some Western countries and the doctrinaire economic policy of the present régime, Cuba has been unable to achieve any significant economic progress. On the other hand, she has managed to maintain about the same level of resources;
- (b) Cuba is heavily dependent on Communist economic assistance coming mainly from the USSR, in the form both of sugar subsidies and trade credits. There are indications that the USSR intends to place a ceiling on its assistance in the future, possibly at something like its present level, but this could change rapidly with circumstances.
- (c) In such circumstances, Cuba does not seem to be threatened by any economic collapse, although, given in particular the inadequacy of investment, progress of her economy in the near future is likely to be very limited. It will depend, to a large extent, on the possibility of fulfilling the plan which provides for a substantial increase in sugar production and of finding outlets for this sugar in non-Communist countries. Such a policy involves an element of gamble.
- (d) Given the uncertainty which remains as to the future of the Cuban economy and the special interest which many nations of the Free World have in it, it would seem that the Committee of Economic Advisers in NATO and its Sub-Committee on Soviet Economic Policy should continue to follow its development closely.