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SPECIAL REPORT

SUGAR PRODUCTION AND THE GROWTH OF THE CUBAN ECONOMY

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SUGAR PRODUCTION AND THE GROWTH OF THE CUBAN ECONOMY

The growth of Cuba's economy depends to a very large extent on production of sugar, which accounts directly for about 25 percent of its gross national product (GNP) and provides about 85 percent of its foreign exchange income. This income is needed to finance imports of virtually all its capital goods, most of its fuels, a vital part of its raw materials, and about one third of its foodstuffs. Thus, sugar not only makes the largest single direct contribution to Cuba's GNP but, indirectly, it provides the imported goods upon which all the rest of the economy depends.

The starting point for the analysis that follows is the working hypothesis that sugar production will reach 10 million metric tons in 1970, the goal set by current plans. The economic effects of this growth in sugar production are then explored in terms of two roughly limiting sets of assumptions: the least and the most favorable circumstances that may reasonably be expected to prevail between now and 1970.

Estimates of Sugar Production And Import Capacity

Table I assumes the following: that world sugar prices will average about 2.5 cents per pound during 1966-1970; that sugar exports to Communist countries other than the USSR will remain at about 1.0 million metric tons while exports to the USSR will rise after 1968 to the 5.0 million tons called for by the 1964 Cuban-Soviet agreement; that sugar exports to the free world will remain at about 2.0 million tons until exports to the bloc reach their maximum; finally, that aid to Cuba from the Communist countries will be reduced gradually and in proportion to the increasing value of Cuba's exports. There is one modification to the free world price assumption, i.e., that the sharp increase in sales to the free world in 1970 will depress prices to 2.0 cents per pound.

Table II assumes: first that free world prices will improve in 1966--probably as a result of re-establishment of the quota system under the International Sugar Agreement--and will average about 3.5 cents per pound during 1966-1970; that Cuba will maintain exports to the free world at about 2.0 million tons, either voluntarily or as a result of the workings of a new quota system; that the Communist countries will absorb all of Cuba's increased exports and, finally, that aid from Communist countries will remain at the $225 million estimated for 1965.

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TABLE I Economic Significance of Rising Cuban Sugar Production Under Least Favorable Assumptions

Year	Sugar Production (1,000 MT)	Volume to Bloc (1,000 MT)	Volume to Free World (1,000 MT)	Bloc Aid (Million US $)	Total Capacity to Import (Millions US Dollars) From Bloc	From Free World	Total
1965	6,000	3,500	2,000	225	745	170	915
1966	6,500	4,000	2,000	165	745	150	895
1967	7,000	4,500	2,000	100	745	150	895
1968	8,000	5,500	2,000	--	775	150	925
1969	9,000	6,000	2,500	--	840	180	1,020
1970	10,000	6,000	3,500	--	840	195	1,035

TABLE II Economic Significance of Rising Cuban Sugar Production Under Most Favorable Assumptions

Year	Sugar Production (1,000 MT)	Volume to Bloc (1,000 MT)	Volume to Free World (1,000 MT)	Bloc Aid (Million US $)	Total Capacity to Import (Million US Dollars) From Bloc	From Free World	Total
1965	6,000	3,500	2,000	225	745	170	915
1966	6,500	4,000	2,000	225	805	195	1,000
1967	7,000	4,500	2,000	225	870	195	1,065
1968	8,000	5,500	2,000	225	1,005	195	1,200
1969	9,000	6,500	2,000	225	1,135	195	1,455
1970	10,000	7,500	2,000	225	1,260	195	1,455

TABLE III Past Cuban Imports For Comparison (Million US Dollars)

1955	1956	1957	1958	1962	1963	1964
633	714	895	855	760	866	980 (Preliminary)

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Both tables assume that domestic consumption will remain at about 500,000 tons annually; that Communist countries will continue to pay about 6 cents per pound for Cuban sugar; and that other exports will continue to earn about $100 million annually--$60 million from Communist countries and $40 million from the free world. To permit comparison with the past, Table III gives annual import totals for 1955-58 and 1962-63 and estimates imports last year at almost a billion dollars, up from $633 million in 1955.

Evaluation of the Estimates

Of the various assumptions, those relating to prices and to Communist aid policy are the most critical in estimating which of the limits will come closest to reality.

With respect to the price paid by the Communist countries, there is no credible evidence that the principal bloc purchasers--the USSR and Communist China--now intend to adjust their buying price of 6 cents per pound. How long this situation will continue, however, is open to speculation.

The free-world price of 2.5 cents per pound assumed in Table I probably is too low. The spot price is now about 1.8 cents a pound, but prices currently being quoted in 1966 future markets range between 2.6 cents for March and 3.0 cents for October. Further, there is considerable interest (even on the part of the Cubans) in the restoration of a marketing quota system under international agreement; if restored, such a system would help to revive prices. It probably will be difficult, however, to achieve a radical improvement. The present International Sugar Agreement called for a minimum price of 3.25 cents per pound which its quota system sought to maintain. Nevertheless, during the three years before that quota system was suspended at the end of 1961, the minimum price was rarely achieved. Prices per pound averaged 2.98 cents in 1959, 3.10 cents in 1960, and 2.91 cents in 1961.

On the question of Communist aid, there is virtually no evidence that can be called upon for guidance concerning the alternate assumptions made in the tables. For 1965, at least, the USSR did maintain its aid commitment to Cuba at the 1964 level, even though significant increases in sugar exports were clearly expected. But this obviously is no guarantee that the same pattern will hold throughout the next five years.

Concerning the hypothesis that sugar production will reach 10 million tons by 1970, about all that can be said is that the industry is making a good recovery from the depressed levels of recent years. From a low point of 3.8 million tons in 1963, sugar production rose to 4.6 million tons in 1964 and evidently has approached 6.0 million tons in the harvest now being completed. At this point, there appears to be a good chance that output will increase to 6.5 million tons in

1966. Beyond that, it is difficult to forecast.

There is little doubt that Cuba has the agricultural potential to grow 10 million tons, but harvesting capacity can be expanded only by extensive mechanization. In order to harvest this year's crop, extra labor had to be recruited from almost every sector of the economy. This expedient solution to the harvesting problem obviously has its limit, and Cuba is probably approaching it. Mechanization, moreover, has met with only limited success thus far. The most important step in this direction was taken this year with the introduction of 500 cane combines into the harvest. Cuban officials admit, however, that the combines are still only in the experimental stage. In short, it is still too early to say whether or not harvesting combines can be developed to work satisfactorily and supply a major impetus to sugar production under Cuban conditions.

Imports and Economic Growth

Data on Cuba's foreign trade in the pre-Castro period indicate that from the late 1940s through the late 1950s, imports increased at an average rate of about 5.5 percent annually. During the same period, Cuban GNP grew at an average annual rate of approximately 3 percent. This suggests that at the present stage of Cuba's development a given growth rate for GNP may require a somewhat higher rate of increase for imports.

The relationship between the two growth rates is obviously not fixed, however. To the extent that Cuba emphasizes the growth of its agricultural sector, which requires a relatively small input of imported materials, the rate of increase in GNP should rise relative to the increase in import capacity. Further, if growth in either industry or agriculture results in competitive domestic output of products formerly imported, this will also increase the rate of growth in GNP relative to import growth.

Cuba's current emphasis on agricultural development should produce more GNP growth for a given import rate, but little priority is being given to replacement of imports by domestic production. Some import substitution is being developed in the textile industries. Food production, however, is being hurt by expansion of the sugar sector. Production of several basic foodstuffs such as rice, corn, and beans has already declined, and cotton production evidently has been cut. Import substitution in textile manufacture therefore will be largely offset by the need for larger food and raw fiber imports over the next few years.

Inspection of Table I shows that, if the least favorable circumstances prevail, the level of imports will tend to stagnate over the next five years. Further, since rising sugar production would require some increase in imported supplies, imports for other areas would need to be cut. Thus, general development of the economy would be strangled.

Table II presents a sharp contrast. The average annual increase in imports projected under the most favorable assumptions is nearly 9 percent, enough to support a considerable growth of the whole economy.

Potentials of Import Substitution

A brief commentary needs to be added concerning the consequences if sugar production fails to reach the 10-million-ton goal. Cuba presently has no other export commodity that could sustain adequate growth of import capacity and no prospect of developing one within the next five years. If it proves impossible to push sugar production above some limit considerably short of 10 million tons, then the increase of import capacity will be cut short even under the most favorable circumstances.

It would be a mistake, however, to conclude that the possibility of economic growth would necessarily be short circuited. As suggested earlier, import substitution offers Cuba an alternate route to economic development, at least temporarily. Cuba could divert resources from further efforts to expand sugar into the expansion of other sectors of agriculture or into industry; such a policy might not increase exports but it could reduce the need to import many foodstuffs and some manufactured goods. Import substitution of this type which is reasonably competitive has the same economic effect as an increase in exports. Of course, for a country like Cuba, with a relatively small internal market and a number of resource constraints, import substitution has its limits. But for a term of, say, five to ten years it could provide an adequate channel for further economic development.

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