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Cuba: Changing Economic and Political Strategies



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An Intelligence Assessment

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*ALA 85-10121
November 1985*

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Cuba: Changing Economic and Political Strategies

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An Intelligence Assessment

This assessment was prepared by [Redacted]
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November 1985*

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Cuba: Changing Economic and Political Strategies [Redacted]

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Scope Note

Cuba is preparing to hold its Third Communist Party Congress next February amid mounting domestic problems and pressure from the Soviet Union to get its economic house in order. [Redacted]

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[Redacted]

[Redacted] Castro has embarked on a course of austerity, conservation, and consumer sacrifice that is likely to be the theme of the party congress and Cuba's next five-year economic plan. The Cuban leader also has made sweeping personnel changes in most of the economic ministries. This paper describes the remedies Castro has already employed, assesses the possible political shifts and economic reforms that could be etched into the resolutions of the party congress, and discusses their probable impact on Cuba's economic and political direction over the next several years. [Redacted]

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Cuba: Changing Economic and Political Strategies

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Key Judgments*Information available as of 7 November 1985 was used in this report.*

The unexpected postponement of Cuba's Third Party Congress until next February—ostensibly to permit smooth implementation of new economic policies—suggests to us continuing groping within the leadership over how to implement economic change. In our judgment, this is another step in an ongoing process that was sparked last year by the poor performance of the Cuban economy and sharp Soviet criticism of Havana's economic management. The first signs of policy change occurred in December 1984 when President Fidel Castro suddenly announced an overhaul of the 1985 budget and declared an “economic war” against inefficiency.

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In an effort to streamline government bureaucracy and cut waste, Castro is already making moves to replace loyal, but technically incompetent managers with young technocrats. This series of personnel shifts has included the sacking of several high-level ministry officials. In addition, Fidel Castro's younger brother—a proven administrator—is likely to broaden his current military and security responsibilities to include a greater role in day-to-day government matters, although Fidel will remain the decisive voice on all critical policy decisions.

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In our opinion, additional changes will likely emerge over the coming months as the regime hammers out its economic goals for the 1986-90 five-year plan. We believe, on the basis of Castro's pronouncements that Havana is considering moves to decentralize economic decision making and make greater use of wage and price incentives to encourage initiative and increase productivity. Castro has personally opposed economic liberalization measures in the past, but current pressures probably will persuade him to adopt some reform initiatives. In addition, Castro's more pragmatic advisers probably are pushing for intensified contacts with the West to increase trade and strengthen diplomatic ties to earn much-needed hard currency.

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From an internal standpoint, the austerity measures being imposed by Havana—energy conservation and consumer sacrifice—are likely to magnify domestic discontent. The economic stagnation these moves will generate will in turn result in increasing unemployment and underemployment. At the same time, Havana's drive to cut imports and expand exports will cut the availability of products for domestic consumption.

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The regime is likely to counter rising domestic discontent partly with highly selective backsliding on austerity measures, but also with increased restrictions on political freedoms. Indeed, the party has already publicly hinted at the establishment of a new indoctrination campaign. We believe that this effort probably will be accompanied by more regimentation, a crackdown on corruption, and increasingly doctrinaire media.

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In addition to fueling domestic disaffection, Cuba's unemployment and underemployment problem also will be a factor, although not the determining one, influencing Castro's decision regarding the withdrawal of troops from Africa. In our opinion, with over 40,000 troops and military advisers abroad and another 20,000 civilian technicians working overseas, Castro would only reluctantly return a substantial number of these to an economy already struggling to absorb a youthful labor force. Indeed, we expect Cuba to seek new openings in the Third World to try to export some surplus labor, particularly its civilian "internationalists."

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Although economic policy adjustments are largely internal in nature, they have the potential to affect Havana's relations with the superpowers in differing ways. While pressures from Moscow helped precipitate Havana's new economic tilt, we do not believe that the current frictions in their relationship portend any fundamental change in Cuban-Soviet bilateral relations. The United States, by contrast, is almost certain to see some spillover effects. As part of its effort to divert attention from austerity by whipping up revolutionary fervor among the Cuban populace, the regime will likely continue to push issues such as Radio Marti broadcasts, US intelligence overflights, and the international debt crisis as evidence of the constant subversive threat posed by Washington. This approach is unlikely to be limited only to an internal audience. Castro is certain to keep hitting these issues in international forums in an effort to paint Washington as an aggressor to win international sympathy and strengthen Cuba's diplomatic and economic network.

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We believe that, under certain conditions, such as a dramatic rise in unemployment and visible manifestations of popular discontent, Castro would make some overtures to Washington indicating a desire to improve bilateral relations. In such a case, one of his motivations would likely be a desire to open Cuban emigration to the United States by reinstating the abrogated immigration agreement. Renewed Cuban efforts to warm relations with the United States, along the lines of Castro's "peace offensive" last winter, also could help the Cuban leader improve economic ties to the West.

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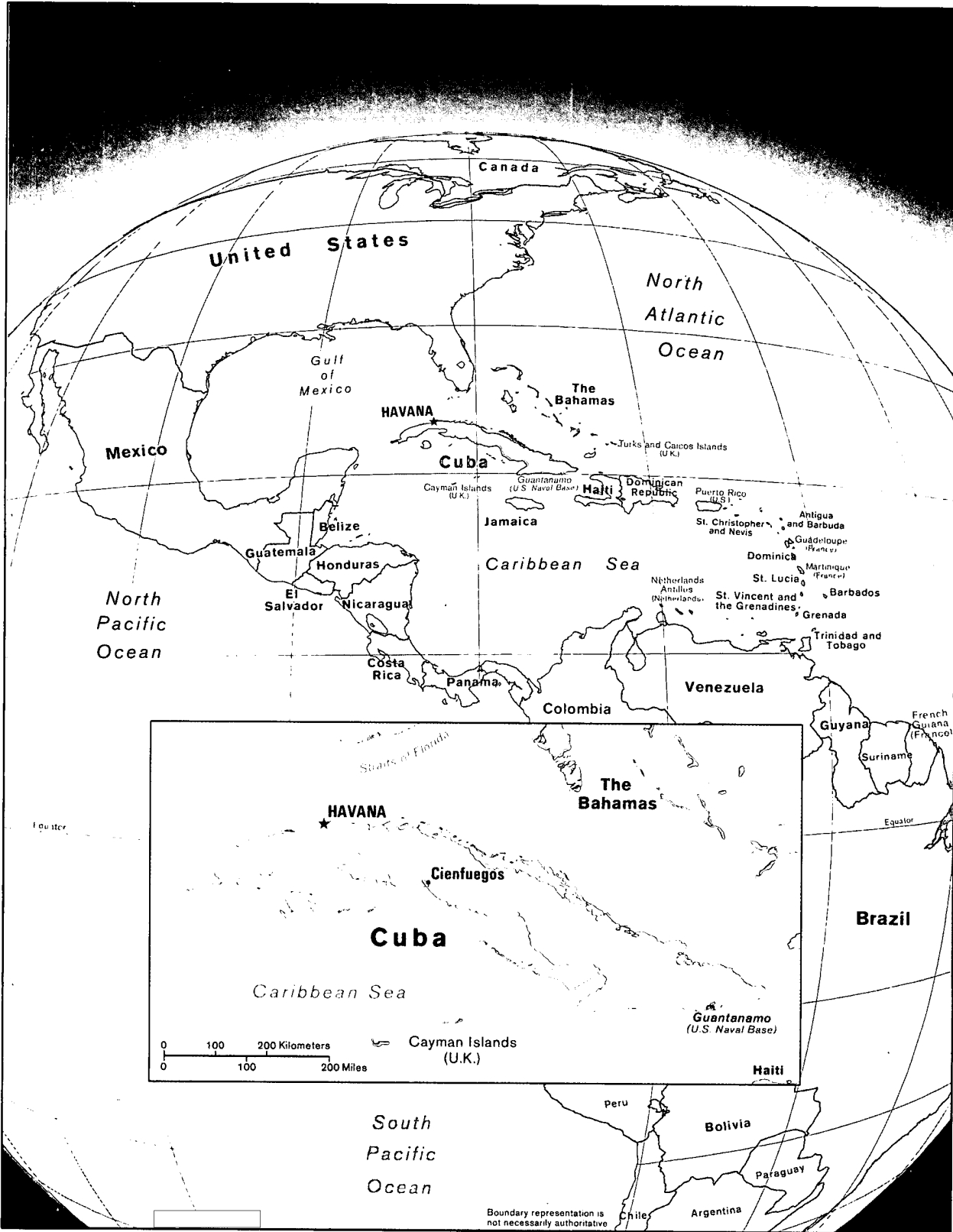
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Cuba: Changing Economic and Political Strategies

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Introduction

In a sudden reversal of rhetoric roughly a year ago, President Fidel Castro shifted themes from invasion hysteria to Cuba's mounting economic problems. Castro's declaration of "economic war" last December has been followed thus far by concrete, if limited, austerity measures as well as bureaucratic changes to promote economic efficiency. We expect further shifts—possibly even the delegation of some of Fidel Castro's duties to his younger brother Raul—as Havana thrashes out the tone and form of its new economic policies in preparation for the Third Party Congress and the announcement of the next five-year plan in February 1986.

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This paper will examine the forces currently driving Cuban policymaking, including its weakening economic situation, Soviet pressures, the contradictory positions of Castro's pragmatist and hardline advisers, and Castro's own proclivity to "micromanage" the Cuban economy. Although Havana so far has revealed only limited details of upcoming policy directions, we will explore some of the more likely reforms, the extent of Havana's commitment to these reforms, and the implications for the United States of this apparent transition period in Cuban policy.

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Building Pressures for Reform

Disappointing economic performance during 1984 weakened Cuba's international financial position, exposed Havana to uncomfortable criticism from its Soviet benefactor and Western lenders, and increased the pressures on Castro to institute needed economic reforms. Despite continuing massive inflows of Soviet economic assistance and Havana's efforts to finance an economic recovery last year with increased government expenditures on construction projects and imports, Cuban economic growth fell short of Havana's claim of 7.4 percent—indeed, the US Interests Section in Havana estimates real growth was 3 percent at

Table 1
Cuba's Hard Currency Creditor
Targets and Performance

Million US \$

	1984 Target	1984 Performance	1985 Target
Trade balance ^a	319	83	226
Exports to the West	752	710	860
Nonsugar exports	473	457	636
Imports from the West	912	1,097	1,172
Current account	34	-236	-48
Short-term debt	1,026-1,140	1,138	1,045-1,100
Maximum total debt	3,591	3,458	3,520
Minimum foreign reserves	171	204	165
Maximum debt less foreign reserves	3,249	3,254	3,190

^a Includes hard currency trade with CEMA as well as Western countries.

best. Moreover, the statistics Havana provided its Western creditors this year show that this unsustainable spending, with no concurrent expansion in export earnings, contributed to a sharp reversal in Cuba's hard currency current account balance, bringing down hard currency reserves to only two months' import coverage by yearend.

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As a result of Havana's freewheeling spending and soft world markets for its major exports, the same data show that Cuba failed to meet six of the nine financial performance targets it had negotiated with official Western lenders as part of its 1984 debt rescheduling package. Consequently, refinancing its 1985 debt was possible only after a close reexamination of Cuban economic performance by its official and commercial Western creditors. Cuba owes some

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The Third Cuban Communist Party Congress

The Communist Party Congress—nominally the supreme organ of the party—held every five years, is theoretically an occasion for party revitalization and renewal of its members' commitment to move the country toward higher levels of socialist development. During the year or so preceding each congress, delegates are selected from local party nuclei to represent their district and vote for the members of a new party Central Committee. The PCC Central Committee is nominally the country's highest policymaking body at the national level, although in practice it is governed by its 25-member executive, the Political Bureau. The Central Committee does possess significant political symbolism, however, as its members are the top political, military, and economic leaders of Cuba—representing the political elite of Cuba. Thus, the election of a new Central Committee and the appointment of a new Political Bureau at the party congress provides the regime with an opportunity to bring in fresh, young leaders with new ideas.

If past patterns persist, and we expect they will, changes at the Third Party Congress now scheduled for February will not alter the dominance of the guerrilla elite—those who fought with Fidel in the anti-Batista revolution—at the highest echelon of

Cuba's policymaking apparatus. Nonetheless, Armed Forces Minister Raul Castro used a videotape presentation last month to warn armed forces officers and party cell officials that great changes will take place in coming months and that Cuban leaders can no longer live off past accomplishments, [redacted]. The changes made at this congress, however, as well as personnel and policy shifts that have taken place in recent months highlight the priorities and trouble spots that the regime will likely focus upon during the next five years. The congress will ratify a new five-year economic plan that will set the targets for economic performance and establish investment and production priorities for the next few years. The postponement of such a major event in Cuban political life from December to February suggests that the regime—under strong pressure from Moscow to set a new course to improve productivity and performance—is still not entirely settled on the range of policy measures it will adopt. The Cuban leadership may also want to ascertain more clearly the extent of economic reform that Soviet leader Gorbachev will push through at the Soviet Union's Communist Party Congress—also scheduled for next February.

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\$3-3.5 billion to its major Paris Club creditors, [redacted] although only a portion of that total comes due each year. Because of its track record, we believe the Castro regime is likely to face tougher reviewing procedures over the next year as well as limited access to new financing from the Western lenders.

imports; wasting Soviet-supplied oil; unrealistic and costly development plans; and plans to invest heavily in sugar at a time when substitutes were beginning to cut into the world sugar market. The Soviets, [redacted] called more than 20 years of Cuban rationing an embarrassment and a political burden within the hemisphere. Judging from Castro's penitent remarks at last October's CEMA heads of state meeting, Havana apparently also had been harshly reprimanded by Moscow for not meeting CEMA export quotas.

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Soviet Prodding

The Castro regime probably began to rethink its economic policies after Havana's economic mismanagement came under sharp criticism from Moscow last year. [redacted] in 1984 Soviet officials began to censure Havana for profligate use of scarce hard currency on Western

Moscow followed up its harsh words with resolutions at the CEMA heads of state meeting that capped

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Table 2
Estimated Soviet Economic Assistance to Cuba, 1980-84

Million US \$

	1980	1981	1982	1983	1984
Total	3,463	4,558	4,666	4,260	4,620
Economic aid	830	1,415	975	1,070	1,000
Trade ^a	245	912	481	500	460
Development aid ^a	540	453	444	520	490
Technical services	45	50	50	50	50
Trade subsidies	2,633	3,143	3,691	3,190	3,620
Sugar	1,165	1,366	2,580	2,740	3,420
Petroleum	1,480	1,657	1,006	345	100
Nickel	-12	120	105	105	100

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nominal Soviet trade and development assistance at present levels. Adding to Cuba's problems and concerns over future levels of Soviet economic largess, Soviet oil deliveries to Cuba fell dramatically in late 1984 and early this year. [redacted]

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In evaluating these rebukes, Havana could hardly fail to recall how Moscow has used Cuba's dependence on massive Soviet assistance—more than \$36 billion in trade subsidies and development aid since 1960¹—in the past to influence Castro's policy decisions. For example, [redacted] when Cuba's economy was in shambles during the early 1970s as a result of Havana's unsuccessful drive to produce a record 10-million-ton sugar harvest, Moscow forced Castro to accept a series of economic and political policy prescriptions in exchange for a desperately needed increase in technical and economic aid and a deferral of its accumulated debt. In 1970 Havana and Moscow jointly announced the establishment of a

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Cuban-Soviet Commission of Economic, Scientific, and Technical Collaboration. [redacted]

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[redacted] this body became a tool for the Soviets to influence Cuba's economic policy. In 1972 it was also publicly announced by the two governments that Cuba had been admitted to full membership in CEMA. At roughly the same time, Havana reorganized all elements of the Cuban Government, revamped the party and its mass organizations, and planned to hold its first party congress and adopt a new constitution in a series of moves designed to reshape the Cuban political system along Soviet lines. [redacted]

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Castro's most recent actions on the economic front probably also reflect his calculation that there will be little mellowing of Moscow's complaints under the new Soviet leadership. [redacted]

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[redacted] Cuban leadership expects Soviet General Secretary Gorbachev to take an increasingly hardline attitude toward the Cubans. [redacted]

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Havana views Gorbachev as a technocrat who will emphasize efficiency over political ideology and who will make specific economic demands on the Cubans. Moreover, the Cubans worry that former Soviet Ambassador to Cuba Vitali Vorotnikov—a staunch supporter of Gorbachev's economic policies in the Politburo—may well press for closer Soviet control over investments in Cuba. His personal relationship with Castro during his 1979-82 tour in Havana and his firsthand observations undoubtedly left him strong views of the Cuban economy, Castro's meddling in it, and the pivotal role of Soviet assistance. [redacted]

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Although Castro moved to address the Kremlin's economic criticism, he did lash out in other areas. On the basis of diplomatic and press reports, Castro, undoubtedly bristling from Soviet criticism, appeared to snub Soviet officials by his absence from Chernenko's funeral. Moreover, we believe, his apparent reluctance to sign the condolence book for Chernenko in Havana and the lack of a congratulatory message to Gorbachev from Castro in the Cuban press were intended to signal Havana's displeasure. Castro's

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The Soviet Oil Squeeze

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[redacted] Moscow clearly communicated its dissatisfaction with Cuba's economic mismanagement last year and implied that there might be a decline in net real aid flows over the coming five years. The Soviets, however, may have employed at least one other vehicle to carry this message—reduced Soviet petroleum deliveries. On the decline since 1981, Soviet oil deliveries to Cuba slowed dramatically late last fall and early last winter. The decline may have been caused in part by a combination of such factors as Soviet spot shortages, Cuban conservation efforts and shipments to oil-hungry Nicaragua. Whatever the cause, Cuban oil shortages earlier this year undoubtedly underscored for Havana its dependence on Soviet aid, particularly in the energy sector, and probably precipitated Havana's recent moves to institute a variety of energy conservation measures. [redacted]

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Cuba's Energy Trap^a

Cuba depends on the Soviet Union for about 90 percent of its petroleum needs, accounting for almost two-thirds of the island's total energy consumption. In addition, Soviet oil deliveries go a long way in supporting Cuba's hard and soft currency balance of payments. [redacted] resales of the oil Cuba saved on the world market earned more than \$500 million last year, exceeding sugar sales as Cuba's largest foreign exchange earner. Moreover, Soviet oil subsidies to Cuba have accounted for about \$6.6 billion in soft currency assistance since 1971. [redacted]

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[redacted]

Cuba has few domestic energy alternatives. [redacted] domestic oil production is likely to remain marginal, despite recent and planned exploratory drillings. The use of bagasse, a byproduct of sugarcane and Cuba's largest indigenous energy source, will be limited almost entirely to sugar mills because of high-transportation costs. The expansion of gasahol and thermoelectric power production over the medium term will be limited by the significant hard currency expenditures required for development. There is no significant hydroelectric potential nor coal deposits. Nuclear power appears to be the only viable alternative to Soviet oil over the long run and Cuba, with Soviet assistance, is constructing a nuclear power station near Cienfuegos and is planning two others. Even when completed, however—in the 1990s at the earliest—Havana will be dependent on Moscow for uranium to fuel the nuclear reactors. [redacted]

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Moreover, Havana is limited in its ability to cut domestic energy consumption in order to boost hard currency resales or to compensate for a significant cutback in Soviet oil supplies. Havana's export-oriented policies will require increased energy consumption, particularly in the energy-intensive nickel sector. At the same time, there is little fat in private household consumption; this sector accounts for less than 15 percent of Cuba's petroleum demand and already has been hit hard by conservation measures. [redacted]

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abstention from speaking at two important Cuban-Soviet diplomatic functions in Havana was likely yet a further attempt to drive a message home.² [redacted]

[redacted]

Castro's Policy Response

Despite Castro's public displays of displeasure with Soviet pressure, he met the building pressures for economic reform by launching a major campaign

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against waste and inefficiency last year. Cuban officials announced that a last-minute rewrite of the 1985 budget had been undertaken by a special commission of young, highly trained economists and technocrats headed by Council of State Vice President Osmani Cienfuegos. Castro announced that the Cienfuegos team had cut US \$400 million from the initial 1985 budget request, thus limiting this year's budget growth to about 3 percent over 1984 spending. The new budget reflected priorities set forth in a series of speeches by Cuban officials:

- Identify industries that can contribute immediately to the development of hard currency exports and

import substitution in order to accumulate foreign exchange so that Cuba can honor debts to Western creditors, limit import spending, and increase non-sugar export earnings by at least 20 percent.

- Maintain efforts to complete the country's major investment projects—such as the huge nickel refinery under construction—so that Cuba can meet export commitments to the Soviet Union and other CEMA countries.

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- Identify those social programs that most directly affect the population and reduce or eliminate other programs.
- Maintain popular consumption levels, recognizing that the production and importation of consumer items for the public would by necessity have to be postponed.

These priorities clearly indicate the intent to allocate available resources first to production for export. The provision of consumer goods and social services were of lesser importance, and, indeed, much of the budget belt-tightening was aimed at social programs such as health and education. [redacted]

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1985: A Year of Transition

Although Castro's "profound economic revolution" was announced in late 1984, 1985 has been the critical year of transition and implementation of policy changes setting the stage for a new five-year economic plan.³ The announced postponement, however, of the long-planned Third Party Congress from December 1985 to February 1986 suggests to us that some economic policy and organizational changes have yet to be worked out. Castro also probably postponed the congress because he wants a clearer idea of what economic reforms Soviet leader Gorbachev will propose at the February congress of the Soviet Communist Party. Moreover, the Cuban media announcement in November that the party's formal program for the next five-year program will be approved by the Party Congress only in draft—not final—form suggests that Havana is still struggling to reach some sort of consensus on policy reforms. This unusual procedure, designed to allow broader "grass-roots discussion" of its "complex" provisions, probably indicates that the regime is concerned that the program's provisions will be highly unpopular. [redacted]

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We believe that reforms instituted over the past 10 months—and the explanation of such reforms to the

[redacted]

workers, managers, and general population—are an excellent barometer of longer term policy shifts. Judging from the measures taken to date, it appears that intensified energy conservation and consumer sacrifice will set the tone of Castro's new economic policies. [redacted] since last December, fuel allocations to industries, military units, and private automobile owners have been cut. [redacted]

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[redacted] Havana is strengthening its administrative controls over fuel allocation to try to limit availability of fuel on the black market and already has eliminated half of all intercity bus routes to save fuel. [redacted]

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[redacted] the Cuban tuna fishing fleet is being phased out because of inefficient fuel usage.

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And, [redacted]

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[redacted], a cement factory was closed temporarily when it exceeded its allotment for electricity consumption.

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These measures supplement other highly publicized energy conservation initiatives over the past few years such as bonuses for enterprises reducing energy use, switching to fluorescent lighting, and levying surcharges on electricity during peak hours. [redacted]

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Castro's economic advisers have implemented several other measures to trim waste and curb the inefficient allocation of scarce resources. The Cuban press reports that Havana recently launched a savings campaign—including but not limited to encouraging increased bank deposits via marginal increases in low interest rates. The regime is openly cajoling the population to save and recycle scrap metals, paper, and textiles, and offering incentives such as a 10-cent rebate on each gallon of used motor or industrial oil returned to the state. According to the Cuban press, Havana expects to save over \$100 million this year by exporting recycled products or substituting them for costly hard currency imports. On the basis of 1985 budget figures, the construction sector will shoulder the brunt of the budget cuts, with work slowing on low-priority projects including those not contributing to exports or import substitution. Reductions in travel and entertainment expenses for some government officials, salary freezes, and cutbacks in cultural publications and National Ballet performances are among other recent spending cuts. [redacted]

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Philosophical Differences Within the Leadership

As Havana prepares for the Third Party Congress and the announcement of its 1986-90 economic plan, tensions between the pragmatist and hardline factions within the government are likely to grow. The pragmatists, generally members of the pre-Castro Communist Party or technocrats in positions of responsibility in economic ministries, typically see increased contact and trade with the West and material incentives as necessary evils. In contrast, the hardliners, many of whom took part in the guerrilla struggle that brought Castro to power, are concentrated in the military and security establishments and generally view permanent confrontation with the West as necessary to prevent ideological contamination. These individuals believe material incentives and economic ties to the West are corrupting influences that would revive capitalist tendencies.

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The ideological hardliners, after giving way to the pragmatists in the late 1960s and early 1970s, regained their dominant position in the Cuban leadership as a result of the military successes in Angola and Ethiopia in 1976 and 1978, respectively, and the

Sandinista victory in Nicaragua in 1979. However, since the disastrous performance of Cuban forces in Grenada in October 1983, and more recently, the negative turn of events in southern Africa and Central America, pragmatist influence has been on the rise. Moscow's growing determination to halt the escalating financial costs of keeping Havana afloat, coupled with the deteriorating economic picture in Cuba also has strengthened the pragmatists' position.

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By late 1984, Castro had begun to place growing emphasis on economic policy and to set goals such as those announced in his December declaration of "economic war." The new housing law, which went into effect earlier this year, allowing private ownership and encouraging private upkeep and construction, also reflects the growing influence of the economic pragmatists. Castro, a confirmed revolutionary, clearly prefers the dramatic activism advocated by the hardliners, but economic reality—reinforced by pressure from Moscow—will cause him to heed the pragmatists in upcoming policy debates.

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Even the military has been forced to trim its operating forces, although not on a scale that we believe will do any damage to Cuba's military capabilities. [redacted] the Eastern Army earlier this year initiated a reduction in force—under which some reserve personnel were to be discharged—that apparently was put into effect throughout the Army. [redacted] some forced retirements have occurred within the Army and benefits have been reduced for active-duty personnel. Budget cuts also have hampered the operations of at least one training school and caused a reduction in rations and shortages of materials. In addition, [redacted] the military services experienced fuel shortages early this year, probably as a result of reduced fuel allocations, or simply inefficient distribution. [redacted]

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Political Maneuverings

Political changes and bureaucratic restructuring are inevitable this year as Castro acts on the budget revisions and recommendations of the Cienfuegos Commission and prepares the country to move toward the new goals of the next five-year plan. On the basis of recent personnel changes, we believe that, during this period of economic difficulties and Soviet pressures, Castro will continue to replace loyal, but technically incompetent managers with younger administrators and technocrats who have proved themselves in managerial positions and have considerable experience in the economic ministries. [redacted] new managers who have already been named—many of whom have

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previously served in Raul Castro's Ministry of Armed Forces—have been charged with streamlining bureaucracies, reducing interagency squabbling, eliminating inefficiency, and increasing productivity. [redacted]

A number of changes at the substantive and managerial level are already reflected in open sources:

- Politburo member Guillermo Garcia, respected as a revolutionary leader but reportedly an inept administrator as Minister of Transportation, has been replaced by 45-year-old Diocles Torralba, a former top military officer under Raul who has headed the important sugar industry since 1972.
- Politburo member Humberto Perez, Minister-President of the Central Planning Board (JUCEPLAN) has been replaced by Jose Antonio Lopez Moreno, a 48-year-old technocrat. Lopez Moreno has had a long career in public works, most recently as Minister of Construction, and probably has been ordered to improve the planning of investment and inventory needs of the various ministries. Before his dismissal, Perez criticized JUCEPLAN's track record and admitted his failure to consult satisfactorily with other ministries before drawing up national investment goals. In addition, many responsibilities of JUCEPLAN appear to have been taken over by the economic team headed by Osmani Cienfuegos.
- Francisco Garcia Valls has been removed from his job as minister-president of the State Committee for Finance and has been replaced by 42-year-old Rodrigo Garcia Leon. Garcia Leon held an economic post under Raul in the Armed Forces from 1966 to 1976 and served as first vice president of the State Committee for Material and Technical Supply since 1976. [redacted]

We expect to see continued bureaucratic shuffling before the next party congress as Havana cleans house and prepares to present its usual themes of unity and common purpose. [redacted]

[redacted] Havana plans to differentiate clearly between the party and the government in order to protect the party from criticism for the effects of administrative inefficiency and economic mismanagement. The expected changes reportedly will involve relieving most

Politburo members of their responsibilities as heads of government ministries. By placing responsibility on government officials, the regime will have a ready supply of convenient scapegoats should it become necessary to assuage popular discontent over economic conditions. [redacted]

[redacted]
Hector Rodriguez Llompart, 51, head of the State Committee for Economic Cooperation, will assume new duties to groom him to eventually take over many of the responsibilities of his patron, Vice President Carlos Rafael Rodriguez, Castro's aging chief adviser in the economic and foreign policy areas. Rodriguez Llompart will be replaced by 49-year-old Levi Farah, the effective head of the enterprise that manages Cuba's construction brigades abroad. [redacted]

In recent months, the US Interests Section has reported that rumors have been circulating among diplomats in Havana that Raul Castro will replace his brother Fidel as president of the Council of Ministers. In that role, in charge of the day-to-day functioning of the government and the bureaucracies, Raul would, in our opinion, demand more responsiveness and be ready to remove or scapegoat those who did not measure up. We doubt that Fidel would truly relinquish power, but we believe he would be willing to share it with his loyal brother while remaining the ultimate authority on important economic and political decisions. This arrangement, moreover, would give Fidel more time to ride favorite international hobby-horses such as the Latin American debt problem. [redacted]

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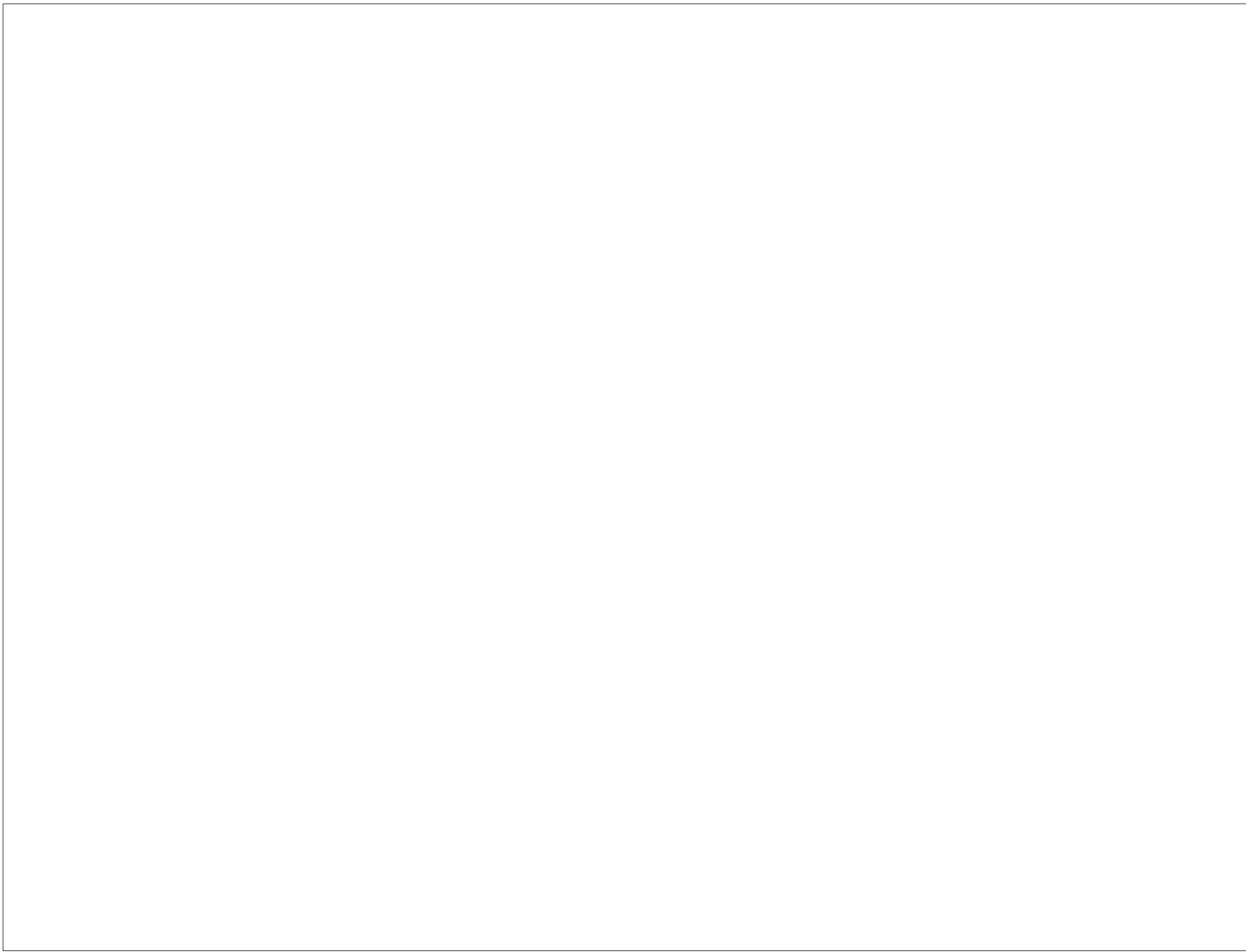
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the unprecedented media attention to Raul's nonmilitary duties is meant to boost his popular support and pave the way for his assumption of new functions.

[redacted]

[redacted] we suspect that the announcements at the party congress will encompass at least three major areas:

- *Decentralization of economic decision making*—we believe that the pragmatists will push to allow workers a greater voice in setting production targets to improve morale, and to finance more enterprise investment costs from earnings so as to reduce state expenditures. Attuned to what Soviet economic policy makers are advocating in Moscow, the pragmatists also may prescribe reforms at the enterprise level in hopes of spurring increased innovation and productivity. According to press reports, at a recent

Outlook for the 1986-90 Economic Plan

We believe that continued strong pressure from Moscow and Castro's growing economic difficulties will hold Havana to its austerity theme—at least over the medium term. Although we cannot be sure until the Cubans announce the details of their reform package—probably on the eve of the party congress—there are numerous signals that Castro plans to move on a number of fronts. [redacted]

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meeting of the State Committee for Finance, officials were warned to prepare for new taxation, pricing, and accounting systems that would incorporate the profit motive and thus increase enterprise autonomy.

[redacted] Ramon Castro, Fidel's older brother and director of a livestock breeding farm, said that the government recognized that some decentralization of economic decision making has to be made, [redacted]

[redacted] leaders of the organization responsible for construction work abroad will have more authority and flexibility to conduct business, while being held personally accountable for failure.

• *Increased material incentives*—despite the almost certain disgruntlement among hardline, ideological purists, we believe that Havana is planning a cautious increase in wage and price incentives. In a recent speech, Castro denigrated the former practice of equal pay for unequal productivity and the excessive reliance on the worker's sense of responsibility or moral incentives. A vice president of the State Committee for Finance stated publicly that Cuba would undergo a major wholesale price reform over the next five years, whereby domestic consumer prices would be measured against fuel costs. Some willingness to experiment with material incentives is indicated by the recent enactment of a housing law, which encourages the building and maintenance of homes by private citizens. For the most part, additional incentives would provide a low-cost means of improving living standards for some, while encouraging a general improvement in Cuba's dismal overall productivity.

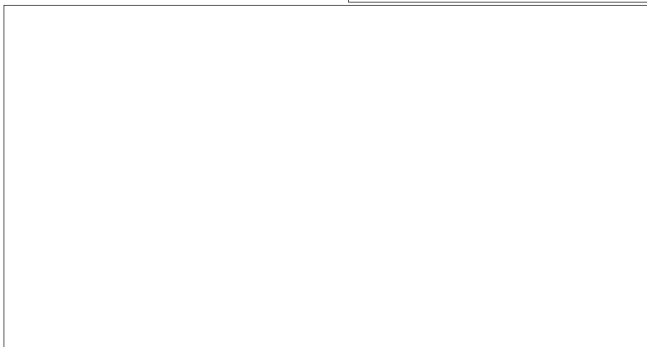
• *Attempts to generate hard currency*—we believe that Havana will attempt to expand its extensive network of foreign businesses established over the past five years in order to generate needed hard currency earnings as well as provide access to Western markets and technologies. This will be particularly true if, as we expect, the Soviet Bloc fails to come through with any significant increase in real economic assistance over the period. Cienfuegos's staff already is involved in efforts to increase

the number of Cuban businesses in capitalist countries. In addition, we have noted an increasing variety of Cuban Government strategies—from the development of flashy tourist resorts to a line of Cuban cosmetics for export—designed to pump up Havana's hard currency reserves.

The Impact of Austerity

We believe that austerity measures, energy conservation, and budget restraint, combined with continuing weak demand for primary Cuban exports, will contribute to low growth rates for the next several years. Energy shortages will cut into agricultural and industrial output, while restrictions on government spending for construction and social services will dampen economic activity. Moreover, this year's severe drought is expected to hurt agricultural output next year. Castro recently announced that next year's sugar harvest could be 1 million tons less than last year's because of the drought. Production delays are likely to stem from shortages of productive inputs such as fertilizers, seeds, and spare parts. Efforts to generate hard currency are likely to be more than offset by continuing soft world market prices for sugar and nickel. This will foil Havana's plans to fuel growth by importing industrial inputs from the West.

The expected slowdown in national output over the next few years will come at a time when large numbers of youth entering the job market are already unable to find full-time work.



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Castro: Commitment to Economic Reform?

We believe that the austerity measures applied to date and the recent advancement of technically competent advisers to ministerial positions demonstrate Havana's desire to improve the efficiency of its domestic production and its balance of international trade. We expect that continuing Soviet pressure for economic reform will ensure that these goals are reflected in its next five-year plan, although agreement on the particulars have yet to be worked out. Nevertheless, the successful implementation of the upcoming plan, like all other Cuban economic programs, faces several obstacles, not the least of which is Fidel Castro's reluctance to decentralize authority.

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[redacted]

Castro has had a long history of meddling with the Cuban economy, often to the detriment of his own goals. [redacted] he has difficulty accepting advice and considers himself the ultimate authority on the most minor details. These traits were underscored dramatically by Castro's stubborn effort in 1970 to produce a 10-million-ton sugar harvest. The campaign—discouraged by his economic advisers—caused massive resources to be diverted from all sectors of the economy and depressed economic production for a number of years. Castro also has been known to take an interest in the smallest facets of programs, from livestock breeding to medical research, without having the appropriate technical background. According to a Western diplomat, for example, Castro impulsively started pushing buttons at the opening of a new, automated yogurt factory—heedless of the technicians' protests—totally incapacitating the factory for several months.^a

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Castro also has been known to backtrack on economic programs for political expediency. "Farmers' free markets"—which allow farmers to sell surplus crops at prices determined by supply and demand—were legalized in 1980 only to be curtailed after two years when ideological purists argued that the negative political and moral effects of the markets outweighed the economic benefits. [redacted]

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We believe, in light of his past history, that Castro could be swayed relatively easily from his declaration of "economic war" against inefficiency. For example, Castro will find it difficult not to intervene in economic matters delegated to lower authorities. He also may increase consumer imports in response to growing domestic discontent, as he has in the past, or pump up the military budget to placate hardliners concerned about weakening Castro's defenses. Havana already has retracted its vow to cut expenditures on international conferences by hosting several all-expense paid meetings on the Third World debt crisis. [redacted]

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Even with Castro's cooperation, Cuban planners are likely to run up against problems, largely because the preliminary goals announced by Castro in his declaration of economic war are unrealistic and often contradictory. For example, Havana's overambitious plan to boost hard currency exports will be limited by the need to fulfill CEMA export targets. Castro has already undermined his goal to cut import expenditures by announcing a planned 11-percent rise in Western imports this year. [redacted]

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[redacted] Castro's intention, announced in a speech last winter, to shift workers out of inefficient factories could cause a temporary spurt in unemployment. If further personnel reductions in the military occur, particularly if they approach those that occurred during the austerity period of the late 1960s, unemployment would jump sharply.

rationing. The need, however, to limit import spending and to devote resources to exports probably will prohibit Castro from increasing the availability of consumer items such as radios, refrigerators, and televisions as he did for a brief period following the Mariel exodus in 1980. [redacted]

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[redacted]

Political Liberalization Unlikely

In our judgment, there is little that Castro can do over the short term to alleviate growing unemployment pressure. Havana's renunciation of the emigration agreement reached with the United States last winter, wherein up to 30,000 Cubans would have been allowed to emigrate annually, eliminated an important outlet for unemployed and discontented Cubans. One possible alternative for Havana could be to institute new jobs programs, including the formation of a civilian jobs corps to accommodate civilians and former military personnel similar to the organizations formed in the mid-to-late 1960s. Such a program, however, is likely to involve make-work projects such as digging "defensive" trenches and air raid shelters that could just as easily sap popular revolutionary fervor as add to it. [redacted]

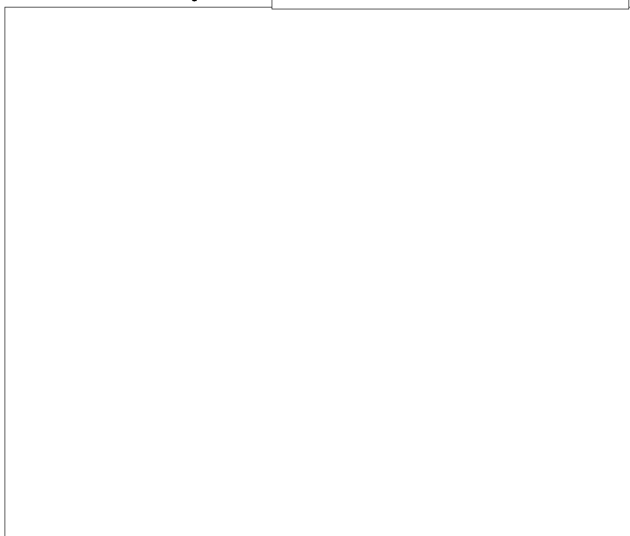
Although the Castro regime may introduce a measure of increased economic liberalization over the next few years, we do not believe there will be any corresponding increase of political freedom. Indeed, the government is concerned about popular response to increasingly austere living conditions, [redacted] and there are indications that the state already has begun to prepare the citizenry for more repressive measures and regimentation in their daily lives. [redacted]

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[redacted], Havana plans to become more involved in international construction projects, particularly in Africa and the Middle East, and to provide educational assistance abroad in an effort to provide employment for a large number of young Cubans, whom the government fears could become restless without opportunities to practice newly acquired skills. Havana will have to work hard, however, to fan the enthusiasm of foreign governments to host Cuban personnel. The Iran-Iraq war forced Cuba to withdraw advisers and workers from Iraq several years ago, and more recent approaches, such as Havana's offers to Egypt, Kuwait, and South Yemen, have been unsuccessful. [redacted]



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Attempts to reinvigorate ideological fervor also probably will entail an increasingly doctrinaire media. Apparently as an initial step toward the new indoctrination program, it was announced in January that the party's secretary for ideology was being sacked from both the Politburo and Secretariat and his ouster was followed by the removal of a number of his underlings in the party and the media. The officials named to replace those fired are known more for their close relationship to Fidel and Raul Castro than for any

Declining domestic consumption, resulting from the new austerity measures, and the drive to reorient the economy toward exports will provide an additional irritant to the Cuban population. The extent to which Havana can control rising consumer dissatisfaction will depend to some degree on the economic incentives it chooses to employ. We expect Havana to move toward price and wage reforms and possibly reduce

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25X1 special ideological or media expertise, and they will ensure that media behavior is closely tailored to the Castros' wishes. [redacted]

and the spotlight—for Castro's views on regional problems and Third World issues. [redacted]

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We also anticipate an intensification of Havana's efforts to crack down on the corruption of midlevel officials, the theft of goods and materials by workers, small-scale industrial sabotage, absenteeism, hoarding, and other "counterrevolutionary" activity that we believe is likely to increase as austerity policies take hold. [redacted]

Nevertheless, we do not expect Castro to waver from his commitment to promoting violent revolution abroad, which he has continued with varied intensity over the past three decades. We have seen no sign that the influence of his chief protagonist of armed struggle, Manuel Pineiro, has diminished and Cuba's vast apparatus for supporting subversion remains intact. We believe that Cuban foreign policy priorities will remain largely immune to the economic austerity measures imposed on other elements of the government. In our judgment, Cuba's relatively inexpensive support to insurgent groups in Central America and elsewhere, and Castro's even less expensive political hobbyhorse—the Third World debt reform movement—will continue to be funded in accordance with their political importance and at the expense of domestic services and consumption. [redacted]

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Castro already has unleashed Interior Minister Ramiro Valdes to investigate corruption and morale problems in the Ministry of Transportation's overseas companies. Raul Castro also has embarked on a campaign to replace all officers not sufficiently ideologically committed to the regime, [redacted] many officers expect to be sent to the Territorial Militia as a form of punishment or forced to join the ranks of the "internationalists" abroad. [redacted]

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Implications for the United States

We see no indication in Cuban public statements or actions that the recent tensions between Havana and Moscow will bring any fundamental change in the relationship. Castro has no alternative to the massive Soviet economic and military assistance that keeps his government afloat and permits him to pursue his foreign policy options in the Third World. Indeed, we believe that Cuba is moving rapidly to respond to Soviet criticism of its economic performance. Frictions between the two countries are bound to persist, but, in our judgment, these disagreements are symptomatic of a patron-client relationship in which both parties are maneuvering to maximize their gains and do not threaten the bonds between Havana and Moscow. [redacted]

Cuba's unemployment and underemployment problem also will be a factor, although not the determining one, influencing Castro's decision regarding the withdrawal of troops from Africa. In our opinion, with over 40,000 troops and military advisers abroad and another 20,000 civilian technicians working overseas, Castro would only reluctantly return a substantial number of these to an economy already struggling to absorb a youthful labor force. Indeed, we expect Cuba to seek new openings in the Third World to try to export some surplus labor, particularly its civilian "internationalists." [redacted]

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In our opinion, Castro will moderate his rhetoric concerning Cuban support of national liberation movements in order to improve his chances of expanding and strengthening diplomatic, commercial, and cultural ties to the West. We also expect him to be careful to mask Cuba's hand in sponsoring guerrilla activities—depending more on intermediaries such as Nicaragua and allied revolutionary movements—in order to avoid sparking a direct confrontation with Washington. [redacted]

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We believe that Castro will follow the basic thrust of pragmatist proposals to expand diplomatic, commercial, and cultural contacts with the West. Castro's advisers probably hope that strengthening ties will bring some economic relief in the form of increased Western credits and trade while gaining credibility—

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At the same time, Havana will use propaganda attacks against the United States to stimulate popular enthusiasm and rekindle revolutionary spirit at home, thereby distracting attention from economic hardships. Castro probably will continue to paint Washington as the aggressor by focusing its rhetorical attacks on so-called provocative and aggressive acts such as Radio Marti broadcasts and US intelligence overflights. He will continue attacking US policy regarding the international debt crisis in an effort to stir regional sympathies and sway opinion against the United States.

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Over the longer term, however, we believe that a combination of domestic pressures could again force Castro to rethink relations with the United States. His interest in reinitiating his "peace offensive" of last winter, for example, could be prompted by a desire to reopen Cuban emigration to the United States. An improved political climate between the two countries would also boost his chances of obtaining stronger economic ties to Europe and the West. If Castro decides to renew his overtures to the United States, he will probably signal his intent by sending out feelers early on so that he could gauge the possible reaction from Washington.

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