

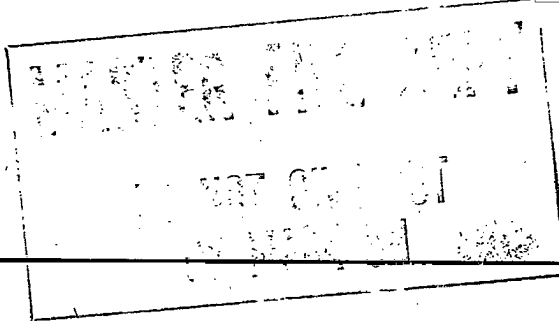
Page Denied



Directorate of
Intelligence

Secret

25X1



Cuba: Developing New Western Export Strategies

25X1

A Research Paper

PROJECT NUMBER	<u>ALA 6158 88</u>	<u>AL</u>
I W M	<u>OK</u>	
PAGE NUMBERS	<u>12</u>	
TOTAL NUMBER OF COPIES	<u>420</u>	
DISSEM DATE	<u>880913</u>	
EXTRA COPIES	<u>309-337</u>	
RECORD CENTER	<u>338-387</u>	
JOB NUMBER		

Secret

ALA 88-10041
August 1988

Copy 308

Page Denied



Directorate of
Intelligence

Secret

25X1

Cuba: Developing New Western Export Strategies

25X1

A Research Paper

This paper was prepared by
Office of African and Latin American Analysis. It
was coordinated with the Directorate of
Operations.

25X1

25X1

Comments and queries are welcome and may be
directed to the Chief, Middle America-Cuba Division

25X1

Reverse Blank

Secret

*ALA 88-10041
August 1988*

Secret

25X1

**Cuba: Developing New
Western Export Strategies**

25X1

Summary*Information available
as of 30 June 1988
was used in this report.*

Since 1984, President Fidel Castro has focused Cuban export policies on increasing hard currency revenues in an attempt to balance foreign financial accounts and shield the Cuban population from further austerity. Havana's export strategy—which combines the simultaneous expansion of traditional export products with the development and marketing of nontraditional products—has proved largely unsuccessful so far, however.

25X1

Attempts to expand hard currency earnings from traditional exports—such as sugar, fish, nickel, tobacco, coffee, and citrus—have been undercut by low production rates, declining world prices, and the growing diversion of these products to Soviet Bloc countries under various bilateral trade and aid agreements. Castro's efforts to develop nontraditional export products, particularly in the electronics, biotechnical, and medical industries, have been hindered by foreign exchange shortages and a lack of management and technical expertise.

25X1

Similarly, Havana's attempts to attract new trade partners have been undercut by Cuba's inability to finance the hard currency imports under reciprocal bilateral trade agreements. Western investors also have responded poorly to recent aggressive Cuban initiatives designed to attract investment to the export sector, such as the sponsoring of international trade fairs and the relaxation of foreign investment restrictions.

25X1

We do not expect Cuba's export situation to improve significantly in the next several years, largely because Cuba's Soviet Bloc benefactors and Western creditors are unlikely to provide sufficient financial support. Significant frictions since 1984 between Moscow and Havana over economic policy have led to greater Soviet control over project aid and increased pressure on Havana to meet its export commitments to the Soviet Bloc. Without a turnaround in Cuban economic performance—preferably with some commitment by Havana to Soviet-style reforms—we believe Moscow will not significantly increase the hard currency assistance critical for Cuban export development. At the same time, Havana's trade policy failures and its inability to reschedule its \$6 billion debt to Western creditors will continue to limit Western credit flows to Cuba.

25X1

Continuing poor export performance suggests that tighter Cuban austerity measures are inevitable. Reduced levels of consumption and increased unemployment are likely to boost already rising domestic discontent. Such

Secret*ALA 88-10041
August 1988*

Secret



25X1

internal pressures may provide Havana incentives to make overtures to Washington in an effort to reduce some of the restrictions of the US trade embargo. The Cuban Government may also want to maintain the emigration agreement with the United States in order to provide an outlet for Cubans disgruntled with the economic situation.



25X1

Secret

Contents

	<i>Page</i>
Summary	iii
Scope Note	vii
Background	1
Continuing Export Problems	1
Recent Export Strategies	2
Pushing Traditional Exports	3
Generating Nontraditional Exports	5
Better Marketing	6
Attracting Foreign Investment	7
Developing an "Export Mentality"	7
The Soviet Perspective	10
Prospects	11
Implications for Cuba and the United States	11

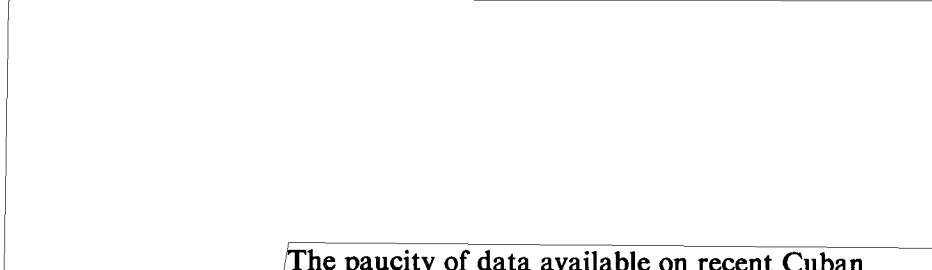
Secret



25X1

Scope Note

This paper examines Havana's efforts to increase exports to the West in order to improve its foreign financial position and domestic economic conditions. It is the fifth of a series of assessments analyzing Cuban economic performance since the Cuban export drive was launched in 1984.



25X1

The paucity of data available on recent Cuban economic performance has limited the statistical base for this paper to the largely cursory information Havana has provided to its Paris Club creditors. Judgments in this assessment stem largely from



25X1

reporting from the US Interests Section in Havana, and the Cuban press.

25X1

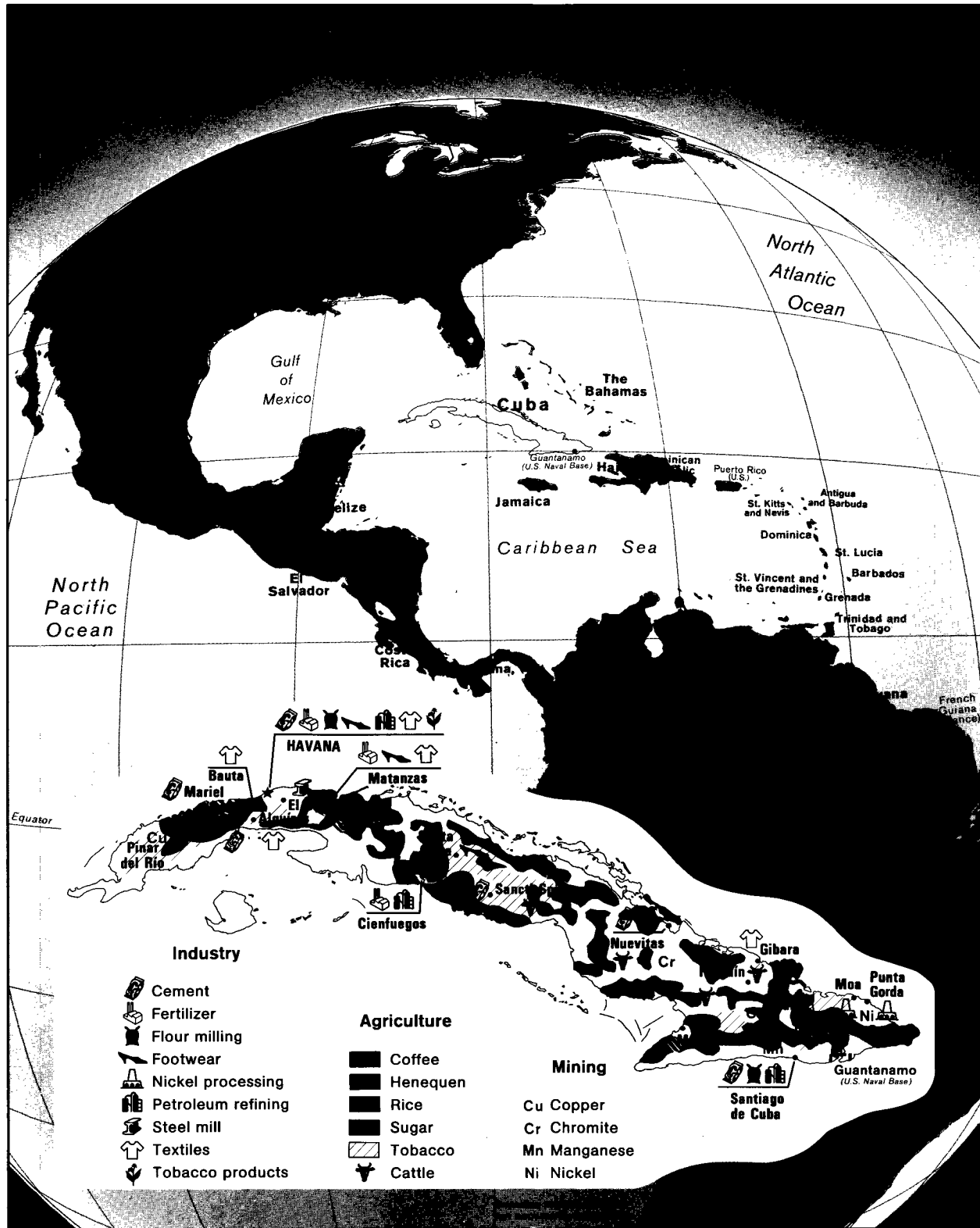
25X1

25X1

Secret

Secret

25X1



714165 (A04683) 8-88

25X1

Secret

Secret

25X1

Cuba: Developing New Western Export Strategies

25X1

Background

In late 1984, Havana began devoting significant attention to reinvigorating hard currency export revenues in order to support the high levels of Western imports it judged necessary for domestic economic growth.¹ In line with its new focus, Havana set a goal for nonsugar hard currency export earnings to rise by almost 60 percent by 1990, according to press statements by the Cuban Minister of Foreign Trade. The Cuban Government lowered interest rates for investments in export industries and planned to spend some \$5 billion annually to diversify exports—even as it trimmed expenditures in all other sectors of the economy. Havana's resolve to boost export revenues intensified after 1984, moreover, as Cuba's hard currency trade and current accounts continued to deteriorate.

This paper examines Havana's strategies to increase traditional and nontraditional export earnings, the prospects that those strategies will succeed, and Soviet Bloc and Western creditor frustrations with Cuban economic policies. It also examines the implications for the United States of Cuban export policies, including Havana's continued efforts to evade the US trade embargo—which has prohibited virtually all trade and financial dealings with Cuba by US citizens and corporations since 1962.

Continuing Export Problems

Cuban trade performance has weakened considerably since 1984, despite the inauguration of Havana's export drive. A series of economic developments beyond the government's control, along with counterproductive Cuban economic policies and technical and financial constraints, have combined to weaken Cuban export performance. From 1984 to 1986, hard currency export earnings dropped 15 percent, with only a partial recovery last year.

¹ Included under the discussion of exports in this paper are merchandise and service exports.



Figure 1. Cuban President Fidel Castro launched the nation's export drive in late 1984, declaring increased export revenues to be Cuba's first priority. Castro has called on all Cubans to adopt an "export mentality" without succumbing to consumerism.

25X1

25X1

25X1

25X1

Havana's plans to increase its foreign exchange income have been undermined by a series of external events:

- A hurricane in 1985 and persistent drought since then have trimmed production of many traditional agricultural export products—including sugar—which had accounted for more than half of all hard currency export earnings in the early 1980s.
- The downward spiral of world oil prices from 1984 to 1986 halved revenues from the resale of Soviet-supplied oil—which had surpassed sugar sales as a

25X1

25X1

Secret

Secret

Cuba: Hard Currency Earnings From Soviet Oil

In 1987, Cuba reported earnings of roughly \$350 million from reexports of oil supplied by the Soviet Union, representing the island's leading source of foreign exchange. Havana receives approximately 13 million metric tons of oil from Moscow each year, and it sells about a quarter of this allotment to Western countries for hard currency. Soviet oil that Cuba reexports does not physically pass through the island, but is sold for Cuba by Moscow—usually to West European customers. Cuba is trying to boost its domestic production of oil in order to leave a greater portion of its Soviet allotment available for export. Havana pumped approximately 900,000 metric tons of crude oil in 1987, and the Cuban Government hopes to increase domestic petroleum production to 2 million tons per year by the end of the decade.

source of hard currency in 1983. Moscow apparently has refused to increase significantly the amount of petroleum products available for Havana to resell for scarce hard currency, according to official Soviet and Cuban trade statistics.

- The relative decline in the value of the US dollar, which Cuba receives for the bulk of its hard currency commodity exports, has cut the buying power of its export earnings

Meanwhile, Havana's rigid economic policies since 1984 have severely limited its flexibility to deal with growing trade imbalances and heightened production problems in all export sectors. The Cuban Government's failure to institute promised austerity measures—such as reducing hard currency imports—aggravated Western creditors and slowed critical trade financing and investment credit flows necessary for export development. President Castro's economic rectification campaign also removed some popular work incentives, which have had a negative impact on production by diminishing worker enthusiasm and entrepreneurial initiative.

Cuban efforts to raise hard currency export revenues have been hampered by several other factors, in our judgment. A shortage of Cuban managerial and technical expertise has heightened quality-control problems in export and other economic sectors. As a result, many Cuban products such as plastics, paint, computer programing, and machinery have fallen short of acceptable standards and have not sold well, according to a number of Havana's Western trade partners. Cuban clothing sent to Japan, for example, has been outdated, of poor quality, and unseasonable, while Cuban soap has crumbled upon use and its coffeemakers have had a tendency to explode.

Cuba has had problems competing with other developing nations, which have better access to lucrative Western markets. For example, other Caribbean nations have preferential trade arrangements with Western countries as members of the Commonwealth, by virtue of their close association with France or the Netherlands, or through qualification for the US Caribbean Basin Initiative.

Finally, growing financial pressures have pressed Havana to cut those imports of Western goods and technology critical to export development. From 1984 to 1987, declining export receipts contributed to more than a threefold increase in Cuba's current account deficit—to \$900 million—and the near total draw-down of foreign exchange reserves. Havana's inability or unwillingness to balance its hard currency accounts, moreover, aggravated Western creditors so that debt negotiations with official Paris Club and commercial creditors reached a standstill in 1986. Consequently, Havana has turned to expensive, short-term trade credits to finance the most critical inputs for the export sector and elsewhere.

Recent Export Strategies

As its hard currency situation has worsened, Havana has pursued more aggressively its dual export strategy. The Castro government appears wedded to the

25X1
25X1
25X1
25X1
25X1
25X1

Secret

Secret

Table 1
Cuban Hard Currency Current Account
Balance, 1982-87

Million US \$

	1982	1983	1984	1985	1986 ^a	1987 ^a
Trade balance	727	511	82	73	-111	228
Exports	1,627	1,431	1,283	1,356	1,089	1,188
Sugar	793	368	258	187	244	NA
Petroleum products	216	578	548	573	301	NA
Imports	900	920	1,201	1,283	1,200	960
Net services and transfers	-368	-273	-321	-226	-371	-1,128
Current account balance	359	238	-239	-153	-482	-900

^a Estimated.

simultaneous expansion of traditional export products—sugar, fish, nickel, tobacco, coffee, and citrus—and the development of nontraditional exports ranging from high-technology electronics to scrap industries. At the same time, Havana has sought to identify new trading partners and has made efforts to explore a variety of alternative financing mechanisms in order to diversify Cuban access to foreign markets. Havana also has tried to develop an “export mentality” among Cuban workers to increase productivity. [redacted]

Pushing Traditional Exports

The Cuban Government has poured significant investment funds into expanding production of traditional export products—particularly sugar—despite continued adverse weather conditions and unfavorable commodity price movements. Havana's recent investments in several new and renovated sugar mills and hard currency expenditures on Western sugar harvesting machinery, for example, were made despite poor long-term prospects for world sugar prices [redacted]

The poor performance of sugar has placed increased pressure on the Cuban Government to maximize profits from Cuba's nonsugar traditional export products—which made up nearly 25 percent of total

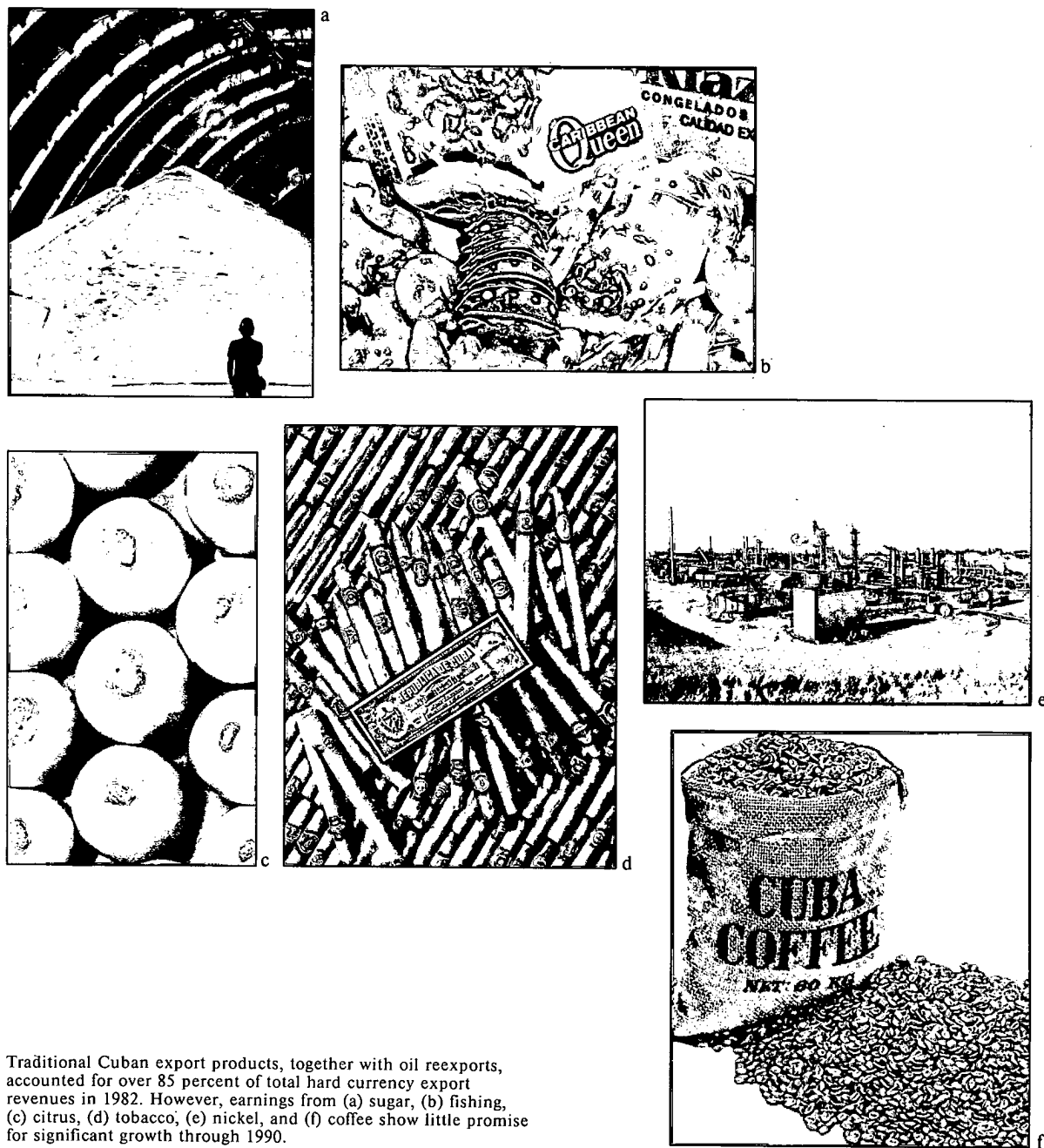
export revenues in 1986. Some of the mixed results of these efforts are:

- *Fish.* Havana's fishing industry has been rebuilding from a downturn in the late 1970s and early 1980s. The expansion of fish exports to some 13 percent of total hard currency exports in the 1984-86 period has been one of the few bright spots in Havana's export picture. Havana also has succeeded recently in boosting shellfish sales, particularly to Spain and Italy.
- *Tobacco.* Recent troubles with blue mold disease and persistent drought have frustrated Cuban attempts to increase yearly output above 40,000 tons. The inability to secure new technology to produce cigars and cigarettes also has contributed to the slow development of the industry. In addition, poor quality control and distribution problems appear to have frustrated Cuban efforts to expand tobacco sales in Europe.
- *Coffee.* Havana recently has launched a drive to boost coffee production, using pay hikes for mountain farmers and stricter enforcement of production quotas. The Cubans also have aggressively marketed Cuban coffee abroad, particularly to Japan and France. Havana imports lesser-quality coffee for domestic consumption in order to free Cuban coffee for export. Nevertheless, coffee production and sales have lagged—consistently contributing less than 5 percent to hard currency receipts.
- *Nickel.* Cuba has been expanding its nickel facilities with Soviet financing, equipment, and technical assistance. Hard currency earnings from nickel sales, however, have been undercut by trade agreements with Moscow that direct the bulk of nickel output to the Soviet Union, and by US agreements with several of its trading partners that prohibit use of Cuban nickel in steel exports to the United States.
- *Citrus.* An experimental program financed largely by CEMA countries has quadrupled the hectareage under citrus cultivation since 1969; however, citrus

Secret

Secret

Figure 2
Traditional Cuban Exports



Traditional Cuban export products, together with oil reexports, accounted for over 85 percent of total hard currency export revenues in 1982. However, earnings from (a) sugar, (b) fishing, (c) citrus, (d) tobacco, (e) nickel, and (f) coffee show little promise for significant growth through 1990.



318645 8-88

25X1

Secret

Secret

sales still account for less than 1 percent of total Cuban hard currency income. Cuba's export commitments to the Soviet Bloc, which leave only 5 to 10 percent of citrus output for Western consumption, have left Havana only limited earnings from this crop.

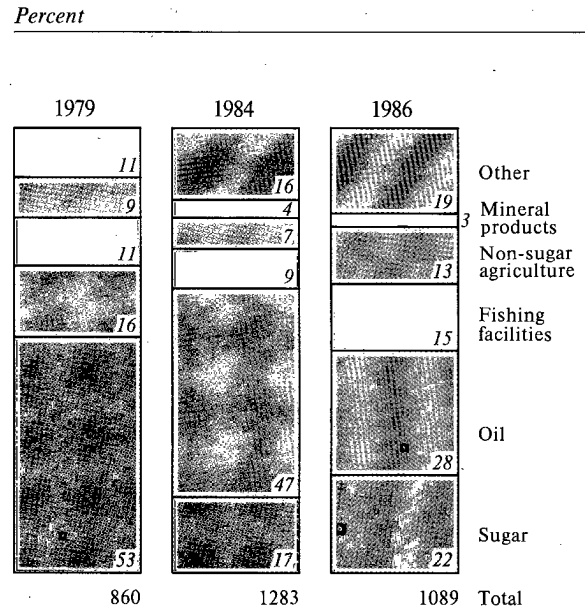
Generating Nontraditional Exports

Havana also has been working to develop nontraditional export products and services—which account for about 15 percent of total hard currency export receipts—to supplement earnings from traditional primary commodities. The Cuban Government has been able to direct some of its Soviet Bloc funding and technical assistance—as well as its scarce hard currency resources—in the research, development, and marketing of electronics, biotechnical, medical, and other products. President Fidel Castro—who is fascinated with grandiose development projects—has singled out these industries as having outstanding growth potential in his public addresses.

Biotechnical and Medical Products. A new biotechnology center, inaugurated in 1986, was intended to establish Cuba as a regional and possibly world-class leader in biotechnology development. So far, however, that goal has proved elusive. The center was constructed at a cost in excess of \$100 million and was designed to consolidate research in medical, agricultural, and industrial applications of molecular biology. Domestic needs and those of potential Latin American customers motivated Cuba to concentrate on developing such products as vaccines, interferon and insulin, plant varieties resistant to regional diseases and climatic stress, and methods to convert sugarcane waste to animal feed. Despite high-level government support, however, Cuba has not been able to meet world standards for biotechnical production nor translate its research into significant export earnings.

Similarly, Havana's efforts to promote the export of other medical products and equipment have been impeded by chronic shortages of critical technological inputs and by intense international competition. Cuban efforts have focused on developing markets for veterinary and human drugs, optical products, laboratory and hospital furniture, and equipment in Latin

Figure 3
Relative Commodity Share of Exports to the West 1979-1986

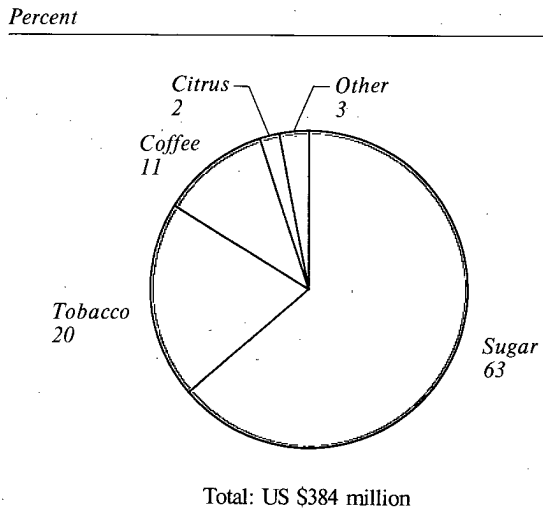


25X1

25X1

25X1

Figure 4
Cuban Agricultural Exports to the West, 1988



25X1

25X1

Secret

Secret

American and other Third World countries. Cuba has hosted international trade expositions in the field of medical technology and has struggled—so far unsuccessfully—to host the International Medical Congress. [redacted]

In the health services field, Havana has actively tried to establish a “health tourism” industry designed to offer medical treatment to visiting foreigners in return for hard currency. [redacted]

Castro sees successful heart transplant operations performed in Havana as a way to advertise Cuban medical technology and the low-cost medical care. US officials note these efforts have attracted substantial numbers of patients from the Caribbean and Latin America. The Cuban Government also has continued its longstanding program of sending medical personnel abroad, although the bulk of these are serving in countries that generally have been unable to pay for such services in hard currency. [redacted]

Electronics. Former Interior Minister Ramiro Valdez has helped guide development of the domestic electronics industry and planned in 1984 to expand electronics production about 20 percent per year through 1990. [redacted]

Official

Cuban statistics indicate, however, that the bulk of Cuban electronic exports have gone to CEMA trade partners to settle noncash accounts. Indeed, development of a Cuban electronics industry may involve a net loss of hard currency, because the components for the assembly of much of this equipment were purchased initially from Western countries for hard currency. [redacted]

[redacted] On the positive side, Cuba has managed to turn the pirating of US films from satellites for conversion to video cassette tapes for local replay and reexport to Latin American markets into a profitable export enterprise [redacted]

Better Marketing

Since the mid-1980s, Havana has courted a number of countries in an effort to diversify its export markets and broaden commercial ties. The Cuban Government has launched a series of international trade shows both in Havana and abroad and has mobilized

Havana: Other Efforts To Earn Hard Currency

In addition to the biotechnology, medical goods and services, and electronics export projects favored by President Castro, the Cuban press and US Interests Section report that Havana is spending considerable resources on developing its tourist industry and marketing its labor abroad. [redacted]

Tourism. *Tourist service payments ranked among Cuba's top five hard currency earners in 1986.* [redacted]

[redacted] *Lack of significant Western investment, a plethora of transportation and supply problems and poor hotel services have limited expansion plans so far, however.* [redacted]

Workers Abroad. *Havana sends a corps of technicians, construction workers, and military personnel to work abroad, often for partial payment in hard currency. UNECA, a government-controlled corporation responsible for exporting construction labor, was targeted to earn \$26 million in 1986, with an increase in each subsequent year.* [redacted]

[redacted] *For example, Havana receives both hard currency and oil from Tripoli in exchange for the services of some 3,500 Cuban civilian technicians and advisers. Cuban military personnel serving abroad also earn hard currency for Havana, and we estimate that Cuban combat troops in Angola cost Luanda about \$150 million yearly with perhaps another \$150 million to cover the cost of civilian advisers there. We believe, however, that Havana has not received regular hard currency payments from Luanda in recent years.* [redacted]

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

Secret

Secret

its network of at least 27 parastatal marketing organizations to make new official trade contacts and to peddle Cuban products. While these efforts have resulted in generating a large number of new trade partners for Cuba, they are primarily financially strapped Third World nations who can only purchase Cuban exports on barter terms, according to press reports. [redacted]

Havana's efforts to broaden ties in Latin America have been limited by financial constraints, moreover. The large markets in Brazil, Argentina, and Mexico have been particularly attractive to Cuba, but Havana's inability to finance its exports has helped thwart several proposed reciprocal trade arrangements. [redacted]

Meanwhile, Havana has continued efforts to evade the US trade embargo and sell in the US market through a network of front companies in Latin America, Western Europe, and Japan. These companies have tried to redirect Cuban exports such as shellfish to the United States and to secure high-technology goods in return. [redacted]

[redacted] we believe the Cubans probably will continue to rely on front company operations to evade the US embargo. [redacted]

Attracting Foreign Investment

As part of its overall strategy to promote exports, Havana has been working to attract foreign investors to the trade sector. [redacted]

[redacted] Foreign investment laws, liberalized in the early 1980s, allow 50 percent foreign ownership in Cuban joint ventures. Havana also has sought Western technical expertise for development projects in the sugar industry and for oil exploration and drilling activities. [redacted]

Few Western investors have taken advantage of the joint venture options offered by Havana, however, [redacted]

Havana's redtape, administrative delays and costs,

Table 2
Market Economy Countries' Purchases
of Cuban Goods, 1986

Percentages

Japan	18
Spain	14
Switzerland	9
France	8
Canada	6
Italy	5
Egypt	4
United Kingdom	3
Algeria	2
Libya	1
Iraq	1
Sweden	1
Syria	1
Other	27

[redacted] and investor uncertainty over their legal position in Cuban courts have sabotaged joint venture projects, [redacted]

[redacted] Havana increasingly has been frustrated with the lack of Western interest in technical assistance projects. [redacted]

Developing an "Export Mentality"

Recognizing the need for worker participation in improving the range and quality of exports, Havana formed an advisory group last year to educate factory workers on the need to expand Cuban exports. The government has held meetings to explain the importance of exports to the economy and to stress the need for improved productivity and quality control. In addition, the advisory group has tried to help soothe growing domestic dissatisfaction with government policies that increasingly favor exports over domestic consumption of staple foods, textile products, and other items. [redacted]

Deficiencies in production management, however, have presented serious obstacles to the development of [redacted]

Secret

Secret

Cuba: Parastatal Exporting Enterprises

There are at least 27 Cuban state-run organizations responsible for the development and marketing of Havana's exports. Openly declared by the Cuban Government, their operations appear to be confined to legitimate business transactions while activities including embargo evasion, arms transfers, and intelligence are directed to subsidiary front companies. These companies are:

CARIBEX. Fish and shellfish.

CONSTRUIMPORT. Construction equipment.

CONSUMIMPORT. Sport articles, handicrafts, toys.

COPREFIL. Stamps and posters.

CUBAEXPORT. Foodstuffs, rum.

CUBAFRUTAS. Fresh and canned tropical fruits and vegetables and essential oils.

CUBAINDUSTRIA. Building materials, chemical products, raw materials, manufactured products, and machinery.

CUBAMETALES. Metals, oil, and lubricants.

CUBANIQUEL. Minerals.

CUBATABACO. Cigarettes, cigars, and tobacco leaves.

CUBATEX. Clothing, fabrics, and fur articles.

CUBAZUCAR. Sugar and sugar byproducts.

DISTRIBUIDORA DE PELICULAS. Motion pictures ("Motion Picture International Distributor").

ECIMACT. Building construction and urban development projects.

ECIMETAL. Construction equipment, technical assistance, and feasibility studies.

ECIQUIM. Project administration and construction of industrial plants.

EDICIONES CUBANAS. Posters and books ("Foreign Trade Enterprise for Publications").

EGREM. Music cassettes, records, and printed music.

EMPRESA CUBANA DE ACUNACIONES. Jewels, coins, and precious metals ("Cuban Coining Enterprise").

FONDO CUBANO DE BIENES CULTURALES. Handicrafts ("Cuban Foundation for Cultural Property").

IMEXIN. Industrial plants, health and educational centers, and computer systems.

IMEXPAL. Food processing plants.

MARPESCA. Fishing and tug boats, barges, and recreation yachts.

MEDICUBA. Medicines, eyeglass frames, and laboratory equipment.

TRACTOIMPORT. Agricultural tools and machinery.

TRANSIMPORT. Heavy transportation equipment.

UNECA. Construction abroad.

25X1

Secret

Cuban Front Companies: Mechanisms for Expanding Trade

In recent years, Havana has created a network of more than 150 commercial corporations operating in 15 Latin American countries—with Panama hosting the greatest number—Tunisia, Canada, Japan, and much of Western Europe. While the activities of these firms focus on the acquisition of Western consumer and producer goods, they also serve as a conduit for Cuban exports of goods and services to Western markets. As such, Cuban front companies are ideally suited to play a key role in Havana's export development plans. [redacted]

These firms are active in a number of legitimate business transactions, which include:

- *Acquisition of Western computers and communications technology and a variety of other productive inputs to help modernize the Cuban economy.*
- *Procurement of Western consumer goods to help satisfy domestic demands, particularly those of the elite.*
- *Generation of hard currency via the promotion of Cuban tourism abroad and the resale of high-priced Western goods to tourists and Cuban-American exiles visiting Cuba.* [redacted]

Many of these firms, however, also use their unofficial relationship with the Cuban Government to front for a variety of illegal activities, including:

- *Evasion of the US trade embargo—usually through Panama—to obtain technology spare parts for US equipment and other goods. In search of hard currency, the front companies sell products such as gold, silver, and seafood to US buyers, many of whom are unaware of the origins of the goods.*

- *Evasion of restrictions imposed by COCOM—the NATO Coordinating Committee on Export Controls—which regulates the sale of high-technology products to Cuba and other Soviet Bloc countries.*

[redacted]

25X1
25X1

Recent economic and political difficulties in Panama undoubtedly have complicated the already troubled operations of newly reorganized Cuban front companies. [redacted]

25X1

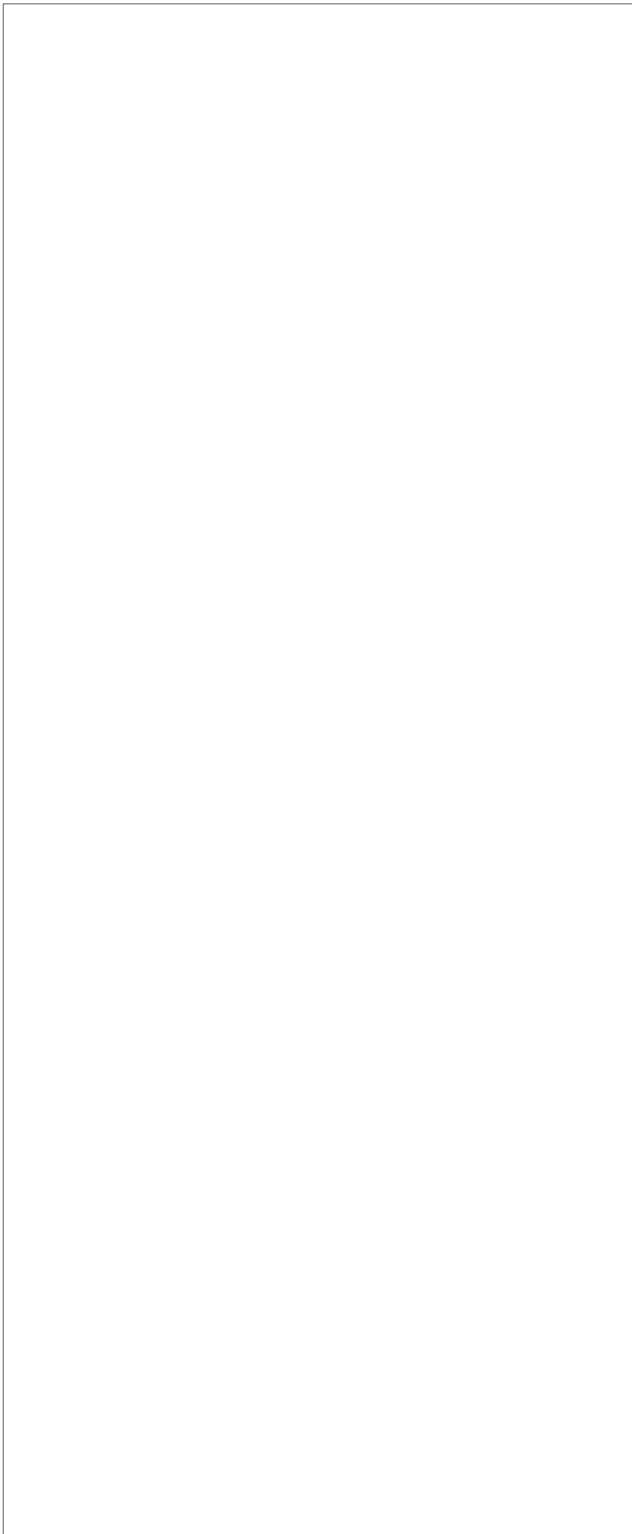
[redacted] *we do not foresee any permanent reduction in the activities of the Cuban front company network. While the front companies probably provide only a small amount of badly needed hard currency for the Cuban Government—sketchy information indicates that CIMEX has earned only about \$18 million a year in hard and local currencies since 1979—the companies are self-supporting. More important, however, Cuban front companies are an established mechanism to acquire foreign technology necessary for the expansion of critical exports and serve to facilitate Cuban exports to the West.* [redacted]

25X1

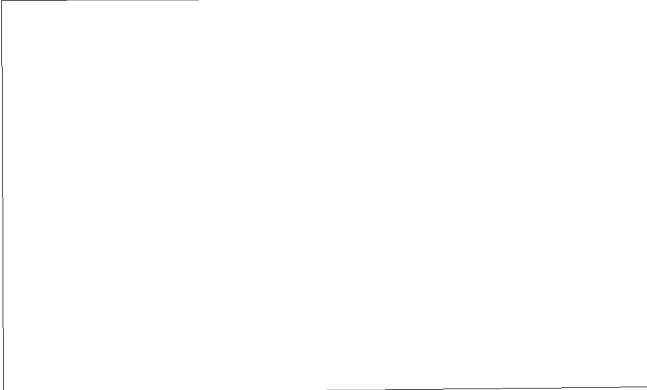
25X1

25X1

Secret




an "export mentality."




25X1

The Soviet Perspective

Since 1984, there has been significant friction between Moscow and Havana over Cuban export policy, judging from Cuban and Soviet press and official statistics. Cuban President Castro and Vice President Rodriguez made public statements, during the Moscow CEMA summit in 1984, arguing for diversification from traditional agricultural production and toward the development of alternative industries such as electronics and genetic engineering. Moscow swiftly rebuffed Havana's plans for export diversification, however, judging from published summit documents that stated Cuba should continue to focus on agriculture. We believe that Havana's persistence in investing in the costly development of nontraditional exports since 1984 probably has added to bilateral frictions. 

25X1

Moscow has used its considerable economic leverage to help redirect investment toward more traditional sectors, and reduce Cuba's diverting of Soviet equipment deliveries to Castro's pet projects. The 15-year cooperation agreement signed by Moscow and Havana in late 1984 focused Soviet aid to Cuba on development priorities in agriculture and the mineral and energy industries. 

25X1



25X1

Secret

Secret

[redacted] judging from official statistics and press, the Soviets have exerted increasing pressure on Havana to meet Cuban trade commitments to the Soviet Bloc, forcing Havana to concentrate on the expansion of sugar, nickel, and citrus production in particular.

Prospects

Cuban export performance and hard currency earnings are not likely to improve significantly over the next few years, in our view, despite Havana's efforts. We believe production and marketing difficulties will continue to plague both traditional and nontraditional export industries. For example, international commodity analysts expect no significant strengthening of world sugar prices over the long term, and Havana is likely to fall far short of its ambitious sugar production goals and export commitments. Nontraditional export development and performance, meanwhile, probably will be hampered by persistent foreign exchange shortages, ill-advised investments, bureaucratic mishandling, and inadequate technology. [redacted]

Havana's Soviet benefactors are unlikely to provide the solution for Cuba's export development problems. Moscow's current moves to tie the bulk of its development assistance to specific Cuban projects will give the Soviets more leverage to refocus Cuban development resources on agriculture and import substitution projects such as energy development and petroleum refining. At the same time, Soviet investment patterns and growing pressure on Cuba to meet CEMA trade obligations are likely to draw Havana even closer toward trade with the Soviet Bloc at the expense of exporting to the West for foreign exchange. [redacted]

Moreover, the outlook for significant new Western funding for Cuban export development programs is dim. Havana's uncompromising positions at recent rescheduling negotiations covering some \$6 billion in overdue debt and its trade policy failures will continue to alienate some of Cuba's most important Western official and commercial creditors. While rescheduling negotiations remain in limbo, we expect no significant new credits to be extended to Havana. [redacted]

Table 4
Structure of Cuban Hard Currency
Foreign Debt, 1986

	Million US \$	Percent of Total
Total debt	4,683	100
Short term	1,633	35
Medium term	3,050	65
Official debt ^a	1,991	43
Short term		
Medium term	1,991	43
Private debt	2,692	57
Short term	1,633	35
Medium term	1,059	22

^a Five nations hold 70 percent of total official debt: Spain (24), Japan (19), France (17), Italy (5), and Austria (4).

Implications for Cuba and the United States

We believe the Castro regime—constrained by slow export revenue growth and limited foreign assistance—will have little choice but to further tighten Western imports. The resultant shortage of Western productive inputs is likely to cause Cuban economic growth to contract even more and will, in turn, lead to tighter austerity and increasing unemployment. [redacted]

This expected economic contraction is likely to fuel further popular discontent with Cuban economic conditions, already at the highest level since the 1959 revolution, according to the US Interests Section, foreign visitors [redacted] Discontent is likely to be manifested in further increases in antisocial behavior—including juvenile delinquency, vandalism, economic sabotage, and other crimes—and in growing worker apathy and poorly motivated management. [redacted]

Secret

Secret

Table 5
Cuba's Relative Debt Position, 1988

	Debt (billion US \$)	Debt/Capita (US \$)	1988 Scheduled Debt Service ^a / Exports (percent)
Cuba	6.0	580	159
Argentina	57.0	1,806	84
Brazil	177.5	780	76
Chile	19.9	1,571	59
Costa Rica	4.4	1,506	50
Dominican Republic	3.1	427	20
Ecuador	10.7	1,046	62
Guatemala	3.1	349	53
Jamaica	3.8	1,554	38
Mexico	101.7	12,175	52
Nicaragua	6.0	1,761	213
Peru	16.0	751	84
Venezuela	38.0	2,024	47

^a Does not include payment arrears from previous years. For Cuba, scheduled 1988 obligations total \$1.7 billion, while arrears from the end of 1987 were \$2.5 billion.

Havana's desire to gain access to the US market could push the Castro regime to pursue warmer relations with Washington, particularly during the first year of a new US administration.

Havana is courting Washington to improve economic relations, including the elimination of some of the provisions of the US trade embargo. In addition, the Castro regime wants to maintain the emigration agreement with the United States to provide an outlet for Cubans disgruntled with the economic situation. In the meantime, we expect Havana to continue to pursue the evasion of the US embargo through its international network of front companies.

25X1

25X1

25X1

Secret

Secret

SECRET

Secret