

**POLITICS & POLICY**

# CASTRO TIGHTENS CUBA'S BELT

He talks of a debtors' strike, but he needs the West. Lots of sugar and Soviet aid barely keep the creaky Marxist economy moving, and the U.S.S.R. is getting stingy. ■ *by Jeremy Main*

**F**IDEL CASTRO'S GRASP of economics has never been as firm as his grip on the Cuban people. After 26 years of unchallenged rule, Castro and Communism have failed to lift Cuba's twin curses: almost total dependence on a single product, sugar, and on a single powerful country—Spain in colonial days, the U.S. after independence at the turn of the century, and the Soviet Union for the past two decades. Today Cuba is probably more than ever at the mercy of forces beyond its control. Carmelo Mesa-Lago, director of the Center for Latin American Studies at the University of Pittsburgh and a native Cuban exiled since 1962, says: "Without a phenomenal Soviet subsidy, the Cuban economy would be a disaster." Another U.S. expert estimates that Soviet aid amounts to perhaps one-quarter of the Cuban gross national product.

The collapse of world sugar prices beginning in 1980 sealed Cuba's dependence. Sugar accounts for about 80% of Cuba's exports—the same as in pre-Castro days—and the world market price, adjusted for inflation, is at a record low of 3 cents a pound. Fortunately for Cuba, the Soviet bloc is committed to buying most of its sugar at up to ten times the world market price until at least 1990.

While Marxist and democratic ideologies confront each other in guerrilla wars in Central America, Cuba and its neighbor Jamaica are playing out a subtler economic confrontation. Jamaicans voted out a failed leftist government in 1980, turning to the pro-American, pro-capitalist policies of Prime Minister Edward Seaga. Like Cuba, Jamaica depends

RESEARCH ASSOCIATE *Ann Dransfield Louis*

on one overabundant product, bauxite. To a lesser extent than Cuba, Jamaica also depends on the help of an outside power, the U.S. Cuba relies on standard Marxism; Jamaica looks to free-market forces to shape and diversify its economy. So while other underdeveloped countries watch, these contrasting systems—the Soviet and the U.S. models—are being tested on two Caribbean islands 90 miles apart. Thus far, neither has produced results particularly satisfying to their partisans: the outlook for Jamaica, as for Cuba, is discouraging (see box).

Marxism has given Cuba about what it has given Russia for the past seven decades—unsatisfied consumer demand for housing and other needs; grandiose, uneconomic projects to push industrialization; and central planning that creates more chaos than order, especially when Castro's quixotic shifts are added to Soviet ponderousness. Castro would now like to loosen his dependence on the Russians and draw closer to the West to earn hard currencies, buy the things Cuba needs, and have trading partners closer by. The Soviet port of Odessa is 20 days away by ship from Havana; Miami, one day.

Many U.S. companies would like to reopen the once important Cuba market. The strength of latent American interest in Cuba was revealed when President Carter lifted the ban on travel there in 1977, and some 250 major U.S. corporations sent executives on exploratory junkets. They represented the cream of American business: Abbott Laboratories, Bell & Howell, Boeing, Borg-Warner, Burroughs, Caterpillar Tractor, Control Data, Cummins Engine, General



**Raw sugar for Russians fills the holds of a Soviet**

Electric, International Harvester, Northwest Airlines, Pillsbury, Toro, and Xerox, among others. Kirby Jones, a former Washington consultant who organized the visits, says the Americans saw potential for exporting grain, fertilizer, and animal feed, and thought Cuban industry was getting up to where it could use U.S. high technology. Cuban export potential included fruit, shellfish, and of course



*viet freighter at Cienfuegos, 20 days by sea from the Black Sea port of Odessa. Automated loading equipment has replaced stevedores lugging 250-pound sacks.*

cigars, which are more a symbol of good living than a major export.

The hopes for business dealings with Cuba died in 1978 when Castro sent troops to Ethiopia. The embargo on trade, first imposed by President Eisenhower and expanded by President Kennedy, never was lifted and seems more immutable than ever. This spring President Reagan demonstrated again

how unlikely he is to draw closer to Castro. He launched Radio Martí, a Spanish-language U.S. government station beamed from Florida to Cuba, and he listed Cuba among five "outlaw" nations that export terrorism. These actions made Castro furious.

Castro has improved his manners toward other Latin American countries, if not the U.S. He no longer talks, as he did in the ear-

ly days, of the need to overthrow bourgeois governments. Trying to win friends—and stir up trouble—he argues that Latin America cannot repay its \$360-billion foreign debt. He has proposed that the debtors declare a moratorium on repayment. So far the idea has gained as little support in the rest of the hemisphere as has the recent announcement by Peru's new president, Alan García Pérez,

## POLITICS & POLICY



Shoppers line up in Havana as soon as they see the chance of buying something a little special, such as this truckload of oranges.

that Peru will limit debt payments to 10% of exports. Still, many bankers fear that political pressures at home will eventually force Latin America's debtor nations to back off from their commitments, which are regularly renegotiated anyway. In July, Castro called an international conference in Havana on the debt situation, but few heavyweight officials from the hemisphere turned up.

Curiously, while he urges others to renounce their commitments, Castro has a good record on Cuba's hard-currency foreign debt—some \$3.4 billion, owed mostly to Japan, France, Spain, Argentina, and Britain. Since 1982, Cuba has been unable to service all of its debts, but it has never repudiated them. A group of Western bankers headed by Crédit Lyonnais of France have agreed from year to year to roll over about \$500 million in short-term loans, and this year's agreement is about ready for signing. In addition, Cuba must reschedule \$250 million in longer-term hard-currency debt this year. But Castro says: "Ours is one of the few countries that can and must repay its hard-currency debts."

The longer the U.S. embargo endures, the more Cuba gets locked into East bloc systems, spare parts, and markets. Furthermore, says Mesa-Lago, "An end to the embargo wouldn't make much difference because Cuba hasn't been able to develop products to sell." Cuba even has trouble meeting the Soviet Union's needs for sugar and nickel. Diverting that trade to the West wouldn't be easy. Another obstacle lies between Cuba and the U.S.: claims for American property expropriated by Cuba in the early 1960s. The U.S. Foreign Claims Settlement Commission recognizes \$1.85 billion in claims, and the 6% interest it tacks on has added \$2.8 billion since 1960. The biggest sums recognized by the commission are \$268 million for the Cuban Electric Co., which was owned mostly by U.S. stockholders, and \$131 million for ITT, which had phone companies in Cuba.

Though Cuba remains firmly in the Soviets' pocket, the Russians will pay only so much for the privilege of having a well-armed satellite just off America's shores—even one that has proved willing to keep an estimated

36,000 troops in Africa. In a series of tough confrontations last year, Moscow apparently told Cuba its aid would not rise above the current level of about \$4 billion in loans and subsidies and \$500 million in military assistance. Since the details of Cuban-Soviet relations are regarded as a state secret, it is hard to know how much Cuba owes Russia. Cuban officials take some delight in keeping Westerners guessing. Mesa-Lago of the University of Pittsburgh puts the figure at somewhere between \$15 billion and \$20 billion, but admits he isn't sure. Whatever the debt may be, the Russians have already agreed to wait until 1990 for the first \$125-million repayment, which was due in 1986.

To deal with the new Soviet stinginess, Cuba has launched an austerity program and won't improve the country's drab standard of living for some years. Castro is tinkering with Cuba's economic system, a copy of the Soviet monolith complete with five-year plans, by decentralizing a trifle and adding a dash of incentives in the form of bonuses for good performance. But free enterprise has no place in Castro's thinking.

*continued*

## JAMAICA'S DIFFERENT ROAD IS LITTERED WITH BAUXITE

■ Jamaica's central problem can easily be stated: this year the Caribbean island's bauxite exports will total about \$325 million—\$200 million less than last year and \$435 million less than in the last good year, 1981. In a world oversupplied by low-cost producers, Jamaica is a high-cost producer overwhelmingly dependent on bauxite. The stuff is to Jamaica what sugar is to Cuba, but Jamaica has no bauxite daddy. President Reagan's Caribbean Basin initiative, which provides tariff exemptions for certain Jamaican products such as vegetables and ethanol, doesn't begin to match the aid Cuba gets from Moscow.

Since he gained power in 1980, Edward Seaga, the prime minister of the British Commonwealth nation, has created a modestly promising combination of government belt-tightening and lures for diversified new enterprises. In response to the International Monetary Fund's insistence on financial discipline, Seaga achieved a remarkable cut in the budget deficit, from 17% to 7.2% of the gross domestic product. In July Jamaica got its reward—a \$118-million IMF loan, on top of \$647 million still outstanding.

Were it not for the devastating loss of bauxite exports, the Jamaican economy would be in fair shape. Jamaica's bauxite industry is handicapped in the world market by a tax that averages \$14 a ton, by aging plants, and by high oil prices. Fuel costs have kept Jamaica from going beyond refining bauxite into alumina, an intermediate raw material. The next stop, smelting aluminum, is a more profitable part of the business but takes more energy. The big American and Canadian producers of Jamaican bauxite and alumina—Alcan, Alcoa, Reynolds Metals, Arco, and Kaiser Aluminum—want to cut back Jamaican operations. Alcoa shut its Clarendon refinery earlier this year, but then agreed to operate it for the government for two years.

Seaga is considerably more optimistic about the future of bauxite than most metals industry executives. In an interview with FORTUNE Seaga explained how he thinks the bauxite industry can be revived. Three major operations will be modernized so that, he says, they can "find a place in the market at the expense of someone else." He also said Jamaica plans to cut fuel costs by substituting U.S. coal for oil.

Seaga expects big things of agriculture, industry, and tourism. "Agriculture is where we see the most investment and the best prospects for the future," he says. "It's our brightest spot." Jamaica is incredibly fertile, but agriculture has been fragmented and unbusinesslike. Jamaica's superb Blue Mountain coffee, which sells for up to \$41 a pound in Japan, is produced on small farms that aggregate only 2,500 acres. Blue Mountain coffee plantings are to double. The country is also going into new crops, especially vegetables and flowers for ex-

port. Last winter Jamaica harvested 1,000 acres of tomatoes, cucumbers, and other vegetables and earned \$4 million. Within three years, says Seaga, Jamaica will have 10,000 acres in vegetables and hopes to take 10% of the Eastern U.S. market. The crop would then be worth about \$60 million a year.

Jamaica is attracting new industries, helped by a duty-free and tax-free trade zone in Kingston harbor, the Caribbean Basin initiative, and the Jamaica National Investment Promotion Ltd. Unlike the vast projects undertaken in Cuba, the Jamaican enterprises are modest, rarely involving more than \$10 million. But they add up. Corrine McLarty, managing director of the investment agency, says it has helped promote 408 investments worth \$132 million. New textile investors include Jockey, Maidenform, and the Gap. They ship down pre-cut pieces of jeans, shirts, and lingerie, have them sewn by cheap Jamaican

labor, and return finished garments to the U.S. Tourism got a big boost from devaluation of the Jamaican dollar in 1983; one U.S. dollar fetches 5.7 Jamaican dollars. But violent demonstrations in Kingston protesting gasoline price hikes frightened off tourists last winter, reducing income about \$30 million. Tourism brought in \$400 million in the fiscal year that ended last March, little more than in the previous year, though it had been expected to grow substantially.

The U.S. provides Jamaica with around \$150 million

a year in aid, but it is an unreliable uncle. The largest new American investment, a \$20-million ethanol plant built by Tropicana Petroleum Ltd. of Brea, California, is threatened by U.S. protectionism. Domestic producers of ethanol have started lobbying in Congress on behalf of bills that would stop the duty-free entry of Tropicana's ethanol. They have also petitioned the U.S. Customs to consider changing a ruling favorable to Tropicana. A tariff would force the Tropicana plant to shut down.

Jamaica's domestic problems are creating explosive unrest and pose a threat to Seaga's plans. Inflation and unemployment both hover around 30%, and the country still suffers the wretched poverty that Cuba seems to have wiped out. Taxes discourage investment and savings. The government takes an oppressive 57.5% out of a \$60-a-week paycheck, which is middle-class pay in Jamaica, and an even higher percentage out of investment income. Austerity doesn't sit well with middle-class Jamaicans, who are essential to the country's revival, and they have begun to emigrate again. About 2.3 million Jamaicans live in the country and hundreds of thousands outside. Headley Brown, director general of the Planning Institute of Jamaica, says his country needs about four years of stability to bring the economy back where it was at the beginning of the 1980s. Social unrest may not allow Seaga that much time.



Prime Minister Edward Seaga wants hard-pressed Jamaicans to accept years of austerity while he reshapes the economy.

PHOTOGRAPH BY GUY A. LAWRENCE

## POLITICS & POLICY

Castro's Cuba must be credited with one notable achievement—visitors don't find the abject misery, wretched shacks, and filthy, diseased children common in much of Latin America. Cubans get the basics in food, health care, education, and clothing from the government. The World Bank reported last year that Cuba had the highest life expectancy in Latin America and the Caribbean, and

it counts many items twice. For example, a piece of leather could figure once coming out of the leather factory and again leaving the shoe factory. The Cuban National Bank reports that last year's GSP was \$28 billion. U.S. analysts make a rough guess that GNP was about \$16 billion. If that GNP estimate is correct, the per capita income of Cuba's ten million people would be \$1,600 a year, about

number, a busy signal, or nothing at all.

Life for Cubans eased a bit after 1980 when Castro opened a window to let his people go; 125,000 got to the U.S. on a boatlift from the port of Mariel. This ringing vote of no confidence appears to have prompted the Soviets to increase efforts to improve the Cubans' lot. Stores are somewhat better stocked, and a few new buses and cars are rolling on the streets. Soviet-made cars, mainly Ladas (Russian Fiats), have taken their place beside the colorful 1950s fleet of bulbous and befinned American cars left over from pre-Castro days. A sort of dune buggy assembled locally with a Cuban body on an imported chassis has also appeared.

Many basic items are still rationed (including sugar, of all things), and others are scarce. Housing is shabby and overcrowded, and transportation, mainly in the small buses Cubans call *guaguas*, is abysmal. In the countryside, passengers waiting for help around a broken-down bus are commonly seen. The average Cuban worker earns 180 pesos a month, which amounts to \$194 at the official exchange rate of \$1.08 to the peso. On the black market, the peso can be worth as little as 20 cents, but the police keep black-market activity low. Workers can boost their pay by overfulfilling quotas, working long hours, or signing up for especially demanding jobs; the fishermen out of Cienfuegos, who work 18 hours a day and spend 64 days at sea at a stretch, make as much as \$1,080 a month. Cabinet ministers earn \$486 a month, and heads of enterprises about the same.

Living costs match the pay. Education and medical care are free, and rents for the mostly state-owned housing are fixed at 10% of tenants' earnings. Rationed food, intended to provide an adequate diet, is sold at prices that have hardly changed since Castro came to power. Incomes easily cover the essentials, and spending the leftover money is a problem. Items beyond the rationed essentials are sold at what are known as parallel stores, state-owned but free to charge what the market will bear.

**T**HE STORES have little to display. When something special comes along—a shipment of good beer, perfume, jeans—a line forms and remains until the store sells out. On the main square in the industrial city of Holguín recently, a batch of Cuban-made jeans went on sale in a parallel store for \$56 a pair. In their eagerness, shoppers cracked a display window. They carried off as many as a dozen pairs each. At the normal prices of \$75 for



Pre-Castro American cars still provide much of the transport in the Cuban countryside.

with the exception of Jamaica, the lowest infant mortality rate. Castro vowed in a recent speech to overtake the U.S. in health "even if I have to stop smoking." His critics point out that Cubans were doing nicely before his revolution, but that was true only in the cities. Castro has equalized Cubans by improving the lot of rural people a bit and pushing city people down.

Officially the Cuban economy is performing splendidly. The Cuban press, mostly two- and four-page sheets set by ancient hot-metal machines, fills pages with stories under such leaden headlines as CONCLUSION OF THE ACTIVITIES IN RECOGNITION OF NATIONAL VANGUARD WORKERS IN THE SUGAR SECTOR, along with polemics about "*imperialismo yankee*." To get behind the official version is not easy. Cuban statistics are elusive and incomplete, and the methodology used to produce them changes often. Many Western analysts don't believe the numbers.

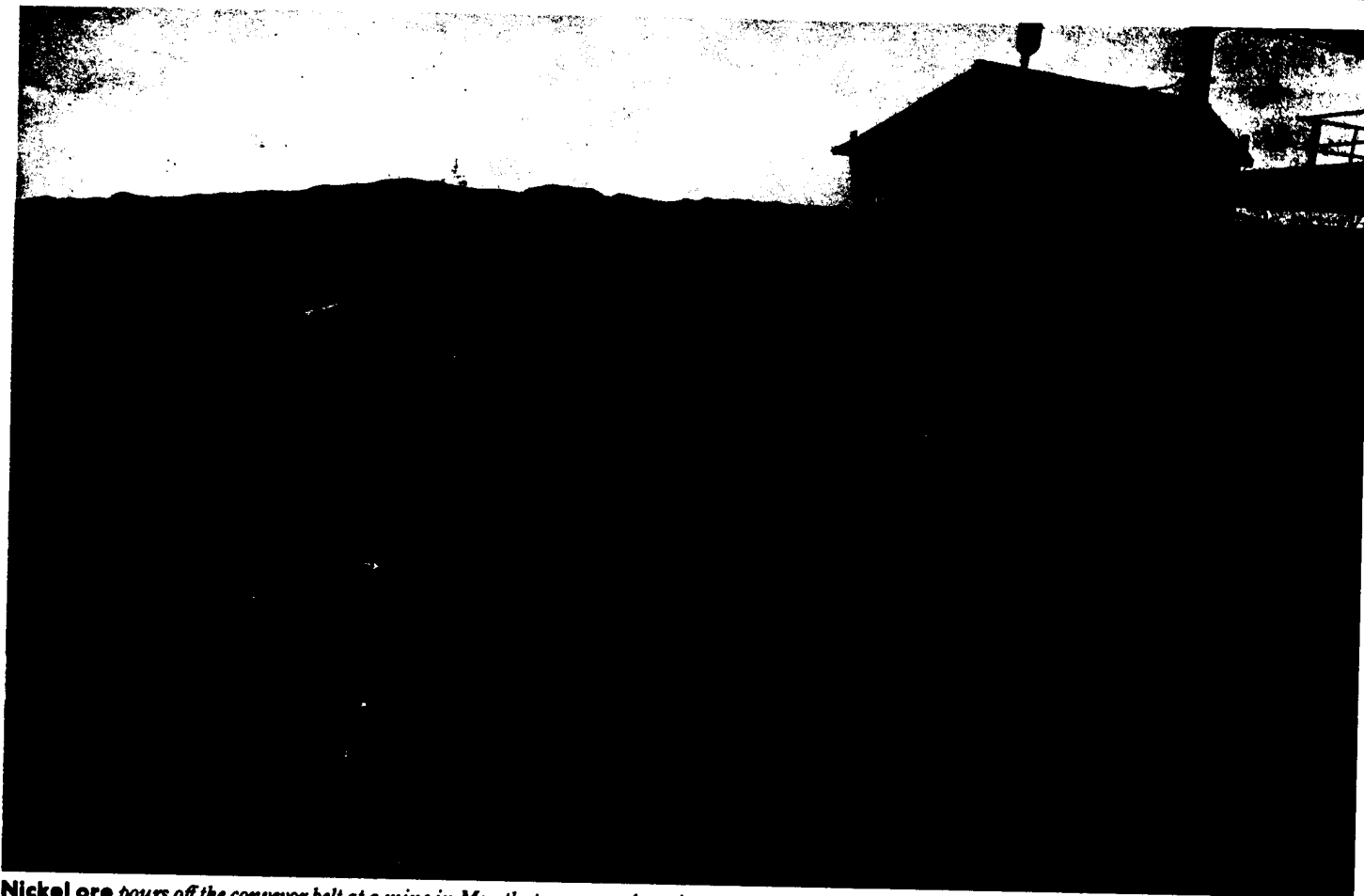
Even the gross national product is hard to know. In the Soviet style, Cuba reports its "global social product," which basically counts physical output only, not services, but

average for Latin America. In the 1950s Cuba ranked near the top.

Cuba has plenty of impressive new factories, seaports, power plants, citrus orchards, and mines to show off. Driving out of Havana on the main highway to the eastern end of the island, one finds an eight-lane highway for a while—with a flow of traffic that would offer little danger to a wandering cow, or even a herd.

The real state of the economy begins to reveal itself in little things. The government-run car rental agency, Havanautos, can't come up with a working rental car; the garage is full of relatively new Mexican-built Volkswagen Caribes awaiting repair. When a car finally is produced, it is filthy, both rear-view mirrors are cracked, one tire is flat, a side vent falls out when opened. The engine dies on the way to the beach at Varadero. A day in Havana is a struggle with minor adversity—helping to push a taxi that can't get started; being unable to buy a beer in 90-degree heat because the bar ran dry; struggling to make a connection on a phone system that consistently produces the wrong

## POLITICS & POLICY



*Nickel ore pours off the conveyor belt at a mine in Moa that was once American owned. The U.S.S.R. is helping Cuba open new mines and refineries.*

Cuban jeans and \$100 for Spanish, Chinese, and Nicaraguan jeans, even cash-rich Cubans shop with less abandon.

The staggering prices illustrate how the Cuban government siphons off the overhang of unspent money—the Communist equivalent of inflation. One afternoon recently in the old part of Havana, around the corner from La Floridita, the bar where Ernest Hemingway used to drink his favorite frozen daiquiris, a parallel store was crowded with shoppers who didn't seem put off by the price of Soviet appliances, which aren't famous for quality. A small refrigerator cost \$2,052, a window air conditioner \$1,620. A small tabletop fan made in Hong Kong had a \$648 price tag, a hair dryer sold for \$113.

Cubans who want more quality or quantity than their food ration offers can eat out, shop at parallel stores for a better selection at higher prices, or go to farmers' markets, which offer still more. The farmers' markets are the only significant private enterprise permitted in Cuba. Some 60,000 to 70,000 *campesinos* who declined to join farm cooperatives supply 250 markets with produce.

Enrique Toledo, a leathery 66-year-old in a straw hat, farms one *caballería* (about 32 acres) outside the port city of Cienfuegos. Asked why he hasn't joined a co-op, he says only: "It's better that way." Several times a week he drives his mule cart the three miles or so into Cienfuegos with a load of pumpkins, tomatoes, sweet potatoes, green peppers, or whatever else he has harvested. He pays the government 75 cents an hour for use of a stall, plus 20% of his sales.

**S**ERVICE WORKERS in Cuba can also engage in a measure of free enterprise. A barber or plumber, for example, can take on private clients outside the hours of his state job. Under a law that came into effect in July, Cubans who rent their apartments or houses from the government, as most city people do, will be allowed to own them. Their rent payments will be converted into mortgage payments. But that's as far as private enterprise and private ownership go in Cuba. Starting your own business is a crime. A score of illegal artisans were tried in a public square in San-

tiago de Cuba in June and sentenced to jail for making and selling rings, earrings, and other jewelry.

The key to Cuba's plans is the Soviet bloc's willingness to buy large amounts of Cuban sugar at inflated prices. Sugar would seem an unpromising base for an economy, because the world's markets are glutted. Cuba's vice president, Carlos Rafael Rodríguez, 72, a Communist long before Castro became one, explained to *FORTUNE* why Cuba still believes in sugar. "The U.S. made us dependent on sugar and impeded our industrial development," says Rodríguez. "We began talking with the Soviets about sugar in 1963 and discovered they had a growing market for sugar and might consider a preferential price for us. So instead of being an instrument for holding Cuba back, sugar could be converted into the instrument for developing Cuba. Through our sugar trade with the Soviet Union we have obtained not only the petroleum we need, but also all the industrial plants we are developing; not only the accelerated electrification of the country, but also the basic industries, mechanical, chemical,

## POLITICS & POLICY

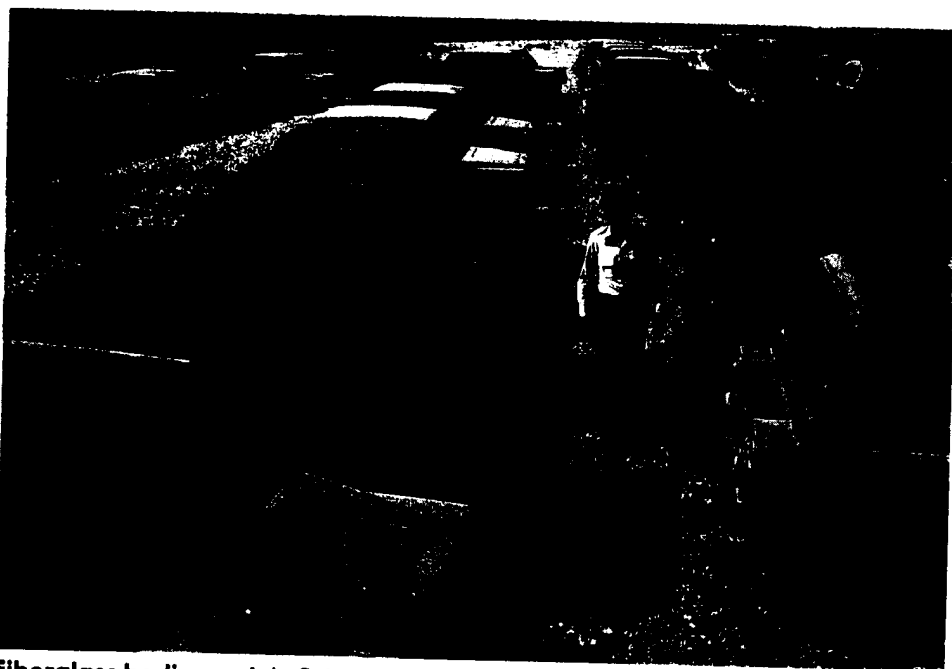
steel, construction, and the refineries and the mines. The present problem of Cuba is that it doesn't have enough sugar to fulfill its commitments to the capitalist markets and to the socialist countries." He said Cuba could sell 12 million tons of sugar this year if it could grow and mill that much.

Cuba's difficulty in meeting goals is nothing new. In 1970 every available worker

the north coast of the Oriente region, Cuba's tropical Siberia, produce the island's second-largest export. Their value amounts to less than a tenth of the value of sugar exports, but like sugar, mineral production depends on huge Soviet subsidies. Nickel is not a business an investor would gladly get into today. Inco Ltd., the big Canadian producer, lost \$77 million last year.

tors near Cienfuegos; and citrus orchards that are marching across the rocky plains of Matanzas. Cement, textile, and seafood-processing plants add to the volume and variety of Cuba's output. The plants bear brawny Marxist names, such as the October Revolution Fertilizer Combine.

These new industries evidently are performing poorly. Even when production goals are cut in mid-plan, as they were for the current five-year plan, Cuba often misses the targets. Herminio Lazo García, a vice president of Cuba's Central Planning Junta, agrees that sugar, nickel, and citrus goals aren't being met, but claims that other industries, including tourism, are exceeding their targets. He says the average annual growth of the economy from 1980 to 1984 was a solid 8%. Observers such as Mesa-Lago find this figure hard to believe, though Cuba was insulated from the 1982 recession because the Russians kept subsidizing Cuban products and selling Cuba cheap oil.



Fiberglass bodies made in Cuba are slapped on Mexican-made innards at a Havana plant.

marched out to the sugar fields to try to turn out a ten-million-ton crop, but the hordes achieved only 8.5 million tons, while the rest of the economy slipped for lack of workers. The current five-year plan originally set a target of ten million tons for 1985, but production reached just eight million tons.

**I**N THE SWEET RELATIONSHIP Cuba has with Russia, however, the shortfall can be turned to advantage, as the National Bank of Cuba revealed in an unusually candid report to its foreign creditors this year. To help meet export quotas to Russia—which amount to half the sugar produced—Cuba bought sugar at bargain prices on the world market in 1984 and 1985 and then sold it to Russia at the subsidized price. This year, for instance, Cuba spent \$100 million for foreign sugar, which it sold to the Russians for more than \$1 billion. With the proceeds, Cuba bought more Russian oil than it could use. The U.S.S.R. allowed Cuba to sell the surplus oil to the West for about \$400 million in hard currencies.

Minerals, mainly nickel from deposits on

Yet Cuba is nearly tripling its nickel capacity, from 40,000 tons a year produced by two mines and refineries installed by the U.S. during and after World War II at Nicaro and Moa. Two new \$700-million mines just east of Moa on the Oriente coast, at Punta Gorda and Las Camariocas, will each add 30,000 tons. Punta Gorda, which was to have gone into production by 1980, is now scheduled to start up by the end of the year. Las Camariocas is due to open in 1990. The old plants will be upgraded to produce 50,000 tons.

When Western analysts of the Cuban economy speak of Castro's penchant for "gigantism"—undertaking showcase projects that are unlikely to pay off—the nickel mines come to mind. Production costs at the new mines will be twice those of the old mine at Moa because Cuba is cut off from the U.S. technology needed to produce nickel cheaply.

Other big Cuban projects under way today include an eightfold expansion of the harbor at Nuevitas, a seaside town that has been transformed into a new industrial city; the first of four 417-megawatt nuclear genera-

**F**OREIGN DIPLOMATS don't get to see too much in Cuba, but they have a strong impression of chaos—of inventories out of control, of plans that are no more than grand goals with no detailed ideas about how to get there, and of factories and offices overstaffed by a factor of two or three. "It's like the Italian bureaucracy," says a Western diplomat in Havana. "If everyone showed up for work when they were supposed to, there'd be paralysis." As evidence of what it called "the deterioration of labor discipline," the labor newspaper *Trabajadores* reported in March on a survey of 53 government offices, plants, banks, and other entities in Havana province. Of 9,883 workers 22% were absent, with or without reason, when inspectors came by, and of those on the job 23% were reading magazines or newspapers, snacking, chatting, snoozing, or playing.

When the Russians told the Cubans last October not to expect any growth in aid, they also urged them to earn more hard currencies. That's not going to be easy. Since Castro came to power, Cuba has achieved a trade surplus in only two years. Last year's deficit in East and West trade amounted to \$1.9 billion and would have been much more without Soviet subsidies. Cuba seems unable to entice Western business while it remains under the U.S. embargo. In 1982 Cuba made a major exception to its ban on private enterprise by enacting a law permitting foreign companies to invest in joint ventures in Cuba, but not a single joint venture has re-

## POLITICS & POLICY



**Off-limits to Cubans, unspoiled Cayo Largo is being turned into a duty-free, visa-free resort for foreign tourists with hard currencies to spend.**

sulted. Cuba has had some success by establishing scores of shadowy trading companies to get around the embargo, find crucial imports quickly, and gather intelligence. The biggest of the trading companies, Cimex, based in Panama, probably grosses less than \$100 million a year.

**O**NLY TOURISM offers Cuba immediate promise of bigger hard-currency earnings, and travel to Cuba is not all that appealing when the rest of the Caribbean is calling. After decades of isolation, Cuba has lost the knack of entertaining tourists. The old luxury hotels like the Havana Riviera—built in the 1950s with the backing of American gangster Meyer Lansky—badly need refurbishing. The Riviera's carpets are threadbare, the bathrooms mildewed, and the air conditioning turns out more noise than cool air. The government now gives tourism high priority. Improbable as it sounds, debt-laden Argentina has agreed to lend Cuba \$90 million, which an Argentine company, Comarco, will use to build eight hotels with 2,000 rooms along the

splendid Varadero beach east of Havana. Last year some 200,000 tourists, mainly Canadians and West Europeans, brought nearly \$100 million to Cuba, a big increase over recent years. But the numbers are still short of what they were in the 1950s, and far short of what Cuba needs.

Faced with these problems, Cuba might be expected, like China or Hungary, to develop a different approach to Communist economics. In the early days, Castro did experiment. At first he tried to push aside sugar and industrialize at all costs, only to discover that Cuba didn't have the know-how to industrialize. Then he put Cuba through a mystical period called Mao-Guevarism, founded on the utopian theory that economic progress could be achieved by uplifting human nature. Since then Cuba has essentially followed the Soviet model, without much debate.

Like the Soviet Union, Cuba is trying to decentralize economic management. "We have a long way to go," says Vice President Rodríguez. "To have enterprise, we must have entrepreneurs. But we don't have good entrepreneurs. We are still victims of the

centralizing conscience. People are accustomed to pushing decisions higher up. We are beginning to defeat that." It's a small beginning. For a good year's work, a plant manager might now qualify for a bonus of an extra month's salary—hardly enough to turn him into an entrepreneurial tiger.

Castro is signaling his unhappiness with the state of the economy. He has dismissed the minister of transport and the chief of central planning. The Third Party Congress, heralded by a year of propaganda, has just been postponed from December to March—an unusual public admission of concealed difficulties. So far Castro's government has only picked at the fringes of its economic problems. Foreign diplomats say pragmatists such as Rodríguez, who want a more open economy, have gained influence. But Castro himself remains the chief obstacle to progress because he refuses to permit private enterprise and won't let go enough to allow decentralization to work. So long as Castro's version of Marxism continues, Cuba is condemned to living a bit above poverty, but far short of prosperity. ■