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Current Support Brief

THE CUBAN ECONOMY IN 1961 AND 1962
AND PROSPECTS FOR 1963 THROUGH 1965



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THE CUBAN ECONOMY IN 1961 AND 1962
AND PROSPECTS FOR 1963 THROUGH 1965

Summary and Conclusions

The Cuban economy during 1963 probably will not decline further in total output and may show some improvement in comparison with 1962. Cuban GNP in 1962, measured in 1958 prices, is estimated to be 25 percent below the 1958 level. The total supply of available goods, however, was only about 20 percent lower than in 1958 because Cuba ran a trade deficit in 1962 that was substantially higher than the deficit in 1958.

Total agricultural output will not increase much during 1963, for the sugar harvest probably will decline slightly from last year, largely offsetting moderate gains in other crops. Industrial production will increase to some extent as Cuba's new managerial class gains experience and the economy begins to regain some of its lost efficiency. Investment also probably will expand as a number of new industrial projects are started during the year. The dynamic upward improvement of prices in the world sugar market probably will raise Cuba's export earnings in 1963 above the 1962 level. The increase will not be enough, however, to finance the required volume of imports, and Cuba will still require large balance-of-payments credits from the Sino-Soviet Bloc.

It appears probable that the Cuban economy will continue to improve during 1964 and 1965. The government is making vigorous efforts to expand agricultural production. The traditional failure of most Communist regimes to achieve satisfactory results in agriculture, however, precludes the prediction of any dramatic successes for Castro in this sphere during 1964-65. Continuing improvement at the managerial level may well yield further increases in industrial production. Investment activity also probably will continue to expand. Finally, the outlook for export earnings suggests that Cuba will remain dependent on the Bloc for large industrial and balance-of-payment credits.

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I. 1961 and 1962

The past several years have provided a considerable body of evidence reflecting some of the main features of the Cuban economy since the Cuban revolution. Until recently, however, the evidence has been too general and impressionistic to permit even a tentative quantitative measurement of the economy's performance.

[REDACTED], it would appear that, during 1961, output of all goods and services in Cuba dropped to a level about 15 percent below that of 1958. During 1962 the level of total output probably fell further to about 25 percent below that of 1958. In absolute terms, this decline means that Cuba's gross national product (GNP), measured in 1958 prices, fell from \$2,555 million in 1958 to about \$2,150 million in 1961 and further to about \$1,950 million in 1962.

In both 1961 and 1962, Cuba ran a considerable surplus of imports over exports. Consequently, the total supply of available goods was higher than GNP in both years. The foreign trade deficit in 1961 was about \$100 million, approximately the same as that of 1958. The trade deficit increased sharply in 1962, however, to more than \$200 million. Thus the supply of available goods during 1961, measured in 1958 prices, was about \$2,250 million, whereas in 1962 it was approximately \$2,150 million, compared with the 1958 level of about \$2,675 million.

The heavy foreign trade imbalance of 1961 and 1962 occurred primarily in Cuba's trade with the Sino-Soviet Bloc and was covered by financing provided by the Bloc. A small part of the deficit was covered by various low-interest economic development credits extended by the Bloc to enable Cuba to purchase industrial plants and equipment. Most of the deficit, however, has been covered by Bloc balance-of-payments support under credit terms that are presently unknown.

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The general balance-of-payments aid rendered by the Bloc has enabled Cuba to maintain imports of producer goods, such as industrial raw materials and capital equipment, at levels comparable to those of the last few years of the prerevolutionary period. That these inputs into the Cuban economy have been maintained at former levels may be reconciled with the estimates of reduced output given above by evidence pointing to gross mismanagement of the economy. Castro adherents, who now run the Cuban economy, were initially inexperienced in the planning and operation of such an economy. In addition, low productivity from a disorganized and increasingly apathetic labor force led to waste of raw material resources, thereby producing a situation in which inputs remain high while output declines. Nevertheless, it would be easy to overstate the effect of mismanagement and inefficiency.

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II. Prospects for 1963

The Cuban economy during 1963 probably will not decline further in total output and may show some improvement in comparison with 1962. Production of sugar is not expected to increase; prospects for other crops indicate modest gains. Industrial production probably will remain at about the 1962 levels, with some improvement possible, and it appears that the supply of consumer goods will not change much from 1962. In the investment sector, however, there are indications that activity will increase as work is carried forward on existing projects and as new projects are started. In the foreign trade sector, imports probably will remain at about the 1962 level. With respect to exports, the substantial improvement in the world sugar market should make it possible for Cuba to increase its export earnings. The increase will not be sufficient, however, to match the anticipated level of imports, and Cuba again will be faced with a considerable foreign trade deficit in 1963.

1. Agriculture

There appears to be little or no possibility that Cuba will harvest more sugar during the coming year than was brought in from the disappointing crop of 1962. The main difficulties that limited the 1962 harvest have not been overcome, and even government spokesmen have admitted publicly that the 1963 crop will be a poor one. A maximum estimate would place production at about 4.8 million metric tons (mt), the level achieved in 1962, with 4.5 million mt a more likely figure.

The prospects for the nonsugar sector of agriculture are somewhat better. A greater application of fertilizer and an expansion of the Cuban irrigation system can be expected to yield at least limited positive results during the coming year. The full effects of more intensive agricultural techniques will come only gradually, however, and it would be difficult to predict much increase in nonsugar crops during 1963.

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The total production of crops in 1963 probably will be somewhat below that of 1962. Because sugar represents such a large share of the total agricultural output, the probable decline of this product will more than offset the moderate gains in other crops.

2. Industry

Prospects for industry depend on three principal factors, as follows: the level of managerial ability, morale within the labor force, and availability of spare parts to maintain the industrial establishment. The evidence indicates that inexperienced management probably has been the principal cause of the decline in industrial production apparent during the last 2 years. Apathy and disaffection within the labor force also has been an important contributing factor. The US embargo on spare parts in combination with Cuba's shortage of the foreign currency needed to buy spare parts in other countries has increased the cost of parts but probably has not been a major factor in reduced output thus far.

As time goes on and as Cuba's new managerial class gains experience, the factor of mismanagement gradually should decline, and the quality and the volume of output will tend to increase. On the other hand, the shortage of spare parts will become more serious as industrial equipment continues to age so that this problem will become more of a limitation. It is difficult to make any judgment concerning the labor problem, and it is assumed that this problem will remain during 1963 but probably will not be any greater drag on the economy than it was in 1962. The total effect of all of these factors probably will produce some moderate increase in industrial output during 1963.

The investment sector of the economy probably holds the best prospect for gains during 1963. Cuban planning documents indicate that many industrial projects are scheduled to begin during the coming year. There is evidence that since these documents were prepared, Cuban planners have shifted priorities away from industry to some extent and are now placing greater emphasis on investment in the agricultural sector. Furthermore, there are indications that, even with the decline in emphasis on industrial development, investment activity probably will be greater in this area than in 1962.

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3. Foreign Investment

The prospects just outlined are based in part on the assumption that the Sino-Soviet Bloc will continue, as it has during the past 2 years, to finance Cuba's foreign trade deficit. Cuba is likely to run a deficit of at least \$130 million in 1963, an amount that is less than the 1962 deficit by almost \$100 million. A decrease of this magnitude in Cuba's deficit would permit a reduction in Bloc balance-of-payments aid of about the same extent.

The forecast for the 1963 trade deficit turns principally on the outlook for Cuban export earnings. These prospects have been greatly improved by the recent rise in the world market price for sugar, which, based as it is on a tight supply condition that will last at least until the next European and US harvests begin in late 1963, probably will persist through most of the coming year. There are certain factors, however, that will limit Cuba's ability to take advantage of the new market situation.

First, Cuba will not have as much sugar available for export during the coming year as it had in 1962. The 1962 level of sugar exports was achieved only by the sale of Cuba's reserve stock of about 1 million mt. With this reserve exhausted and with no increase in production in sight, exports during the coming year should fall by at least 1 million tons.

Second, Cuba's ability to profit from the high world price also may be restricted by the fact that its foreign trade is now conducted mainly with the Bloc. If Cuba continues to sell sugar to the Bloc in the same quantities and on the same terms as in the last 2 years, it will derive very little benefit from the new market situation, for the fixed price paid by the Bloc in the past is now about 25 percent below the world market.

Cuba's export earnings in 1963 almost certainly will not exceed \$620 million. Achievement of this level of earnings would require the

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world price for sugar to remain at its recent level, * Cuba to harvest a full 4.8 million mt of sugar and to export all of its sugar -- including that shipped to the Bloc -- at the world market price, and the Bloc to import in 1963 about as much sugar as it did in 1962. One or more of these requirements probably will not be met, in which event exports will be less than \$620 million. Under the least favorable conditions, Cuba would sell sugar to the Bloc at the former price and in the same amounts as in 1962. Under this set of conditions, Cuba's export earnings could fall below \$500 million. In 1962, export income was only \$530 million, the lowest in more than a decade.

Even the maximum export income of \$620 million will not be enough to meet Cuba's import requirements. There appears little possibility that Cuba can reduce the 1962 level of imports without restricting the rate of economic activity. Although it might be possible for Cuba to reduce food imports on the basis of some increase in its production of food crops in 1963, this import substitution probably cannot be very large. Furthermore, efforts to expand investment probably will require the import of more capital goods than in 1962. On the whole, if the economic prospects outlined above (see p. 4, above) are to be fulfilled, particularly the outlook for more investment activity, then imports must remain at least at the 1962 level.

In 1962, Cuba imported about \$750 million worth of goods and ocean freight services. If Cuba can export as much as \$620 million worth of goods in 1963, it will still need about \$130 million in balance-of-payments support and long-term credits from the Bloc. If export receipts fall toward the minimum, Cuba will need total credits at least as large as the approximate \$220 million supplied by the Bloc in 1962.

The calculation of Cuba's probable credit needs from the Bloc ignores the fact that the US is delivering about \$55 million worth of goods

* The estimate of \$620 million as the maximum level of export earnings is based on the current spot sugar price of 5.25 cents per pound. At present, however, the market is still rising. To the extent that it continues to rise and is able to maintain the higher levels, the estimate of maximum export earnings will have to be increased.

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as ransom for the Bay of Pigs prisoners. Because the US intention, as far as possible, was to ship only goods that would be of minimum utility to the Cuban economy, it was assumed for purposes of analysis that the ransom goods would not fall within Cuba's basic import requirements. In fact, however, some of these goods do fall within the basic import category and to that extent the ransom will provide Cuba with a substitute for Bloc credits.

If the Bloc is unwilling to supply credits amounting to at least \$130 million during the coming year, Cuba will be forced to cut its imports in order to reduce the trade deficit. In the past the Castro government has appeared very reluctant to restrict the import of foods, industrial raw materials, and fuels, even when cuts in aggregate imports were necessary. It is probable, therefore, that forced import retrenchment would fall primarily on capital goods. A reduction in the import of these goods in 1963 would have little immediate effect on the level of industrial and agricultural production and, therefore, would not affect the short-run outlook for the supply of consumer goods. The restriction of investment activity, however, would reduce GNP in 1963 and also would reduce the possibility of longer term growth for the economy.

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III. Factors Shaping Prospects for 1964 and 1965

A number of factors could result in a substantial increase in Cuban agricultural production during the years following 1963. The island clearly has a great agricultural potential that never has been fully tapped. The revolutionary government is making vigorous efforts to exploit that potential. An extensive replanting program for sugar cane has been started. Efforts are being made throughout agriculture both to extend the area of cultivation and to apply more intensive methods. Furthermore, Cuba has undertaken a broad program of training for agricultural technicians. Several thousand young Cubans have been sent to the Bloc for training, and many of these have already returned to Cuba. Probably more than 1,000 Soviet agriculturalists have come to work on Cuban farms. To a more limited extent, specialists have been brought in from various Free World countries to help with the agricultural problem.

It is difficult to predict that the Cuban agricultural potential will be effectively exploited, in view of the conspicuous lack of success that most Communist countries have had with their agricultural economies. Inasmuch as Cuba may place greater emphasis on investment in agriculture than has been the usual Communist practice, Communism in Cuba may thus avoid at least one of the pitfalls that have afflicted other Bloc societies and thereby may achieve greater success in agriculture than did its European and Asian partners.

The industrial sector of the economy in 1964 and 1965 will continue to be shaped by the two conflicting factors discussed in II (p. 5, above). The level of managerial ability will continue to rise, tending to increase production. On the other hand, the shortage of replacement parts for aging industrial equipment will worsen. In the 1964-65 period, however, some increase in production from industrial plants imported from the Bloc will help offset the deterioration of older industrial equipment of Western origin. On balance, the prospect is for a gradual increase in total industrial output, given Bloc willingness to maintain recent levels of economic assistance.

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The size of the increase will tend to be limited by several factors. First, there is no chance that production of electric power can be increased until some time in 1965. In addition, given the present outlook for exports, the level of imports of fuels and raw materials probably cannot be increased through the end of 1965. Thus the total level of input into the Cuban economy will remain at about the current rate. There is, however, considerable room for improvement within the present rate, for it is evident that mismanagement and inefficiency are wasting a significant amount of the raw materials and power available to the economy.

Cuba will continue to need aid from the Bloc during 1964 and 1965 in about the same amount as in 1963. Cuba's import requirements probably will remain at the present levels. Improvement in agriculture will lead to some import substitution in foods and fibers. On the other hand, present plans call for expansion of investment that will require more capital goods imports. Consequently, the aggregate volume of imports will change little. Exports show little prospect of increasing in 1964 or 1965 in comparison with 1963. Sugar exports will increase in volume, but prices can be expected to return to more normal levels, so that total export earnings will be relatively unaffected.

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