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Underground Economy Keeps Cuba Alive

The Americas

By Thomas T. Vogel Jr.

HAVANA—Before zipping down to Cuba in search of the next sizzling emerging market, investors should hear the stories of "Margarita," "Paco" and "Ricardo," three Cuban criminals of my acquaintance.

You get an idea of what the Cuban government *really* thinks about capitalism—recent efforts to attract foreign investors notwithstanding—by watching how it attempts to control these budding entrepreneurs and fails.

"Ricardo" is a criminal because he tried to drive me to the popular Varadero beach resort two hours from Havana. Before he could get away with his crime against the state the police nabbed us at a checkpoint.

"This is a big problem," shouted an angry cop. "Foreigners must use the state taxi company," he explained. "What if this guy robbed you? Where would you be then?"

He fined "Ricardo" $40, about two months' worth of a Cuban doctor's salary, confiscated his car and summoned a government taxi driver by radio.

Just two days before our run-in with the burly cop, the government issued a law which appeared to allow people like "Ricardo" to work as private drivers.

The announcements of such changes have been coming in quicker sequence over the last few months. Journalists and investors usually interpret them as signs that Cuba is liberalizing its economy. But what's happening isn't reform. It's damage-control. As the Cuban government is forced to cede more control of its economy to its citizens, it somehow must maintain the facade that it is still in charge of everything. Clearly it isn't.

After pulling his car out of the checkpoint, the very fat and happy government driver offers to find us another illegal cab and driver for the ride back to Havana. I asked if this wasn't the same thing we'd just been fined for. "It can't happen twice on the same trip," he replied.

Another minute or two passed and the driver offered to take me to stay with a local family instead of an expensive hotel, another legal violation.

"The government isn't thinking about or even understanding how free markets work," says Martha Beatriz Roque, courageous vice president of the truly independent National Association of Independent Economists. She estimates that more than half of Cuba's economic activity now comes from such informal entrepreneurs as "Ricardo."

If Cuba spent as much time and energy coaxing its own people to invest in the country's future as it did trying to suppress them, the future would be here already. The best thing the U.S. could do to help this thriving class of counter-revolutionary entrepreneurs is to lift the economic blockade. The Cuban government is able to blame the blockade for all of its economic problems and use war rhetoric to convince Cubans that it's worth living on one bottle of cooking oil every three or four months. What's more, the blockade allows Cuba to delay crucial economic reforms.

During my stay in Cuba I could find housing, food, transportation, gas, guides, and most importantly, rum and cigars, through Cuba's burgeoning informal economy.

Many Cuban families with enough space have turned their homes into illegal bed-and-breakfasts. For $25-a-day, visitors can rent a room in a large home or an entire home with breakfast included. During my trip, I met families that were willing to pack up and leave their homes on a moment's notice in order to rent them to visitors.

The fastest way to find fresh seafood is in the blackmarket. A friend of mine visiting one of the state dollar stores was offered fresh fish in a burlap bag by a gentleman outside. "Where did you get these?" my friend asked.

If Cuba spent as much time and energy coaxing its own people to invest in the country's future as it did trying to suppress them, the future would be here already.

"I stole them from the store. I work here," he replied.

In order to collect more dollars and find a more efficient way to feed its people, the Cuban government legalized so-called farmers' markets last year. But the markets "have planted the seed of the free market," says Ms. Roque. "This means that people associated with free markets begin to get rich," she says. "Now the market is out of the control of the government."

Last fall, more than 300 Cuban entrepreneurs learned just how frightened the government is by free markets. Police confiscated cars, motorcycles, money and other goods from them because they had made too much money, says Ms. Roque.

Like many other Cubans, "Margarita" runs a thriving but illegal restaurant in her home, located in a tony suburb of Havana. To a clientele consisting largely of foreigners, she serves a dinner of grilled lobster tail, shrimp in garlic sauce, fried bananas, beer, dessert and all the fixings for about $13 a person.

"Margarita" has three employees, even though the state says only it can hire workers. She buys food in the black market, also illegal. She makes a decent profit, another big no-no. "Margarita" made $10 a month at her previous job as an executive secretary for a state company. These days she pays her workers six times that much.

"Margarita's" husband "Paco" has soundproofed two rooms near the dining room and filled them with recording equipment. He can offer 16-track production at a 25% discount to what the state studios charge, which are difficult to book anyway. He recently showed a visitor a boxful of cassettes of Cuban groups, from soloists to trios to a 15-piece salsa orchestra—all recorded in his illegal studio. In June, the government issued a detailed list of 44 professions that would heretofore be legalized. On the list, pet groomers and pinata-makers, of which there are few in Cuba. Not on the list, music studio engineers, like "Paco."

Since Cuban officials say they want free markets only if they can control them, it isn't really good news for "Margarita" that the government also made it legal for Cubans to run restaurants in their homes earlier this summer. The license fee of $400 a month and the requirement that all food be purchased in government food stores is so onerous, says "Margarita," that the law is likely to have the effect of smothering a thriving sector of the economy, or driving it further underground.

Mr. Vogel is a reporter for the Journal.

Martin's comments

TREND

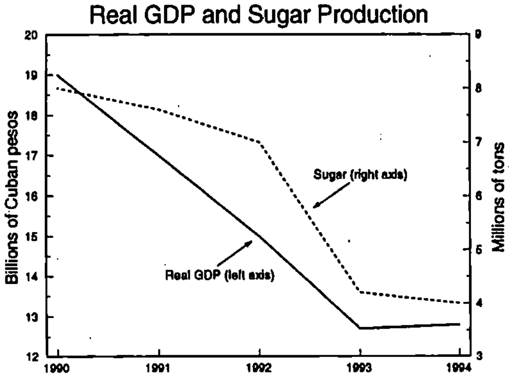
The Cuban Economy: Struggling to Recover

Background

growth over entire period) + per capita income

With the collapse of the Soviet Union, Cuba lost both its primary trading partner and main source of financial support. This event, coupled with a sharp decline in sugar production (see top chart), thrust the Cuban economy into severe recession as gross domestic product plunged by 42 percent from 1990 through 1993. Economic growth was stagnant in 1994 and forecasts predict a modest 2 percent rate of growth for 1995. With GDP per capita of about $1700 (comparable to that of Romania and Bulgaria), living standards remain poor for most Cubans, who continue to face daily power outages, deteriorating housing, and rationed food and consumer products.

Real GDP and Sugar Production

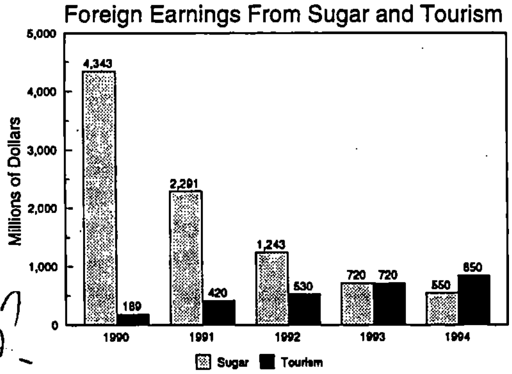


Government Initiatives. Although most industries and markets are still tightly controlled, the government recently has made some limited moves to shift the economy away from its socialist foundations and towards further integration with the global economy.

- Domestic Market Reform: The government in recent years has scaled back central planning, cut government employment, and reduced subsidies. It expects that another ten percent of the labor force will lose their jobs in coming years as part of efforts to restructure inefficient industries. The government hopes that many of the newly jobless will enter the swelling ranks of the self-employed (an option legalized for certain sectors in 1993) or join profit-sharing workers' cooperatives that now manage some former government operations, most notably in agriculture.

- Integration with the World Economy: Joint ventures with foreign corporations have increased recently, with inflows coming from Canada, Western Europe, and Mexico. Much of this investment has been in tourism which last year surpassed sugar as the largest source of foreign earnings for Cuba (see bottom chart). A new investment law, expected in coming months, might allow full foreign ownership of businesses and property, thus providing further incentives for foreign investment. In another move to encourage foreign investment, Cuba

Foreign Earnings From Sugar and Tourism



prod ↓ + price ↓

Exports absolute?

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earlier this year introduced a new currency with purchasing power linked to the U.S. dollar in order to facilitate conversion into other currencies. It is as yet unclear how successful such reforms will be, since they are of limited scope, and foreign investors are wary of the myriad state controls and continuing official hostility towards capitalism.

VOL. CCXXVI NO. 25

Havana Headaches

Investors Find Cuba Tantalizing yet Murky In Financial Matters

Few Officials Have Authority To Make Deals, and Laws On Profits Are Vague

An Economic Twilight Zone

By THOMAS T. VOGEL JR.
Staff Reporter of THE WALL STREET JOURNAL

HAVANA — Odd things happen when a country with "Socialism or Death" as a national motto flirts with capitalists.

Here is a recent conversation about real estate between a group of European investors and a Cuban government official.

Official: "We are open to all possibilities. Land can be sold and we can work with contracts. We have been approved to sell land to foreigners."

Investor No. 1: "But does the investor have any say in who is his partner? That would be pretty fundamental."

Official: "The foreign investor won't know who. The government will choose the partner."

Investor No. 2: "Will the land be transferable? That's a very important new idea in Cuba."

Official: "I think you will own the land. This is very new."

Split Personality

So it is. And this is Cuba, land of vast possibilities and murky probabilities. Money managers who visited Cuba for three days earlier this summer with LatInvest Securities Ltd., a London-based investment bank, found themselves in an economic twilight zone. They discovered a country that wants capitalists, but not capitalism. A local adviser's memo to a LatInvest client neatly summed up the contradictions: The Cubans "need your investment but they don't want you."

Unlike Communist countries that made sudden but definitive shifts to capitalism, Cuba still expresses support for failed socialist policies even as it courts foreign capitalists. "We're not going to renege on socialism," warns Raul Taladrid, deputy minister of foreign investment and economic cooperation. "We're just going to take some from capitalism but keep to our socialist commitments."

The contradiction has made Cuba's drive for foreign investment more like a slog through a swamp.

Ground Floor

The LatInvest group learned that Cuba uses three separate currencies (the dollar, a peso and a new peso meant to be convertible), has three legal and two illegal ways to buy groceries and has several answers to almost any question about what is allowed. The group hoped that a much-delayed new foreign-investment law would end the confusion. Yet there are said to be six drafts of the law, ranging in tone from restrictive to liberal.

Hype for Cuban investment is building as more foreign investors, especially Americans, decide they want to be on the ground floor of a new Cuba when the three-decades-long U.S. trade embargo is lifted. But as the conversation with the government official suggests, they risk winding up in a basement full of junk.

Cuba takes foreign investment only because it is "going through a transitional period," contends Carmelo Mesa-Lago, a professor of economics and Latin American Studies at the University of Pittsburgh. He says investors ought to ask themselves, "What are they going to do with my investment afterwards?"

Sugar Lows

It isn't even clear how much money foreigners have pumped into Cuba so far. Cuban officials boast of \$2.1 billion in foreign investment in 225 joint ventures since 1990, including \$500 million through May of this year alone, but they don't say how they came up with this number. The total probably includes money that has been committed but not yet disbursed, Mr. Mesa-Lago says.

Peter Scott, a director of Havana Asset Management Ltd., a unit of Beta Group of London, estimated earlier this year that foreigners actually invested just \$200 million in Cuba last year. But after a recent meeting with Cuban officials, Mr. Scott thinks it might be \$500 million to \$600 million.

Cuba needs more foreign cash to feed its economy after the end of billions of dollars of subsidies from the former Soviet Union. Sugar-cane production, which accounted for nearly half of Cuba's export earnings last year, is way down. This year's harvest was the worst since Fidel Castro took power, and last year's brought in less than \$600 million, a seventh of the earnings of 1990, Havana Asset Management estimates.

Americans are determined to get involved despite rising legal obstacles, such as a bill in Congress to tighten the U.S. embargo and moves by the U.S. Treasury to bar certain foreign companies from trading with the U.S. because of their investments in Cuba. More than 100 U.S. corporations have met with Cuban officials in the past 18 months, and many have signed letters of intent to invest once the embargo is lifted, Cuba's Ministry of Foreign Affairs says.

At Marina Hemingway in Havana earlier this summer, more than three dozen yachts were moored for a weekend, many belonging to Americans who cruised from Miami illegally. They were greeted by Yacht Support Services Ltd., a Havana

Please Turn to Page A10, Column 1

Continued From First Page

firm that offers to help answer tickli[sh] questions like "What can be done in a[d]vance of the American embargo bei[ng] lifted to pre-broker a trade agreement, a[nd] is it legal?"

Enrique Arias, a Cuban-Spaniard w[ho] led the LatInvest group, could be consi[d]ered a success story of the Cuban foreig[n] investment drive. He shows remarkab[le] enthusiasm, especially for someone who [is] related to the Bacardi family, which lost i[ts] famous Havana rum factory to the revol[u]tion. But even this fan of Cuba has ha[d] problems.

"Write up a proposal by tomorrow," Mr. Arias tells his London office over [a] cellular phone as he zips around Havana i[n] a chauffeured minivan. Mr. Arias wants t[o] bid on 10 Havana residential plots. "No[-]body knows about this new [governmen[t] real-estate] office. We'll be the first one[s] in," he exclaims.

The next day, Mr. Arias makes a grim discovery: The government official he spoke with the day before might not have the authority to make deals after all. Still, Mr. Arias is undaunted. "Every day you're here you think of new ways to make money," he gushes. He hopes to help market the first mutual fund to be based in Cuba, on behalf of Beta Group.

Soft Sell

Cuba is tantalizing to the LatInvest clients. They hope to get favorable terms because the island is so desperate for cash. Minutes into a presentation to a group of foreign investors, an official at one of the government ministries makes a plea: "Can you help us sell our mattresses? They're really very good. They won a prize in France last year."

Perhaps, for a sensible investor, Cuba is *too* desperate. For the past two years, Euromoney magazine has ranked Cuba as the riskiest of more than 160 countries as a place to invest.

Cuba's push for new investment in several areas — including tourism, mining and oil, light manufacturing, agriculture, biotechnology and most recently real estate — has yielded some success.

Since 1990, companies such as Spain's Grupo Sol Melia and Germany's LTI International Hotels (a unit of LTU International Airways), have signed joint ventures with the government and added more than 3,000 luxury hotel rooms to Varadero, Cuba's premier resort. Canadian mining companies have agreed to explore or develop sites all over the island, especially for nickel.

Investors are encouraged by government reports that the economy is beginning to pull out of a nose dive that began when the Soviet Union dissolved. The government says the economy grew about 0.7% last year, the first increase in several years, and predicts growth of about 2% this year. But Prof. Mesa-Lago in Pittsburgh

WSJ 8/7

warns that government forecasts have been far off in the past.

Vague Guidelines

Real-estate investment, in particular, piques the interest of the LatInvest group. But as with everything else in Cuba, the rules aren't clear.

"I could be a broker in the U.S. now," a Cuban real-estate official informs the group as he displays a dogeared copy of Barron's "How to Prepare for Real Estate Licensing Examinations." He says he is authorized to sell and develop real estate with foreign investors.

"Who will valuate the land?" asks James Johnstone, a representative for a British real-estate developer.

"The Ministry of Finance," the official responds.

"Will you eventually compete with Cubalse?" asks Theresa Dowling, an analyst at LatInvest, referring to another state real-estate company.

"There will be no competing because we're all part of the government," the official smoothly answers. "Our goal is to invest in real estate, not to make money."

'Excess' Profits

Speaking of making money, if you make too much of it in Cuba you might get into trouble. Cuban officials tell the LatInvest group that foreigners will be allowed to repatriate 100% of their profits, although there is no law guaranteeing that. Yet there is still a law on the books against "excess" profits, albeit one normally used against Cuban natives. In October, the government confiscated cars, trucks, cash and other property from several hundred too-successful Cuban entrepreneurs. "All of a sudden they were punishing people for having enough money for a motorcycle," complains a diplomat in Havana.

Reliable information is sparse in Cuba. Details about the 225 joint-venture contracts, for example, are practically impossible to find. "One of the conditions of these arrangements," says one foreigner involved in joint ventures, "is that you keep your mouth shut."

Bad auditing and accounting practices and the need to import many goods not made in Cuba may explain why the booming tourism sector hasn't been as profitable to the island as it might be. The number of visitors jumped 13% last year, to 619,000. Yet on gross receipts of about $800 million last year, the island made just $250 million, Havana Asset Management estimates. Millions of dollars may have been lost because of mismanagement by a state tourism company, Cubanacan, whose president was pushed out of his job last spring.

Sweetheart Deals

For the record, foreigners in Cuba state that they have seen almost no corruption in their dealings with government officials. But in private, they complain that the country is giving sweetheart deals to favored investors.

And for each apparent glittering success story – like Sol Melia's recently opened Cohiba luxury hotel in Havana – there are plenty of tales of woe.

In May, the Cuban government suddenly decided to cancel all contracts with the pension fund of Spanish utility company Endesa, which had been managing several hotels in Cuba. Spanish directors were replaced with Cubans, and Endesa's bank accounts in Cuba were frozen. At the time, the Cuban government said the moves were in response to reports of a Spanish-government decision last fall to freeze fund investment in Cuba. Endesa and its affiliates have resorted to the International Arbitration Tribunal in Paris, demanding $12 million in damages from the Cuba.

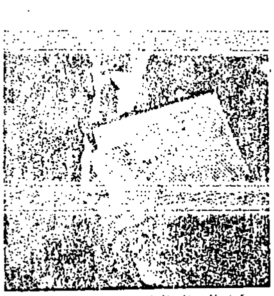
One of the biggest problems foreign investors face is the government's tight-fisted control of the labor force. Investors would rather pay their workers directly than give dollars to the Cuban government, which passes on only part of it, sometimes as little as 5% to 10% of the money to its workers.

"I'd rather not pay Fidel . . . for an employee at a firm I bought in Cuba if I can't choose him myself," says Hylton Philipson, a British venture capitalist.

The current system is far more "convenient" for foreign investors, says Mr. Taladrid. "We are free from labor conflict; nowhere else in the world could you get this tranquility." Government officials say the new foreign investment law won't change the unwieldy labor system.

Yet some foreign companies have been permitted to circumvent the labor laws. "I hand-picked all of my staff members," says one firm's local representative. "I wouldn't have had it any other way." Of course, the government can decide to enforce the labor laws at any time.

Mr. Arias, the LatInvest leader with ties to the Bacardi family, finds that after a second trip to Cuba, his enthusiasm for the island has cooled. He says the only investments he and his clients have made so far are in a handful of antique American autos. "Right now, there are too many questions," he explains.



David Scull/The New York Times

Senator Pete Domenici leaving a news conference yesterday.

...intelligent ... members. He is also the acknowledged master on Capitol Hill of the nuances of the Federal budget and the budgetary process, and he is a bulldog when it comes to interrogating department officials.

"I have grown not to fear the technical parts of the budget while others fear it intensely," Mr. Domenici said. "I don't do any adding and I seldom have

Continued on Page 9, Column 1

Cuba, in Ideological Retreat, To Lay Off Many Thousands

By LARRY ROHTER

HAVANA, May 12 — In an effort to make Cuba's sagging economy more efficient, the Government is abandoning one of the most cherished concepts of the Communist state, the guarantee of full lifetime employment, and has begun layoffs that are expected to eliminate hundreds of thousands of jobs.

By official estimate, as many as 500,000 people, or more than one-fifth of Cuba's total work force, may eventually be affected by the new policy, which began earlier this year and which is intended to reduce overstaffing, cut down on state subsidies and attract foreign investment.

The sweeping job cuts are essential, officials have said, if Cuba is to emerge from the profound economic crisis brought on by the collapse of the Soviet bloc six years ago and the resulting loss of trade and aid for Cuba.

During a recent appearance on a radio program here, the Minister of Labor and Social Security, Salvador Valdes, shied away from setting a timetable for the job restructuring, saying, "It must be gradual and controlled, not abrupt, and accompanied by a recovery of the economy." But he also warned workers to get used to the idea of unemployment, saying that "we have to restructure overinflated work forces" in order to compete in the world economy.

The effort to eliminate superfluous jobs comes as the Clinton Administration and the Government of President Fidel Castro have agreed to an immigration accord that ends the United States policy, in effect for three decades, of granting political asylum to all Cubans who reach American shores. With the door to the United States closed, diplomats and other analysts contend that creating a large contingent of idled workers can only stoke the same domestic pressures and privations that led to outbursts of popular unrest here last summer.

"If they really start dismissing hundreds of thousands of people, that creates a huge political problem," unless other sweeping reforms ...

Continued on Page 4, Column 1

INSIDE

Hard Look at Bosnia Mission

The United Nations Secretary General has ordered a fundamental review of the troubled mission in Bosnia and Herzegovina. Page 3.

Haitian Arrested in Queens

The leader of a Haitian paramilitary group accused of killing opponents of Haiti's former military rulers has been arrested in Queens. Page 4.

Rangers, Devils Up by 3-1

The Rangers, by 3-2, and the Devils, by 1-0, both won in overtime and can wrap up their opening-round playoff series tomorrow. Page 25.

... of the Epicenter of a Virus Outbreak in Zaire

At a cemetery in Kikwit, Zaire, yesterday, two boys waiting for the body of a rel... Ebola virus covered their faces in an attempt to protect themselves. The vi...

The Deadly Virus in Zaire: Sifting the Many Mysteries

By LAWRENCE K. ALTMAN

ATLANTA, May 12 — The Ebola virus that is causing an epidemic in Zaire is one of the deadliest infectious agents, and no one knows why.

Scientists can only guess why the thread-shaped virus has suddenly erupted to cause its third major outbreak in central Africa since 1976, when it was discovered in Zaire. Scientists do not know where the virus usually exists in nature or where it has hidden since it caused its last major outbreak, in southern Sudan in 1979.

But they do know ways the epidemic may be stopped, and that is why the World Health Organization, a United Nations agency in Geneva, has sent scientists to Zaire to control a further spread of the virus, which has killed 45 people by the W.H.O.'s count.

Most of the 65 cases of suspected infection that the team has identified have occurred among health workers who lacked adequate medical supplies. By applying simple hygiene and infection-control measures in caring for victims, the W.H.O. expects to stop the outbreak.

That confidence is based on experience from the two previous known epidemics: simple isolation procedures like masks, gloves and gowns stopped those outbreaks cold.

But the fact that this outbreak is occurring in Kikwit, a large city with an airport and the potential for infected people to travel far, is among the disquieting differences from earlier outbreaks, which occurred in isolated villages.

No one knows what started the latest outbreak. The Federal Centers for Disease Control and Prevention in Atlanta first learned of it on Saturday in a call from Dr. Julia Weeks, a physician in Kinshasa, the capital, who was alert to the possibility that it was an Ebola outbreak. The center here is one of the very few places with a maximum-security laboratory and expertise in the virus.

A few days later, scientists here had found evidence of the Ebola virus in samples of blood from 14 of 16 victims. The international team moved quickly.

Though experts here say there is only a small chance of the outbreak spreading outside Zaire, health officials around the world have been alerted to take every precaution to recognize the Ebola virus if it does appear elsewhere.

In recent decades, doctors and government officials have seemed complacent about infectious dis-

Continued on Page 5, Column 4

Michael Specter/The New York Times

Chechen soldiers stroll in the village of Orekhovo, where Russians and rebels play a waiting game.

For Chechens in Mountains, Fighting Is Winning

By MICHAEL SPECTER

OREKHOVO, Russia, May 11 — It is a lovely three-mile walk from the nearest village to this spectacular, lush hamlet in the Caucasus. Lovely except for the artillery thudding in the background, the helicopters buzzing the tree line, and the dull roar of tanks in the distance.

The war for Chechnya has finally come to the mountain villages where wars for Chechnya have been decided for 300 years. The rebel soldiers of the secessionist republic have lost their cities and their plains. So they have taken refuge in the mountains, fighting Russians in the place they know best.

Despite talk of cease-fires, the acr... President Boris N. Yeltsin's summit meeting this week with President Clinton. Today, as yesterday and the day before, rockets fell regularly on the tired but determined soldiers here, men who know every winding trail in the region and who seem ready to die in defense of them.

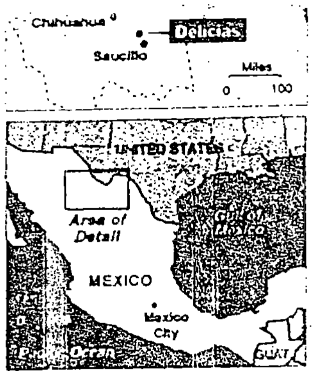
"You Westerners always want to know how we can win this war," said Khamzat Aslambekov, deputy commander of the Chechen battle group that is spread across the hills 40 miles southwest of Grozny. "There is no winning. We know that. If we are fighting, we are winning. If we are not, we have lost. The Russians can kill us all and destroy this land. Then they will win. But we will make it very painful for them."

They already have. Russian soldiers, who routinely ask Chechen civilians for food to augment their meager rations, are spread in long lines across the rich green meadows beneath these hills. They fight from the skies and with mortar.

Sitting in the forest here, one can watch as mines and small bombs, dropped by helicopters, are guided to the ground by cream-colored parachutes hardly bigger than handkerchiefs. The Chechen defenders rest beneath the trees with antitank weapons, rocket launchers and Kalashnikovs, waiting for the Russians to attack the village.

"We don't want to go up there, and they don't want to come down here."

FOR THE 50th ANNIVERSARY OF THE END OF World War II, New York Times articles and photos



The New York Times

El Barzón, a Mexican protest movement, is strong in Delicias.

gages and credit cards change monthly.

Annual interest rates were high even before the crisis — about 35 to 40 percent. But since the devaluation, interest rates have gone up like sand in a desert dust devil. It is not uncommon to find banks charging 80 percent annual interest for a mortgage, 100 percent for a personal loan and 120 percent for credit cards.

"When rates are that high, loans are unpayable," said Jesús Barrera, the owner of a candy store in Delicias who has joined El Barzón. "Mexicans now are ashamed to live in a Mexico where they practice such fiscal terrorism."

Among its demands, El Barzón lists a moratorium on bank repossessions and a grace period for debtors.

[It is not the 14 million Mexicans in extreme poverty who can cause social disorder," the Mexican columnist Luis Pazos wrote on the day after the May Day commemorations. "Rather it is the other dozens of millions of Mexicans who are fed up with the way they have lost much of what they had earned over the last six years because of the Government."]

At first, many of those angry middle-class Mexicans rejected El Barzón, at least publicly. Mr. Cázares said that until a few months ago most landed farmers were too proud to be seen marching in the streets, or admitting openly that they could not pay their debts.

"They would send one of their workers to represent them because they were ashamed to come on their [illegible] tomatoes. After parading through Delicias on May 1, El Barzón members took their tractors, their palominos and their well-worn pickup trucks about 18 miles south on the highway to the tollbooths at Saucillo.

About 100 of them took over the tollbooths, blocking the tollkeepers and shouting for motorists to pass through without paying. Some surprised motorists honked their horns and gave their 10-peso toll — about \$1.75 — to the protesters in a sign of solidarity. The big tractor-trailer drivers leaned on their horns and smiled, since the toll they saved added up to almost 90 pesos.

"People have to protect their rights," said Artemio Godínez Tacuba, one of the motorists. "And that includes the right to make a living."

gone through his deportation hearings. The process, however, could take months if Mr. Constant decides to challenge his deportation by seeking political asylum.

"We really plan to send this guy to Haiti whether it's deportation or extradition," a State Department official said. "At the point we are in the proceeding, there is no distinction between the two."

Asked if a deal could be worked out to keep Mr. Constant in the United States, the official said, "It's a little late in the game."

Russ Bergeron, a spokesman for the Immigration and Naturalization Service, said Mr. Constant was arrested at 5:30 P.M. in front of a house at on 225th Street in Laurelton, Queens. The house was the home of

ican policy of sending Cuban boat people home.

The 11 were returned in a Coast Guard vessel to the same remote dock in Cabañas, 40 miles west of Havana, chosen for the return of the earlier group.

As with that group of 13, those returned today were met by officials from the United States Interests Section, which represents Washington in Havana, who informed them of legal ways of emigrating to the United States.

The 11, whose ages range from 17 to 65, were picked up from two boats in the Straits of Florida. It was the second group found on the high seas since the Administration announced last week that Cubans intercepted at sea would be returned home.

Cuba, in an Ideological Retreat, Begins Layoffs That Could Cost Many Thousands Their Jobs

Continued From Page 1

of the economy also take place, said Carmelo Mesa-Lago, a Cuban-born specialist on the Cuban economy who is a visiting professor at Florida International University in Miami. "They cannot hope to hide 500,000 dismissed workers and pretend that they will be relocated within the private sector."

In various speeches he has made this year, President Castro has said that though the job restructuring is inevitable, the state has an obligation to provide a social safety net for laid-off workers. The Government budget for 1995 includes a 58 percent increase in social assistance payments, much of it apparently to cover salary guarantees for the jobless.

Cuban officials have said they plan to shift the workers left without jobs by the streamlining of state enterprises into other sectors of the economy and to expand the number of self-employed people in trades and crafts. But they acknowledge that these efforts, which would result in weakening state control, have been slowed by a prolonged internal debate.

"These decisions imply a fundamental change in Cuba's economic model and are the object of polemic and discussion," said Julio Carranza, co-author of a new book titled "Restructuring the Cuban Economy" and deputy director of the Center for the Study of the Americas, an official research institute here. "There is still ideological resistance in a conservative sector, but there is clearly a pressure to be pragmatic."

Indeed, the new policy is so controversial that the Communist Party is still struggling to find the proper

Jobs cuts are called essential if Cuba is to overcome its economic crisis.

terminology to describe what is taking place. Along with universal health care, education and housing, nominal guaranteed employment is regarded as one of the great triumphs of the Cuban revolution.

"There are no dismissals and there are no layoffs," said Pedro Ross Leal, secretary general of the Cuban Workers' Central, the official labor union confederation. "If that were the case, we would be saying that the revolution is disappearing."

Instead, Mr. Ross said, Cuba is undergoing "a process of rationalization of employment" that is producing a corps of "available workers" who have agreed to "voluntary relocation." In recent declarations in the official Cuban news media, and again in an interview in his office this week, he estimated that 500,000 to 800,000 workers could eventually be "rationalized."

Thus far, layoffs have been limited and largely confined to sectors of the economy where foreign investment has been directed or is being sought. Among the places where layoffs have attracted the most attention are a nickel mining project, a mineral water bottling plant and one of Havana's largest hotels, the Havana Libre, which is now managed by a Spanish company.

By this week, Mr. Ross said, the jobs of 60,926 workers had been phased out. Of these, he said, 59,815 have been shifted to new jobs, while "the others are at home receiving a state subsidy" that amounts to 60 percent of their wages "or have gone to work for themselves and renounced the right to a subsidy."

Under regulations announced last September, workers who are laid off are entitled to one month's full pay and 60 percent of their salary thereafter. Workers who "unjustifiably" refuse a new job, however, are entitled to only one month's pay after the initial month before their payments are ended.

Officials contend that despite the economic decline of recent years, a few sectors, like agriculture and tourism, have labor shortages and could benefit from the larger pool of available workers. But many of those jobs are unpopular, most notably those that require taxing physical labor or moving to the countryside.

"Why would anyone want to leave the city and go to a place where there is nothing to do?" asked a 19-year-old youth who described himself as an unemployed pipe fitter but who spoke on condition of anonymity.

His 22-year-old friend, who also spoke on condition of anonymity and who said he had last worked as a night watchman at an empty warehouse, said, "You break your back doing that kind of work, and you still go hungry."

Castro pledges to provide a safety net for those workers who lose their jobs.

Mr. Carranza, who is closely identified with economic reform proposals, said that the best way for the Cuban economy to absorb those dismissed from their jobs would be to liberalize the regulations announced late in 1993 that govern self-employment. Since then, more than 160,000 self-employment licenses have been issued to tradesman from the 117 occupations included in the system, such as mechanics, artisans and plumbers.

"The entry barriers must be eliminated and the process must be simultaneous with the rationalization of jobs," he said. "If not, it will be impossible to absorb the excess labor force in the state sector."

Currently, however, self-employed workers are not allowed to hire other employees, a necessary step if small private enterprises are to thrive. The regulations also prohibit professionals with college degrees, like teachers, architects and engineers, from working for themselves.

"It really bugs me that my boyfriend, who is a mechanic, is allowed to work for himself and I can't," said a 28-year-old nurse. "Why should I be punished just because I have a couple of degrees?"

Diplomats and other analysts said that the approach Cuba seems to be taking differs significantly from that of other Communist countries, like China, and former members of the Soviet bloc. China, for instance, moved first to privatize agriculture and then small manufacturing enterprises, thereby creating job opportunities, before eliminating the system known as the "iron rice bowl."

"Job creation should precede dismissals, and that's what I don't see here," Dr. Mesa-Lago said. "And that is dangerous."

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At age 9, he is far too young to question why a school would bar him from the third grade or refuse him a desk in the crowded fall class of fourth graders in the Hempstead public schools. "The school wanted many things that we did not have," Daniel said in Spanish, his voice high and clear. These "things," are lease contracts, mortgage statements and notarized letters from absentee landlords — documents that are the precious tickets to education in many Long Island schools and other suburban districts in the country.

Determined to save money or ease overcrowding, school districts are demanding the documents to winnow out students who actually live in other areas. But immigrant rights groups contend that the rules are so burdensome that some districts have locked out poor immigrant families, undocumented or not, more effectively than an old-fashioned politician barricaded at the schoolhouse steps.

The districts are not denying

work to enroll their children.

"It's rotten," said Roger Rice, co-executive director of Multicultural Education and Training Advocacy, a Boston-based group that helps immigrant students. "It's wrong. It's illegal. And you wonder where the heads are of these school people. Why would school people want to keep kids out of school?

"Five years ago, we didn't hear about this kind of thing," he continued. "The fact is that this has become a big issue and we've got to

Continued on Page B4, Column 1

forces, fled towns and villages in the region the Serbs called Krajina just ahead of the advancing Croatian military, the United Nations High Commissioner for Refugees said. United Nations officials in Croatia said they believed the figure was closer to 60,000, however.

The Croatian Government declared victory over the Serbs in Krajina today after a three-day offensive to retake the territory. The Serbs had held the region for four years. [Page A6.]

The refugees, many of them armed and some of them still in

the Krajina capital, Knin, with
of the staff. "But it's a grea
psychologically after it ha
built up that we are winners.

It was particularly humbli
Mijakovac said, that the Y
Army, which had won the 1
that created the secessionist
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in Yugoslavia, has been see

Continued on Page A6, Col

Cuban Leadership Shows Little Hope Of Closer U.S. Ties

By TIM GOLDEN

HAVANA, Aug. 6 — After months of diplomacy that raised Cuban hopes for a thaw in relations with the United States, the Government of President Fidel Castro appears to have abandoned hopes for a significant improvement before the American presidential election next year.

In recent speeches and interviews, Mr. Castro and his senior aides have criticized the Clinton Administration as sharply as ever, attacking its support for the American economic embargo against Cuba and describing its proposal to increase contact between the countries as sabotage in disguise.

"The enemy does not cease in its efforts to destroy us," Mr. Castro said in one address. Even more moderate American opponents of the Cuban Government, he insisted, "want to penetrate us, weaken us, create all kinds of counter-revolutionary organizations to destabilize the country, whatever the consequences."

Such remarks have prompted concern from the United States and from European and Latin American governments that strongly oppose the American embargo and hope to encourage democratic political re-

Continued on Page A3, Column 1

Jim Estrin/The N

Summer of Surprises

Cricket fans — from left, David Mohammed, Herod Sirjul, David Williams and Hermat Persad — yesterday at Floyd Bennett Field in Brooklyn as oppressive heat gave way to cool winds. Page E

INSIDE

A Cali Drug Leader Is Held

In a blow to one of the world's largest drug-trafficking organizations, a leader of the Cali drug cartel was arrested in Colombia. Page A3.

Out of the Fog of Terrorism

There are still unanswered questions in the World Trade Center bombing, but some of puzzle pieces have fallen into place. Page B1.

Deal in Bombing Case

Timothy J. McVeigh's lawyer said he expected his client's Army buddy to be indicted charges and to testify for the prosecution. Page A9.

Pulp Nonfiction

Barbara Joslyn — romance writer, convicted burglar and neophyte fugitive — surfaced in a chapter of her own melodrama. Page B1.

News Summary

p4 8/7

Continued From Page A1

form in Cuba while promoting foreign investment and trade.

Diplomats say the official statements have not coincided so far with any visibly tougher treatment by the Communist Government of those whom it has seen as potential agents of the new subversion: students, scholars, members of the country's tiny but growing civic groups.

But after making small political moves that encouraged American officials, Cuban officials have increasingly dismissed the idea of gradual progress toward closer ties with the United States. Once again, they have suggested that so long as the embargo remains, political change in Cuba is out of the question and efforts to solve other problems between Havana and Washington are probably a waste of time.

"Let us not be fooled," Foreign Minister Roberto Robaina said in an interview last week with a Cuban newspaper. "All of the other measures about which there is so much speculation are also instruments for the submission of our country."

"They are not debating whether or not to cut off our heads," he said of American policymakers, "but how they will do it, with a knife or with a razor."

Mr. Robaina and other Cuban leaders have generally been much more upbeat about the potential for improved ties with the United States since the two countries signed an agreement last September to end an exodus of more than 30,000 refugees from the island.

A second accord, announced on May 2, was a particular triumph for the Castro Government. For the first time since Cuban revolutionaries came to power in 1959, American officials agreed to deport Cuban refugees who try to enter the United States illegally. Some 20,000 Cubans who had been held at the Guantánamo Bay Naval Station since trying to flee the island in rafts last summer are also to be allowed to emigrate to the United States under the deal.

In announcing the pact, Cuba's chief negotiator, Ricardo Alarcón, said it was "only fair" to recognize "positive factors" in the Clinton Administration. After unflagging support for Cuban exiles going back to the end of the Eisenhower Administration, he said, President Clinton "turns things around 180 degrees."

Mr. Alarcón and other Cuban officials reiterated at the time that they would never agree to the United States' long-standing demand that Cuba open up its one-party political system in exchange for an end to the embargo.

Castro's criticism of the Clinton Administration is as sharp as ever.

But they praised what they described as political courage on the part of the Clinton Administration and said the accord should be understood as proof of Cuba's willingness to negotiate in good faith. They also took several modest steps toward rapprochement with their political critics.

In early June, the Cuban authorities released six political prisoners, two of them relatively well-known dissidents. Mr. Castro then made what American officials saw as one of his more significant political gestures in recent years, meeting with Eloy Gutierrez Menoyo, an exile political leader who spent 22 years in Cuban jails. Mr. Castro also held a rare encounter last month with Cuban Catholic bishops at the home of the Vatican envoy in Havana.

The Communist Party's top official for hemispheric relations, Jose Antonio Arbesu, described the harder tone of recent Cuban Government remarks as "a matter of putting one's feet on the ground."

"The blockade is the essence of this problem, and there is no sign that it is going to change," Mr. Arbesu, who heads the party's Americas section, said in an interview. "It would be very difficult for the Clinton Administration to take important steps to improve things between now and the next election."

Cuban officials have been bitterly critical of efforts by conservative Republicans in Congress to tighten the embargo, and what the Cubans describe as the Clinton Administration's acquiescence in that campaign.

Legislation proposed earlier this year by Sen. Jesse Helms, Republican of North Carolina, and Rep. Dan Burton, Republican of Indiana, would punish foreign companies that do business with Cuba and press for full compensation for American citizens with claims to private property seized since the revolution. State Department officials say the law could increase the value of American claims against the Castro Government from about $6 billion to as much as $100 billion.

The Clinton Administration has objected to parts of the bill, saying they would violate international law. But its alternative proposal for pressing the cause of democratic reform in Cuba — a combination of continued economic sanctions and greater political and social contacts — has begun to anger Cuban officials almost as much.

"They want to exercise their influence by way of wide exchanges with different sectors that they consider permeable, giving away juicy scholarships, impressing us with their millionaire institutes, their technologies, and their centers of social research," Mr. Castro said in his state-of-the-nation speech on July 26.

Referring to what American officials call the second track of their policy, he added, "those are the ones who want to destroy us from within."

TREND

The Cuban Economy: Struggling to Recover

per capita GDP

Plot per capita GDP

With the collapse of the Soviet Union in 1991, Cuba lost both its primary trading partner and main source of financial support. This event thrust the Cuban economy rapidly into severe recession, as gross domestic product declined by over [ten percent each year?] during 1992 through 1994. Although forecasts predict a modest 2 percent rate of economic growth for 1995, there will likely be little effect on the living standards of most Cubans, who continue to face daily power outages, deteriorating housing, and rationed food and consumer products.

Government Initiatives. Over the past year, the Cuban government has accelerated its efforts to stimulate economic recovery. Its recent actions seem to signal a reorientation of the economy away from its socialist foundations and towards further integration with the global economy.

Domestic Market Reform: The government in recent years has cut employment by one-third, reduced subsidies, and moved to establish a tax system. In May, the government announced that another ten percent of the labor force is likely to lose their jobs in coming years in efforts to improve economic efficiency. It is hoped the newly jobless will find work in the burgeoning freelance market (which was legalized in 1993 and provides for self-employment), or in profit-sharing workers' cooperatives that now manage former government operations, most notably in agriculture.

Integration with the World Economy: Joint ventures between Cuban and foreign corporations have expanded in recent years, with heaviest inflows from Canada, Western Europe, and Latin America. A new investment law, expected in coming months, will likely allow full foreign ownership of businesses and property, thus providing further incentives for foreign investment in Cuba. In March, Cuba introduced a new currency, with purchasing power linked to the U.S. dollar, to facilitate conversion into other currencies.

* Statement about Investor from Canada, WE, LA ready to jump in?

TREND

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The Cuban Economy in Recovery

The collapse of the Soviet Bloc in 1991 deprived Cuba of both its primary trading partner and its major source of protection from international market forces. Cuba was thrust into an economic crisis from which it has yet to rebound. GDP shrank by double digits in the first three years following the fall of the USSR. Although forecasts predict a modest 2% economic growth in 1995, after the virtual stagnation of 1994, this will do little to abate the power outages, deteriorating housing, and rationed food and consumer products that affect most Cubans on a daily basis.

Over the past year, the Cuban government has accelerated its efforts to stimulate economic recovery. Its recent actions seem to signal a reorientation of the economy away from its socialist foundations and towards further integration with the global economy. Although preliminary steps have been taken, Castro's government appears unwilling to yield fully its control of the economy or to retreat from the ideology which has fairly successfully guaranteed a generation of Cubans food, housing, health care, and lifetime employment. With reform threatening economic upheaval, change has proceeded slowly. But significant shifts have occurred:

Domestic Market Reform. Recognizing the popularity of self-employment (legalized in 1993) and the success of foreign-managed enterprises, Cuba has begun experimenting with decentralization, privatization, and free markets on a limited scale. In May, the government announced that up to 10% of the labor force is likely to lose their jobs in coming years in an effort to 'rationalize' the economy and increase efficiency. The government itself has cut employment by one third, reduced subsidies, and moved to establish a tax system in lieu of centralized planning. It is hoped that the newly jobless will find work in the burgeoning freelance market, or will accept incentives to join the profit-sharing workers' cooperatives that now manage dismantled government operations, most notably in agriculture. Although the sale of most goods and the output of most industries are still controlled by the government, the scope of the free market~~s~~ is expanding, now covering industrial supplies and excess farm produce. Private hiring remains illegal, except in foreign-financed ventures and in agricultural cooperatives.

Integration into World Economy. These domestic reforms have been aimed at attracting foreign investment, which provides Cuba with desperately needed capital and technology. The economy should get a boost this year from increased foreign investment in tourism and sugar, its top foreign exchange earning industries; the low sugar output that has stymied the incipient recovery resulted from input shortages and a lack of funding. Joint ventures between Cuban and foreign corporations have expanded in recent years, and a new investment law, expected within the next few months, will likely provide further investment incentives and allow full foreign ownership of businesses and property. Cuba has normalized relations with almost all regional governments, and relies heavily on Canada, Western Europe, and Latin America for investment. In March, Cuba introduced the New Convertible Peso, equivalent in purchasing power to the US dollar, hoping to smooth interaction between the domestic and international markets and undermine the black market for hard currency.

Sugar
The sharp decrease in foreign earnings from sugar production evident in the graph after 1991 is the result both of reduced output and of the termination of protected trade with the USSR. From 1962-1991, Cuba sold approximately half of its yearly sugar output of 7-8.3 million tons to the Soviet Union at prices several times the world price. In 1991, these agreements broke down, and although the USSR continued to buy sugar from Cuba, it did so at a price nearer that of the market. The world sugar price also declined upon Cuba's entry into the market. After two years of moderate declines, sugar production plummeted to 4 million tons in 1993-- a result both of poor weather conditions and fuel and input shortages. Most estimates of the 1994 crop suggest a further drop to approximately 3.5 million tons.

Forecasters anticipate a small rebound in 1995 will allow outputs to reach 4.5-5 million tons. The recovery is stimulated by financing deals with foreign institutions that will allow farmers to purchase pesticides and spare parts they have been lacking since Soviet assistance dissolved (see attached article on "Agriculture"). A sugar rebound is integral to Cuba's recovery because it remains the second largest foreign exchange earner, and, as of 1992, nearly a third of cultivated land was devoted to its production. Significantly, non-sugar industrial production increased by 8.5% in 1994, while GDP only grew by .7% largely because of sugar's poor performance.

Economic History
When Castro took power in 1959, he intended to focus Cuba's economy on accelerated industrial development. He abandoned this plan in 1964 because of the strengthened US embargo and the exodus of people with entrepreneurial and managerial skills, and adopted a strategy that put the main emphasis on expanding sugar production. Although the economy did not grow in 1964-1970, the groundwork was laid for a period of rapid growth beginning in 1971. GSP (a measure of the gross value of output in sectors producing goods and services closely related to production) grew at 7.5% a year from 1971-75, with industry performing well (with cumulative 43.9% growth) and high export earnings due mostly to sugar. From 1976-80, GSP grew at 4% annually. Growth again reached over 7% from 1981-85, but this growth came at the cost of a high trade deficit with market nations. Because of deteriorating relations with Eastern Europe, growth from 1986-90 averaged only .5% annually.

Economist Intelligence Unit
Country Reports
2nd Quarter, 1995
Cuba
Domin. Repub.
Haiti
Puerto Rico
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Summary

(1)

Cuba, Dominican Republic, Haiti, Puerto Rico 2nd quarter 1995

May 5, 1995

Cuba

Political and economic structures *Pages 3-4*

Outlook: The Helms bill has cast a cloud over prospects for foreign investment, just as economic reform is entering a particularly testing time, with the prospect of widespread job losses. Another year of only very modest economic growth is forecast for 1995. *Page 5*

Review: The Helms bill, which seeks to tighten the US embargo, has been well received in Congress but strongly opposed by important political and economic international players. Washington has agreed to allow in the bulk of the Cuban refugees at the Guantanamo base. Fidel Castro has paid an official visit to France. In the first stage of monetary reform a new convertible peso has been introduced, at par with the dollar. Factories are forming workers' cooperatives. The new investment law may permit full foreign ownership. Non-sugar industrial production rose by 8.5% in 1994, and tourism overtook sugar as a foreign exchange earner. A trade union leader has warned that nearly a tenth of the workforce may be laid off. The 1994/95 sugar crop may have been as low as 3.3m tons, but a recovery is likely this year as foreign pre-financing deals enhance the supply of material inputs. Total has pulled out of oil exploration. Nickel output fell again last year, but prospects of an upturn are good. Tourist arrivals were up 8% in the first two months of the year. Agriculture has been classified as the top priority for investment. Grupo Domos has raised funds for its joint venture in telecommunications modernisation. Spanish interests are investing in real estate development in Havana. The 1995 oil-sugar barter deal is being negotiated with Russia. *Pages 6-17*

Dominican Republic

Political and economic structures *Pages 18-19*

Outlook: GDP growth will ease marginally this year from 1994's 4%, due largely to the present power shortage and a less spectacular rise in mineral export volumes. *Pages 20-21*

Review: More allegations of corruption in government departments have surfaced. There are now seven presidential hopefuls within the ranks of the ruling PRSC. Official GDP and inflation targets for 1995 are relatively modest, but the expectations for the external balance are optimistic. Electricity shortages became acute in April. Production capacity has risen at the Rosario gold mine. The trade deficit levelled out in 1994 because of strong export growth. *Pages 21-25*

$1.60
+.50 (card)
$2.10

Political structure: Cuba

Official name: Republic of Cuba

Form of government: centralised political system with close identification between the Communist Party and the state

Head of state: president, currently Fidel Castro Ruz

The executive: the Council of Ministers is the highest executive body; its Executive Committee is composed of the president, the first vice-president and the vice-presidents of the Council of Ministers

National legislature: National Assembly of People's Power, composed of 589 members elected by direct ballot

Legal system: a People's Supreme Court oversees a system of regional tribunals; the Supreme Court is accountable to the National Assembly

Last national elections: February 1993 (provincial and national assemblies)

National government: the organs of the state and the Communist Party are closely entwined and power devolves largely from the Executive Committee of the Council of Ministers

Main political organisation: Partido Comunista de Cuba (PCC)

President of the councils of state & ministers	Fidel Castro Ruz
Vice-president and economic policy minister	Carlos Lage Davila
Key ministers	
agriculture	Alfredo Jordan Morales
armed forces	Raúl Castro Ruz
basic industry	Marcos Portal Leon
economy & planning	Osvaldo Martínez
finance & prices	José Luis Rodríguez García
fisheries	Orlando Felipe Rodríguez Romay
foreign affairs	Roberto Robaina
foreign investment	Ernesto Meléndez Bachs
foreign trade	Ricardo Cabrisas Ruiz
government	Wilfredo López
labour & social security	Salvador Valdes Mesa
light industry	Jesús Pérez Othon
science, technology & the environment	Rosa Elena Simeón
sugar	Nelsón Torres Pérez
Governor of the central bank	Francisco Soberón Valdés

Cuba

Outlook

Helms bill casts a cloud over investment—

The Helms bill, introduced in the US Senate in February and designed to tighten the US embargo and, in particular, deter foreign investment in Cuba, has cast a cloud over the still nascent recovery of the Cuban economy. Although the final version of the bill is likely to be weaker than that originally introduced, the Cuban government is justifiably worried. Many investors will await the outcome of the bill's passage through the US legislature before finalising any deals with Cuba. Both Cubans and foreign firms may have been delaying further investment decisions until after the new investment law is approved by parliament (probably in July).

—as reforms enter a testing time—

Traditionally a period of scarce fresh food supplies, the summer months will be a testing time for the government's reform policies, including last September's legalisation of a free market in agricultural produce.

After 1994's near stagnation GDP should show slightly stronger growth this year as the sugar crop records some improvement, supported by financing agreements with foreign banks and trade houses, and some non-sugar sectors (notably tourism and pharmaceuticals) maintain their expansion. But the benefits will not be substantial nor widely felt. Industrial restructuring is therefore likely to proceed slowly, with both bureaucrats and workers fearing the effect of loss of privileges and demands for greater efficiency. The speed with which alternative, and real, employment can be offered to redundant workers will be key to political and social calm.

—which gives Havana some leverage

But if privation deepens at a time of rapidly rising unemployment, the least that may be expected is another summer of discontent. However, Havana appears confident that the promise of legal emigration agreed in Washington in early May will be sufficient to neutralise most would-be dissidents. Statements made after the agreement suggest that a rapprochement between the two sides may be emerging. This could mean that the Clinton administration would prefer not to support the tightening of the embargo embodied in the Helms bill.

Forecast summary

	1992[a]	1993[b]	1994[b]	1995[c]
Real GDP growth (%)	-11.8	-15.3	0.7	2.0
Total exports ($ bn)	1.8	1.7	1.9	2.2
Total imports ($ bn)	2.3	2.3	2.3	2.5

[a] Actual. [b] EIU estimates. [c] EIU forecasts.

~ 18'00

Economic structure: Cuba

calculated

37 ~~36~~ %

Latest available figures; the Cuban government has not published data systematically since June 1990

Economic indicators	1990	1991	1992	1993[a]	1994[a]
GDP Ps bn	19.0	17.0	15.0	12.7	12.8
Real GDP growth %	-3.1	-10.5	-11.8	-15.3	0.7
Population m (mid-year)	10.6	10.7	10.8	10.9	11.0
Total exports $ bn	5.4	2.9	1.8	1.7	1.9
Total imports $ bn	7.4	4.2	2.3	2.3	2.3
Hard-currency external debt[b] $ bn	7.0	8.4	10.0	10.8	n/a

Exchange rate[c] April 28, 1995 Ps1.00:$1

E

Origins of gross domestic product 1989	% of total
Agriculture & forestry	15.9
Industry	46.0
Construction	9.3
Transport & communications	8.0
Commerce	20.1
Total incl others	**100.0**

Components of gross domestic product 1987	% of total
Private consumption	94.3
Government consumption	9.1
Gross fixed capital formation	16.2
Change in stocks	-1.1
Net exports of goods & services	-18.5
Total	**100.0**

Principal exports 1993	$ m
Sugar	720
Nickel	157
Seafood	100
Tobacco	50
Citrus fruit	12

Principal imports 1994[a]	Ps m
Oil	880
Raw materials & medicines	590
Food	510

Main destinations of exports 1993	% of total
CIS (incl Russia)	40.0
Latin America & Caribbean	16.0
Canada	15.0

Main origins of imports 1993	% of total
Latin America	41.0
Canada	6.0
CIS	3.0

[a] EIU estimates based on statements by Cuban bodies. [b] Year-end estimates, including interest arrears. [c] Official rate. On the black market the dollar exchanged for Ps70-80 in late 1993.

~$1700

19.0 −
18.3 31.5

5

~~100~~

89.5 − (11.8)(89.5) − (15.3)(11.8)(89.5)

=

42%

Review

The political scene

Helms bill seeks to tighten the US embargo—

The Cuban Liberty and Democratic Solidarity (LIBERTAD) Act of 1995 was introduced in the US Senate on February 9 by Senator Jesse Helms. The bill aims to plug what its supporters see as loopholes in US embargo legislation, with a particular focus on foreign investment. It includes provisions to deny entry to the USA to representatives (and their dependants) of companies investing in Cuba and proposes to grant former owners of nationalised property in Cuba the right to sue in US district courts any companies or individuals which have invested in those properties. More broadly, the bill bans the import of sugar, syrup and molasses from countries which purchase these products from Cuba. It also advocates seeking a mandatory international embargo against Cuba from the UN Security Council. It instructs US representatives to the Organisation of American States and to international financial institutions to vote against Cuba's admission to such institutions, and provides for a cut in US contributions to international agencies equivalent to the amount of any loans or aid they grant to Cuba.

—and easily passes its first stage—

The US House Sub-Committee on Hemispheric Affairs approved the Helms bill by 7:0. However, its sponsors failed to attach it as an amendment to the Pentagon supplemental appropriations bill, which would have guaranteed it an early passage through all stages. Senator Helms, a longstanding opponent of the Castro government, declared in a press conference: "Whether Castro leaves Cuba in a vertical or horizontal position is up to him and the Cuban people—but he must and will leave Cuba."

—but is strongly opposed by Russia—

Whatever its reception in the US legislature, the bill has already elicited strong disapproval from other major players in international political and economic affairs. Moscow has protested against a provision which would withhold US aid to former Soviet states equal to the amount they pay Cuba for military or intelligence services. The Russian embassy in Washington has noted that, in singling out Russia's use of the Lourdes electronic surveillance facility in Cuba, the bill ignores the USA's use of similar facilities.

—the European Union—

The European Union (EU) has a broader objection. In a statement issued on April 5 the EU Commission declared its opposition to the "adoption of any measures having extraterritorial application and in breach of World Trade Organisation rules". The European Commission (and a number of governments friendly to Washington, including the UK and Canada) had expressed opposition to the 1992 Cuban Democracy Act, which banned subsidiaries of US companies in third countries from trading with Cuba. Now a letter from the European Commissioner, Sir Leon Brittan, to the US secretary of state, Warren Christopher, asking him to use his influence to oppose the Helms bill, notes that the proposed legislation reopens Europe's differences with the USA on extraterritoriality and unilateralism. Moreover, as it could run counter to

Dept of Treasury | 16th
15th

World Trade Organisation (WTO) rules, Sir Leon stated that the EU reserves the right to take the case to the WTO "to protect its legitimate rights".

—and Canada

Ottawa has declared that the Helms proposals would damage Canadian interests. The minister for external affairs, Andre Ouellet, stated that while Canada wants to see progress on human rights and democracy in Cuba, it cannot accept restrictions by foreign governments on the right of Canadian companies to carry out their legitimate business.

But previous Canadian experience highlights the difficulty third-country governments face in trying to counteract the extraterritorial reach of US legislation. When Washington passed the Cuban Democracy Act, Canada issued an order prohibiting Canadian-based companies from complying with the US legislation. But some 20 US subsidiaries in Canada were effectively left in limbo between the Canadian order and instructions from their US head offices not to trade with Cuba.

The Clinton administration has little room for manoeuvre

Mindful of the bill's wider ramifications, the US State Department is expected to try to soften its provisions (as well as those of the companion measure introduced in the lower house by Representative Dan Burton). But the Clinton administration has little room for manoeuvre. The secretary of state, Warren Christopher, said on March 3 that it is not considering any changes to the embargo against Cuba, although it supports the spirit of the Cuban Democracy Act. But it may be hard for the president to exercise a veto on new anti-Cuban legislation faced with the lobbying power, which is disproportionate to Cuban-American voting strength, of the Miami-Cuban lobby.

The White House considers easing restrictions—

Meanwhile, foreign policy aides to the US president, Bill Clinton, are reported to be considering an easing of restrictions on travel and family remittances to Cuba, imposed during the rafters' exodus last August. Subsequent statements made it clear, however, that Washington will probably use the restrictions as a bargaining chip for political and economic reform in Cuba. On the other hand, some analysts have suggested that the possibility of lifting travel and cash sanctions was aimed at reaching a compromise with Cuba on speeding up the processing, for repatriation or for relocation to the USA, of the 30,000 rafters detained at the US naval base at Guantanamo.

—as the USA opens a new visa-processing centre

Following a meeting to review the progress of last September's migration agreement, in March the USA formally opened a new visa-processing centre in Havana, adjacent to the US Interests Section (equivalent to an embassy). The January meeting had agreed that processing must be speeded up. So far 13,000 visas have been issued to Cubans since last September, 9,000 of which are part of the 20,000 a year agreed under the accord. The other 4,000 were granted to Cubans already on the waiting list.

The refugees at Guantanamo pose a problem for Washington—

According to Cuban sources, over 1,000 refugees had returned from the Guantanamo base to Cuban territory by March, 400 of them officially. Officers on both sides of the fence were said to have helped many of the rest to escape from the base through minefields or by sea. But the presence of the refugees at the base remains a difficult problem for the USA.

The head of the US Atlantic command, Marine Corps General John Sheehan, told the House National Security Committee in March that it was costing around $1m a day to operate the US naval base at Guantanamo. But the Senate Appropriations Committee turned down a Pentagon request for an extra $53m to improve conditions for refugees at the base. Meanwhile naval training formerly carried out at Guantanamo is to be transferred to Florida.

—and warning of a new exodus prefaces the migration talks—

The situation could worsen if the economic embargo is tightened, as the Helms bill proposes. Very few rafters have been picked up in recent months. There were none in December and January, and while about 60 Cuban refugees landed in Florida on February 14, they were the first to do so since the US coast guard began patrols last summer. But General Sheehan told the House committee that: "Castro could put 100,000 Cubans on rafts in the water in a heartbeat." And in April Cuba warned that any tightening of the economic embargo could lead to a new exodus of refugees. The declaration came as Ricardo Alarcon led a Cuban delegation to New York for a new round of talks on migration which began on April 18.

—prompting a policy reversal

In this situation the US administration opted to reverse its stance against allowing in the Guantanamo refugees. At the beginning of May it was announced that around 15,000 refugees would be admitted, on the grounds of the cost and difficulty of maintaining the camps, particularly as summer approaches. It was reiterated that, in future, Cubans trying to reach the USA by boats and rafts would be returned to Havana.

Havana signs nuclear non-proliferation treaty

Cuba signed the Tlatelolco Treaty, Latin America's nuclear non-proliferation accord, at a ceremony in Havana on March 27. The foreign minister, Roberto Robaina, warned that continued adherence to the 1967 agreement will depend on an end to US threats against Cuban safety. He prefaced the ceremony with a declaration that the conditions which had formerly prevented Cuba signing were still present: hostility to Cuba by "the sole nuclear power in this part of the world, the United States of America"; the US economic, financial and commercial blockade; and the occupation of the Guantanamo Bay naval base.

Mr Castro visits France—

Fidel Castro visited France in March and, on arrival, announced that this marked the end of the US-organised "apartheid" of Cuba. The Cuban leader lunched at the Elysée palace with the president, François Mitterrand, said by *Le Monde* to have invited him as "a final challenge to the Americans before leaving power". Mr Castro was also invited to the French National Assembly by the speaker, Philippe Seguin. The Cuban president encouraged French trade and investment, addressing a meeting of 300 business leaders, the first time he has spoken to a European business forum. According to Cuban sources, France is now the country's fifth largest source of foreign investment, after Canada, Spain, Mexico and the UK.

—and agrees to a review of political prisoners

While in France Mr Castro agreed to let an international mission, including representatives of the London-based human rights organisation Amnesty International, examine the situation of political prisoners in Cuba. He also promised to check on 43 prisoners listed by Amnesty. The concession appears in social assistance, from Ps97.2m to Ps154m, to cover expected payments to those described as surplus workers.

Mr Castro hints at encouragement of small business—

In a recent speech to the Federation of Cuban Women, Fidel Castro declared: "We must carefully analyse the development prospects of small to medium enterprises, the role of the state and its participation in all this." The president's words echoed proposals by some government advisers who have argued that large, Soviet-style factories are uneconomic and inappropriate. Some larger factories have already begun turning existing production lines into independent units, a trend which is expected to accelerate.

—and confirms that Cubans can participate in joint ventures

In a recent interview Mr Castro has said that Cubans are not excluded from investing in joint ventures. It is rather a question of the size of the hard-currency investment required for the mainly large enterprises being created; 40-70% of the investment in a joint venture must be in convertible currency.

Individuals are setting up companies—

Cubans with hard-currency earning power are now accumulating capital. A ~~small business sector is emerging in the guise of self-employment~~, and a privileged few are finding above-board investment outlets. A recent significant example was when one of Cuba's foremost singer-songwriters, Silvio Rodríguez, launched his own record label, using what the official publication *Granma International* described as his "personal funds". The company was launched in the presence of Cuba's culture minister and will use existing state-run production facilities. The Pablo Milanes Foundation, formed two years ago by another leading singer-songwriter, also functions as a record company, although within a wider cultural brief. It was founded with hard- currency finance from leading cultural figures.

—factories are forming cooperatives—

Workers' cooperatives are beginning to be formed in industry. This was pro~~posed last year by Carlos Solchaga, the former Spanish~~ economy minister who has been advising the Cuban government on economic reform. Some Cuban economists have favoured such a move, while others argue that it could lead to "atomisation" of industry. High-ranking officials have also spoken of the need for cooperative self-employment, ~~which could be a euphemism for allowing~~ limited development of private enterprise.

—and a new investment law may permit full foreign ownership

A new investment law now in preparation may allow 100% ownership by foreign investors. The deputy investment minister, ~~Octavio Castillo, told a~~ recent business gathering in London that if investors find that their negotiations with potential Cuban partners are not proceeding satisfactorily, they may be able to bypass them and apply for full ownership.

The new investment law, which is expected to be approved by parliament in July, is aimed both at improving transparency and at speeding up decision-making, Cuba's foreign trade minister, Ricardo Cabrisas, told UK businessmen in London. Other sources suggest that greater transparency will also be required of prospective foreign partners, who will have to submit documentary proof of the source of their finance.

Possible debt negotiations are signalled

It appears that Cuba may be taking a somewhat more realistic line on its hard-currency foreign debt, currently estimated at around $8.5bn (excluding interest arrears). Speaking at the economic summit at Davos in January, the vice-president and economic policy minister, Carlos Lage, said that Cuba is ready to examine possible agreements with creditors "in a flexible context and with reasonable solutions, either in the Paris Club or other appropriate multilateral or bilateral forums".

Through a series of debt-equity swaps, in telecommunications, textiles and cement, Cuba has cleared most of its debt with Mexico. Meanwhile, in April, the foreign trade minister and the deputy president of the central bank, Raul Amado Blanco, met UK creditors and other interested parties to discuss the debt question.

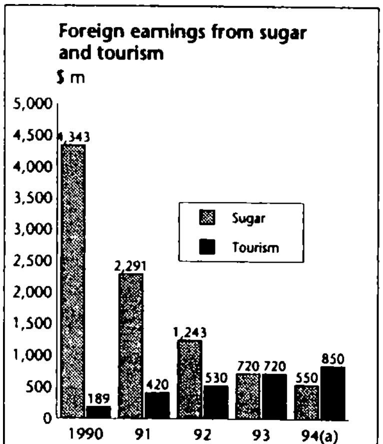
The economy

Industrial production rose by 8.5% in 1994—

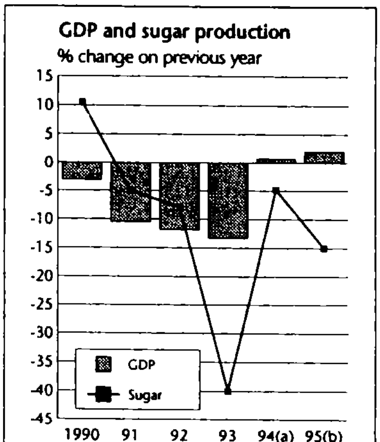
Non-sugar industrial production is reported to have risen by 8.5% in 1994. (Overall GDP, depressed by sugar's very poor performance, grew by only 0.7%.) The slight improvement was fuelled by foreign investment in many cases and by some success in reorienting foreign trade. It was also aided by a policy of restructuring and scaling down the state sector and decentralising economic decision-making.

—and tourism overtook sugar as foreign earner

Sectors which did particularly well were biotechnology and pharmaceuticals (which earned over $100m in exports) and tourism, up 14.4% despite the rafters' crisis. Statements by various government sources indicate that gross export earnings from sugar were lower than those from tourism last year. Thus, whereas in 1989 sugar, nickel, shellfish and tobacco, in that order, were the top four foreign exchange earners, last year the ranking was tourism, sugar, nickel and biotechnology and pharmaceutical products. Some suggest that sugar may fall to third place, after tourism and nickel, in the short term, and possibly to fourth place eventually, if biotechnology lives up to its export potential.



(a) EIU estimates.
Source: Cuban publications and press reports



(a) EIU estimates. (b) EIU forecasts.
Source: Cuban publications and press reports.

Performance of sugar and tourism sectors

	Sugar production (m tons)	Export receipts[a] ($ m)	Arrivals (million)	Tourism revenue ($ m)
1990	8.0	4,343	0.34	189
1991	7.6	2,291	0.42	420
1992	7.0	1,243	0.49	530
1993	4.2	720[b]	0.56	720
1994	4.0	550[b]	0.63	850

[a] Including barter trade. [b] Estimate.

Sources: Miscellaneous reports in Cuban and international press and statistical publications.

Light industry output rises—

Although production in light industry rose 13% last year, output remained well below capacity. Subsidies to the sector were cut by Ps35m, but the state still covered losses to the tune of Ps100m, according to the trade union newspaper *Trabajadores*. Of the dozen economic associations formed in light industry with foreign capital, only those of the soap and cosmetics group Suchel, including a joint venture with the Anglo-Dutch company Unilever, have had what the newspaper described as "significant results". Export potential is limited by high production costs and lack of marketing experience.

—but its workforce is being reduced—

The light industry ministry is rationalising the sector's 110,000 workforce and hopes that "substantial progress" will be made by mid-1995. Ministry staff are reported already to have been cut to one-third of their 1990 level. Drastic reductions in the workforce and the breakdown of factories into several independent units based on existing production lines are among the alternatives being considered for unprofitable enterprises throughout the economy.

4250
4250
8500
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12750

—and the civil service shrinks

The light industry ministry is not alone in reducing its manpower. The central state apparatus overall is contracting. Since April 1994, 15 ministries and national agencies have been eliminated and the organisation and functioning of those remaining have been simplified. From March 1994 to January 1995 the staff in ministries and central state agencies fell from 12,879 to 8,228, and the number of departments and other units within ministries and agencies was cut from 984 to 570.

Trade union leader warns of soaring unemployment—

The head of the Cuban trade union federation, Pedro Ross, has warned that 500,000 workers could lose their jobs in the next round of government cost-cutting. This would be equivalent to around 10% of Cuba's economically active population, currently some 4.5 million. The unemployed, including those laid off on 60% of salary, already number 140,000, said Mr Ross. The EIU's estimate, for January this year, is somewhat higher.

Mr Ross suggested that some may find work in the foreign sector, including tourism (which currently employs 100,000) and agriculture. But while plans for rapid expansion of tourism point to improving employment prospects, many older hotels have a ratio of staff per room considerably above the international average. And many of the cooperative production units formed from state farms are reportedly hand-picking new members and cutting existing payrolls in an effort to achieve profitability.

Employment
('000; period average)

	1988	Jan 1995[a]
State sector	3,531	3,500
Non-state agriculture	168	555[b]
Private employees	13	20
Self-employed	29	200
Unemployed	n/a	225

[a] EIU estimates. [b] Includes 400,000 in the new Basic Units of Agricultural Production formed from former state farms.

Source: (for 1988 data) *Anuario Estadistico de Cuba*.

—and favours expanding self-employment

Expanding freelance work could be another antidote. Now in the region of 170,000, the number of self-employed is widely expected to soar this year. Many professionals hope that they will be allowed to market their skills privately, either in addition to their jobs or on a fully freelance basis, following the next round of economic reforms expected in July. But it is likely that many redundant workers will have to settle for early retirement, the commonest remedy to date for overstaffing.

Agriculture

Officials admit to an even lower sugar harvest in 1994/95—

Although the 1994/95 sugar cane harvest was not completed at the time of writing, top officials have been warning since early in the year that it will yield even less than last season's already very poor 4m tons. International analysts estimate that it could be as low as 3.3m tons.

—but a recovery is forecast for 1995/96—

The sugar minister, Nelsón Torres, has expressed the hope that the 1995/96 crop will reach 5m tons. This is in line with predictions from international sources; the International Sugar Organisation has forecast a crop of 4.5m-5m tons. The recovery is based on the prospect of the timely application of fertilisers and pesticides, made possible by pre-financing deals with international trading houses and financial institutions. The first agreements were signed last December, and in the following month fertiliser began to be imported and applied.

—based on prefinancing deals

Details of these financing deals have begun to emerge. Apparently the industry is getting loans, on a province-by-province basis, for one year at market rates of interest to buy inputs ranging from fertiliser to tractor parts. The loans, together with the interest, are repayable in cash or sugar, whether output rises or not, but lender and borrower share in any profit from sales. The basic terms are believed to be the same for all deals negotiated with foreign institutions, which include trading houses based in London, Paris and Switzerland, and the Dutch ING bank.

Officials predict improved output of non-sugar crops—

1994 saw some improvement in production of most non-sugar crops, and the availability of finance for the purchase of essential inputs points to improved tobacco, coffee and potato harvests this year. They should also get a boost from foreign investment, which need no longer be confined to ventures with the state sector (see Foreign investment).

—but Mr Castro is sceptical

In an interview with the Mexican daily paper *El Sol*, Fidel Castro declared that Cuba is incapable of producing all its food. He referred to the complexity and cost of producing poultry and dairy goods, which require high levels of imports, and cast doubt on the use of molasses as cattle feed, a solution to shortages which has been much touted in Cuba in recent years.

Sugar cane cultivation suits Cuba, "since it is a permanent crop, which can last eight to ten years", he claimed. Although Cuba currently exports only 3.5m tons, it aims to return to production of 6m-7m tons of sugar (the level recorded in 1992), representing an export supply of some 6m tons.

Italians reach farm deals

In what Cuba hopes will be the first of many such deals, agreements have been reached with two Italian companies for investment in rice and mixed agriculture, according to Cuban sources in Rome.

Military conscripts are brought into farming

Units of the Army of Working Youth have taken over ten citrus farms in Jaguey Grande, Matanzas province, an area where there is substantial Israeli investment. This section of Cuba's armed forces, which offers social and economic tasks as a form of national service, has become increasingly involved in agriculture and reported a profit of Ps6.5m from 272,000 ha of land cultivated last year. Former boarding school buildings are being converted into housing for any soldier-farmer who elects to remain on the land, marking a departure from the policy of using part-time student labour in agriculture. The first such conversion has 100 apartments, shops, nursery and primary schools and other services.

Energy

Total pulls out of oil exploration—

The French company Total, the first foreign firm to sign a risk contract with Havana, has withdrawn from oil exploration after results from the two wells it drilled offshore of Matanzas province proved negative. However, the company says it has not ruled out the possibility of contracting another block at some future date, and will retain links with Cuba through its ink division and the supply of tyres and gaskets for sugar combines.

—while Taurus prepares to drill

Meanwhile, the Swedish oil company, Taurus Petroleum, is expected to start drilling off Cuba's south coast by the summer. A Taurus spokesman said that they expected any oil found to be lighter than that in northern Cuba.

Domestic oil production increases

Cuba produced 1.3m tons of crude oil in 1994, 20% up on 1993 and an historic high. An official from the Ministry of Basic Industry has claimed that Cuba should be able to supply its oil needs from domestic sources within four years. This is highly optimistic, given that Cuba used to import up to 13m tons of oil a year and that the economy is functioning drastically below capacity with current annual supplies of approximately 6m tons.

Production and imports of oil

	1990	1991	1992	1993[a]	1994[a]
Production (m tons)	0.67	0.53	0.98	1.10	1.30
Imports ($ m)	1,994	1,253	811	1,000	880

[a] EIU estimates.

Sources: Miscellaneous Cuban publications and press reports.

Mining

Nickel production continues to fall—

Contrary to expectations, nickel production fell again in 1994. A total of 26,772 tons of nickel and cobalt was extracted, 11% less than in the previous year and more than 40% down on the 1989 level.

—but a 20% rise is predicted this year

However, the minister for basic industry is predicting that nickel production will rise by as much as 20% this year, as foreign-funded investment takes effect. Modernisation is proceeding, facilitated by finance raised by the ING Bank and the Swiss commodity group Vitol. The joint venture with Sherritt of Canada is another key element; much of the C$150m earmarked for investment by the Canadian company will be used to expand capacity at the Moa Bay processing facility (1st quarter 1995, page 12). In its 1994 report Sherritt claimed that the new business, operational since last December, will be one of the most efficient, low-cost producers of refined cobalt and nickel in the world.

Production and exports of nickel

	1990	1991	1992	1993	1994
Production ('000 tons)	41	34	32	30	27
Exports ($ m)	388	230	225	130[a]	120[a]

[a] EIU estimate.

Sources: Miscellaneous Cuban publications and press reports.

Canadians find gold

The Canadian company Miramar, through its subsidiary Minera Mantua, has found gold deposits in a copper mine in Pinar del Rio, while a Panamanian company, Minamerica Corporation, has begun prospecting for gold, copper, zinc and lead in central Cuba.

Tourism

An 8% rise in tourism arrivals

The deputy tourism minister, Miguel Brugueras, has said that 132,679 tourists visited Cuba during January and February this year. Of these, approximately 39,000 were from Canada, 52,000 from western Europe, 31,400 from Latin America, and 1,600 from eastern Europe. The year-on-year rise in numbers was a relatively modest 8.1%, far below the 15.4% recorded for the whole of 1994, but as the effect on bookings of last August's rafters' crisis slackens, the rate should improve.

Foreign investment

Minister identifies key sectors for investment

In London for meetings with government, industry and financial interests, the foreign trade minister said that agriculture is now at the top of Cuba's list of investment priorities, with the sugar industry a close second. Agreements to invest in agriculture do not have to be solely with the state sector. Other key areas include energy, light industry and electronics, while tourism continues to offer a wide range of opportunities for investment, both directly in infrastructure and in associated sectors which would encourage expansion of the industry.

Domos raises finance for telecommunications—

Grupo Domos of Mexico is believed to have raised $700m for the modernisation of Cuba's telecommunications system, probably from private sources rather than banks. A joint venture for this purpose was formally constituted between Grupo Domos and the Cuban state telecoms company, EmtelCuba, in December 1994. The Mexican company negotiated a 49% stake in EmtelCuba the previous June, with exclusive rights to provide the main telephone services for the first 12 years of a 55-year agreement. The new company, ETECSA, plans to replace 200,000 lines and install a further 800,000 over the next five to seven years.

—but Mexican crisis hits oil and tourism

While the telecoms deal appears to have escaped the backlash from the Mexican financial crisis, tourist numbers from Mexico have fallen, and an agreement with a Mexican consortium, Mexpetrol, to run a mothballed oil refinery in Cuba has not been activated.

B.A.T agrees to manufacture cigarettes in Cuba

The UK tobacco company, B.A.T Industries, through its Brazilian subsidiary, Souza Cruz, may become the first foreign company to invest in Cuban cigarette manufacturing. Souza Cruz has signed a letter of intent to set up a 50-50 joint venture to produce cigarettes for sale in hard-currency shops and possible export.

Spaniards enter real estate

Real estate was opened to foreign investment last October, and the first involvement has been by Spanish interests. The banking group Argentaria has formed a joint-venture company to refurbish the 100-year-old Lonja del Comercio, the former commercial exchange in old Havana. Argentaria will invest some 49% of the $8.1m initial capital through its property subsidiary Unitaria. The total cost of the project is expected to be in the region of $18.5m. The new company, Inmobiliaria Aurea, will rehabilitate 13,552 sq metres of office space on seven floors. An adjacent 4,340 sq metres site will provide parking for 145 vehicles.

It is believed that agreement has also been reached with another company to build condominiums in tourist and urban areas. While few details are available, it is thought to be linked to a proposal from the National Housing Committee to offer luxury apartments for sale to foreigners. (Under the Cuban constitution land may not be sold but it may be handed over in usufruct or on lease.)

Foreign involvement in this sector is needed. The mayor of Havana said recently that more houses are destroyed each year in the city than can be repaired or built. In 1994, 614 houses collapsed and another 375 had to be demolished. Some 4,000 dwellings are in a "critical state".

French are to look at nuclear plant completion

France's state electricity company, Electricité de France, is to study the possibility of completing the mothballed Juragua nuclear plant to international safety standards, the Cuban weekly *Granma International* has reported. The proposed nuclear study was one of ten agreements reached by a recent mission to Cuba organised by the CNPF, the French employers' organisation. Cuban sources had previously indicated that a Brazilian company was "facilitating a feasibility study", and the foreign investment minister, Ernesto Meléndez, was reported as saying Cuba is negotiating with Russia, the UK and Italy to finish two sections of the plant.

Foreign trade

Russia discusses oil for sugar barter—

Russia is negotiating the exchange of 3m tons of oil for 1m tons of sugar. (At current prices for Siberian crude this represents a price for Cuban sugar some 15-20% above the current free-market level.) Last year's deal, involving 2.5m tons of oil for 1m tons of sugar, ran into trouble in the autumn but appears to have been completed. The chairman of the Russian parliament's economic policy committee was in Cuba in late March to look at trade between the two countries.

—and China agrees to buy sugar

The 1995 trade agreement signed recently with China covers the delivery of 400,000 tons of sugar, the same amount as in 1994. However, as the 1994/95 sugar harvest is likely to be lower than last year's, deliveries could fall even shorter of the target figure than in 1994, when only 290,000 tons reached China. Trade between the two countries was well down on its 1990 value last year, at $267m against $580m: China supplied $147m and Cuba $120m.

Cuba

BASIC DATA

Land area	110,860 sq km
Population	10.9 million (1993)
Main towns	Population in '000, December 1988 estimates

Havana	2,078
Santiago de Cuba	397
Camagüey	279
Holguín	228
Guantánamo	198
Santa Clara	191

Climate	Sub-tropical
Weather in Havana (altitude 24 metres)	Hottest month, August, 24-32°C (average monthly minimum); coldest months, January and February, 18-27°C; driest months, February and March, 46 mm average rainfall; wettest month, October, 173 mm average rainfall
Measures	Metric system; also old Spanish units
Weights and measures	The metric system is used, but sugar is often measured in Spanish tons of 2,271 lb and there is a Cuban *quintal* of 101.4 lb made up of 4 *arrobas*. For area measurement one Cuban *caballería* equals 13.4 ha or 33.16 acres
Currency	1 peso=100 centavos. Official exchange rate October 28, 1994: Ps1.0083:$1; Ps1.637:£1
Time	5 hours behind GMT (April-October, 4 hours behind GMT)
Public holidays	January 1; May 1; July 25-27; October 10

Cuba

Our quarterly Country Report on Cuba, Dominican Republic, Haiti and Puerto Rico analyses current trends. This annual Country Profile provides background political and economic information on Cuba.

POLITICAL BACKGROUND

History

From colonial possession to independence

Cuba was among the first of the Caribbean islands to be settled by Spain during its expansionary phase in the 1500s and 1600s. It rapidly lost its importance to its colonial masters, however, and was used largely as a naval base. The character of the island was quite markedly changed during the short British occupation of 1762-63 with the introduction of sugar plantations worked by African slave labour. The economy soon became a prosperous sugar monoculture, exporting almost all of its production to the USA. But problems with labour supply and increasing competition among sugar producers in the 1840s and 1850s plunged the island into an economic and political crisis. This crisis, compounded by the weakness of the Spanish colonial government, prompted a decade of rebellion between 1868 and 1878, led at first by the coffee plantation owners, but carried through by more radical workers and peasants. The island, although governed by an increasingly impotent Spain, was by now tied economically to the US economy. Relations between the USA and Spain became strained, eventually leading to US intervention in the final stage of the 1895-98 Cuban war of independence. The USA emerged victorious from this brief Spanish-American war and, under the Platt amendment to the constitution of 1901, retained the right to intervene in post-independence Cuban affairs.

Independence proved difficult to maintain

The period from independence to the 1930s was one of instability and increasing authoritarianism. On several occasions the USA reoccupied the island. Democratic political forces were in their infancy and it was left to the remnants of the corrupt pre-independence regimes to take control. In 1933 a rebellion by students and army sergeants eventually led to Fulgencio Batista Zaldívar taking power. The US government distrusted the students but saw in Batista a military man on whom it could rely. He stepped down in 1944 but seized power again in 1952.

The slide into chaos

The opposition to General Batista's authoritarian and corrupt rule came mainly from student and urban guerrilla organisations. One such group, led by Fidel Castro, attacked the Moncada army barracks in 1953. Castro was captured, tried and imprisoned but released in 1955 and allowed to go into exile. He and some of his followers returned to the country in December 1956 on the boat *Granma*. Most were killed but the survivors waged a guerrilla struggle from the Sierra Maestra hills. In late 1958 Castro sent two columns of his followers out from their enclave in the Sierra Maestra east towards Havana. The demoralised Cuban army offered weak resistance. General Batista fled the country at the beginning of 1959 and Castro took power.

The Castro era

Under Castro various political groups came together in the Integrated Revolutionary Organisation (renamed the Partido Comunista Cubano in 1965) and initiated a transformation of the economic, political and social conditions on the island while maintaining rigid control of nearly all aspects of the nation's life. The Partido Comunista reoriented Cuban trade away from the West to socialist countries by joining their economic union, the Council for Mutual Economic Assistance (CMEA), in 1972. This move was a formal acknowledgement of the island's dependence upon the USSR for its defence and economic survival following the severing of relations by the USA in January 1961, when Cuba expropriated assets worth over $1bn belonging to US enterprises. Anti-Castro Cuban exiles backed by the US government attempted an invasion of Cuba at the Bay of Pigs in April 1961, but the attack failed. The USA, which had imposed a partial embargo on trade with Cuba in 1960, extended the embargo to include all goods in March 1962.

Cuba's relations with the USA have been one of the determining factors in the development of the country since the revolution. Early US government antagonism towards the Castro regime hastened the move towards a Soviet-style economic and political system. This caused relations between the two countries to deteriorate further. Thousands of mostly middle-class people, alarmed at the revolutionary government's policies, emigrated to Florida and other parts of the USA, where they have over the years become a powerful political and business lobby with a significant influence on the USA's Cuba policy. In 1962 the positioning of Soviet warheads on Cuban soil produced a major flashpoint in the cold war, the missile crisis, which perhaps more than any other event exemplified the new place of Cuba in the world order.

The arrival of President Jimmy Carter in the White House in 1977 heralded an attempt to normalise relations between the USA and Cuba. Progress was linked by the USA to the readiness of the Cuban administration to pay compensation for nationalised US companies, to the phasing out of Cuban intervention in Africa and an end to efforts to extend the country's sphere of influence in Latin America, and to Cuba's willingness to release political prisoners. For its part Cuba linked such progress to the readiness of the USA to relax the trade embargo and to dismantle its Guantánamo Bay military base on the island. At the same time lines of official communication were opened, though not at full diplomatic level, with the establishment of "Interest Sections" in Washington and Havana.

Cuban-US relations deteriorated again in 1980 in the general atmosphere of increased tension between the USA and the USSR and, in particular, as a result of President Castro's handling of the "Mariel boatlift". After restrictions on emigration were temporarily lifted, an exodus of 125,000 refugees took place. President Castro exploited the situation by putting common law prisoners on the boats. Tension increased further when the Reagan administration accused

Cuba of supplying arms to governments and movements opposed to US interests in Central America. An apparent thaw was marked by an agreement in December 1984 on immigration procedures, which allowed on the one hand for the repatriation of 2,700 "undesirables" from among those who went to the USA in 1980 and on the other hand for up to 20,000 entry visas to be granted each year to Cubans wishing to be reunited with relations living in the USA. But the agreement was suspended by Cuba in May 1985 when Washington's anti-Castro Radio Martí went on the air, and was not reinstated until late 1987. Antagonism declined during 1988, when an agreement on a staged withdrawal of Cuban troops from Angola was reached.

1990 saw a fresh hardening of the US administration's attitude to Cuba. The USA made it clear that any aid from it to the Soviet Union would depend on the USSR's cutting off aid to Cuba. The Torricelli bill, signed into law in October 1992, prohibits third-country subsidiaries of US companies from trading with Cuba and withholds assistance from countries which grant it preferential trade terms. In April 1992, by executive order, President Bush closed US ports to ships stopping in Cuba during the previous six months. But elements in the exile community for the first time began to advocate dialogue with the island. This found an echo in Havana, where the government was desperate for expatriate remittances. In July 1993 Havana announced measures to make it easier for Cubans living abroad to travel to the island. A conference in Havana in April 1994, attended by over 200 exiles, led to further concessions to emigrés and was used as a platform to announce publicly that expatriate equity would be welcome in Cuba.

Diplomatic isolation

The diplomatic isolation of Cuba in the wake of the 1959 revolution and its expulsion from the Organisation of American States (OAS) in 1962 meant that by 1965 only Mexico and Canada among the countries of the western hemisphere still recognised the island's government. However, left-wing governments in Peru and Chile restored relations with Cuba in the early 1970s, and in 1974 the English-speaking Caribbean islands followed suit. Since 1984 relations have been restored with most countries of the region. After the collapse of the Cuban-supported revolutionary government in Grenada in October 1983, Cuba's relations with other Caribbean countries deteriorated. But this has not prevented Cuba and a number of Caribbean countries from forming tourism joint ventures in recent years. In March 1992 Cuba formally recognised the Grenadian government, opening the way to its admission to the Caribbean Tourism Organisation. The December 1989 US intervention in Panama deprived Cuba not only of a political ally in General Noriega but also of a vital channel for hard-currency transactions by which Cuba could circumvent US sanctions. The electoral defeat of the Sandinista government in 1990 in Nicaragua was also a disappointment. But Cuba has continued to expand diplomatic and trade relations with Latin America and the Caribbean and is a member of the newly formed Association of Caribbean States.

In May 1988 Cuba's increasing acceptance within the international community was highlighted by its election to a three-year term on the UN Human Rights Commission. This has now been renewed, despite successful US pressure for a UN investigation of human rights in Cuba. In 1989 Cuba was elected to the

Security Council of the UN. Canada, which has always remained on fairly friendly terms, and the Rio Group of seven Latin American countries, ~~are~~ advocating Cuba's readmission to the OAS.

In its relations with other developing countries Cuba is probably best known for its military assistance to Nicaragua's Sandinistas, Ethiopia and, most notably, Angola. But it also offers social and economic help to a number of countries, especially in terms of "volunteer" workers and educational exchanges. From 1979 to 1983 it chaired the Non-Aligned Movement, which comprises over 180 countries, mostly from the South.

The dissolution of the Eastern bloc

When Mikhail Gorbachev became the general secretary of the Communist Party in 1985, Cuba's relationship with the Soviet Union began to weaken. By 1990 the Soviet Union was unwilling—or unable—to maintain the high level of aid and the privileged trading relations Cuba had previously enjoyed. Although the Soviet Union was reluctant to abandon the country at a stroke, its own economic and political crises made it hard for it to honour commitments, and in August 1990 a 2m ton shortfall in the annual 12m-13m tons of Soviet oil usually delivered to Cuba plunged the island into a recession from which it still shows no sign of emerging. In September 1991 President Gorbachev agreed after a meeting with President Bush to withdraw Soviet troops from Cuba.

A "transitional" Soviet-Cuban trade accord for 1991, replacing the previous series of five-year accords, reduced to 10m tons the Soviet Union's annual oil commitment to Cuba, and began to shift the basis of the two countries' trade to hard currency, at prices nearer to world market levels for the commodities traded. The break-up of the Soviet Union later in 1991 further hastened the disintegration of the old model of trade and cooperation. Cuba received only 1.8m tons of oil from Russia during 1992. The 1993-94 oil-for-sugar deals were hindered by supply difficulties on both sides and dogged by disputes over the relative prices of the two commodities. Late oil deliveries held up the 1993/94 Cuban sugar harvest which, at an estimated 4m tons, was even lower than the 1992/93 total of 4.4m tons.

↑ integration

Relations with other east European countries have weakened more abruptly than those with Russia, the detachment becoming definitive when the CMEA formally dissolved itself in February 1991. In 1990 four east European countries voted at the UN Human Rights Commission in favour of a US-sponsored motion to censure Cuba. Cooperation agreements for 1990 were signed but many contracted deliveries did not arrive. By 1991 Czechoslovakia, Poland, the former East Germany and Yugoslavia, which had together imported 892,804 tons of Cuban sugar in 1989, stopped importing it at all. Aid from eastern Europe also dropped away and technical assistants were recalled.

Ideologically, Cuba's response to the fall of communist rule in the USSR and the rest of eastern Europe has been to dissociate itself not only from the new systems but also from the old ones they replace, insisting on the homegrown nature of Cuban socialism. In terms of diplomatic and trade relations, the government has striven to forge new relations with the former Soviet republics and now has trading agreements with most of them.

Refugee crisis precipitates US policy change

Cuba's political and commercial relations with Europe, Canada and Latin America improved in 1994 and the flow of investment increased. The European Commission granted the country substantial humanitarian aid and spoke of helping to spearhead change, as it claims to have done in Vietnam. High-level contacts with Canada and Mexico in mid-year soothed Havana's fears that the North American Free Trade Agreement (NAFTA) would put a brake on developing relations.

In summer 1994, however, a shortlived occupation of diplomatic premises by 150 would-be emigrants was the precursor of a new refugee crisis, which led to a deterioration in US-Cuban relations and a major policy change by the US government. On August 5 central Havana was the scene of anti-Castro disturbances by an estimated 1,000 people, mainly young men. This incident was seen as the first riot since the 1959 revolution. It was quickly suppressed by police, the so-called Rapid Reaction Brigades and other government supporters. The killing of two policemen during a boat hijacking provided a counter-focus for the Castro government to rally its supporters in a 500,000-strong demonstration. Castro announced that unless the US government agreed to issue more visas to Cubans he would order his coastguards to "stop guarding the US border". The exodus of raft-people this unleashed towards Miami precipitated a major change of policy in Washington. The US president, Bill Clinton, announced an end to the 28-year-old policy of offering asylum to any Cuban who fled to the USA. This did not deter an estimated 33,000 Cubans from taking to the sea. The USA banned emigré remittances and flights to Havana but stopped short of a naval blockade of the island. Inter-governmental talks began in New York in September, with the US side insisting that only the exile issue could be discussed. Havana pushed for a wider dialogue to include the US embargo on trade with the island and demanded 100,000 visas for Cubans to enter the USA. On September 9 it was announced that the USA would issue the full 20,000 visas a year provided for under the existing accord (only some 3,000 had been issued in the previous year). As an exceptional measure, Washington agreed to issue a further 6,000 visas in 1994; only applications made from inside Cuba will be considered. Cuba agreed to try to stop the flood of refugees and the government announced that it would no longer tolerate escape attempts.

In an apparent attempt to push for political reform, the Spanish government arranged a meeting in Madrid in September between the Cuban foreign minister and representatives of moderate opposition groups. The UK government sent a ministerial delegation to Havana in September, the first for 20 years. Governments in Europe and most of the Americas explain this pragmatic approach in terms of speeding up the pace of economic reform, with a view to facilitating the eventual emergence of political change.

The constitution

When President Castro's regime assumed power on January 1, 1959, the constitution was suspended, to be replaced by a Fundamental Law of the Republic. Only in February 1976 was a new constitution introduced, which established that Cuba is a socialist state in which all power belongs to working people. The state guarantees work, medical care, education, food, clothing and housing.

The president is simultaneously head of state and of government, and is elected for a five-year period. In 1976, 1981 and 1986 elections were held to designate 10,740 members of 169 municipal assemblies; these assemblies in turn chose the members of the National Assembly and of provincial assemblies. The constitution was amended in July 1992 to allow for direct election of national and provincial as well as municipal assembly members. A new tier of local government at district level—the People's Councils—was also created. The nomination process was not specified in the constitution, however, and although the government initially stated that declared opponents of the Communist Party could stand for office, the final election law did not allow for any competition. The first elections under the new rules took place in February 1993 and were followed by the setting up of parliamentary commissions which function between sessions of the National Assembly. The assembly meets twice yearly for sessions lasting three days; day-to-day political control is exercised by the 31-member Council of State. Reorganisation of government in 1994 included the abolition or amalgamation of several ministries and state committees and the creation of six new ministries, leaving a total of 17 ministries.

The 1992 constitutional amendments also ended the state's monopoly of foreign trade, and recognised private enterprise when carried out by companies and economic associations (joint ventures).

Political forces

Political life centres around the Communist Party. Political education is effected through the Committees for the Defence of the Revolution (organised at a neighbourhood level), the Union of Young Communists, the University Students' Federation, the National Small Farmers' Association and the Cuban Women's Federation. The Cuban Workers' Federation groups together the members of 18 industry-based unions. Cuba's first socialist constitution was ratified at the first Congress of the Communist Party, held in December 1975, although it was not until February 1976 that it was formally approved by referendum. The Fourth Party Congress, held in October 1991, approved direct, individual voting for members of the Cuban parliament, called the National Assembly of People's Power. These elections were held in February 1993, but the only choice offered the electorate was to vote for the government candidate or to vote for no-one. The government reported a voter turnout of 99.6%, with only 7.1% of ballots left blank or spoiled.

The unwieldy party bureaucracy was streamlined in 1990 as part of the process of "perfecting" the party in the run-up to its congress. Advisory departments to the Central Committee were cut from 19 to nine, and the party's military department was replaced by an advisory committee directly answerable to the Political Bureau. At the same time steps were taken to broaden democratic participation in party structures, with appointments to party posts being made by direct, secret vote by party members as from November 1990. The formal proscription on homosexuals and religious believers joining the party was abolished as well.

Defence

The armed forces numbered some 180,500 in mid-1990, of whom 145,000 were in the army, 13,500 in the navy and 22,000 in the air force. In addition, in 1988 the youth labour army totalled 100,000 and the territorial militia 1.3 million. In 1991 military service was cut from three years to two and later to one. The defence budget was cut by 50% in 1994. The armed forces are heavily involved in farming, and in industrial activity, much of it production of goods for tourism and agriculture.

POPULATION AND SOCIETY

Cuba had a population of 10.9 million in 1993. Population growth was 1% per year in the 1980s. Life expectancy at birth is 77 years, the highest in Latin America, and the infant mortality rate in 1993 was 9.3 per 1,000, the lowest in Latin America. Cuba's population is ageing, with 12% over 60 years old, putting it on a level with many developed countries.

The emphasis of the Castro administration on welfare has reduced the incidence of fatal diseases. Cuba is the only Latin American country to have been included by Unicef in the category of countries with the lowest infant mortality rates in the world, on a par with the industrialised nations. The ratio of inhabitants per doctor was 231 in 1993, with 1,623 inhabitants per dentist. The post-1989 economic crisis, however, has begun to undermine people's health. Malnutrition is becoming increasingly widespread. In mid-1993 almost 30,000 cases of vision impairment or blindness were reported.

Education has also been a top priority. The revolution's first important social programme, undertaken in 1961, was to overcome illiteracy countrywide. According to government figures, the illiteracy rate in 1990 was only 1.9%. In 1989 Cuba had 1,072 nursery schools with an average capacity of 135 children, and 12,900 schools (1,724 of them secondary schools) with a total of 2.64 million pupils. 33,199 students graduated from higher education institutions. The high level of education and training in the country is being used to attract foreign investment in science-based and high-technology industries.

A combination of deliberate neglect of housing in the capital and major investment in the countryside has pushed the rate of growth of the capital's inhabitants below that of the population as a whole. Since 1959 the population of Havana has approximately doubled to 2.5 million, whereas the overall population has risen by 150%. Nevertheless, a drift to urban areas, particularly in the early 1960s, has meant that there has been a relative shortage of rural labour, against a tendency towards surplus in the industrial sector. This tendency has no doubt been strengthened by universal education. A serious attempt is now being made to reverse the urban migration trend. Rural rejuvenation programmes, spurred by the economic crisis, aim to increase Cuba's self-sufficiency in food (see AGRICULTURE, FORESTRY AND FISHING).

CURRENCY

The currency is the peso. Although the peso is frequently quoted against the dollar, the trade embargo means that Cuba deals mostly with countries outside the dollar area. The official exchange rate was Ps1.0083:$1 on October 28, 1994. The black-market rate in Havana in June 1994 was Ps110-120:$1, but this had fallen to around Ps80:$1 by September. In July 1993 it was announced that the US dollar would also become legal tender in Cuba (see THE ECONOMY).

The Fourth Communist Party Congress in October 1991 resolved to develop a more diverse and flexible banking system and hinted at strategies to deal with a large shift of trading activity to hard-currency markets. The first joint-venture bank was authorised in March 1994.

THE ECONOMY

Central control is weakening

The Cuban economy is based on collective ownership of the means of production and centralised control. But central planning has been made impossible by growing shortages of resources. This fact was implicitly recognised by a 1992 constitutional amendment which limited social ownership of property to the basic means of production. The government still prioritises certain sectors and attempts to control the flow of important inputs. Enterprises in the foreign sector, however, are now self-financing and must source their own supplies from hard currency earnings. 1994 saw the beginning of a shift towards the use of monetary and fiscal instruments of economic policy. As well as across-the-board price rises to help mop up excess liquidity, estimated at Ps11.5bn, subsidies have been cut and a system of direct taxation is being introduced. Higher bank interest rates, conversion of savings accounts to bonds and issue of a "public debt" bond have been proposed.

As Cuba comes to terms with the need to survive in western markets, the Ministerio de Inversión Extranjera y Colaboración Económica (MIECE) is assuming a key role, developing trade and cooperation links with Latin America and western Europe, and is working more flexibly than was possible with the traditional five-year plans under which trade with the CMEA was managed. In a further effort to promote integration into world markets, the government has allowed a considerable degree of autonomy to develop in the export sector. Some 500 enterprises manage their own foreign exchange. Over 150 trading companies have been established and about 150 joint ventures with foreign companies are functioning. Joint ventures are offered very favourable tax treatment and import privileges and can generally contract freely with local enterprises. In July 1993 dollars became legal tender for Cubans. Many goods which were previously available only to foreigners or on the black market therefore became available to Cubans with access to foreign exchange.

Economic performance in the 1960s and 1970s

The period immediately following the seizure of power by President Castro in 1959 saw profound changes in the pattern of ownership, in the relations between different agents involved in the production process, and in Cuba's international economic relations. The effects of the measures taken in 1959-61 to transform the economy from a capitalist to a collectivist system were complicated by an exodus of people with entrepreneurial talent and managerial skills, by the strengthening of the US economic embargo in March 1962, and by restrictions imposed on the international marketing of Cuba's sugar. In 1964 the original programme of accelerated industrial development was abandoned in favour of a strategy which put the main emphasis on expanding sugar production, in order to ease the foreign exchange constraint which had impeded the industrialisation programme and threatened to strangle the economy. Although the economy did not grow much in 1964-70, the groundwork was laid for a period of fairly rapid growth beginning in 1971.

possible graph (?)

In 1971-75 GSP (global social product, a measure of the gross value of output in sectors producing goods and services closely related to production) grew at an average of 7.5% a year at constant prices, with industry outpacing agriculture (43.9% cumulative growth against 12.4%) and a rapid increase in export earnings, due mainly to high sugar prices in 1974 and 1975. Then there was a period of more moderate growth (1976-80), when GSP grew by an average of 4% a year. Cuba's trade deficit with the market economy countries grew in 1976-78 as the terms of trade deteriorated and as the country's development process called for increased imports of capital goods and intermediate products whose technology was available only in the West.

The 1980s saw a downturn in the economy—

The main targets of the 1981-85 plan were successfully met, and in many instances comfortably exceeded, with annual growth averaging 7.3% against the 5% envisaged in the plan. However, these high growth rates were a mixed blessing for the Cuban economy, in as much as they were achieved at the cost of what the planning authorities considered an unacceptably high level of imports without a commensurate improvement in the export sector. From the end of 1981 onwards the balance of payments in convertible currency came under severe strain as sugar prices collapsed. This was despite improved oil export earnings. The oil price rises of 1979 and 1980, which had severely affected most other non-oil exporting developing countries, had been beneficial to Cuba. It had an agreement with the USSR under which it could resell Soviet-supplied oil on the international spot markets. The price charged by the Soviet Union was a moving average of the previous five years on the world market. Such sales, facilitated by rapid improvements in the efficient use of fuel, generated approximately 40% of Cuba's hard-currency earnings between 1983 and 1985. Nevertheless, low sugar prices combined with high interest rates and the slowdown in lending by private banks obliged Cuba to ask its foreign creditors to reschedule part of its convertible currency debt.

Economic growth slowed in 1985 and 1986 in response to economic austerity, the impact of Hurricane Kate on sugar production in 1986 and the fall in international oil prices. These lower prices reduced revenue from the resale of Soviet oil, forcing Cuba to suspend payments on its external debt and seek balance-of-payments support in 1986 and 1987. However, negotiations with bank creditors did not prove fruitful and have not done so since. Cuba's debt to western governments and banks was approximately $10bn in April 1993. Its debt to the former Soviet Union, estimated at Rb15bn, is unlikely to be repaid to Russia in the near future.

—which accelerated with the fall of communism in eastern Europe

The change in external conditions and the inefficiency of the Cuban planning system, coupled with the downturn in the economy after the collapse in relations with eastern Europe, rendered the targets of the 1986-90 plan impossible to meet. These called for annual GSP growth of 5%. In fact, overall growth averaged a very disappointing 0.5% per year for the five-year period 1986-90. The generalised crisis caused by the loss of east European markets and lower deliveries of Soviet oil after August 1990 resulted in a negative growth rate in 1990 of approximately 4%. Much larger falls occurred in 1991-92, of perhaps some 25% in 1991 and 14% in 1992. These are EIU estimates as no official figures have been published. Devastation of crops and infrastructure by a huge storm on March 12, 1993, caused another small decrease in national income during the first half of that year. Dramatically reduced sugar exports in 1993 and 1994 were somewhat offset by higher earnings from tourism and moderate growth in sectors such as nickel, citrus, medical products and construction.

Rectificación

The setting of a ceiling on hard-currency spending in 1987 was supported by a package of austerity measures such as subsidy reductions and electricity price increases. In their turn, the austerity measures were part of a much broader *rectificación* process launched in April 1986. Like the *perestroika* (restructuring) process in the USSR, the "rectification of errors" was aimed at resolving the problems of inefficiency and consumer shortages which plagued the economy. The basis of *rectificación*, however, was not material incentives, but a renewed emphasis on the economic philosophy of Ernesto Che Guevara, with its stress on the role of labour in creating the "socialist individual". The use of voluntary labour in the form of "mini-brigades" and "contingents" became increasingly widespread, particularly in the construction sector. But now, although lip service is still paid to this philosophy, it is admitted that material incentives are required to stimulate production.

Cuba looks for investment

MEX & CAN

Foreign investment is being sought ever more eagerly. There were 146 joint ventures and other economic associations in place in June 1994, 30 of them in tourism and the others spread over 25 sectors, including mining, light and heavy industry, construction materials and agriculture. A further 130 proposals were being negotiated. One of these, agreed in late June, gave Cuba a stake in a Canadian nickel refinery and the Canadian partner the rights to extensive nickel and cobalt reserves in Cuba. Risk contracts for gold and copper exploration have also been signed. The first sale of land to an overseas company took place in early 1994, to a Mexican cement company. The first move towards privatisation of utilities came in June 1994 with an agreement to sell 49% of the state telecommunications enterprise to a Mexican company as part of a $1.5bn agreement to modernise Cuba's dilapidated telecommunications infrastructure. By mid-1994 eight foreign oil companies had signed risk contracts to explore and exploit 16 onshore and offshore oil deposits. Domestic production from existing wells rose to 1.1m tons in 1993. Two Canadian companies struck oil in Cárdenas Bay, Matanzas, in December 1993. Although results were described as extremely encouraging, a substantial increase in oil production is still some years away.

NATIONAL ACCOUNTS

National accounts are not calculated according to western practice. The standard measure is the global social product (GSP). This is the total annual output of the "productive sector", made up of "material" production (industry, agriculture, mining, forestry, energy and construction) plus "non-material" production (transport, commerce, communications and other "productive activity" including, for example, data processing and research projects). It includes the value of all deliveries from industry to industry and taxes (ie it is calculated on neither a factor-cost nor value-added basis) and excludes services such as education, health, defence, financial services, culture, personal services, housing and public administration (although it does include the physical inputs they use). Thus GSP is approximately equal to GNP plus intermediate production minus the value of non-productive services.

Gross domestic product[a]

	1988	1989	1990	1991	1992	1993
Real GDP[b] ($ bn)	32.5	32.5	31.5	23.6	20.3	18.3
% change[c]	3.5	0.1	-3.1	-25.0	-14.0	-10.0
Per head ($)	3,125	3,095	2,972	2,206	1,880	1,684
% change	3.5	-1.0	-4.0	-25.8	-14.8	-10.4

[a] The Cuban government has not published national output figures since June 1990. [b] Estimates based on physical indicators (PI) methodology; includes estimated value of production and services sold on the black market. [c] Rates for 1987-89 are based on official figures; those for 1990-93 are estimated on the basis of sectoral production and statements by Cuban officials.

Source. EIU

Sectoral origin of global social product

	1980		1989	
	Ps m[a]	% of total	Ps m[a]	% of total
Industry	7,740.7	44.0	12,389.0	46.0
Construction	1,569.4	9.0	2,509.7	9.3
Agriculture	2,168.6	12.3	4,146.9	15.4
Forestry	77.8	0.4	126.3	0.5
Transport	1,425.4	8.1	1,874.6	7.0
Communications	151.6	0.9	276.1	1.0
Commerce	4,392.0	24.9	5,401.5	20.1
Total incl others	**17,605.6**	**100.0**	**26,914.9**	**100.0**

[a] At current prices.

Source. Comité Estatal de Estadísticas, *Cuba en Cifras*.

Growth in global social product by sector

(Ps m; current producer prices)

	1984	1985	1986	1987	1988	1989
Industry	11,723	12,368	12,510	11,984	12,305	12,389
Construction	2,302	2,377	2,337	2,084	2,273	2,510
Agriculture	3,566	3,686	3,856	3,869	4,122	4,147
Forestry	118	130	134	136	113	126
Transport	1,758	1,793	1,770	1,782	1,831	1,875
Communications	225	237	260	268	279	276
Commerce	6,210	6,229	5,367	5,456	5,237	5,402
Other	144	136	241	217	190	191
Total	**26,047**	**26,957**	**26,474**	**25,796**	**26,350**	**26,915**

Source: Comité Estatal de Estadísticas, *Cuba en Cifras*.

EMPLOYMENT

The labour force increased from 2.5 million in 1975 to 3.5 million in 1989. The participation of women rose from 27.4% of registered workers in 1975 to 38.0% in 1988. While dominant in health and education, women are poorly represented among industrial workers and higher management.

Some flexibility has been introduced into the labour system by enabling enterprises to hire on a temporary basis. Since September 1994 self-employment has been legal in over 100 categories of jobs. The new cooperatives formed from former state lands since the same date have broken away from established practice by cutting non-productive jobs and recruiting new staff directly. A new payroll tax introduced in August 1994 and said to be aimed at "stimulating better use of the workforce" also appears likely to force enterprises to trim non-essential workers.

Structure of employment

	1980		1989	
	'000	**% of total**	**'000**	**% of total**
Agriculture	624.2	22.8	690.3	19.6
Forestry	20.1	0.7	30.8	0.9
Industry	546.1	20.0	767.5	21.8
Construction	273.4	10.0	344.3	9.8
Transport	171.4	6.3	204.4	5.8
Communications	21.8	0.8	31.5	0.9
Commerce	302.0	11.0	395.3	11.2
Education	329.5	12.1	396.4	11.2
Public health, social services, sports & tourism	126.7	4.6	243.5	6.9
Total incl others	**2,733.8**	**100.0**	**3,526.6**	**100.0**

Source: Comité Estatal de Estadísticas, *Cuba en Cifras*.

WAGES AND PRICES

Wages Wages are set by the State Committee for Labour and Social Services, and the arcane rules by which eventual take-home pay is calculated were a major target of *rectificación*. In general, since 1987 there has tended to be an increase in the wages of production workers and the lower paid—the latter being concentrated in agriculture—relative to those of administrative workers. The average annual wage in 1989 was Ps2,256.

Average monthly salary by sector
(Ps)

	1980	1985	1986	1987	1988	1989
Agriculture	127	180	182	178	169[a]	186
Forestry	142	177	176	174	180	184
Industry	157	194	190	184	193[b]	186
Construction	164	204	201	193	195	201
Transport	181	216	218	209	208	211
Communications	146	178	179	177	177	176
Commerce	134	169	168	164	164	163
Education	147	181	185	187	188	191
Public health, sport & tourism	148	177	181	188	191	195
Culture & art	170	224	225	218	221	223
Scientific & technical	179	211	210	212	215	217
Personal & community services	136	163	165	161	162	164

[a] Excludes sugar cane production. [b] Includes sugar cane production.

Source. Comité Estatal de Estadísticas, *Cuba en Cifras*.

The official position on material and moral incentives has oscillated widely over the years, often being influenced as much by the availability of consumer products as by ideological factors. In 1990 and 1991, however, despite generalised shortages, material incentives were being offered in priority sectors such as tourism and agriculture. Pay is in some cases being linked to output. Redeployed workers from Havana are also given the incentive of a new home and social services such as childcare centres. Workers in the contingent system, common in construction and agriculture, receive extra pay and above average accommodation. Payment by results is reported to have been successfully introduced in some sectors, such as microjet cultivation of bananas and pig and dairy farming, and is being extended.

Prices All officially traded goods are subject to price controls. Some prices were not increased between 1962 and the price reform of 1980; others were left unchanged until December 1986, when bus fares were doubled and electricity prices were increased by 30%. In July 1988, in an effort to boost agricultural production, especially in the dry summer season, a number of vegetable wholesale prices were increased by between 25% and 78%. For some crops price differentials based on quality were also introduced.

A feature of Cuban social policy has been the rationed supply of basic foods and consumer goods to the public at highly subsidised prices. But the current economic crisis has forced big changes to pricing policy since 1990. Most foods and all consumer goods are now rationed. The state-run parallel market, where surplus rationed and luxury goods were sold at prices fixed by the government, was closed down in December 1990. In February 1992 price rises of 15-30% were announced on 25 agricultural food products, including milk, saving the government an estimated Ps300m-400m. Further price rises were implemented in 1994 and charges introduced for services which were formerly free.

Another by-product of the economic crisis has been the mushrooming of the black market. One report by the Cuban Centre for the Study of the Americas estimated that the value of black market transactions rose from Ps2bn in 1990 to a yearly rate of nearly Ps10bn in 1993. It is clear that a majority of household disposable income is being spent on black-market purchases. Apart from senior government officials, virtually all Cubans make black-market transactions on a daily basis. The government, recognising the insufficiency of official supplies, has for the most part been tolerant of these activities.

AGRICULTURE, FORESTRY AND FISHING

There are an estimated 2m ha under sugar cultivation, 2.5m ha under permanent pasture and 1.5m ha producing crops other than sugar. Between 1980 and 1985, 600,000 ha of farmland were cleared for use. The island generally enjoys abundant rainfall. A typical year was 1988 when rainfall totalled 1,504 mm. However, from 1982 to 1987 there was a long period of drought, with rainfall at only two-thirds the long-term average. After the 1959 revolution, a major dam programme to compensate for the absence of any large river systems enabled 587,000 ha of land to be irrigated by mid-1971. Increasing emphasis has been placed since 1986, and particularly in the context of the current Food Programme, on speeding up the construction of further reservoirs for irrigation, for both industrial and domestic use. Since 1990 some land has been transferred from sugar to other crops in response to the loss of guaranteed CMEA sugar markets and the drive for self-sufficiency in food.

Land reforms give the state majority control—

The large private cattle estates and sugar plantations which dominated the landscape before the revolution were expropriated under the first agrarian reform law of June 1959. While much of this land was distributed as peasant smallholdings to the sitting tenants, sharecroppers and squatters, the majority was transferred to direct state management. The second agrarian reform law of October 1963 expropriated all the medium-sized private holdings, again distributing a portion to the peasantry and retaining the majority for the state farms. At the conclusion of this process there were some 170,000 small private farms in Cuba, with an average size of just over 16 ha and a legal maximum size of 66.8 ha.

—but cooperatives are promoted

In the mid-1970s the authorities embraced the concept of production cooperatives and have since enthusiastically supported them to the point where individual private farms account for less than 10% of Cuban agriculture, both in area and in production.

The cooperative farms grew rapidly, both in number—from 725 in 1980 to 1,418 in 1987—and in average size. Over the same period the average number of workers per cooperative farm barely doubled, however, because of the introduction of more capital-intensive methods, with the state supplying generous credits. Whereas state farms supplied the bulk of food for domestic consumption—meat, eggs, milk and, increasingly, vegetables—the cooperative sector was dominated by the production of export crops, particularly tobacco, coffee and sugar. As part of the current promotion of agriculture and particularly domestic food production, for which the cooperatives are well suited, the government began paying higher prices for agricultural produce in 1991. Direct links were also set up between cooperatives and markets, cutting out the inefficient and wasteful system of state middlemen. However, until recently many cooperatives failed to show a profit, due to overpayment of bonuses, poor soil preparation and poor quality inputs, as well as overspending on house construction.

The small private farmer is resurrected—

Cuban private farming suffered a setback with the closure in May 1986 of the controversial "peasant markets", legalised in 1980, where non-state farmers (including cooperatives) had been permitted to sell surplus produce at uncontrolled prices. These markets were initially permitted in order to increase the range and quality of fresh farm produce on offer, above all in the cities, while simultaneously motivating the private sector to produce as much as possible. Both these goals were achieved. But the government saw these successful markets as offering potential for the development of a new *kulak* class of better-off farmers and as a threat to its control of natural resources. In September 1994, however, following the refugee crisis of August, the government legalised the peasant markets.

Agricultural production: state and non-state sectors
('000 tons)

	1985	1988	1989
Rice	524.3	488.9	536.0[a]
Beans	11.0	14.8	14.2
Garden vegetables	594.2	675.6	614.5
Roots & tubers	679.8	653.2	681.8
Bananas & plantains	344.6	345.1	294.7
Other fruit	980.9	1,250.4	1,037.6
of which:			
citrus fruit[b]	647.7	885.0	729.1
Tobacco	44.6	39.4	42.9

[a] National Assembly report on the Food Programme, December 1990. [b] State sector only.

Source: Comité Estatal de Estadísticas, *Cuba en Cifras*

—as food shortages force restructuring of agriculture

Shortages (?)

Despite priority access to scarce resources and some success in raising yields, the state farms have not been able since 1989 to make up for lost food imports. Recognition that poor work motivation among farm labourers is a major barrier to higher production, and the success of experiments with decentralisation on some state farms, led to the decision in mid-1993 to hand over the land to farmworkers on life leases. By summer 1994, 2,600 Basic Units of Agricultural Production (UBPCs) had been formed. Together with the existing cooperatives, some 6,000 cooperative units now farm 4m ha, or 70% of Cuba's agricultural land. Most, if not all, sugar cane cultivation appears to have been put into the hands of some 1,500 UBPCs and about 36% of non-cane agricultural land has been handed over to them. There are sectoral differences: 62% of the land used for vegetable cultivation has shifted from direct state control, as has 45% of rice land. In tobacco growing, where there were already a lot of private farmers, the state retains just 15%, while in the dairy sector it still holds 60% of land. But officials admit that members of the new cooperatives are suffering the effects of decades of paternalism and have been slow to accept an increased burden of responsibility. Farm managers have been encouraged to offer material incentives to productive workers. One major reason for slow progress may be continued central control of key production decisions.

Sugar ails—

Cuba produced 6.7% of world sugar output in 1991 and was the world's largest exporter. Sugar is still Cuba's chief source of foreign exchange (see FOREIGN TRADE). In 1992 36% of cultivated land was planted with sugar cane.

Sugar production
('000 tons raw value)

	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94[a]
Initial stocks	430	825	1,143[a]	1,003	703	500
Production	8,119	8,430	7,620	7,000	4,350	4,000
Domestic consumption	746	942[a]	1,000[a]	900	803[a]	750
Exports	6,978	7,170	6,760	6,400	4,000[a]	3,750
Final stocks	**825**	**1,143[a]**	**1,003**	**703**	**200[a]**	**100**

[a] EIU estimates.

Sources: Banco Nacional de Cuba; Comité Estatal de Estadísticas; F O Licht.

From 1982/83 to 1988/89 Cuba's annual sugar output fluctuated between 7.2m tons and 8.3m tons. Although dogged by adverse weather conditions, machinery breakdowns and labour shortages, the 1989/90 sugar harvest was good by these standards, at 8.43m tons. The 1990/91 harvest, already showing the effects of fuel and input shortages, was 7.62m tons, of which 6.76m tons were exported. The 1991/92 harvest fell to 7m tons and the 1992/93 harvest dropped to 4.35m tons, the lowest since 1972. Despite an ambitious recovery plan, the 1993/94 harvest was just 4m tons.

—as Soviet purchases decline

From 1962 until 1991, under agreements renewed every five years, Cuba sold 3.5m-4m tons of sugar a year to the USSR at prices several times above the world market rate. This was within the framework, essentially a barter one, of the CMEA. Soviet oil, averaging 12m-13m tons annually, was supplied against part of the sugar; some of the oil supplied was surplus to Cuba's requirements and was sold for hard currency. Apart from preferential prices, the USSR's help for the sugar industry included support for the reconstruction and modernisation of sugar mills. Furthermore, as much as 10% of Soviet exports to Cuba involved machinery for the sugar industry, including factory components to enable Cuba to manufacture its own milling machinery. In 1988 Poland agreed to supply assistance in producing centrifuges, the only sugar production machinery which Cuba does not manufacture.

The cycle of five-year agreements broke down in 1991 when a transitional trade accord was signed for 3.5m tons of sugar and 10m tons of oil. In the event, the USSR finally bought 3.83m tons of sugar, but at a price closer to world market prices. Cuba also had to begin shouldering some of the transport costs.

The breakdown of the Soviet Union meant that contracted deliveries of traded commodities were not fully met on either side in 1991 or 1992. For 1992, no overall trade agreement could be reached with the new Commonwealth of Independent States (CIS). A sugar-for-oil barter arrangement with the Russian Federation covered the first half of the year: about 1m tons of sugar were exchanged for 1.8m tons of oil in January-June. But this barter, based on world prices, effectively marked ~~the end~~ of Cuba's ~~protected~~ trade ~~with Russia~~.

Purchases of Cuban sugar by other east European countries have fallen off very steeply (totalling only 68,082 tons in 1991) and a resurgence of demand is unlikely. Cuba will now have to sell its crop on the world market, where the additional supply initially depressed prices. Since the end of 1990 the sugar price has been in the range of 8-12 cents/lb, a quarter of the price the Soviet Union had been paying.

Other crops

Tobacco. After record production in 1980/81 the tobacco crop was affected by adverse weather and blue smut disease. Production in 1985 was 44,600 tons, increasing to 45,600 tons in 1986. In 1987 production fell to 38,800 tons due to drought. The 1988/89 harvest netted 42,900 tons, with drought causing the area sown to the crop to fall by 6,300 ha to 50,400 ha. Since 1989 the US Department of Agriculture has estimated the area sown to the crop at 50,000 ha and annual production at 44,000 tons. Credits granted in 1994 by the French and Spanish state tobacco monopolies for the purchase of inputs should enable the sector to begin to recover.

Citrus. Citrus production was developed intensively from 1967, and yields increased from some 100,000 tons in 1958 to over 1m tons in 1989/90. In 1988 there were 127,000 ha under citrus in central and western Cuba, the Isla de Juventud and Santiago de Cuba. In 1989/90 Cuba was the world's third-largest exporter of citrus, mainly grapefruit. Over half the crop was exported, mostly to the former USSR and Eastern Europe. That market collapsed after 1989, but some of it has since been regained, and other outlets have been developed, principally in western Europe. Production was badly hit by fuel and pesticide shortages after 1989/90, but is recovering with the aid of overseas capital and expertise. Chilean and Israeli companies have invested in production and processing and UK and Greek firms are involved in marketing. A juice-packing plant, with Chilean investment, opened in Matanzas in 1993. Production is said to have climbed back to 900,000 tons in 1993, not far short of its level in the late 1980s. However, maintained acreage has been reduced because of continuing shortages of inputs and may drop to just 240,000 ha.

Coffee. Coffee is grown mainly in the central Escambray mountains, the Sierra Maestra and Sagua-Baracoa in eastern Cuba and the Sierra de los Organos in the west. Production in 1993 was approximately 24,000 tons, half of which was exported. Japan is the leading and most lucrative market, followed by France, Germany, Italy and Switzerland. Private farmers account for about 40% of production.

Rice. A rice programme was launched in 1967, and production rose rapidly from 64,000 tons in 1966 to 447,000 tons in 1975, helped by new infrastructure and modern equipment. A further boost to production between 1975 and 1989 was given by the introduction of new varieties, raising the yield from 2.3 tons/ha to 3.3 tons/ha over the period. Production rose to 536,000 tons in 1989, when planted acreage was 167,000 ha. In 1992 the FAO estimated that production amounted to 400,000 tons.

Vegetable production. Prioritisation of vegetable cultivation under the Food Programme approved in 1990 achieved some initial success. In 1992 production of roots and market garden vegetables was 16% higher than in 1990 nationally, according to official sources. Yields on state farms rose by 44%; on cooperatives yields fell by 6%, although results were better than in 1991, and individual farmers' yields were down by 29%. In Havana province, which was given top priority, 66% more vegetables were grown in 1992 than in 1990. State yields rose by 129% and those of cooperatives by 33%. But individual farmers' reported yields dropped 7% compared with 1990, although they maintained the 1991 levels. However, yields do not reflect the availability of food to the public. Labour and transport shortages mean produce is often left to rot in the fields. The figures are also distorted by the growing black market sales of both legitimate and stolen produce. In early 1994 armed guards were put on lorries delivering vegetables to Havana and agriculture ministry sources claimed this had been effective in cutting theft.

Output from cooperatives and private farmers has traditionally contributed most of the available vegetables, including more than 50% of beans and market garden produce. The new cooperatives, the UBPCs (see above) formed from state lands since September 1993, have begun to shift away from horticulture towards cultivation of traditional tropical root crops which require less irrigation and fewer workers. Irrigation systems are being improved, and workers wooed to the farms and gardens by a variety of incentives.

Some 15,000 tons of **groundnuts** are produced annually. In 1989 **banana** production was 294,700 tons (including plantains). Cuba needs to import **cereals**, particularly wheat. The president, Fidel Castro, has been encouraging Cubans to eat more indigenous Cuban foods such as yucca or the various kinds of yam, to reduce dependence on the more popular bread or pizza, which requires imported wheat.

Cuba has to import **cotton** for textiles production.

Livestock

Cattle. The national cattle herd (state and non-state sectors) fell slightly from 5.17m head in 1981 to 4.92m head in 1990 with the sector adversely affected by hurricane and drought. Cuban cattle were bred to eat fodder and have been less productive since dairy farms have turned to pasturage. Falls in milk yields of 50% and above were reported by dairy farms, although those with a higher proportion of the native cebu cattle found it easier to adapt. Officials admit that

1992 milk yields were just 335m litres, down from 740m litres in 1989. One expert put current yields at 2.6 litres a day per cow, in a mainly Holstein-Friesian herd capable of giving 8-10 litres. Measures to cope with the new conditions included introduction of the so-called Voisin pasturage system, which involves careful rotation of pasturage, concentration of water in the pasture and low fertiliser use. But this required investment, imports, utilisation of domestic manufacturing capacity, and reallocation of labour and resources to prepare 10,000 pasture units. Only 4,700 units had been built by late 1992.

Pigs. The state sector has steadily increased its stock of pigs to over 1m animals by 1988; more than twice that number are estimated to be in private ownership. Pork production has a particularly high priority: 8% annual growth was set as the target in the 1986-90 plan. In fact, pork production was below plan in 1990, although the herd size was on target, because of a decision not to slaughter pigs below a certain weight. Cuba is now seeking foreign capital to continue developing pork production.

Poultry and egg production increased sharply in the first half of the 1980s. Thus egg production rose by 24% between 1981 and 1986. In the 1986-90 plan slower rates of growth, namely 1.5% a year for poultry and 1.8% a year for eggs, were projected, but in fact production declined between 1985 and 1987. After 1988 it picked up slowly, with 2.58bn eggs produced in 1990. In 1989 wages in the sector were increased, and long-service bonuses introduced to counteract the problem of high labour turnover. Shortages of feed have caused egg production to fall since 1991 and eggs are now strictly rationed.

Livestock

('000 head unless otherwise indicated)

	1985	1988	1989	1990	1991[a]	1992[a]
Dairy cows	406	367	369	570[a]	560	n/a
Pigs	1,038	1,169	1,292	1,850[a]	1,900	1,956
Sheep & goats	524	837	853	495[a]	495	498
Poultry (m)	26	27	28	28	28	28
of which:						
laying hens	8.9	9.4	n/a	n/a	n/a	n/a

[a] FAO estimates.

Sources: Comité Estatal de Estadísticas; FAO, *Quarterly Bulletin of Statistics*.

Livestock production (state sector)

('000 tons live weight unless otherwise indicated)

	1987	1988	1989	1990	1991[a]	1992[a]
Milk ('000 tons)	940	919	924	1,100	1,070	1,070
Beef	290	292	289	141[b]	140[b]	140[b]
Pork	99	105	110	89[b]	90[b]	94[b]
Chicken	109	115	118	91[b]	92[b]	93[b]
Eggs (m)	1,496	2,460	2,523	2,583	n/a	n/a

[a] Estimates. [b] Carcass weight; FAO.

Sources: Comité Estatal de Estadísticas; National Assembly report on Food Programme, December 1990; FAO, *Quarterly Bulletin of Statistics*.

The Food Programme

With the end of supplies from eastern Europe, the drive towards self-sufficiency in food became the most important area of domestic economic policy. Concern for self-sufficiency had already been evident in the mid-1980s. But it was set as the foremost priority in 1990. Rice, vegetables, beef, pork and poultry were given particular encouragement. Over 20,000 ha of land was transferred from sugar-cane cultivation to vegetable production.

But the collapse of Cuba's import capacity has meant that the Food Programme approved by the National Assembly in December 1990 has lacked the resources necessary to reach its targets. Agricultural production has fallen sharply. Between 1989 and 1992 imports of fertilisers dropped from 1.3m to 300,000 tons and of animal feed from 1.6m to 475,000 tons, according to the minister responsible for economic policy, Carlos Lage. While vegetable production by state farms (see above) reportedly rose in 1991/92, other sectors of agriculture had no such success. Milk yields on even the best dairy farms fell by at least 50%. From 1989 to 1992 the supply of beef and pork dropped by 77% and 69% respectively, according to sources cited by a Spanish aid agency. Milk, cheese and salted butter supplies reflected the crisis in dairying. The same source quoted falls in the availability of fruit (down by 42%) and legumes (down by 34%). However, as Cuba has always been a net importer of legumes, this shortfall may be due to lower imports.

Forestry

Forestry is receiving increasing attention. In 1812 over 90% of the country was forested; by 1900 half of this had been removed. By the late 1980s commercial forest covered less than 500,000 ha. Throughout the 1980s around 135 million trees were planted every year to protect watersheds and prevent soil erosion as well as to increase timber production, which is insufficient to satisfy the requirements of the building industry. According to the Cuban government newspaper, *Granma Weekly Review*, 289 million trees were planted in 1988 and 398 million in 1989. Domestic production of sawn wood in 1989 was 103,000 cu metres. 500,000 cu metres of sawn wood and over 700,000 wooden rafters are imported each year.

Fishing

A record catch of 250,000 tons was achieved in 1989. Exports of frozen lobster and lobster tails and of frozen prawns are becoming increasingly important. Farming of shrimp is being developed.

Fisheries production

('000 tons unless otherwise indicated)

	1985	1986	1987	1988
Frozen fish	75.0	93.0	76.0	89.0
Fish fillet	5.4	6.5	6.1	4.9
Tinned fish	7.4	8.2	8.7	7.1
Tuna	0.9	1.0	1.8	1.8
Frozen lobster	8.3	6.7	7.4	6.9
Frozen shrimp	4.1	3.8	4.1	4.1
Exports of fresh & frozen fish & shellfish	33.6	36.2	23.1	n/a
Total value of fisheries exports (Ps m)	118.0	122.9	140.8	n/a

Source: Comité Estatal de Estadísticas.

MINING

Nickel

The mining sector accounts for a small proportion of GSP (1.3% in 1989), but is a significant element in exports. The US trade embargo includes articles made from steel with Cuban nickel content. In 1992 production of 35,000 tons of nickel generated $200m in sales. This was considerably less than the estimated $500m earned in 1989, when production was in the region of 46,000 tons. The Ministry of Basic Industry expects output to reach 40,000 tons in 1995 and regain the 1989 level in 1996. Cuba currently sells nickel and cobalt to 26 countries and says the industry is getting financial backing from companies and banks in Canada, the Netherlands, the UK and Italy. A Canadian minerals company, Sherritt Inc, Cuba's leading commodity trading partner, agreed in June 1994 to form a joint venture with the Compañía General de Niquel for the mining, refining and marketing of nickel and cobalt. The new company's assets include the nickel and cobalt concentrates plant at Moa Bay, Holguín province, and Sherritt's Saskatchewan refinery. The Cubans are still seeking investment capital to upgrade two more nickel plants and complete a fourth.

why is US alone in embargo?

The recession in Europe of 1992-93, along with increased sales of scrap nickel from the former Soviet republics, kept world nickel prices depressed, generally below $6,000 per ton. Prices recovered slightly in 1994.

In mid-1994 ten Canadian companies and one from Australia were prospecting for minerals in Cuba. Letters of intent had been signed with another seven companies, mostly Canadian, but including one whose parent company is South African. Foreign prospectors are optimistic about the prospects for small but significant gold and copper deposits. Other mineral reserves include chrome, magnetite, manganese, dolomite, barytes and bentonite. There are also deposits of gypsum, silica sand, sodium potash, calcium carbonate and zeolite.

ENERGY

Although it produces some oil itself, Cuba relied until 1990 on supplies of 12m-13m tons of oil annually from the USSR, more than the country required. Re-export of surplus oil was a major source of hard currency. In August 1990 a 2m ton shortfall in oil deliveries from the USSR caused the government to announce stringent energy-saving measures. This was a harbinger of the collapse of Cuba's lifeline in the East. With the fall of President Gorbachev and the demise of the Soviet Union in December 1991, the supply of oil fell sharply. Total Russian oil shipments to Cuba were only 1.8m tons in 1992, but an agreement for the supply of 2.5m tons for 1994 has been signed. Meanwhile domestic production has picked up, rising from 550,000 tons in 1991 to 880,000 tons in 1992 and 1.1m tons in 1993. Cuban officials and foreign oil companies are optimistic about the prospects for major oil discoveries.

Further Russian support was promised in mid-1992 for a nuclear power station, which was being built with CMEA assistance at Juraguá in Cienfuegos. Work was under way on two of an eventual four 417 mw reactors, although the project was plagued with development problems. Russian support ended temporarily in

1992 and construction at the station was halted. Russia and Cuba are looking for a third-country partner to provide financing. Claims in May 1991 by defecting Cuban scientists that the Juraguá installation was dangerous were treated dismissively by the government. Cuba has cooperation agreements on the peaceful uses of nuclear energy with India and Mexico. Experiments are being conducted with water, wind and biomass as potential sources of energy.

Energy balance, 1993

(m tons oil equivalent)

	Oil	Gas	Coal	Electricity	Other	Total
Production	1.1	0.0	0.0	0.0	3.5	4.6
Imports	7.4	0.0	0.1	0.0	0.0	7.5
Exports	0.0	0.0	0.0	0.0	0.0	0.0
Primary supply	**8.5**	**0.0**	**0.1**	**0.0**[a]	**3.5**	**12.1**
Net transformation[b]	3.2	-0.1	0.0	-0.8	0.7	3.0
Final consumption	**5.3**	**0.1**	**0.1**	**0.8**[b]	**2.8**	**9.1**

[a] Primary electricity production. [b] Transformation input and output, plus energy industry fuel and losses. [c] Output basis.

Source: Energy Data Associates.

Oil

In 1988 it was decided to halt drilling for oil at Varadero, where it had been discovered in 1971, for fear of polluting the beach, the centrepiece of Cuba's tourism industry. Exploration now centres on Cárdenas Bay. In 1989 Soviet seismographic vessels surveyed 5,700 sq km in an area from Cárdenas Bay to Fragoso Cay and Soviet sources reported that a discovery had been made. In 1992 further deposits were found off both the northern and southern coasts, one in Ciego de Avila province, possibly capable of yielding 60,000-70,000 tons/year (t/y). In early 1993 Cuba offered 11 blocks for risk contracts with foreign oil companies. A French consortium, Total/Cie Européenne des Pétroles, began drilling in the northern blocks in late 1993, under a six-year contract signed in December 1990. Canada Northwest Energy and Fortuna Petroleum struck oil in Cárdenas Bay in December 1994. The well produced 3,750 b/d in tests, and the find is being evaluated.

In December 1991 the two Cuban state oil enterprises, the Unión de Petróleo and Cuba Petróleo, merged to form CUPET. At the same time a subsidiary, CUPET Comercial, was set up to deal with foreign partners.

The first new refinery since 1959 was opened at Santiago de Cuba in July 1989. A fifth refinery, at Cienfuegos, was completed after long delays in August 1991. When complete it was to have added a further 6m t/y (120,000 barrels/day) to capacity, bringing the national total to 13m t/y (260,000 barrels/day); but plans for the second 3m ton phase have been shelved. The refinery has processed small quantities of oil from Colombia, Ecuador, Mexico, Nigeria, Iran and the CIS since August 1991. The Cienfuegos refinery lies at one end of the so-called Friendship Pipeline, built by Cuba and the USSR with investment valued at $1bn by the latter. The pipeline is fed from the new supertanker terminal at Matanzas, and the first oil was pumped through on August 7, 1991. There are two deep-water automated wharves, one 20 metres deep capable of taking ships with a capacity of 150,000 tons and one 15 metres deep with a capacity of

70,000 tons. The terminal has storage tanks with a capacity of 200,000 cu metres and can handle deliveries of 10,000 tons of crude and 4,500 tons of fuel oil per hour.

Cuba is seeking a foreign partner to operate the Cienfuegos refinery. Serious negotiations have been held with a Mexican consortium.

The availability of fuel for domestic consumption remains extremely tight, with petrol rationed strictly and power cuts implemented in parts of Havana for the first time in April 1992. Power cuts for up to 16 hours a day are common in some areas.

Electricity

Almost all electricity is thermally generated. The sugar industry generates its own electricity using cane waste as a fuel source. A new, fuel-efficient French-built station at Matanzas came on stream in 1988 after delays caused by budget difficulties. It is estimated that it will save the equivalent of 100,000 t/y of oil. Electricity production increased from 12.2bn kwh in 1985 to 16.3bn kwh in 1991. There is little scope for major hydroelectric power schemes, but experiments are being carried out with solar power. Installed capacity stood at 3.9m kw in 1988.

Energy production

	1986	1987	1988	1989	1990	1991
Electricity production (bn kwh)	13.2	13.6	14.5	15.2	16.2[a]	16.3[a]
Crude oil production ('000 tons)	926	900	720	720	840[a]	n/a
Crude oil refined ('000 tons)	6,576	6,827	7,643	7,916	n/a	n/a
Natural gas (m cu metres)	5.7	23.9	21.9	n/a	n/a	n/a
Manufactured gas (m cu metres)	141.3	144.0	152.4	146.1	148.7[a]	n/a

[a] UN estimate.

Sources: Comité Estatal de Estadísticas, *Cuba en Cifras*, UN, *Monthly Bulletin of Statistics*.

MANUFACTURING

All industrial enterprises have been state-controlled since 1968, and the majority since 1960. Initial ambitions to create a full industrial sector in Cuba were first suspended after the decision in 1964 to concentrate on sugar production, and again after Cuba joined the CMEA. The emphasis in manufacturing is on import substitution and the provision of basic industrial materials. The machine tool and metal processing industry has strengthened because of the need to manufacture spares which have become either unobtainable or enormously expensive due to the US embargo. Another important influence has been the mechanisation of the sugar industry. This has been the driving force behind the development of, for example, stainless steel production. A new 150,000 t/y stainless steel plant at Las Tunas opened in mid-1992.

Since the second half of the 1980s manufacturing industry has come under severe strain owing primarily to shortages of foreign exchange, which have restricted access to spares and imported components. This has been particularly apparent for the consumer durables and chemicals industries.

Manufacturing production

	1985	1988	1989
Iron rods ('000 tons)	335	314	275
Buses (units)	2,393	2,537	2,345
Cane harvesters (units)	606	642	621
Fishing boats (units)	27	141	138
Television sets ('000)	94.1	65.1	70.5
Electrical wire & cable (isolation to I kv) ('000 km)	64.3	71.3	66.8
Refrigerators ('000)	25.9	7.4	9.1
Gas & paraffin stoves ('000)	228.9	187.9	210.8
Fertilisers (m tons)	1.16	0.83	0.90
Domestic detergent ('000 tons)	20.1	16.8	12.7
Tyres ('000)	472.2	428.1	314.7
Paper & newsprint ('000 tons)	58.9	45.6	59.9
Sawn timber ('000 cu metres)	80.4	94.6	103.0
Fabric (m sq metres)	205	260	219
Shoes (m pairs)	12.4	13.3	11.0

Source: Comité Estatal de Estadísticas

Within the CMEA Cuba's role was to specialise in the production of sugar by-products, machinery and light industry, electronics, pharmaceuticals and biotechnology. Medical technology is advanced, capable of producing: a vaccine against meningitis B, melagenina (the only cure for vitiligo), and PPG (to treat high cholesterol); interferons; reagents; and techniques for the diagnosis of cancers, HIV, hyperthyroidism and hepatitis B. Cuba's experience in these areas is expected to stand it in good stead in developing markets, and it is seeking foreign investment in medical technology, biotechnology and other high-tech industries. Sales of medical products to Latin America and interferons to China are important sources of foreign revenue.

The post-1989 crisis and severe resource shortages have led the government to allow a modicum of private manufacturing activity, some of it through joint ventures with foreign companies and some of it by privately held Cuban companies. In the 1994, for example, a UK company, Unilever, signed a joint-venture agreement with Suchel.

CONSTRUCTION

The hard-currency crisis has also had a severe impact on the construction sector, which accounts for some 9% of current price GSP and 10% of employment. The drive to increase tourism has stimulated hotel building, but industrial, agricultural and infrastructural building has declined. *Rectificación* saw the reintroduction of the mini-brigades, which are construction teams composed of the unemployed, volunteers and surplus workers drafted by their factories. As well as assisting with prestige construction projects, the mini-brigades and the contingents are now the primary agency for housing construction and repair.

Housing completions
(no)

	1986	1987	1988	1989
Ministry of Construction	16,946	11,342	11,687	12,788
Other building organisations	2,380	5,903	6,554	8,406
Non-building organisations	6,507	6,525	6,927	6,402
Cooperatives	2,709	4,802	3,127	2,899
Total	**28,542**	**28,572**	**28,295**	**30,495**

Source: Comité Estatal de Estadísticas, *Cuba en Cifras*.

In the first half of 1994 Cemex, Mexico's largest cement company, took a half share in a cement plant at Mariel. A part of the deal was the sale of land to a foreign company, the first time this has happened since the revolution. According to Cuba's foreign trade minister, Roberto Robaina, production of construction materials rose in 1994, but no figures were made available.

Cement production
('000 tons)

1985	1986	1987	1988	1989
3,180	3,300	3,540	3,564	3,756

Source: UN, *Monthly Bulletin of Statistics*.

TOURISM

Tourism is now seen as a major means of increasing foreign exchange revenues. During the mid-1980s earnings were in the region of $75m per year, but by 1993 they had soared to $700m.

A total of 560,000 tourists visited Cuba in 1993. Canadians form the largest single group. Other visitors come from Germany, France, Spain, Mexico, Italy, Brazil and Argentina. A large hotel-building and renovation programme is under way to meet ambitious targets, which include 50,000 hotel rooms by 1995, to generate $1bn from more than 1 million visitors.

JV Travel

A tourism ministry was created in April 1994 and the major state tourism enterprise, INTUR, was abolished. It was replaced by three hotel chains, a nautical resources agency, a joint-venture travel agency and several service enterprises. The Cubanacan and Gaviota corporations had earlier carried out their own restructuring. Cubanacan plays a key role in attracting foreign investment, with special emphasis on the eastern part of the island. It has signed agreements with overseas partners for the construction of more than 5,000 hotel rooms over the next six years. Gaviota, which is believed to be backed by the armed forces, offers health tourism, hunting, fishing and other specialist holidays.

Tourism development previously focused on the beach resort at Varadero, but is now expanding to other regions and to offshore cays. Cayo Coco is being developed with Spanish capital, and an Austrian company plans to spend $100m on building a tourist village on Cayo Sabinal. Expansion of facilities at Varadero continues, with the opening in July 1994 of the five-star Melia Las Americas. This is a joint venture with a Spanish company, Sol Melia, which was the first foreign investor in Cuban tourism and holds a half share in another two hotels in Varadero.

The types of deals being struck are increasingly diverging from straight investment agreements. Investors such as Sol Melia have moved into management. A German company, LTI, has taken on the management of another three hotels, and is also looking for a suitable investment opportunity.

Tourist arrivals
('000)

1988	1989	1990	1991	1992	1993
225.0	326.0	340.3	424.0	480.0	560.0

Source: Cuban tourism agencies.

The rapid growth in tourism has, however, already caused difficulties for the government. The proliferation of a dollar economy—fuelled by tips received by those working in hard-currency enterprises, remittances from abroad, foreign liaison offices and tourist shops—has come to be seen as creating an elite group with access to foreign currency. Employment practices in the new hotels (which are managed by the foreign partner), including relatively high wages and contracting policies outside the scope of the Cuban labour laws, may yet set the tone for a gradual change in conditions of employment.

TRANSPORT AND COMMUNICATIONS

Shipping and ports

Cuba's merchant fleet, which numbered only 18 vessels in 1959, had increased to 117 by 1989, totalling 929,300 grt and 1,400,900 dwt. The total number of cargo vessels controlled by the Ministry of Transport, including small craft, was 199. Havana is by far the most important of the country's 11 main ports, handling about 40% of all cargo including most fuel, although an increasing proportion of this will be handled by the Matanzas supertanker terminal. Cienfuegos and Mariel are next in importance. Total cargo movements through the port system fell from 37.9m tons in 1985 to 37.3m tons in 1986, 35.1m tons in 1987 and 34.1m tons in 1988, largely due to a falling-off in the composition of international trade because of foreign exchange shortages. There are eight bulk sugar loading terminals: Cienfuegos (the largest), Matanzas (accepted for deliveries on the London No 5 sugar contract from December 1990), Guayabal, Mariel, Boquerón, Puerto Carupán, Manzanillo and Palo Alto, which opened in 1994.

Air transport

The national airline, Cubana de Aviación, flies regularly to 20 destinations in Europe, Canada, Latin America and the Caribbean. It also has charter flights to at least ten cities and provides internal services. Cubana expanded its fleet of 48 aircraft with the purchase in 1993 of eight Fokker planes from a Spanish company, Aviaco. Negotiations were reportedly under way in mid-1994 between Cubana and Iberia of Spain on the creation of a new, jointly owned airline. Several small Cuban-registered airlines also operate within Cuba and the immediate region. With the growth of tourism there has been a notable increase in the number of charter and scheduled flights to Cuba from Canada and most European and Latin American countries. Six Cuban airports can now handle international flights.

Airport traffic
('000)

	1985	1986	1987	1988	1989
International passengers	333	361	410	425	500
National passengers	669	679	650	717	700

Source: Comité Estatal de Estadísticas, *Cuba en Cifras*.

Roads

The road network is over 30,000 km, up to half of which is paved. Constant improvements are being made. The main highway is the eight-lane Central Highway which runs for 1,200 km from Pinar del Río in the west to Santiago in the east. The main mode of public transport is bus. The system is notoriously overcrowded, with supply of (mostly imported) buses a problem; the 1989 daily average of 30,000 round trips has shrunk to 8,000. Commuter travel has shifted to the bicycle, augmented by organised hitch-hiking. The use of private cars is limited by the chronic petrol shortage.

Railways

There is a railway system of 14,834 km, mostly serving the sugar industry, but 5,196 km is devoted to public transport.

Railway traffic

	1985	1986	1987	1988	1989
Passengers (passenger-km)	2,256	2,196	2,184	2,628	2,892
Freight (net ton-km)	2,796	2,160	2,100	2,088	2,052

Source: UN, *Monthly Bulletin of Statistics*.

Telecommunications

In 1989, 304,100 telephone lines were in operation with just 5.2 phones per 100 persons. Since then the situation has deteriorated considerably and service within the country is erratic. A new cellular phone network, Cubacel, was initiated in February 1993. It is planned to expand the network to 14,000 lines. In June 1994 the Cuban government agreed to sell 49% of the state telecommunications enterprise, EmtelCuba, to a Mexican company. Under the agreement the entire telephone system is to be renovated at a cost of $1.5bn.

The most lucrative side of Cuban telecommunications should be communications with the USA, currently running at a tiny fraction of the potential trade. Several US phone companies have ~~completed negotiations with Cuba and~~ are awaiting US State Department authorisation to begin operations. This is legally possible under the communications provisions of the Cuban Democracy Act of 1992, but the State Department objects to the surcharge proposed for operator-assisted calls. Havana is pressing for the release of some $80m held in revenue frozen since the sole existing supplier, AT&T, began operations in the 1960s.

Media

The media are under state control. Print runs and frequency of nearly all Cuban newspapers were reduced in late 1990 when Soviet supplies of paper pulp and bleaching agents were drastically cut back. The hours of television broadcasting have been curtailed as well due to the shortage of energy.

FINANCE

Government finance

Since 1967 few Cubans have paid direct taxes. The government's main sources of revenue have been a turnover tax (especially high on alcohol and tobacco), profits from commercial and industrial enterprises, and social security contributions payable by enterprises. However, in December 1993 and again in May and August 1994, Cuba's finance minister presented proposals to parliament which ~~signalled a change of direction in government financial management.~~ ~~The proposals included the phased~~ introduction of a comprehensive tax system, including income tax; the cutting of subsidies to loss-making enterprises; the imposition of charges for some formerly free services; ~~and measures to mop up~~ excess liquidity through price rises. The excess liquidity was estimated at Ps10bn in December 1993 and Ps11.7bn in August 1994, although it reportedly fell by Ps245m in June. The budget deficit was Ps4.2bn in December 1993, compared with Ps1.4bn in 1989. Existing revenue-raising charges such as taxes on the transfer or ownership of property, document issue and vehicles, have been increased.

Government finance
(Ps m)

	1985	1986	1987	1988	1989	1990[a]
Revenue	12,294	11,699	11,272	11,386	11,904	12,460
Expenditure	12,547	11,887	11,881	12,532	13,528	14,440
Balance	**-253**	**-188**	**-609**	**-1,146**	**-1,624**	**-1,980**

[a] Planned.

Source: Banco Nacional de Cuba.

Breakdown of budget expenditure

	1988[a]		1989[b]	
	Ps m	% of total	Ps m	% of total
Production	4,713	37.6	4,978	36.8
Education & health	2,857	22.8	2,895	21.4
Housing	787	6.3	852	6.3
Other cultural & scientific activity	2,060	16.4	2,300	17.0
Defence & public order	1,274	10.2	1,380	10.2
Local government state administration & justice	561	4.5	528	3.9
Total incl others	**12,532**	**100.0**	**13,528**	**100.0**

[a] Preliminary. [b] Planned.

Sources: Banco Nacional de Cuba (1988); *Granma Weekly Review* (1989).

Money and banking

The central banking authority is the Banco Nacional de Cuba (BNC), which is ultimately responsible for all international transactions and for short- and long-term credit. The BNC's agreement is required for all proposed joint ventures. The Banco Financiero Internacional SA operates as banker for most joint-venture and foreign companies in Cuba. Founded in 1984, with a share capital of $10m, it is one of the so-called private limited companies authorised by the Cuban government. Another "private" Cuban bank, the Banco Internacional de

Comercio SA, opened in Havana early in 1994, under licence from the BNC. A joint-venture bank was authorised in March 1994, the first foreign bank authorised to operate on the island since banks were nationalised in 1960/61.

The Banco Popular de Ahorros (BPA), founded in 1983, is the national savings bank. At the end of 1988 it had 509 branches and 4.2 million accounts. Deposits grew by Ps150m during the year, equivalent to a rate of growth of 9%. This marked a return to the rates of growth of 1984-85, after a 20% expansion in 1986 and almost zero growth in 1987.

FOREIGN TRADE

Historically sugar has accounted for about three-quarters of export earnings, although it has been rivalled as a hard currency earner by re-exports of Soviet oil. Cuba's other exports are largely of primary products such as nickel and frozen fish or those subject to minimal processing such as cigars, rum and canned fruit. Exports of pharmaceuticals, medical technology and biotechnology products, while growing, are still a small part of the total. By 1992, however, sugar exports accounted for less than half of foreign exchange earnings. Imports, on the other hand, are predominantly of petroleum and manufactures. Since the fall of the Soviet Union, Cuba's trade has collapsed. Exports in 1992 totalled $2.3bn, a fall of 57% on the 1989 level. Imports in 1992 were 69% below the 1989 level.

Trend of foreign trade

(Ps m; payments basis)

	1987	1988	1989[a]	1990[a]	1991[a]	1992[a]
Total exports fob	5,401	5,518	5,400	4,910	3,585	2,300
Total imports cif	-7,612	-7,579	8,100	6,745	3,690	2,500
Balance	**-2,211**	**-2,061**	**-2,700**	**-1,835**	**-105**	**-200**

[a] EIU estimates.

Sources: Banco Nacional de Cuba, UN, *Monthly Bulletin of Statistics*

Value of exports by major commodity

(Ps m; fob)

	1987	1988	1989	1990	1991	1992
Sugar	4,019	4,124	3,914	3,645	2,575	1,162
Minerals & concentrates	360	440	485	400	280	210
Tobacco & tobacco products	91	98	85	110	95	95
Fishery products	141	146	127	125	130	130
Fruit & vegetables	207	213	167	150	156	150

Sources: Banco Nacional de Cuba; Comité Estatal de Estadísticas; Directorate of Intelligence, Central Intelligence Agency, *Cuba Handbook of Trade Statistics*, 1992.

Imports of principal commodities
(Ps m; cif)

	1986	1987	1988	1989	1990	1991
Food, beverages & tobacco	961	794	816	1,011	840	720
Raw materials (inedible)	303	301	281	307	240	140
Fuels & lubricants	2,538	2,638	2,569	2,598	1,950	1,240
Chemicals	428	445	434	530	390	270
Machinery & transport equipment	2,329	2,337	2,410	2,531	2,380	820

Sources: Banco Nacional de Cuba; Comité Estatal de Estadísticas; Directorate of Intelligence.

Trade with eastern Europe

From the 1960s until the collapse of communism in eastern Europe Cuba's foreign trade was dominated by its trade with socialist countries, especially the former USSR. The CMEA coordination programme assigned the island a role in light manufacturing for export, including sugar harvesting equipment, pharmaceuticals and medical equipment, biotechnology and electronics. In 1988 socialist countries took 86% of Cuba's exports and provided 87% of its imports, the Soviet proportions being 67% and 71%, respectively.

The decision by the former CMEA countries to carry out their trade in convertible currency from 1991 put Cuba's trading relations with them in disarray. Economic relations between Cuba and all east European countries began to move on to a hard-currency basis and, with prices closer to world market levels, there was a huge drop in the overall volume of trade. The transitional nature of the 1991 Soviet-Cuban trade accord underlined the uncertainties in both countries. As well as the shift towards hard-currency accounting, contracts and pricing details had to be worked out directly with Soviet suppliers on a product-by-product basis. Moreover, the accord covered only trade transacted through the Soviet central government. By 1992 the value of total trade turnover (exports plus imports) between Cuba and the former Soviet bloc countries had fallen to only $830m, or roughly 7% of its 1989 level.

Diversification

Cuba has therefore been making an all-out effort to build trading relations with new partners. In 1993 Latin America moved from a less than 5% share of Cuba's foreign trade in the last decade to one of 30%; 41% of imports were from the region, which has become the main source of fuel and a key supplier of food products, as well as being the largest outlet for non-traditional exports, especially health products. The CIS, by contrast, accounted for just 20% compared with the former USSR's 70%; 40% of Cuban exports, mainly sugar, went to the CIS in 1993. Western Europe now takes up 30% of Cuba's much-reduced trade, although the value has remained at around the same level. Canada is a particularly important market for nickel and sugar and is the main source of tourists.

Cuba has also been attempting to expand trade with Asia. In 1991 it signed a five-year trade pact with China, an increasingly important partner. The latest statistics available for trade with Japan, however, show that exports fell from $142m in 1991 to $114m in 1992; imports from Japan more than halved in the same period.

Foreign trade by major area

(Ps m)

	1985	1986	1987	1988	1989
Total exports fob	**5,983**	**5,325**	**5,401**	**5,518**	**5,392**
Socialist countries	5,323	4,699	4,797	4,766	4,188
Non-socialist countries	660	626	604	753	1,204
Total imports cif	**-7,983**	**-7,569**	**-7,612**	**-7,579**	**-8,124**
Socialist countries	6,718	6,412	6,692	6,626	6,637
Non-socialist countries	1,265	1,157	919	954	1,487
Trade balance	**-2,000**	**-2,244**	**-2,211**	**-2,061**	**-2,732**
Socialist countries	-1,396	-1,714	-1,895	-1,860	-2,449
Non-socialist countries	-605	-531	-315	-201	-284

Sources: Banco Nacional de Cuba, Comité Estatal de Estadísticas.

Foreign trade by area, 1988

	Exports		Imports		Balance
	Ps m	% of total	Ps m	% of total	Ps m
Europe	4,948.9	89.7	6,911.9	91.2	-1,963.0
EC	393.3	7.1	398.4	5.3	-5.1
EFTA	36.8	0.7	80.3	1.1	-43.5
Eastern Europe	4,518.2	81.9	6,432.5	84.9	-1,914.3
Other Europe	0.6	–	0.7	–	-0.1
Asia	406.1	7.3	294.6	3.9	111.5
Africa	64.9	1.2	12.1	0.2	52.8
Americas	98.1	1.8	360.5	4.7	-262.4
Canada	38.5	0.7	28.6	0.4	9.9
USA	–	–	–	–	–
ALADI	32.0	0.6	303.7	4.0	-271.7
CACM	20.1	0.4	11.1	0.1	9.0
CARICOM	0.7	–	1.5	–	-0.8
Other Latin America	6.8	0.1	15.6	0.2	-8.8
Oceania	0.3	–	0.7	–	-0.4
Total	**5,518.3**	**100.0**	**7,579.8**	**100.0**	**-2,061.5**

Source: Comité Estatal de Estadísticas.

Balance of trade in convertible currency[a]

(Ps m)

	1986	1987	1988	1989	1990[b]	1991[b]
Exports & re-exports	896	975	1,049	5,392	4,910	3,585
Imports	-1,186	-940	-971	8,124	6,745	3,690
Balance	**-289**	**34**	**78**	**-2,732**	**-1,835**	**-105**

[a] Exports fob, imports cif; customs basis. [b] Estimates by the US Central Intelligence Agency.

Source: Banco Nacional de Cuba

Sugar exports: in reverse

The disastrous harvests of 1992/93 and 1993/94 meant that the fall in sugar exports accelerated. By 1994 it appeared doubtful that Cuba could maintain its place as the world's leading sugar exporter. In the first quarter of 1994 Cuba shipped 1.63m tons, raw value, against 1.77m tons and 2.38m tons in the same three months of 1993 and 1992 respectively. In the six months to March 31, 1994, covering the 1993/94 harvest period, shipments totalled 1.79m tons, down by 346,000 tons from the corresponding 1992/93 period. More than a quarter of total exports went to the Russian Federation, with other ex-Soviet republics taking just 55,000 tons between them. Deliveries to Bulgaria and Romania amounted to about 60,000 tons each. China received only 193,000 tons, compared with the 400,000 tons which Cuba had originally agreed to deliver. African and Middle Eastern countries received 582,000 tons, or over one-third of total Cuban sugar deliveries in this period.

Sugar exports
('000 tons)

	1986	1987	1988	1989	1990	1991
Non-socialist						
Canada	168	87	112	180	291	332
Japan	534	223	372	205	162	412
Mexico	0	0	0	68	358	184
CMEA						
USSR	4,020	3,863	3,308	3,469	3,576	3,835
Bulgaria	303	304	296	308	146	43
East Germany	271	284	339	357	97	0
Non-CMEA socialist						
China	307	612	1,399	889	892	797
Total incl others	**6,703**	**6,482**	**6,978**	**7,123**	**7,172**	**6,767**

Sources: Banco Nacional de Cuba; F O Licht.

EXTERNAL PAYMENTS AND DEBT

Invisibles account

The Banco Nacional de Cuba's latest figures for trade in invisibles are those given for 1988.

Historically, the services balance has tended to be in deficit. This is partly the result of high freight and insurance expenses, owing to the US trade embargo, but it reflects above all the cost of servicing Cuba's large foreign debt. The Banco Nacional de Cuba estimates that without interest payments the services balance would have been positive for most of the first half of the 1980s. There was a considerable improvement in the services account in 1988, partly reflecting continued tourism growth: the services deficit fell from Ps1.26bn to Ps445m. Benefiting from these improvements in both visibles and invisibles trade, the current-account deficit fell from Ps1.32bn to Ps380m.

Balance of payments in convertible currency
(Ps m)

	1986	1987	1988
Exports fob	907.3	964.7	1,113.3
Imports fob	-1,070.9	-1,024.1	-1,048.0
Trade balance	**-163.6**	**-59.4**	**65.3**
Services balance	-1,798.5	-1,257.4	-445.3
Transfers	1.2	-1.6	-0.1
Current-account balance	**-1,960.9**	**-1,318.4**	**-380.1**
Long-term capital	799.0	884.6	135.6
Short-term capital	1,041.7	380.6	288.0
Change in reserves (– indicates increase)	**120.2**	**53.2**	**-43.5**

Source: Banco Nacional de Cuba.

In 1988 there was a marginal increase in hard-currency reserves of Ps42m, of which Ps2m was represented by an increase in gold holdings, possibly a result of a two-year campaign to persuade Cubans to sell their jewellery to the state. But reserves still provided just five weeks' cover for convertible currency imports.

Capital flows

Cuba is not a member of either the World Bank or the IMF and receives little multilateral agency development assistance except from some UN agencies. The United Nations Development Programme (UNDP) set aside $47m for projects in Cuba between 1972 and 1991. Cuba received substantial assistance in the past from CMEA countries, in particular the USSR, with which its debt was estimated to be Rb15.49bn in June 1989. With the dissolution of the CMEA, it is uncertain what will be done about Cuba's debt to east European countries. The USSR granted Cuba a moratorium on its Rb15bn debt in 1991; but henceforth payment will be required in hard currency.

Cuba's hard-currency debt to western governments and banks stood at approximately $10bn at the end of 1992. The largest component of western lending is short-term and trade-related. In 1983-85 Cuba was able to reschedule payments on its long-term debt, but in July 1986, as its external position deteriorated, Cuba unilaterally suspended all principal and interest payments, although it swiftly resumed payment of short-term obligations. The Paris Club agreed to lend $97m in that year to help service the debt, but since then no new money or rescheduling has been agreed by either private institutions or the governments in the Paris Club.

Gross development aid commitments

($ m)

	1988	1989	1990	1991	1992
Bilateral	206.7	19.3	5.6	50.2	18.4
of which:					
CMEA	185.0	1.9	0.0	0.0	0.0
Multilateral	16.4	13.3	16.5	18.4	1.4
Total	**223.1**	**32.6**	**22.1**	**68.6**	**19.8**

Source: OECD, *Geographical Distribution of Financial Flows to Developing Countries*.

Position of BIS-reporting banks vis-à-vis Cuba

($ m)

	1987	1988	1989	1990	1991	1992	1993
Assets	2,546	2,091	2,075	3,705	3,505	3,158	2,742
Liabilities	210	262	382	709	559	555	436
Net position	**2,336**	**1,829**	**1,693**	**2,996**	**2,946**	**2,603**	**2,306**
Change in net position[a]	345	-507	-136	1,303	-47	-343	-297

[a] Exchange-rate-adjusted estimate.

Source: Bank for International Settlements

EXCHANGE, TRADE AND INVESTMENT REGULATIONS

Greater openness to foreign investment

The Ministry of Foreign Trade controls all foreign exchange transactions and is responsible for all foreign commercial agreements. Imports and exports are made through state agencies (*empresas*) specialising in commodities or groups of commodities, which are the authorities responsible for issuing the necessary import licences. The ministry's financial operations are conducted by the Banco Nacional de Cuba, although foreign companies and joint ventures often operate through the state-owned Banco Financiero Internacional. Cuba overhauled its customs duties system in 1990, probably with an eye to harmonising it with common practice in the GATT, of which it is a member. It levies tariffs: a general tariff applied to countries which have no "most favoured nation" status or other preferential relation, and a lower, most favoured nation, tariff for fellow GATT members. The new system will also use the internationally accepted nomenclature for traded commodities drafted by the Brussels-based Customs Cooperation Council, of which Cuba is also a member.

There are restrictions on exchange for travel, and the transfer of capital abroad is illegal. Strict limits are placed on personal exports of goods from Cuba and on the inflow of personal gifts. The private importation of goods other than for personal use is prohibited.

A major drugs-related political scandal in mid-1989 led to a tightening up of controls on foreign exchange. A total of 32 local offices of foreign (primarily Spanish, Mexican and Panamanian) companies were closed. Since July 26, 1993, Cubans have been free to receive and use convertible currency within the country.

A law permitting joint-venture enterprises with western companies (Decree Law 50) has been in force since 1982. Constitutional amendments approved by the National Assembly in July 1992 granted the Council of State greater flexibility in applying this law, including the right to transfer ownership of a given economic entity if doing so would "facilitate economic development". Constitutional recognition was given to the ownership of property by legally established joint ventures, economic associations and partnerships. Protection for foreign investors was written into the new constitution.

Foreign investment legislation is now being revised, partly due to fears that lack of transparency is giving rise to suspicions of corruption in the decision-making process. The general practice is that Cuban capital owns at least 51% of joint ventures with foreign companies, but increasingly that guideline is being relaxed. Foreign companies are guaranteed the right to remit profits and are free from the risk of expropriation. Inducements to foreign investors are generous.

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INTERNATIONAL TRADE DEVELOPMENTS

Cuba's Economic Liberalization

Cuba's economic relations with Mexico, Canada, and with several other countries are growing as Cuba institutes new economic reforms. Several laws have been introduced to reduce Cuba's budget deficit, rationalize public enterprises, cut subsidies, encourage private businesses, establish a single currency and overhaul the tax system. Other laws are under study by Cuban authorities to liberalize Cuba's economy and to encourage more foreign investment.

According to official Cuban resources, foreign ventures currently operate in 26 economic sectors of Cuba representing total foreign investment of more than $1.5 billion. In all, Cuba did business with more than 170 companies from 36 countries. For example, Sherrit Inc. of Canada has invested in nickel mines; Picagnol of Belgium, in the textile industry; and Mexican Domos, in telecommunications.

The leading investors are from Canada, China, France, Mexico, and Spain, with investments in tourism, mining, communications, petroleum, light industries and in other areas. Mexico's economic relations with Cuba are mainly in the area of air travel and communications. Canadian investment in Cuba has flowed into oil and mineral projects, attracted by recent Cuban economic policy decisions permitting foreign joint ventures.

Cuba's total trade with the world reached $3.2 billion in 1994. Spain, Canada, France, and the Netherlands were Cuba's largest trading partners, followed by Italy, Japan, the United Kingdom, and Germany.

Beset by the worst economic crisis of the past 30 years, Cuba has enacted a series of reforms over the past several years. Constitutional reforms approved in 1992 put an end to the state monopoly on foreign trade by recognizing mixed businesses, societies, and economic associations. Laws have been instituted to allow self-employment and to encourage private businesses. Since the September 1993 approval of Law 41, which allows small private businesses to operate in some 100 selected occupations, 170,000 Cubans have been given licenses to work on their own. In 1994, Cuba legalized the holding of foreign currency, allowed private business in several sectors, increased taxes and tariffs and imposed new taxes, eliminated grants, and opened the agricultural sector to supply and demand forces. According to analysts, an announced "labor rationalization plan" to slash inefficient state-run industries and the possibility of broadening the list of activities permitted under Law 41 mean that the ranks of self-employed people could swell to 350,000. A program of rationalization of state enterprises now underway is expected to result in the possible separation of half a million workers. Many of those who lose their jobs will face the option of being self-employed or of becoming agricultural workers under a government land distribution scheme that offers the use of land to any family willing to move to the rural areas.

Vice President Carlos Lage announced in November 1994 that foreign investment would be allowed in "all productive sectors," including the sugar industry, real estate, and the internal market. Cuba's National Assembly approved a mining law in December 1994 designed to assure security of foreign investments. News reports state that more than 1,000 square miles of concessions already have been granted to companies from about a dozen countries for the extraction of mineral products, ranging from nickel to gold.

Already these changes seem to have beneficial effects. Agricultural and oil production are rising, as are foreign investment in tourism, communication, and mining. Tax hikes and subsidy cuts have already reduced the budget deficit by 72 percent. Cuba's opening to foreign investment and the implementation of a package of measures to eliminate imbalances in domestic finances resulted in an increase of 0.7 percent in the GDP in 1994, after 6 straight years of stagnation. Cuban economists predict the economy will grow by as much as 2 percent this year.

Published news reports indicate that small signs of recovery are evident across the island: there is more food, more traffic, and more electricity. Free-market principles are starting to nudge out Marxist economic principles. Cubans are working at odd jobs to make a living independent of the government. Farmers are bringing surplus fruits and vegetables to the cities to sell at market prices. The opening up of Cuba's crucial sugar industry to foreign investment should improve next year's sugar harvest by bringing in much-needed fertilizer.

Cuba is expected to institute additional free-market reforms to help in its economic recovery. Reportedly under consideration are measures to reduce excess money supply, establish a single currency, and restructure state enterprises. Hikes in general prices and public utility rates will be gradually applied to reduce the country's liquidity. A new tax system designed to restructure Cuba's financial system is also part of the current package of reforms and is considered by economists to be indispensable for the island's economic recovery. To lure more investors, Cuba's national assembly is expected to consider a new foreign investment law next June. The legislation will probably speed up the approval process by allowing lower level governmental officials to make decisions on individual investments. Octavio Castilla, vice minister of foreign investment, was reported to have said that, in some cases, the law will allow investors to hold 100 percent of the stock of foreign ventures in Cuba and to allow flexible handling of labor-management issues.

Despite signs of interest from more than 200 U.S. companies, the United States remains absent from the list of nations seeking investment opportunities in Cuba. Since early 1960, the United States has imposed a trade embargo against Cuba. In recent years, various pieces of U.S. legislation — the Mack Amendment to the Export Administration Act of 1990, and the Cuba Democracy Act of 1992 — have intended to ban trade with Cuba by foreign subsidiaries of U.S. companies. At present, a bill is before the U.S. Congress that would ban imports into the U.S. of sugar syrup and molasses from countries that import sugar from Cuba. The proposed legislation would also bar from the United States officers of corporation or individuals that own or rent property in Cuba that was seized from people who are now Americans. Meanwhile, European, Canadian, Asian, and Latin American businesses see the absence of U.S. competition as one of the most attractive aspects of investment in Cuba. "This is virgin land," said Jean Poniatowski, vice president of the national French Heritage Council, after visiting Cuba in March with a large business delegation.

NAFTA's First Year: Commerce Grows and Institutions Take Shape, But Numerous Technical Problems Arise

With the recent launch of negotiations with Chile on NAFTA accession and the Congressional consideration of fast-track legislation, interest in how the North American Free Trade Agreement (NAFTA) is working is high. A review of NAFTA's inaugural year reveals that it was marked by vigorous trade and investment expansion but also by some friction as progress on implementing NAFTA-related commitments proved fitful and frustration over technical obstacles to trade grew. Much of 1994's policy activity was devoted to establishing NAFTA-related institutions and resolving start-up difficulties. Nevertheless, NAFTA appears to have served as a vehicle for governmental cooperation on a variety of regulatory matters and to have provided a valuable context for resolving both new and long-standing problems. These and other findings are reported in the USITC's forthcoming *Year in Trade 1994*. The report will be available in late July.

Trade among NAFTA partners expanded vigorously in 1994. The expansion was consistent with recent trade patterns and with testimony to the continued integration of the U.S. economy with that of Mexico and Canada. U.S. exports to Mexico grew at twice the rate of U.S. exports to other markets (though at a somewhat slower pace than Mexico's overall imports), and Mexico's exports to the United States rose slightly faster than its exports to the rest of the world. Mexico's trade with Canada, meanwhile, expanded at an even faster clip, though from a much smaller base.

Figures on the number of workers applying for U.S. NAFTA-related adjustment assistance suggest that, if the Administration's estimates are accurate, the number of U.S. jobs that were supported by NAFTA-induced exports were by far higher than the number of jobs lost to competition with Mexico and Canada during NAFTA's inaugural year. The Clinton Administration estimates that some 100,000 jobs were created as a result of expanded U.S. exports to Mexico in 1994—a finding disputed in some quarters. As of yearend 1994, 17,320 workers had been certified under the U.S. NAFTA Transitional Adjustment Assistance program, most of them (88 percent) in the manufacturing sector. Mexico was the source cited in 65 percent of the certified cases. Seven States accounted for nearly two-thirds of the workers certified in 1994—New York, Pennsylvania, Georgia, Washington, Texas, Florida, and Tennessee. Most of the certified firms were small, nonunionized operations in such industries as apparel, paper, primary metals, industrial machinery and equipment, electronic and other electric equipment, and instruments and related products.

Much of 1994's NAFTA-related policy activity was devoted to establishing the institutions, rules, and procedures necessary for NAFTA itself to fully function as a legal instrument. Doing so involved both domestic and cooperative measures by the three