

PANEL DISCUSSION

CURRENT POLITICAL AND ECONOMIC TRENDS IN CUBA

José F. Alonso

1. Sugar

The 1991-1992 Sugar Campaign (Zafra)

The sugar campaign (zafra) officially ended in Cienfuegos with a ceremony on August 1st. We have not yet received news or confirmation on the amount of sugar produced. Estimates range from less than 6 million tons to 7 million tons. The guessing game goes on until the leadership announces the results.

The Forthcoming 1992-1993 Sugar Campaign

Preparations are already underway for the 1992-93 campaign and it is clear that the sector will have less resources than anticipated. Sugarcane planting is not at the same levels of a year ago. Spring planting decreased by 4,700 *caballerías*, or 63,700 hectares (1 Ha. = 2.5 acres). It can be expected that there will be less sugarcane available for the forthcoming crop. Minister Herrera announced that the country is presently engaged in planting 11,000 *caballerías*, or 147,620 Ha., through the month of August for the 1993-94 sugar campaign. Soybeans will be planted as an alternative crop to sugarcane this year.

(*Rebelde*, 3 August 1992).

Affecting the Next Sugar Campaign

Spare parts are critical for the harvesting and industrial processing of the sugarcane. Critical parts for the sugar mills and the refineries were previously obtained from the former Eastern Bloc countries Czechoslovakia and East Germany and many of those installations are equipped with old vintage machinery supplied by those countries. Very little foreign trade is currently taking place because the former socialist countries now demand convertible currency. During this past sugar campaign the supply of spare parts became very critical. The forthcoming campaign will have less.

The quantity of oil products and lubricants needed to operate the mills becomes critical at the start of the sugar campaign. Sugar Minister Herrera Machado predicted less energy resources available.

A return to hand cutting instead of using harvesters/combines was announced by Herrera Machado. He indicated that "cane cutting brigades are being organized nationwide." He declared that "there will be even fewer mechanized resources for the next harvest in comparison with the last harvest. Sugarcane burning has been banned nationwide." (*Rebelde*, 3 August 1992)

Minister Herrera announced on August 4th, in an interview with *Radio Rebelde*, that "Cuba will build by the end of the year an additional 15 distilleries, which will triple alcohol production." In 1989, alcohol production of various graduations was 4.1 million Hl. Thus, within a two year period, production will increase to 10 million Hl. of alcohol.

Sugar marketing

F.O. Licht reported in the latest bulletin July 20, 1992 that sugar exports were at about the same level of a year ago March.

2. Energy

Oil Supplies

Carlos Lage (in charge of the economy) announced that Cuba will have to cope with less than 6 million tons of oil overall for this year. That represents 50 percent less than last year.

Domestic oil production during 1992 is below last year's level of 700,000 tons.

Electricity

In Havana, the population is currently receiving 48 less hours of electricity per week, or nearly 7 less hours per day. The rest of the country is operating with 52-55 less hours of electricity per week.

Transportation & Industrial Sectors

The transportation sector is greatly affected by the energy shortage. The number of bus trips have been reduced by at least half of the normal trips in Ciudad Habana. This reduction in transportation is affecting an already besieged industrial sector due to energy shortages. The industrial sector is currently operating at no more than 46 percent capacity utilization, as discussed by Carlos Lage. Meanwhile, Jorge Lezcano announced in Havana that during July and August several work centers will stop temporarily. Workers in the affected factories will be relocated to agriculture, other chores, or will go on vacation.

Nuclear Plants

Russia appears temporarily committed to finish installation of 2 VVER reactors each of 440 MW under construction in Juraguá, Cienfuegos. Work is proceeding and the government announced that the plant will begin to operate sometime in 1993.

Consumers

Consumers are paying dearly for the lack of electrical power, and power outages are frequent. They are experiencing loss of food, appliances burn out and other major inconveniences for lack of energy supplies, including mobility and transportation.

Oil Industry Prospects-Exploration

As is known, Cuba has looked all over the world for oil on concessionaire terms. Thus far, no Latin American government has provided oil in exchange for other products. Oil arriving in Cuba is purchased at world market prices. No deals for the future with Russia that is, barter of sugar for oil. In the meantime, Cuba's National Bank president, Hector Rodríguez Llompart, is visiting Iran in an attempt to set up a sugar for oil deal. There have been some banking-related difficulties between both governments. The government of Iran indicated that it will deal only through a letter of credit.

CUPET (*Unión Cuba Petróleo*) continues to make deals with foreign oil companies towards the government goal of finding hydrocarbon deposits. CGG (Geophysics General Co.) French company will offer services to foreign companies with oil exploration agreements with Cuba. Companies with exploration agreements so far are: Canada NW Energy Ltd., Taurus of Sweden, and Petrobras of Brazil. The Canada NW contract is for in-shore exploration in central Cuba. These are all standard commercial risk contracts.

3. Tourism

Tourism appears to have been a bright spot during this period. Rafael Sed Pérez, head of the tourist industry (INTUR), released a report that during the first six months of 1992, 420,000 tourists arrived in Cuba. Net income associated with these tourists was estimated at US\$ 210 million for the industry. Cuba expects one million tourists in 1995.

4. Nickel

Production of various types of nickel amounted to 42,000 tons for 1991, of which 36,000 tons were produced by Moa and Nicaro. The Soviet built Punta Gorda plant, programmed to produce 30,000 tons of nickel ore, had an output in 1990 of only 6,000 tons (*Cuadernos del Este*, May 1992). Meanwhile,

CAME1, a plant under construction, is not yet near being operational. Cuba is seeking partners to finish the plant because CMEA no longer exists. In the meantime, Sherrit Gordon, a Canadian company, signed a US\$ 1.2 billion joint venture agreement with the nickel industry enterprise CUBANICKEL. Canada is buying nickel, and sales in 1991 amounted to a little over 5,000 tons. Apparently there were other sales in exchange for equipment and other needed inputs.

5. Development Assistance

UNDR recently provided funds in the amount of US\$695,000 to finance consultants and technical assistance in the construction of a mineral research pilot plant. The plant when operational will research on an under pressure acid lixiviation process which will attempt to improve the rate of nickel extraction per ton.

6. Foreign Debt

In an interview with *Komsomolskaya Pravda* on 28 July 1992, Russia's Minister for Foreign Economic Relations, Pyotr Aven, revealed that Cuba's debt to Russia amounted to US\$ 75 billion. This is equivalent to almost half of the total outstanding Russian debt by Third World countries of US\$ 140 billion. This debt, as he indicated, does not include military hardware and assistance. Previously, in November 1990, the debt was reported to be US\$ 22 billion in a communique issued by the Central Committee of the Communist Party of the former Soviet Union.

Combining this debt with the Paris Club (US\$ 7 billion) and Eastern European countries (US\$ 4 billion) the total debt amounts to approximately US\$ 86 billion. A per capita debt of over US\$ 7,800. If the debt reported is correct, then Cuba's debt represents 3.2 times its GSP (Gross Social Product). We can expect a very difficult round of negotiations between both countries. Aven informed that this debt cannot be sold without the consent of Cuba, as stipulated on their agreements.

7. Food Supplies

Once the potato harvest ended, we did not hear anything else about any other crop or the "Food Program." Nowadays, plantains and other tubers are being programmed for late summer harvest. These are mostly produced by private agricultural sector. Why is the leadership so silent about this critical small sector?

8. General Consumption and Consumer Issues

General conditions seems to deteriorate in the countryside. Life becomes more difficult as reflected by the severe austerity facing consumers. Consumer complaints continue about shortages and longer lines. The word nowadays is *No Hay Nada*. Everything is under strict rationing and the government prosecutes those caught stealing or diverting resources from government warehouses. The government is under pressure to curtail black market operations and it has undertaken a serious effort. Meanwhile, the leadership is aware that serious accumulation of money occurs (liquidity) as a result of supply shortages and inflationary trends continue unabated.

John Paul Rathbone

The current situation and short-term prospects for the Cuban economy are gloomy indeed. My objective here is to examine why, focusing, in turn, on three main threads of thought:

1. The known economic effects of the collapse of the former Socialist bloc on Cuba.

2. The strategies other than cut backs that Cuba has adopted to face the crisis.

3. The likelihood that these strategies will succeed.

1. The Effect on Cuba of the Collapse of the Socialist Bloc

(a) Drastic: the traditional five/one year planning process has virtually collapsed and the centralized control of the past has been replaced by perpetual crisis management.

(b) Shortages of food are dramatic and inconvenience has been transformed into hardship. While there may not be starvation, there is hunger, and the dividing line between the two is thin. According to one newspaper report, Cubans are now eating cats (LV: 13/8/92).

(c) One month's rations now includes: 4 eggs, 2 lbs. of rice, lb. of beans, 2 lbs. of sugar, 30 bread rolls and 1 roll of toilet paper (LAT: 30/6/92).

(d) The black market is used by those that can to supplement lack of supplies. But black market exchange rates and prices are inflating rapidly making it increasingly difficult for people with lower income to supplement their rations. Eggs now cost \$5 each on the black market, compared to the official price of 15 cents (LAT: 30/6/92), and black market prices for the starchy malanga has risen to \$40, from \$10 a year ago (MH:29/5/92).

Black market exchange rates have also risen since October of last year, from 15 to 33 Cuban pesos to the dollar, compared with the official dollar exchange rate of 1:1 (FT: 14/7/92). Average monthly wages remain at around 135 pesos (MH: 29/5/92).

(e) Imports from the former Socialist bloc are down by 60% since 1989, and from the West using UK figures as a market by 55%. All told, there has been a drop from US\$8.1 billion of imports in 1989, to around US\$3.5 billion in 1991.

(f) Furthermore, as most of these imports are raw materials, or intermediate goods, their absence has had further negative effect on production. For example, shortages have reduced tobacco production by 10 15% this year (Reuters: 2/7/92).

(g) Potential revenues from Cuban exports have also been severely curtailed. With trade subsidies now a feature of the past, sugar price reductions alone have cost according to Fidel Castro US\$2.5 billion this year (Castro: 4/4/92).

(h) Also important has been the loss of niche markets in the former Soviet bloc: now at least 1 million tons less of sugar can be sold there than in 1990.

(i) In addition, the loss of markets in the former socialist bloc has affected plans for the expansion of sales of important nontraditional export, such as biotechnology and citrus fruit. These products have much in common with many East European products, namely they were only sellable at CMEA rates of exchange to CMEA consumers who tend to be less fastidious than others. For example:

CITRUS: Cuban citrus is of poor quality by world standards. Cuban oranges's skins are green. But Europeans now pegged to become one of Cuba's main citrus markets prefer their oranges to be orange. Cuban grapefruit suffers from similar problems. True, Cuban grapefruit can undercut European prices somewhat to compensate, and has recently been doing so (JC: 17/6/92). But selling at a discount merely represents another cost and, even so, Cuba is still awash with unsold surplus citrus fruit (Fidel Castro: Speech to National Assembly 12/7/92).

BIOTECH: Cuba's medicines have no published test results. In 1991, according to one study, none of Cuba's medicines met US or European licensing standards. Cuba also lacks any kind of international marketing or distribution network and, according to one Havana-based representative of a multi-national pharmaceutical firm, "cannot afford to open sales offices abroad as it only has one or two products to sell." Finally, many of Cuba's medicines are non-original and are not based on new genetic research, i.e. they do not respect international patents. Of course, Cuba is not the only country that does not respect international patents. But there is no doubt that the sanctioning power of multinational pharmaceutical companies should not be underestimated. (In 1989, Cuba had planned sales of US\$700 million to the USSR. But these are probably largely lost now).

(j) Lost markets and lower prices: what then can Cuba's exports bring in hard currency for 1992/93? The Cubans have said that they believe that the economy can function on a minimum of US\$4 billion of exports per annum. (CB: 6/92). But this begs two questions: First, is this an adequate, minimal strategy? (Barley.) Second and more to the point can \$4 billion in export revenues even be realized? (Probably not.)

1992/3 Estimated Export Revenues

Sugar exports..... US\$1.10 - 1.40 billion

Non-sugar exports

- Fish products..... US\$150 million
- Tobacco..... US\$100 million
- Nickel..... US\$450 - 550 million
- Citrus & other agricultural goods US\$200 - 250 million
- Biotechnology US\$100 - 200 million

Total non-sugar exports US\$1.00 - 1.25 billion

Total US\$2.10 - 2.65 billion

Even the high end of the range which gives the benefit of the doubt wherever possible nowhere meets the hoped-for US\$4 billion figure, and is around 50% less than 1989 levels.

(k) It is well-nigh impossible to gauge the effect of the above on the internal economy. But according to Pedro Monreal, Senior Researcher at the Center for the Study of the Americas and Adjunct Professor at the Institute for International Relations in Havana (CB: June, 1992), the Cuban economy contracted by 25% during 1991, will have contracted by another 10% in 1992, and will stabilize (or more realistically, stagnate) during 1993. This, however, must be considered a very optimistic viewpoint.

2. Strategies to Meet the Crisis

There are two essential components to the Cuban government's current economic strategy:

- (i) Increase domestic food production in the state run INTERNAL SECTOR's agricultural program.
- (ii) Increase, or at least maintain, hard currency earnings from an increasingly market-oriented EXTERNAL SECTOR.

i) The Agricultural Program

The agricultural program is Cuba's big hope. But targets are very optimistic. There are expected increases of 15% - 100% in selected goods. But production of all these has actually declined since the mid 80s.

There are three main elements to the food program:

a) Increase irrigation.

Problem: the number of hectares under irrigation has only grown by 15% since 1980. Is a more dramatic increase possible now, in such straightened circumstances?.

b) Replant land with agricultural food crops by removing cane. Some 64% of the land is now in crops other than cane. (CB: June 1992) and replanting has been especially heavy near the capital, in Havana province, for obvious reasons.

Problem: this approach frames agricultural production in terms of area, not in output; land is not the scarcest resource. To boost output, Cuba's agricultural program needs fertilizers, as well as other imported goods such as seed, herbicides and equipment, all of which are in very short supply. It also needs labor labor that is simultaneously needed for the sugar harvests. True, surplus labor can be diverted from the cities. But this is unpopular.

Problem: who will farm the land? Answer: the State sector. Yet international experience has shown time and time again that, after services, agriculture is the sector least productive under state control. In 1989, the non-state sector accounting for under 17% of cultivated land provided 65% of Cuba's tomatoes and other market vegetables, 28% of root crops, and 35% of plantains. Clearly, it would be an expanded non-state sector that could feed Cuba.

c) Encourage self-reliance and appeal to individual resourcefulness. Two example illustrate this drive: i) baby chicks have been distributed to be reared at home; and ii) energy-efficient charcoal stoves have been also distributed for domestic use.

Problem with the first example: where can one find enough feed to rear chicks? Problem with the second: where can Cubans get 14 sacks of charcoal needed per annum, to run the stoves? In both cases: the black market. Yet the government has recently increased its attempts to prosecute anyone found trading on the black market.

Herein lies the program's fundamental contradiction: a matching of state controlled production and distribution, against appeals to individual initiative. The program could well unravel over it.

ii) Increase Hard Currency Earnings

a) Through diversified trade partners. But China, although increasingly important, cannot substitute for the loss of the USSR and East European markets; Latin America is not a natural market for Cuba as it produces much the same export goods; the USA market, of course, is closed; and it is hard for Cuba to expand its trade into the EEC as Cuba is in default of previous EEC loans and has received no European trade credits since 1986.

b) Promote non-traditional exports and other sources of hard currency. Tourism and biotechnology are usually cited as the two main hopes here.

However, although biotechnology might show some promise over the long run, for the reasons outlined

above, it promises little significant relief over the short term. Time is a problem.

Nor is tourism the savior it is often heralded as being. Despite the publicity, potential revenues from tourism even taking into account the most optimistic Cuban projections are quite small. Half a million visitors are planned for 1992, grossing US\$600 million. But due to tourism's high import component and Cuba's profit-sharing with its foreign partners, only one third of this, some US\$200 - 250 million will stick to Cuba. The best estimate for 1993/94 is US\$300 million in tourist revenues for Cuba.

In addition, tourism carries its own fair share of problems; the domestic political fallout from tourism should not be underestimated.

(c) Through foreign investment that bring technology, management skills, inputs and most especially, marketing know-how.

Considering, its relatively small amount, foreign investment in Cuba has received a disproportionate amount of publicity. Some US\$400 - 500 million has been invested so far (José Luis Rodríguez, in CB: June 1992). These monies are distributed through about 50 joint ventures, mostly in the tourist sector, but also in oil and nickel. The Cuban government has said that it hopes foreign investment will reach US\$400 - 500 million a year (FT: 14/7/92).

Cuba's drive to attract foreign investment begs two questions: how attractive is Cuba to a foreign investor? And would the hoped-for annual amount of US\$400 - 500 million in investment bridge the gap?

Aside from nickel, tourism and oil (Cuba's only possible ace-in-the hole) Cuba is not very attractive destination for investors, because:

i) Prior to the changes in Eastern Europe in 1989, Eastern Europe had very similar foreign investment laws to Cuba's despite Cuba's recent constitutional changes - and very few traded. Foreign investors lacked confidence in the system and its government. Cuba probably faces similar circumstances;

ii) The general world economic climate is not encouraging, and;

iii) It is probably a truism that there are a number of other more attractive destinations for foreign investors around the world. with less risk.

There are three consequences to the above:

i) First, although foreign investors are probably keen to position themselves in Cuba, in anticipation of lasting economic and political changes and an opening in the US market, their exposure tourism, nickel and oil aside will be quite small.

ii) Cuba, as a high-risk investment, demands a high return. For instance, foreign partners in tourist joint ventures are currently offered the fire-sale rate of a guaranteed three year return

on their money.

iii) To offset the above, Cuba is today taking its most attractive assets the *filet mignons* as it were and selling them at a considerable discount. The tragedy here is that the minimal economic returns to Cuba derived from these sales are not re-invested to create tomorrow's opportunities for Cubans; they are used to fund today's survival. (Also, there is only a limited number of *filet mignons*.)

In short, levels of foreign investment are at a minimum to what they could be under different circumstances, and look unlikely to grow significantly under current conditions. In spite of the fact that Cuba is currently offering its most attractive assets, investor interest has been relatively low. US\$400 million a year in foreign investment looks unlikely and, even if this level were to be reached, it would not be sufficient to close the gap.

d) Increased autonomy for Cuban state enterprises in the external sector. Cuba's external sector is increasingly characterized by autonomous enterprises that are being encouraged and created to act in almost any way that is commercially viable and that earns hard currency. Currency earnings are then retained in an autonomous branch of the national banking system.

This process first began in the 1980s, to circumvent the US embargo, and is still most true only for the tourist sector. But it does seem to be gaining momentum. In January 1991, only 30 autonomous enterprises were registered with the Cuban Chamber of Commerce; by December of the same year, the known number (which does not include military-run enterprises, such as Gaviota) had risen to 72.

This is one of the most interesting of recent developments and its central contradiction is hard to miss: market-run enclaves are to rescue Cuba's socialist economy from its own shortcomings.

It is necessary but risky strategy for the regime. First, because the possibilities for corruption are huge. Second, because not all of these market-oriented enterprises can be contained within enclaves. The biotechnology and nickel industries can be run behind closed doors, perhaps, but certainly not tourism. Negotiating those points where an increasingly capitalist external sector meets the tightly-controlled state run internal sector will be extremely tricky.

For example, a "worker's aristocracy" could emerge and agricultural and other workers in the internal sector could well come to resent their counterparts's higher earnings.

Also, freeing some sector of the economy, while leaving others controlled, could lead to an uncontrollable shift of resources and workers into free markets, leaving the official sector to fall apart. This tension is already illustrated by the fact that private farmers now face the threat of having their land confiscated if they sell their produce on the black market (FT: 14/7/92).

3. What is the Possibility that the Strategies Will Succeed?

To re-cap: the Cuban economy is no longer monolithic. Changes, limited but significant, are underway.

On the one hand, the internal sector will remain strictly controlled. On the other hand, in the external sector, selected enterprises are being encouraged to act in any way that is commercially viable and that earns hard currency. Foreign investment and know-how are also being actively courted.

The vanishing point of these changes seems to be an attempt to turn the economy inside out, rather than let it unravel at the edges, as happened in Eastern Europe prior to 1989. The approach suggests a half hearted compromise between reformers and conservatives within the Cuban Communist Party.

But turning the economies inside out is a technique hard to succeed. Figures alone suggest that it is not viable. Time is also a constraint. In the meantime, the regime runs the risk of the whole process blowing-up in its face.

What do these observations lead one to conclude? Even if one imagines, by hook or by crook, that Cuba somehow can make more than US\$2.5 billion in exports, this is still barely enough to keep 10 million Cubans alive. It certainly does not provide for economic development or growth OF ANY KIND.

In other words, and the one closing point that should be made here: if the strategy fails, it fails (and there is every indication that it will); whereas if it succeeds (by which I merely mean that it will continue, a process that will almost certainly require increased levels of repression) it is not going to be able to maintain the current system, i.e. it will fail anyway.

As Spanish Prime Minister Felipe González recently said during the Hispano-American summit in Madrid, the problem with the Cuban economy is not the US embargo, but that its economic system is inherently unproductive.