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Cuba's economy grew by 5% in 2004, compared with 2.6% in 2003 and a considerable increase over most of the previous decade after the end of Soviet assistance. Between 1989 and 1993, there was negative growth of 35%. Since then, Cuba's growth has averaged between 4% and 5%, slightly above the average for Latin America. The UN's Economic Commission for Latin America and the Caribbean (ECLAC) set the average growth for the region last year at 5.5%.

Given US hostility to Cuba, the island's macroeconomic indicators take on special political significance, raising questions in the US about the reliability of Cuba's figures and whether they indicate successes or failures in the socialist economy. Changes since 2003 in the way the Ministry of Economy and Planning calculates growth make it nearly impossible to compare Cuba with capitalist countries with the result that its economy can only realistically be evaluated by its own internal economic logic. The 5% figure was derived from calculations specific to the Cuban economy.

Measured by the traditional GDP formula, growth would have been around 3%, possibly even the same 2.6% registered in 2003. In recent years, however, the ministry has redesigned the measurements used to calculate growth. Since GDP counts only monetized exchanges, it does not measure the value of goods and services provided without cost to the consumer in Cuba's socialist economy. Nor does it reflect social inequities, environmental degradation, dependence on foreign borrowing, or overall social development. National Assembly president Ricardo Alarcon told the Assembly in 2002 that, in future reports, the formula for growth (Gross Socialist Product) would include the value of services provided free, such as health and education.

Cuba has "something to hide" A European diplomat told The Financial Times that switching to its own version of GDP meant that Cuba probably had "something awful to hide." But, from the Cuban perspective, it is the capitalist countries that have something to hide, since GDP does not reveal important indicators of social decline such as maldistribution of wealth, restricted access to health care, poverty levels, or the cost of crime and corruption. Under GDP logic, a toxic-waste dump is an economic gain because of the money spent creating it and the money spent to clean it up. Cuba's revised GDP is not a new concept. A number of alternatives have been proposed since the 1970s.

For example, the Genuine Progress Indicator (GPI), developed by the San Francisco-based organization Redefining Progress, has measured growth since 1950 using estimates of factors not included in GDP as gains such as unpaid household labor. Factors that do not contribute to social well-being are treated as costs instead of gains. GDP showed that growth in the US between 1950 and 1995 had doubled, but, by GPI measurements, the economy declined by 45% after 1970.

Performance in 2004

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In his report to the National Assembly for 2004, Economy Minister Jose Luis Rodriguez said that growth was achieved despite increased oil prices, energy shortages, two hurricanes that caused an estimated US$2 billion in damage, a prolonged drought in the eastern provinces, and continued efforts by the US to cripple the economy. Exports and tourism carried the economy. Foreign Trade Ministry figures showed that exports rose 32.5% over the previous year and were worth US$2 billion, the highest total since 1991, the start of the post-Soviet period. Principal customers were the Netherlands, Canada, and Venezuela, accounting for 61% of sales.

Traditional export products made up about 75% of exports, led by nickel, which benefited from steadily rising world prices, followed by sugar and sugar derivatives, tobacco, fish, cement, and rum. Nontraditional exports such as steel, pharmaceuticals, citrus, farm machinery, and honey made up the remainder of export earnings. Despite the dominance of traditional exports, they only increased by 33% while nontraditional exports increased by 50%, indicating a significant improvement in diversification.

In his annual report, Rodriguez cited a 20% growth in food consumption and increases in school lunches and food supplements to children under 15, pregnant women, and the elderly. Cubans received a daily average of 3,305 calories, a 6.5% increase over 2003, surpassing the nutritional standard set by the UN Food and Agriculture Organization (FAO). Tourism, which has replaced sugar as the island's major earner of hard currency, rose by 7.6%, with a record 2.05 million tourists. This performance followed a lackluster 2003, when tourism dropped by 5%.

Though it remains a small part of the economy, technology is one of the fastest-growing sectors, especially in information technology, where Cuba is beginning to export software, and in the pharmaceutical industry, which is exporting a variety of vaccines and other products. In July 2004, the US Treasury Department's Office of Foreign Assets Control (OFAC) issued a license to the California-based firm CancerVax to work on clinical development of three Cuban-made cancer drugs.

Negatives in last year's performance are found in agriculture, energy, and housing. On some land taken out of sugar production, cultivation of food crops did not meet expectations. Serious breakdowns in equipment and lowered crude-oil production caused shortages in electricity, which in turn hampered metallurgical production, forcing the importation of steel. The Economy and Planning Ministry calculates that economic setbacks resulting from power shortages in the first nine months of the year cost the economy US$200 million. Housing construction fell off because of the diversion of funds to rebuild houses destroyed by the series of hurricanes that hit the island. Public transportation remained unimproved over previous years because of the high cost of imported fuel and shortages of equipment.

Besides hurricanes, the economy was beset with a prolonged drought that has caused major agricultural loses. Some 13,000 head of cattle died in Camaguey province, and, further east, 40,000 ha of cultivation were totally or partially lost to drought. Despite the lingering debt burden, increased military spending in preparation for a possible US invasion, and higher oil prices, the Cuban parliament approved spending increases in social programs for 2005.

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Health, education, social security, cultural programs, science, and sports are to take nearly US$11 billion or 68% of state spending. Structural changes At least in part, the 2004 decision to dedollarize the economy was a protective reaction to the ongoing US economic sanctions, though the dollar's decline against other hard currencies also played a role (see NotiCen, 2004-11-18).

Collecting dollars in government hands was only part of a general movement in 2004 toward greater central control of state enterprises, the small private sector, and foreign investment. In March 2004, the government ordered state companies to end the practice of running businesses on the side unrelated to their primary functions. The number of licenses to operate small private businesses has been reduced as have joint ventures with foreign capital. Cuba's critics took these changes as evidence of weakness in the economy and as a sign that President Fidel Castro was taking Cuba backwards into a thoroughly state-controlled economy.

Dedollarization, said an Associated Press story, was done to control hard currency and exact a 10% tax on dollar holders (see NotiCen, 2002-11-18). The order ending secondary businesses, said The Financial Times, was more centralization, and the article compared it with the arrest of 75 "dissidents" in 2003 (see NotiCen, 2003-04-24). The Times cited unnamed Western diplomats as saying the order showed "Mr. Castro's increasingly conservative trend." By portraying Cuba's handling of its economy as essentially a political act sprung from Castro's personal whims, these interpretations overlooked key factors.

In The Financial Times, the South Florida Sun-Sentinel, and other newspapers, there is no mention of the US economic blockade of Cuba, the stated goal of which is to overthrow the Cuban government and end socialism in Cuba. The Sun-Sentinel review of recent economic policy changes in Cuba relies largely on the market-oriented views of academics and business leaders in Florida. Citing a presentation at the 14th annual meeting in Miami of the Association for the Study of the Cuban Economy (ASCE), the article portrays the changes as a "reversal" and a "step back." The ASCE specializes in research on transition in Cuba, meaning the return to capitalism after Castro's death.

In the mid-1990s, Cuba began a measured enlargement of the private sector to allow penny-ante capitalism in such enterprises as the 12-chair restaurants (paladares) and bed-and-breakfast operations. But it was never meant to be a permanent feature of the Cuban economy. The opening toward foreign investment and joint ventures, though not a temporary measure, was intended as an auxiliary input to the socialist economy and not a roadmap back to a pre-revolutionary market economy.

Vice President Carlos Lage said in 1999 that the market opening was an "adaptation of Cuban economic structures to the changes and currents in the world economy." These changes could be made within the socialist system, he said, but the resulting model did not include a role for a Cuban capitalistic class of small-business owners and managers (see NotiCen, 1999-09-30). An Associated Press report gives part of the Cuban rationale left out of many other press versions.

Quoting Labor Ministry official Nestor Iglesias, AP writer Andreas Rodriguez notes that self-employment was designed as a "supplement" to working for the state. The cutback in the private

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sector, said Iglesias, was because the state was now in a position to provide jobs in the self-employment categories that were being shut down. In addition, the government is imposing more stringent rules on the types of foreign investment being sought. This has resulted in a decline in the number of joint ventures between foreign capital and the state. What government planners are now looking for is foreign capital to develop large projects of strategic importance, such as in the oil, mining, and technology sectors that are capable of leading the economy.

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